

**COMPREHENSIVE ANNUAL FINANCIAL  
REPORT**

**For Fiscal Year Ended June 30, 1998**



**Commonwealth of Pennsylvania  
Tom Ridge  
Governor**

**Prepared By:**

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

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

**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 1998**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

December 9, 1998

ROBERT A. BITTENBENDER  
SECRETARY  
OFFICE OF THE BUDGET

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

This Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania displays our continued commitment to sound and effective fiscal management and to complete financial reporting based on generally accepted accounting principles (GAAP). This CAFR, which includes the Commonwealth's independently audited general purpose financial statements as of and for the fiscal year ended June 30, 1998, 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.

The continuation of increased national economic growth, now the third longest uninterrupted period since the end of World War II, contributes to positive economic growth in Pennsylvania. The growth, and Pennsylvania's improved competitive position in the national economy, have brought record levels of employment to Pennsylvania and reduced unemployment rates at or below the national average. In June 1998, the seasonally adjusted unemployment rate for Pennsylvania was 4.9 percent, a nine-year low. Gains in employment have helped contribute to higher personal income in Pennsylvania. Seasonally adjusted personal income in Pennsylvania was estimated to have increased by 5.4 percent between the first calendar quarters of 1997 and 1998. The gain helped to raise Pennsylvania personal income tax collections by 8.5 percent for fiscal year 1997-98 over the previous fiscal year. While the national economy is expected to continue to move forward, the pace of that advance is expected to be slower and the gains for Pennsylvania are expected to be smaller. These expectations are based on the belief that the national economy is becoming increasingly fragile. No recession in the United States is expected in the near future; however, the Commonwealth has been using its recent strong fiscal performance to increase its reserves and to fund targeted tax cuts that should enhance future stability and growth for the Commonwealth and its citizens.

On the budgetary basis, the Commonwealth's General Fund ended the 1997-98 fiscal year with a \$488.7 million unreserved/undesignated fund balance prior to reserving \$223.3 million for transfer to the Tax Stabilization Reserve (Rainy Day) Fund. Therefore, the unreserved/undesignated fund balance, after transfer, on the budgetary basis and GAAP basis were \$265.4 and \$497.6, respectively. With the 1997-98 transfer, the balance in the Tax Stabilization Reserve Fund increased to \$657.3 million. A similar increase in the available balance of the Tax Stabilization Reserve Fund and of the unreserved/undesignated fund balance in fiscal year 1996-97 were two of the major reasons why two bond rating agencies increased the Commonwealth's general obligation bond rating in October 1997. This increase was the first since 1986 and the first time since 1968 that all bond ratings were in the "AA" category. (A third rating agency increased the Commonwealth's general obligation bond rating after the close of the 1997-1998 fiscal year).

Economic development continues to be a long-term commitment of the Commonwealth as evidenced by the significant amount of funds appropriated for loans and grants to employers. Among these loans and grants was \$40 million transferred from the General Fund to the Ben Franklin/Industrial Resource Centers Partnership to create jobs through the development and application of technology and advanced production techniques. Also, \$20 million of loans and grants for infrastructure development of industrial sites were made from the General Fund. The Machinery and Equipment Loan Fund provided \$16 million in low interest loans and the Pennsylvania Industrial Development Authority provided \$100 million in loans to local industrial development agencies to stimulate economic activity. The Opportunity Grants Program, funded by the General Fund, provided \$35 million for grants to attract and retain businesses. Team PA, in conjunction with the Business Resource Center and the Business Retention Program, provided \$3.5 million along with additional funds from private partners to work with businesses to resolve issues, create jobs, and retain jobs in Pennsylvania. The Small Business First Fund, which is supported by the General Fund, streamlined loans for small businesses and disbursed more than \$23 million in low interest loans.

General Fund tax cuts enacted during the 1997-98 fiscal year will save Pennsylvania taxpayers an estimated \$170.6 million through an expansion of the personal income tax exemption for low-income taxpayers, an exemption from sales tax for computer services, a research and development tax credit and other tax changes.

Pennsylvania is also working to create jobs in other ways. Recognizing that success begins with a well-trained work force, the Commonwealth provided funding from the General Fund for customized job training and supported the opportunity to capitalize on the global marketplace to operate and expand Pennsylvania's international trade in the amounts of \$18 million and \$5.2 million, respectively. Marketing Pennsylvania as a tourist destination and business place was funded at \$14 million.

The Commonwealth continued its commitment to its communities by providing \$15.6 million from the General Fund for the Housing and Redevelopment Program to rebuild neighborhoods and to rehabilitate low-income housing. Additional funds were provided to expand local efforts to promote tourism. The Community Development Bank was established with \$15 million from the General Fund and is expected to receive over \$30 million in private funds. It will provide capital for community development lending to support the needs of small businesses and nonprofit organizations.

Education is essential to Pennsylvania's future. The General Fund provided nearly \$3.5 billion to our public schools through the Basic Education Funding program. Total funding for basic education was nearly \$5.9 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, nearly \$1.6 billion was provided for higher education institutions and students.

The Commonwealth continued the three-year technology initiative known as Project Link to Learn. This initiative will help bring global computer resources into Pennsylvania's classrooms and allow schools to participate in advances in computing and communications. Over \$43 million in second-year funding was provided for the acquisition of computers and network connections in our public schools. This brings the two-year total investment to over \$83 million. This three-year initiative will provide for the development of the community-based Pennsylvania Education Network.

In addition, \$10.4 million was provided for a new program in which schools that improve their academic performance will be rewarded with additional funding.

The Department of Corrections opened a 1,096 bed correctional facility in southeastern Pennsylvania and plans were finalized during 1997-98 for an increase of over 1,000 additional beds at other State correctional institutions.

The Commonwealth continued its comprehensive welfare reform program based on individual and family self-sufficiency. The program incorporates the changes made by Congress in passage of the Personal Responsibility and Work Opportunity Reconciliation Act and those changes authorized by the General Assembly in Act 35 of 1996. The program provides time limited cash assistance for families and other support to enable individuals to get and keep a job. Federal support includes two block grants: Temporary Assistance to Needy Families and Child Care Development. State and Federal expenditures for these programs and Medical Assistance amounted to \$7.6 billion in the 1997-98 fiscal year. Approximately 42 percent of the total cost of assistance to the economically needy are funded by the General Fund, with the balance provided by the Federal government. A Medical Assistance Intergovernmental Transfer provided additional funds totaling \$737 million during the 1997-98 fiscal year.

During the 1997-1998 fiscal year several major laws were enacted that created new programs or modified existing programs. The following summarizes some of these changes:

- Act 1997-45A made various appropriations and authorized release of funds for a new Community Development Bank Grant and Loan Program to assist community development financial institutions acquire Federal and State accreditation and provide loans through these community development banks to revitalize distressed communities and buildings.

- Act 1997-58 enacted changes to comply with Federal requirements on child support enforcement and welfare reform.
- Act 1997-60 authorized the transfer of the Harrisburg International Airport and Capital City Airport from the Commonwealth to the Susquehanna Area Regional Airport Authority.
- Act 1998-41 provided for a limited early retirement provision for both State and public school employees which allows persons with 30 years of service to retire with no reduction in benefits during certain time periods.
- Act 1998-45 amended the Tax Reform Code to expand the tax forgiveness provisions (“poverty exemption”) for individuals, reduce the Capital Stock and Franchise Tax rate by .5 mills to 12.25 mills, extend the net operating loss recovery period from 3 years to 10 years, increase the Job Creation Tax Credit cap by \$5 million to \$20 million, and create a research and development tax credit of \$15 million per year through December 31, 2003. These changes are all effective for tax years beginning on or after January 1, 1998, and will save taxpayers an estimated \$170.6 million annually. Other changes to the Tax Reform Code were also included in this Act.
- Act 1998-46 amended the Public School Code to make numerous changes to the payment of basic education funding, special education, pupil transportation and community colleges, and provide for the administration of the Philadelphia School District by the Commonwealth upon declaration by the Secretary of Education that the school district is distressed.
- Act 1998-50 provided for local tax reform which allows school districts to change their local tax structure from property tax to income tax based if authorized by local referendum and enables local taxing authorities to exclude a fixed dollar amount of the assessed value of each homestead property from taxation.
- Act 1998-53 amended the Fiscal Code to expand the investment authority of the State Treasurer by providing the “prudent person” standard for investments and eliminating the current legal list of allowable investments.
- Act 1998-57 enacted the Procurement Code to codify and streamline policies and procedures for the procurement of goods, services and construction.
- Act 1998-68 amended the Insurance Company Law of 1921 by adding a chapter on Quality Health Care Accountability and Protection which defines responsibilities of managed care plans, utilization review entities and the Department of Health, and by expanding the Children’s Health Care Insurance Program to provide health insurance coverage for eligible uninsured children and bring the program into compliance with Title XXI of the Social Security Act.
- Act 1998-88 enacted a cost-of-living adjustment for annuitants of the State and Public School Retirement Systems beginning July 1, 1998.

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, 1998

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, 1998. 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 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 that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered.



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

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

### BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS

The annual budget of the Commonwealth is comprised of separate appropriations to individual agencies for their specific programs, purposes, special outlays and/or operating expenditures. Budgetary control is exercised at the agency level by appropriation and by allocations to major categories of expenditure within each appropriation. Major expenditure categories include personnel services, operational expenses, fixed assets, subsidies and grants, debt service and fixed charges. An encumbrance system is used to 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 that actually will not be received or disbursed until a future date. Such amounts are necessarily based on management's best assessment and evaluation of available financial data at the time the financial statements are prepared. They include revenues due the Commonwealth, net of credits and refunds, and accounts payable and accrued expenditures for which a liability has been incurred as of the fiscal year end.

## ECONOMIC CONDITION AND OUTLOOK

A continuing trend of economic growth in the national economy has helped Pennsylvania achieve significant economic benefits. As of June 1998, the unemployment rate in Pennsylvania was below the national average and 1.0 percent below the June 1997 rate. The number of Pennsylvanians unemployed was among the lowest of the past decade. Jobs in Pennsylvania increased by over 56 thousand during the year ended June 30, 1998. Both the goods and the services producing sectors of the economy produced increased jobs. The gains in employment in Pennsylvania and a robust stock market contributed to a 5.3 percent gain in Pennsylvania personal income for the year ended June 30, 1998. While not equal to the 6.1 percent national gain, growth in Pennsylvania was above the increase for the Middle Atlantic States (NY, NJ, PA). As is the case in other areas, the lack of enough competent, trained workers places a constraint on further employment gains. The shortage in Pennsylvania is compounded by the very slow growth in population, particularly in the working-age cohorts.

For the past several fiscal years, national gross domestic product (adjusted for inflation) has increased by more than 3 percent per year. Gains of this magnitude were above the increases assumed in budget revenue estimates. Consequently, the higher than anticipated level of economic activity produced tax revenues above budget estimates. It is not anticipated that the national economy will continue to produce gains in the 1998-99 fiscal year similar to those of the preceding fiscal years. Likewise, there is no expectation for Pennsylvania tax revenues in fiscal year 1998-99 to grow similar to those years. Economic data for the second and third quarters of 1998 support the projection for slower economic growth ahead.

Deteriorating economic conditions in foreign countries, particularly in Russia and in the countries in Asia, are threatening to spread to the remainder of the world. The effects of weak economic conditions in foreign economies are partially responsible for the current slowing in the U.S. gross domestic product. Declining commodity prices and instability in the value of foreign currencies could cause global and financial turmoil. A volatile domestic stock market has ended the expectation for significant further immediate advance in stock prices, but there is no expectation that the stock market will lead to a U.S. recession this year. While most risks to the forecast are considered to be on the downside, it is anticipated that modest economic growth will continue in the U.S. and inflation will not accelerate through the remainder of the 1998-99 fiscal year. Pennsylvania is expected to continue to mirror national economic trends.

## THE GENERAL FUND

The General Fund, the Commonwealth's largest fund, is the focal point of any assessment of Pennsylvania's financial position. It accounts for all revenues and receipts which are not required by law to be accounted for or deposited elsewhere and for the major portion of Commonwealth expenditures. Tax receipts, principally personal and corporate income and sales and use taxes, constitute approximately 62.9 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, 1998, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$265.4 million in the General Fund. This compares to a budgetary basis fund balance of \$402.3 million, as restated, at June 30, 1997. The budgetary basis fund balance for the fiscal year ended June 30, 1998 was the result of revenue collections totaling \$26,818.4 million less appropriation authorizations totaling \$26,835.0 million, less other net financing uses totaling \$120.3 million. Included in the \$26,835.0 million appropriation authorizations are \$119.4 million of state supplemental appropriations and \$197.6 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>
1994	\$ 302.2	\$ 87.3
1995 (Restated)	437.0	134.8
1996 (Restated)	158.5	(278.5)
1997 (Restated)	402.3	245.1
1998	265.4	(136.9)

**Modified Accrual Basis:** At June 30, 1998 the Commonwealth's General Fund reported a fund balance of \$1,958.9 million, an increase of \$594.0 million from the \$1,364.9 million fund balance at June 30, 1997. Total assets increased by \$705.1 million to \$4,973.6 million. Liabilities increased \$111.1 million to \$3,014.7 million. These changes and others are reflected in the General Fund summary comparative balance sheet that follows.

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

	<u>June 30, 1998</u>	<u>June 30, 1997</u>	<u>Increase (Decrease)</u>
<b>Assets</b>			
Cash and temporary investments .....	\$ 2,693.0	\$ 1,779.9	\$ 913.1
Receivables, net .....	970.5	941.0	29.5
Due from other funds/component units/governments.....	1,072.0	1,184.3	(112.3)
Food stamp coupons .....	238.0	358.6	(120.6)
Other assets .....	.1	4.7	(4.6)
<b>Total Assets</b> .....	<u>\$ 4,973.6</u>	<u>\$ 4,268.5</u>	<u>\$ 705.1</u>
<b>Liabilities</b>			
Accounts payable and other accrued liabilities .....	\$ 1,973.8	\$ 1,920.5	\$ 53.3
Due to other funds/component units/governments .....	774.4	602.2	172.2
Deferred revenue .....	266.5	380.9	(114.4)
<b>Total Liabilities</b> .....	<u>3,014.7</u>	<u>2,903.6</u>	<u>111.1</u>
<b>Fund Balance</b>			
Reserved .....	317.3	345.2	(27.9)
Unreserved:			
Designated .....	1,144.0	832.4	311.6
Undesignated .....	497.6	187.3	310.3
<b>Total Fund Balance</b> .....	<u>1,958.9</u>	<u>1,364.9</u>	<u>594.0</u>
<b>Total Liabilities and Fund Balance</b> .....	<u>\$ 4,973.6</u>	<u>\$ 4,268.5</u>	<u>\$ 705.1</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, 1998 increased by \$875.8 million to \$3,791.8 million from a \$2,916.0 million balance, as restated, at the beginning of the fiscal year. Unreserved/undesignated fund balances at June 30, 1998 amount to \$659.0 million as compared to a \$699.2 million unreserved/undesignated fund balance a year ago. Comparative summaries of general governmental revenues by source and expenditures by function (amounts in millions) follow.

**General Governmental Revenues by Source.** Revenues of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totaled \$33,503 million. This represents a 4.5 percent increase over the previous year. Taxes constituted 56.8 percent of general governmental revenues; intergovernmental revenues, primarily Federal funds, constituted 28.9 percent.

<u>Revenue Source</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1998</u>	<u>June 30, 1997</u>	
Taxes.....	\$ 19,044	\$ 18,168	\$ 876
Licenses and fees .....	1,004	804	200
Intergovernmental.....	9,669	9,499	170
Charges for sales and services .....	1,698	1,517	181
Investment income.....	226	175	51
Lottery receipts .....	1,684	1,723	(39)
Lease rental principal and interest .....	2	2	-
Other .....	176	185	(9)
Total Revenues .....	<u>\$ 33,503</u>	<u>\$ 32,073</u>	<u>\$ 1,430</u>

Licenses and fees increased \$200 million primarily because of a 50 percent increase in motor vehicle registration fees.

Tax revenue increased \$876 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, 1998</u>	<u>June 30, 1997</u>	
Personal income.....	\$ 6,017	\$ 5,606	\$ 411
Sales and use.....	6,228	6,198	30
Corporation.....	3,725	3,612	113
Liquid fuels.....	784	762	22
Other .....	2,290	1,990	300
Total Tax Revenue.....	<u>\$ 19,044</u>	<u>\$ 18,168</u>	<u>\$ 876</u>

**General Governmental Expenditures by Function.** Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totaled \$32,293 million, an increase of \$1,496 million over the previous year. Of the total amount expended, public health and welfare accounted for 44.4 percent, public education for 23.9 percent and transportation for 10.0 percent.

<u>Expenditure Function</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 1998</u>	<u>June 30, 1997</u>	
General government.....	\$ 2,587	\$ 2,469	\$ 118
Protection of persons and property .....	2,613	2,462	151
Public health and welfare.....	14,342	13,907	435
Public education.....	7,715	7,397	318
Conservation of natural resources.....	396	369	27
Economic development and assistance.....	339	300	39
Transportation.....	3,243	2,913	330
Capital outlay.....	360	254	106
Debt service:			
Principal retirement.....	435	438	(3)
Interest and fiscal charges.....	<u>263</u>	<u>288</u>	<u>(25)</u>
Total expenditures.....	<u>\$ 32,293</u>	<u>\$ 30,797</u>	<u>\$ 1,496</u>

Expenditures for public health and welfare increased by \$435 million or 3.1 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 transportation increased by \$330 million or 11.3 percent over the previous fiscal year, due mainly to an increased effort to repair and maintain a greater number of road miles during this fiscal year.

Expenditures for public education increased \$318 million or 4.3 percent primarily because of increased allocations to school districts, colleges and universities.

#### 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, 1998 increased \$281 million to \$626 million from a \$345 million balance, as restated, at the beginning of the fiscal year.

Revenues of the component unit governmental funds totaled \$300.0 million at June 30, 1998. Lease rental principal and interest revenue of \$241.2 million represents 80.4 percent of total revenues.

Expenditures of the component unit governmental funds totaled \$609.0 million at June 30, 1998. Of the total amount expended, debt service principal and interest expenditures were \$286.5 million or 47.0 percent of total expenditures and capital outlay was \$275.3 million or 45.2 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 26, 1998 was \$35.7 billion. Outstanding capital project debt at August 26, 1998 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, 1998 was \$4,841 million. Total debt service

transfers paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 1998 amounted to \$762.5 million.

During the fiscal year ending June 30, 1999 the Office of the Budget projects general obligation bond issuances amounting to \$721.5 million, an increase of \$289.7 million as compared to actual bond issuances of \$431.8 million during the fiscal year ended June 30, 1998. 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 \$443.7 million are forecast during fiscal 1999. 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>
1992	\$ 4,874
1993	5,041
1994	5,100
1995	5,041
1996	5,062
1997	4,842
1998	4,841

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, 1999, total General Fund revenues and budgeted expenditures, including Federal funds, are expected to increase by 3.0 percent and 4.1 percent, respectively. Although the 1998-99 fiscal year executive budget includes the issuance of \$560 million of tax anticipation notes, the Commonwealth currently has no plans to issue any notes for this fiscal year. General Fund tax anticipation notes or commercial paper issuances (expressed in millions) during the five most recent fiscal years are shown below. Motor License Fund tax anticipation notes were not issued for the periods shown and are not expected to be issued in the future.

<u>Fiscal Year Issue Ended June 30</u>	<u>For the Account of the General Fund</u>	<u>Amount Issued as a Percent of General Fund Tax Revenues</u>
1995	\$ 600	4
1996	500	3
1997	550	3
1998	225	1
1999 (Estimated)	560	3

#### CASH MANAGEMENT

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

In addition, the Treasury Department is empowered to invest Commonwealth monies that are in excess of daily needs of the various Commonwealth Funds. Virtually all excess amounts are invested in the Treasury Short-Term Investment Pool (STIP). The STIP includes the following types of investments, with related weighted average maturity and percent of total STIP investments, at June 30, 1998:

<u>Investment Type</u>	<u>Weighted Average</u>	
	<u>Maturity</u> <u>(days)</u>	<u>Percent</u>
Commercial Paper (Moody's Prime One Rating or Equivalent) .....	14	8.5
United States Treasury and Agency Obligations .....	301	10.9
Repurchase Agreements.....	5	75.0
Certificates of Deposit .....	65	1.9
Corporate Bonds and Notes .....	1,730	0.4
Other .....	106	<u>3.3</u>
		<u>100.0</u>

Total STIP investments amounted to over \$6.1 billion at June 30, 1998. All STIP investments are reported as temporary investments by participating Funds. The STIP earned \$269 million during the fiscal year, at an average yield of 5.67 percent.

### RISK MANAGEMENT

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

### CAPITAL PROJECTS FUNDS

Proceeds of general obligation bonds are generally accounted for in the capital projects funds. Completed projects and construction in progress at the fiscal year end are accounted for as assets and are capitalized in the General Fixed Assets Account Group. Construction in progress at June 30, 1998 amounted to \$403 million. Authorized but unissued general obligation bonds at June 30, 1998 totaled \$22.7 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, 1998 of \$244.5 million, which represents an increase of \$117.4 million from the \$127.1 million, as restated, of retained earnings reported the previous year.

Fiduciary type funds, including expendable trust funds, a pension trust fund and an investment trust fund, reported total fund balance of \$25,047 million, compared to \$21,997 million, as restated, in the previous year. Total fund balances of the expendable trust funds increased by \$226 million over the previous fiscal year, for total fund balances of \$3,198 million at June 30, 1998. The State Employees' Retirement System, the pension trust fund, reported a fund balance of \$21,312 million, an increase of \$2,820 million from the previous year. The fund balance is completely reserved for pension benefits. The INVEST Program for Local Governments, the investment trust fund, reported a fund balance of \$537 million at December 31, 1997 it's fiscal year ended. In accordance with GASB Statement 31, effective January 1, 1997 the INVEST Program was reclassified from an Agency fund type to an Investment Trust fund type and reported a balance of \$454 million.

#### 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, 1998, totaling \$1,916 million, which represents an increase of \$13 million from the \$1,903 million, as restated, of retained earnings reported the previous year.

The Public School Employees' Retirement System, a fiduciary type fund component unit, pension trust fund, reported a

fund balance of \$44,857 million at June 30, 1998, which represents a \$5,460 million increase over the \$39,397 million fund balance, as restated, in the previous fiscal year.

The total fund equity for the College and University funds, used to account for the State System of Higher Education, a discretely presented component unit, at June 30, 1998 was \$430 million, compared to \$355 million at June 30, 1997.

#### 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, 1998 amounted to \$4,508 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, 1997. This represents the twelfth consecutive year the Commonwealth of Pennsylvania has received this award.

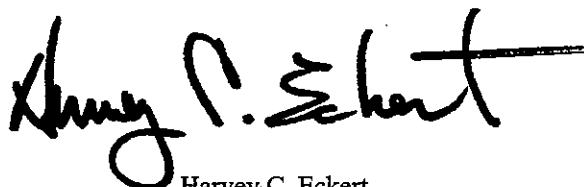
To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement 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, 1998 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, 1997

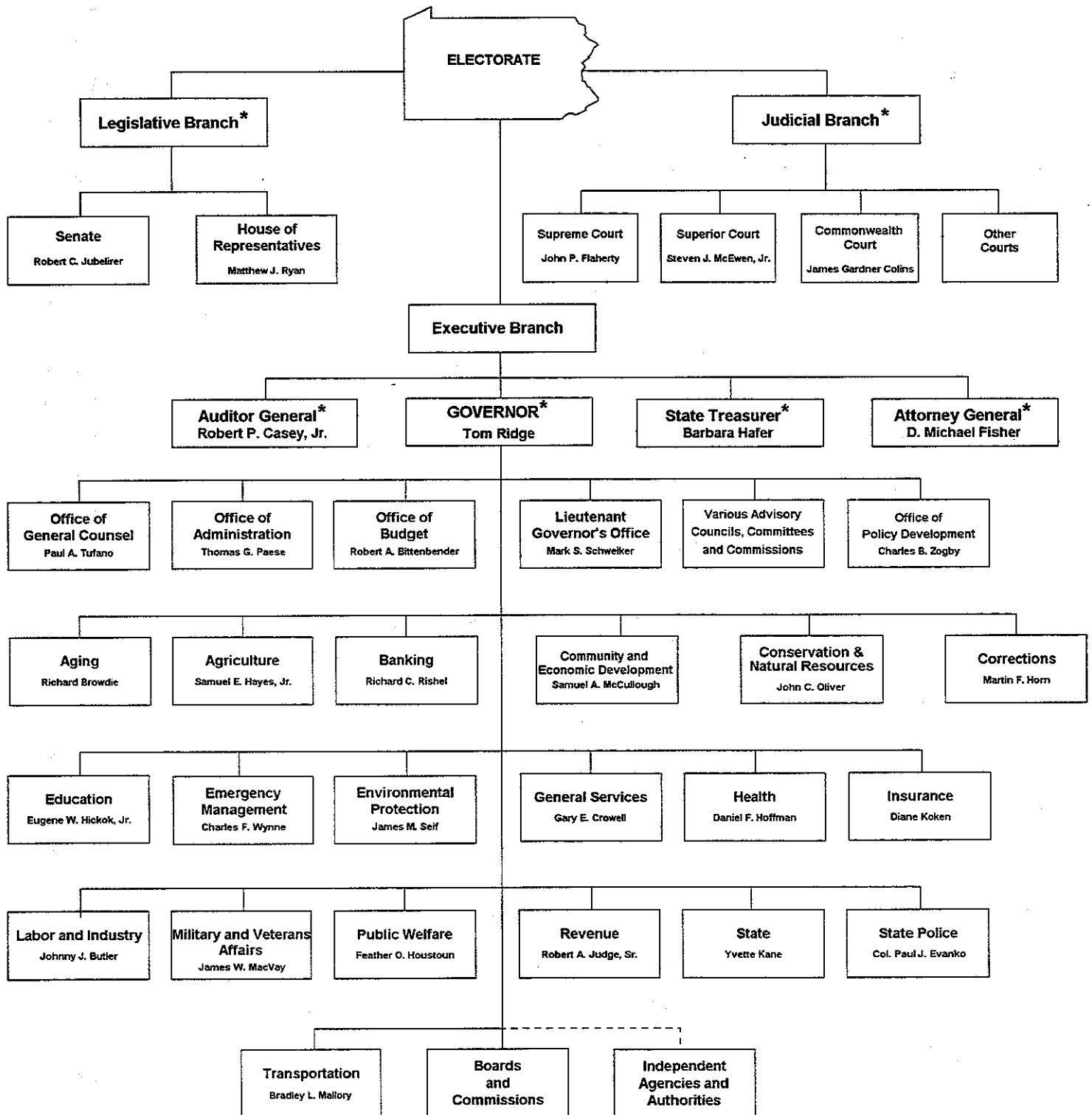
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



*Douglas R. Ellsworth*  
President

*Jeffrey L. Eselle*  
Executive Director

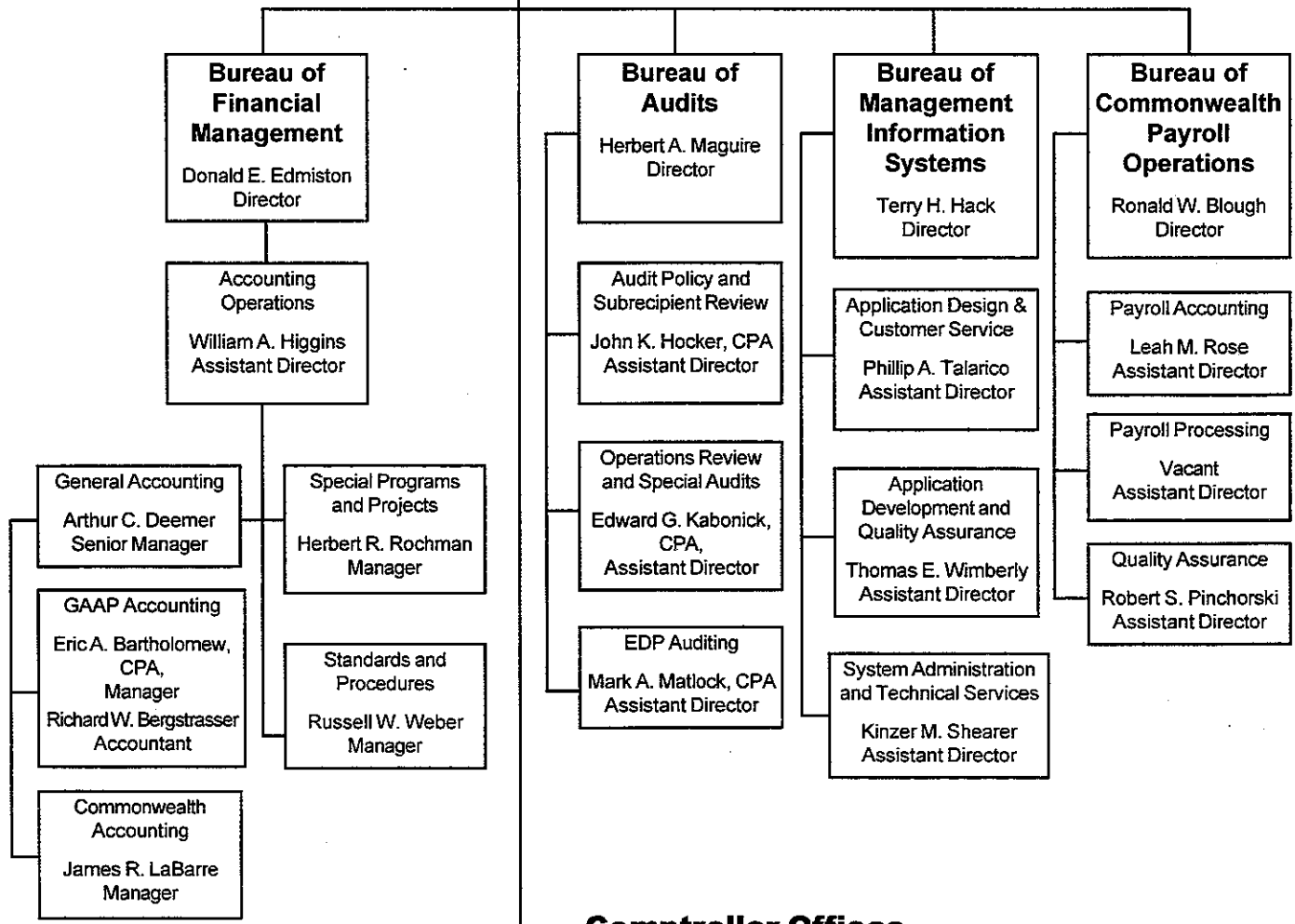
**COMMONWEALTH OF PENNSYLVANIA**  
**ORGANIZATION AND OFFICIALS CHART**  
**JUNE 30, 1998**



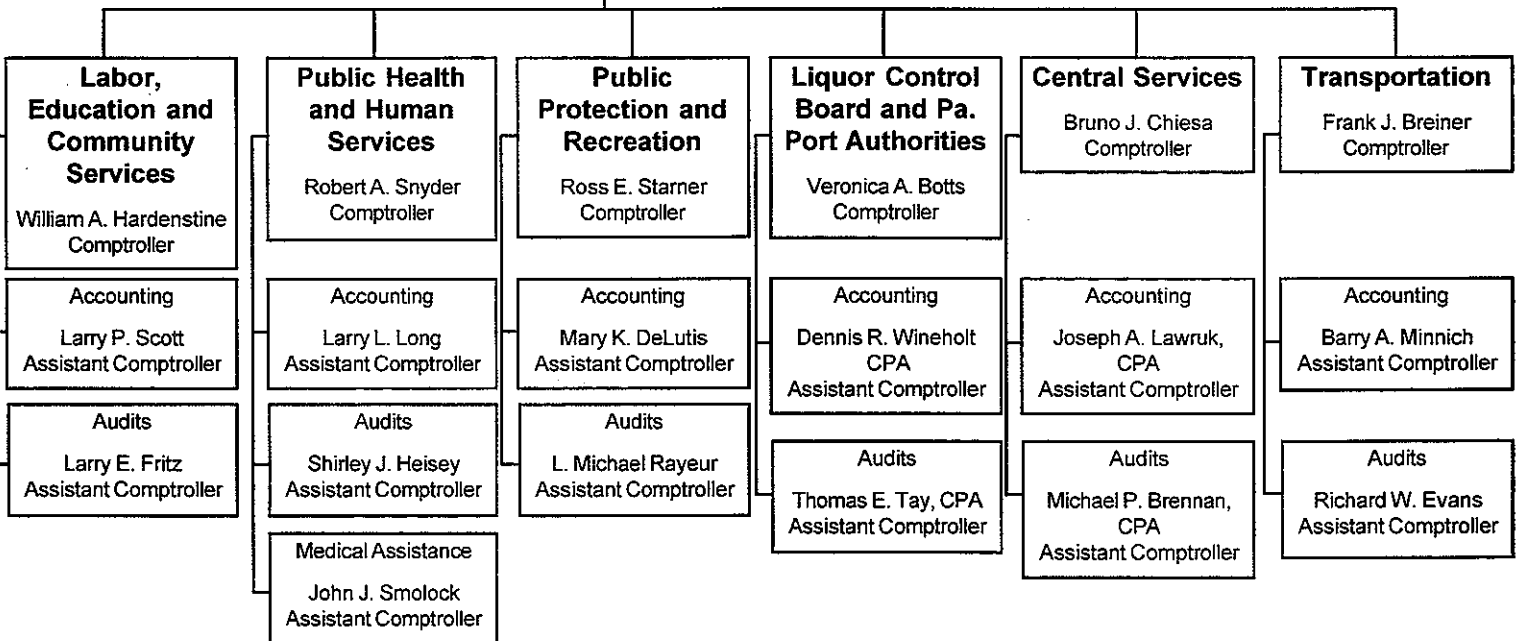
\* Independently Elected

**Office of the Budget  
Comptroller Operations  
June 30, 1998**

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



**Comptroller Offices**



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# Financial Section



Commonwealth of Pennsylvania



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

**ERNST & YOUNG LLP**

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

## Independent Auditors' Report

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

We have jointly audited the general purpose financial statements of the Commonwealth of Pennsylvania (Commonwealth) as of and for the fiscal year ended June 30, 1998, 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 3 percent of total assets and 4 percent of total revenues of the discretely presented component units.

Except as discussed in the following paragraph, 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.

Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Commonwealth has included such disclosures in Note T. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists

to support the Commonwealth's disclosures with respect to the year 2000 issue made in Note T. Further, we do not provide assurance that the Commonwealth is or will be year 2000 ready, that the Commonwealth's year 2000 remediation efforts will be successful in whole or part, or that parties with which the Commonwealth does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, 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, 1998, and the results of its operations and the cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

As discussed in Note B, the Commonwealth adopted GASB Statement # 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools".

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, except for the effects of such adjustments, if any, as might have been determined to be necessary had our auditing procedures not been limited as explained in the third preceding paragraph, based on our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

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

*Robert P. Casey, Jr.*

*Ernst + Young LLP*

November 13, 1998

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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, 1998**

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

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type		Account Groups			Total (Memorandum Only)		Total (Memorandum Only) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Primary Government	Component Units	Total (Memorandum Only)		
Cash—Note D.....	\$ 97,071	\$ 17,874	\$ 4	\$ 4	\$ 13,177	\$ 328	\$ 12,575	\$ -	\$ -	\$ 141,035	\$ 95,389	\$ 236,424	\$ 236,424	
Cash with fiscal agents—Note D.....	-	-	10,901	-	-	-	2,516,457	-	-	2,527,358	4,660	2,532,018	2,532,018	
Temporary investments—Note D.....	2,595,930	1,788,666	167,700	168,008	521,721	22,353	2,424,740	-	-	7,689,118	3,246,254	10,935,372	10,935,372	
Long-term investments—Note D.....	-	16,968	-	-	1,544,755	-	22,991,339	-	-	24,553,062	50,302,720	74,855,782	74,855,782	
Receivables, net:														
Taxes—Note G.....	874,257	165,429	-	-	-	-	303,246	-	-	1,342,932	-	1,342,932	1,342,932	
Accounts.....	66,164	35,602	8,899	-	23,001	32	198,645	-	-	332,343	47,867	380,210	380,210	
Accrued interest.....	12,662	9,581	645	973	20,874	100	103,673	-	-	148,508	78,730	227,238	227,238	
Notes and loans—Note G.....	-	70,803	-	-	177,709	-	-	-	-	248,512	6,084,387	6,332,899	6,332,899	
Lease rentals—Note G.....	-	-	2,392	-	-	-	-	-	-	2,392	3,330,000	3,332,392	3,332,392	
Pension contributions.....	-	-	-	-	-	-	-	-	-	-	286,421	286,421	286,421	
Investment proceeds.....	-	-	-	-	-	-	105,737	-	-	105,737	446,657	552,394	552,394	
Other.....	17,422	8,777	-	-	-	113	1,190	-	-	27,502	197,037	224,539	224,539	
Due from other funds—Note H.....	52,093	50,262	55	10,656	2,955	11,317	86,241	-	-	213,579	175,616	389,195	389,195	
Due from primary government—Note H.....	-	-	-	-	-	-	-	-	-	-	7,027	7,027	7,027	
Due from component units—Note H.....	4,271	34	29,794	-	-	631	12,826	-	-	47,556	123	47,679	47,679	
Due from other governments—Note B.....	940,836	94,963	-	-	14	242	19,857	-	-	1,055,912	51,073	1,106,985	1,106,985	
Advances to other funds—Note H.....	74,808	3,000	-	-	-	-	-	-	-	77,808	-	77,808	77,808	
Food stamp coupons.....	237,986	-	-	-	-	-	-	-	-	237,986	-	237,986	237,986	
Inventory.....	-	-	-	-	127,277	13,537	-	-	-	140,814	11,876	152,690	152,690	
Fixed assets—Note E.....	-	-	-	-	80,457	76,418	-	-	-	4,508,384	4,534,559	9,199,818	9,199,818	
Less: accumulated depreciation.....	-	-	-	-	(61,497)	(37,576)	-	-	-	(99,073)	(2,033,846)	(2,132,919)	(2,132,919)	
Other assets.....	80	8	-	-	922	1	343,815	-	-	344,826	105,407	450,233	450,233	
<b>Other Debits:</b>														
Amounts available in Commonwealth Funds for:														
Retirement of general obligation bonds.....	-	-	-	-	-	-	-	-	195,691	195,691	-	195,691	195,691	
Retirement of other bonds.....	-	-	-	-	-	-	-	-	-	-	53,114	53,114	53,114	
Other general long-term obligations.....	-	-	-	-	-	-	-	-	-	-	-	-	-	
Amounts to be provided for the retirement of:														
General obligation bonds.....	-	-	-	-	-	-	-	-	-	4,645,633	-	4,645,633	4,645,633	
Other bonds.....	-	-	-	-	-	-	-	-	-	-	3,360,872	3,360,872	3,360,872	
Other general long-term obligations.....	-	-	-	-	-	-	-	-	-	2,649,749	235	2,649,984	2,649,984	
<b>TOTAL ASSETS AND OTHER DEBITS</b> .....	\$ 4,973,580	\$ 2,261,967	\$ 220,392	\$ 179,641	\$ 2,451,365	\$ 87,496	\$ 29,120,341	\$ 4,508,384	\$ 7,491,073	\$ 51,294,239	\$ 70,386,178	\$ 121,680,417	\$ 121,680,417	

(Continued)

- See notes to financial statements. -

**COMBINED BALANCE SHEET**

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

**June 30, 1998**

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

**LIABILITIES, EQUITY AND OTHER CREDITS**

	Governmental Fund Types					Proprietary Fund Types			Fiduciary		Account Groups			Total	
	General		Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Primary Government	Component Units	(Memorandum Only)	Reporting Entity	
Liabilities:															
Accounts payable and accrued liabilities.....	\$ 1,500,820	\$ 556,587	\$ -	\$ 81,459	\$ 98,225	\$ 13,396	\$ 742,916	\$ -	\$ -	\$ 2,993,403	\$ 425,955	\$ -	\$ 3,419,358		
Investment purchases payable.....							185,784				945,366		1,131,150		
Tax refunds payable.....	472,967	1,098					5,100						479,165		
Tuition benefits payable.....					104,694								104,694		
Matured debt principal and interest payable.....													10,901		
Obligations under securities lending.....					287,209		1,585,394						6,934,005		
Due to other funds—Note H.....	105,132	48,286	1,761	17	27,118	472	49,796			232,582	5,061,402		408,198		
Due to primary government—Note H.....											175,616		40,286		
Due to component units—Note H.....	455	4,941								5,396	123		5,519		
Due to other governments.....	665,301	25,478		6,159	438	46	237,660			935,082	129,571		1,064,653		
Deferred revenue.....	266,463	24,377	11,291		25,601	90				327,822	3,396,637		3,724,459		
Notes payable—Note J.....											385,790		796,000		
Demand revenue bonds payable—Note J.....											796,000		796,000		
Advances from other funds—Note H.....	3,561	6,508	788		71,450		1,267,154			77,958	682,493		77,958		
Other liabilities.....					7,738					1,279,241			1,961,734		
Insurance loss liability—Note F.....					1,375,357					1,375,357			1,375,357		
General obligation bonds payable—Note K.....									4,841,324	4,841,324			4,841,324		
Bonds payable—Note K.....											3,413,986		3,413,986		
Revenue bonds payable—Note K.....											5,212,311		5,212,311		
Bond anticipation notes payable.....		19,400		30,000									49,400		
Capital lease and other general long-term obligations—Note K.....															
<b>TOTAL LIABILITIES.....</b>	<b>3,014,699</b>	<b>686,675</b>	<b>24,741</b>	<b>117,635</b>	<b>1,997,830</b>	<b>14,004</b>	<b>4,073,804</b>	<b>-</b>	<b>2,649,749</b>	<b>17,420,461</b>	<b>21,027,556</b>	<b>-</b>	<b>38,448,017</b>		
Equity and Other Credits:															
Contributed capital—Note H.....					209,005	9,187				218,192	1,529,067		1,747,259		
Investment in fixed assets.....								4,508,384		4,508,384	257,400		4,765,784		
Retained earnings:															
Reserved—Note C.....					4,787					4,787	1,342,723		1,347,510		
Unreserved.....					239,743	64,305				304,048	573,081		877,129		
Fund balance:															
Reserved for:															
Encumbrances.....	224,929	335,929		705,463			1,962			1,268,283	39,704		1,307,987		
Advances—Note C.....	74,808	3,000								77,808			77,808		
Pension benefits.....							21,311,771			21,311,771	44,857,349		66,169,120		
Loans receivable.....		70,803								70,803	32,906		103,709		
Long-term investments.....		16,968					129,545			146,513	425,246		571,759		
Endowment and similar funds.....											14,384		14,384		
Restricted fund balance.....											34,719		34,719		
Other—Note C.....	17,502	8					537,178			554,688	168,163		722,851		
Unreserved:															
Designated for:															
Capital projects.....				86,981						86,981	117,854		204,835		
Debt service:															
Retirement of general obligation bonds.....				195,691						195,691	53,114		195,691		
Retirement of other bonds.....													53,114		
Highways.....		223,234									223,234		223,234		
Other—Note C.....	1,144,001	33,552					3,339			1,180,892	5,107		1,185,999		
Undesignated (deficit)—Note C.....	497,641	891,798	(40)	(730,438)			3,062,742			3,721,703	(92,195)		3,629,508		
<b>TOTAL EQUITY AND OTHER CREDITS.....</b>	<b>1,958,881</b>	<b>1,575,292</b>	<b>195,651</b>	<b>62,006</b>	<b>453,535</b>	<b>73,492</b>	<b>25,046,537</b>	<b>4,508,384</b>	<b>-</b>	<b>33,873,778</b>	<b>49,558,622</b>	<b>-</b>	<b>83,232,400</b>		
<b>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS.....</b>	<b>\$ 4,973,580</b>	<b>\$ 2,261,967</b>	<b>\$ 220,392</b>	<b>\$ 179,641</b>	<b>\$ 2,451,365</b>	<b>\$ 87,496</b>	<b>\$ 29,120,341</b>	<b>\$ 4,508,384</b>	<b>\$ 7,491,073</b>	<b>\$ 51,294,239</b>	<b>\$ 70,386,178</b>	<b>\$ 121,680,417</b>			

- 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, 1998*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)	Total (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Primary Government	Component Units	Reporting Entity
<b>REVENUES:</b>								
Taxes.....	\$ 17,201,195	\$ 1,800,268	\$ -	\$ 42,272	\$ 5,287	\$ 19,049,022	\$ -	\$ 19,049,022
Unemployment taxes.....	-	-	-	-	1,513,110	1,513,110	-	1,513,110
License and fees.....	170,129	833,921	-	-	58,592	1,062,642	-	1,062,642
Intergovernmental.....	8,766,562	902,175	-	670	46,563	9,715,970	807	9,716,777
Charges for sales and services.....	1,440,807	208,343	-	48,783	-	1,697,933	10,440	1,708,373
Investment income.....	119,981	88,998	5,412	11,414	195,946	421,751	22,331	444,082
Lottery revenues.....	-	1,684,015	-	-	-	1,684,015	-	1,684,015
Lease rental principal and interest.....	-	-	2,159	-	-	2,159	241,195	243,354
Other.....	105,283	68,395	2,199	6	301	176,184	25,266	201,450
<b>TOTAL REVENUES</b> .....	<b>27,803,957</b>	<b>5,586,115</b>	<b>9,770</b>	<b>103,145</b>	<b>1,819,799</b>	<b>35,322,786</b>	<b>300,039</b>	<b>35,622,825</b>
<b>EXPENDITURES:</b>								
Current:								
General government.....	1,108,098	1,477,925	-	506	5,434	2,591,963	-	2,591,963
Protection of persons and property.....	2,590,304	15,749	-	6,968	75,052	2,688,073	8,040	2,696,113
Public health and welfare.....	13,648,551	692,988	-	-	1,504,122	15,845,661	-	15,845,661
Public education.....	7,713,683	760	-	-	-	7,714,443	4,007	7,718,450
Conservation of natural resources.....	127,543	230,723	-	37,821	-	396,087	-	396,087
Economic development and assistance.....	296,189	8,246	-	34,549	-	338,984	35,192	374,176
Transportation.....	371,659	2,743,767	-	127,908	-	3,243,334	-	3,243,334
Capital outlay.....	10,809	23,552	-	325,877	-	360,238	275,289	635,527
Debt service:								
Principal retirement.....	-	-	435,090	-	9,683	444,773	128,093	572,866
Interest and fiscal charges.....	6,353	-	256,994	9	-	263,356	158,425	421,781
<b>TOTAL EXPENDITURES</b> .....	<b>25,873,189</b>	<b>5,193,710</b>	<b>692,084</b>	<b>533,638</b>	<b>1,594,291</b>	<b>33,886,912</b>	<b>609,046</b>	<b>34,495,958</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>1,930,768</b>	<b>392,405</b>	<b>(682,314)</b>	<b>(430,493)</b>	<b>225,508</b>	<b>1,435,874</b>	<b>(309,007)</b>	<b>1,126,867</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
Bond proceeds.....	-	-	-	415,135	-	415,135	434,265	849,400
Refunding bond proceeds.....	-	-	-	-	-	-	300,840	300,840
Operating transfers in—Note H.....	103,662	297,748	777,641	-	-	1,179,051	513,069	1,692,120
Operating transfers out—Note H.....	(664,276)	(446,271)	(15,704)	-	-	(1,126,251)	(513,069)	(1,639,320)
Operating transfers from primary government—Note H.....	-	-	-	-	-	-	39,700	39,700
Operating transfers to component units—Note H.....	(760,758)	-	-	-	-	(760,758)	-	(760,758)
Payment to refunded bond escrow agent....	-	-	-	-	-	-	(184,776)	(184,776)
Capital lease and installment purchase obligations.....	519	4,731	-	-	-	5,250	-	5,250
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>(1,320,853)</b>	<b>(143,792)</b>	<b>761,937</b>	<b>415,135</b>	<b>-</b>	<b>(287,573)</b>	<b>590,029</b>	<b>302,456</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>609,915</b>	<b>248,613</b>	<b>79,623</b>	<b>(15,358)</b>	<b>225,508</b>	<b>1,148,301</b>	<b>281,022</b>	<b>1,429,323</b>
<b>FUND BALANCES, AS RESTATED, JULY 1, 1997 — NOTE C.....</b>	<b>1,367,966</b>	<b>1,354,679</b>	<b>116,028</b>	<b>77,364</b>	<b>2,972,080</b>	<b>5,888,117</b>	<b>344,944</b>	<b>6,233,061</b>
<b>RESIDUAL EQUITY TRANSFERS— NOTE H.....</b>	<b>(19,000)</b>	<b>(28,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(47,000)</b>	<b>-</b>	<b>(47,000)</b>
<b>FUND BALANCES JUNE 30, 1998.....</b>	<b>\$ 1,958,881</b>	<b>\$ 1,575,292</b>	<b>\$ 195,651</b>	<b>\$ 62,006</b>	<b>\$ 3,197,588</b>	<b>\$ 6,989,418</b>	<b>\$ 625,966</b>	<b>\$ 7,615,384</b>

— See notes to financial statements. —

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

*For the Fiscal Year Ended June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>						
<b>State Programs:</b>						
Taxes, net of refunds.....	\$ 16,216,100	\$ 16,864,753	\$ 648,653	\$ 1,054,872	\$ 1,058,121	\$ 3,249
Lottery receipts.....	-	-	-	880,908	909,844	28,936
Liquor store profits transfer.....	50,000	50,000	-	-	-	-
Licenses and fees.....	70,846	76,994	6,148	717,409	716,359	(1,050)
Fines, penalties and interest.....	23,500	28,357	4,857	-	-	-
Departmental services.....	1,512,370	1,490,790	(21,580)	55,491	39,058	(16,433)
Miscellaneous.....	176,600	193,064	16,464	98,469	107,681	9,212
<b>TOTAL STATE PROGRAMS.....</b>	<b>18,049,416</b>	<b>18,703,958</b>	<b>654,542</b>	<b>2,807,149</b>	<b>2,831,063</b>	<b>23,914</b>
<b>Federal Programs.....</b>	<b>9,241,001</b>	<b>8,114,399</b>	<b>(1,126,602)</b>	<b>764,881</b>	<b>666,021</b>	<b>(98,860)</b>
<b>TOTAL REVENUES.....</b>	<b>27,290,417</b>	<b>26,818,357</b>	<b>(472,060)</b>	<b>3,572,030</b>	<b>3,497,084</b>	<b>(74,946)</b>
<b>EXPENDITURES:</b>						
<b>State Programs:</b>						
General government.....	1,558,553	1,538,444	20,109	528,763	500,586	28,177
Protection of persons and property.....	2,278,942	2,264,062	14,880	285,299	283,357	1,942
Public health and welfare.....	6,598,041	6,588,769	9,272	624,092	610,186	13,906
Public education.....	7,546,587	7,544,256	2,331	1,526	1,272	254
Conservation of natural resources.....	118,053	117,769	284	1,000	2	998
Economic development and assistance.....	305,503	305,502	1	142	142	-
Transportation.....	373,704	361,802	11,902	1,458,296	1,433,291	25,005
<b>TOTAL STATE PROGRAMS.....</b>	<b>18,779,383</b>	<b>18,720,604</b>	<b>58,779</b>	<b>2,899,118</b>	<b>2,828,836</b>	<b>70,282</b>
<b>Federal Programs.....</b>	<b>9,241,001</b>	<b>8,114,399</b>	<b>1,126,602</b>	<b>764,881</b>	<b>666,021</b>	<b>98,860</b>
<b>TOTAL EXPENDITURES.....</b>	<b>28,020,384</b>	<b>26,835,003</b>	<b>1,185,381</b>	<b>3,663,999</b>	<b>3,494,857</b>	<b>169,142</b>
<b>REVENUES OVER (UNDER) EXPENDITURES...</b>	<b>(729,967)</b>	<b>(16,646)</b>	<b>713,321</b>	<b>(91,969)</b>	<b>2,227</b>	<b>94,196</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Prior-year lapses.....	103,047	103,047	-	68,144	68,144	-
Transfer to Tax Stabilization Reserve Fund.....	-	(223,302)	(223,302)	-	-	-
Increase in budgeted revenues.....	654,542	-	(654,542)	-	-	-
<b>NET OTHER FINANCING SOURCES.....</b>	<b>757,589</b>	<b>(120,255)</b>	<b>(877,844)</b>	<b>68,144</b>	<b>68,144</b>	<b>-</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES — NOTE M.....</b>	<b>27,622</b>	<b>(136,901)</b>	<b>(164,523)</b>	<b>(23,825)</b>	<b>70,371</b>	<b>94,196</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), AS RESTATE, JULY 1, 1997 — NOTE C.....</b>	<b>402,278</b>	<b>402,278</b>	<b>-</b>	<b>356,724</b>	<b>356,724</b>	<b>-</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS) JUNE 30, 1998.....</b>	<b>\$ 429,900</b>	<b>\$ 265,377</b>	<b>\$ (164,523)</b>	<b>\$ 332,899</b>	<b>\$ 427,095</b>	<b>\$ 94,196</b>

— 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, 1998*

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

	Proprietary Fund Types		Total (Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
	Enterprise	Internal Service			
<b>OPERATING REVENUES:</b>					
Sales and services.....	\$ 957,571	\$ 142,857	\$ 1,100,428	\$ 753,721	\$ 1,854,149
Investment income.....	202,186	-	202,186	94,573	296,759
Interest on notes and loans.....	5,383	-	5,383	365,502	370,885
Other.....	698	60	758	135,694	136,452
<b>TOTAL OPERATING REVENUES.....</b>	<b>1,165,838</b>	<b>142,917</b>	<b>1,308,755</b>	<b>1,349,490</b>	<b>2,658,245</b>
<b>OPERATING EXPENSES:</b>					
Cost of sales and services.....	964,552	130,176	1,094,728	901,452	1,996,180
Interest expense.....	20,008	-	20,008	331,557	351,565
Depreciation.....	5,233	8,445	13,678	156,082	169,760
Provision for uncollectible accounts.....	10,637	-	10,637	24,574	35,211
Other.....	1,626	-	1,626	119,730	121,356
<b>TOTAL OPERATING EXPENSES.....</b>	<b>1,002,056</b>	<b>138,621</b>	<b>1,140,677</b>	<b>1,533,395</b>	<b>2,674,072</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>163,782</b>	<b>4,296</b>	<b>168,078</b>	<b>(183,905)</b>	<b>(15,827)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Investment income.....	6,157	1,148	7,305	22,274	29,579
Interest expense.....	-	-	-	(58,769)	(58,769)
Oil company franchise tax.....	-	-	-	41,431	41,431
Other revenues.....	327	491	818	2,561	3,379
Other expenses.....	-	(101)	(101)	(115,906)	(116,007)
<b>NONOPERATING REVENUES, NET.....</b>	<b>6,484</b>	<b>1,538</b>	<b>8,022</b>	<b>(108,409)</b>	<b>(100,387)</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS...</b>	<b>170,266</b>	<b>5,834</b>	<b>176,100</b>	<b>(292,314)</b>	<b>(116,214)</b>
<b>OPERATING TRANSFERS:</b>					
Operating transfers out—Note H.....	(52,800)	-	(52,800)	-	(52,800)
Operating transfers from primary government—Note H.....	-	-	-	307,916	307,916
<b>OPERATING TRANSFERS, NET.....</b>	<b>(52,800)</b>	<b>-</b>	<b>(52,800)</b>	<b>307,916</b>	<b>255,116</b>
<b>INCOME BEFORE EXTRAORDINARY ITEMS.....</b>	<b>117,466</b>	<b>5,834</b>	<b>123,300</b>	<b>15,602</b>	<b>138,902</b>
Extraordinary loss on early extinguishment of debt.....	-	-	-	(3,171)	(3,171)
<b>NET INCOME.....</b>	<b>117,466</b>	<b>5,834</b>	<b>123,300</b>	<b>12,431</b>	<b>135,731</b>
<b>RETAINED EARNINGS/FUND BALANCES, AS RESTATED, JULY 1, 1997—Note C.....</b>	<b>127,064</b>	<b>59,458</b>	<b>186,522</b>	<b>1,903,373</b>	<b>2,089,895</b>
<b>RESIDUAL EQUITY TRANSFERS.....</b>	<b>-</b>	<b>(987)</b>	<b>(987)</b>	<b>-</b>	<b>(987)</b>
<b>RETAINED EARNINGS/FUND BALANCES, JUNE 30, 1998.....</b>	<b>\$ 244,530</b>	<b>\$ 64,305</b>	<b>\$ 308,835</b>	<b>\$ 1,915,804</b>	<b>\$ 2,224,639</b>

— 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, 1998

### COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

	Proprietary Funds		Total (Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
	Enterprise	Internal Service			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss).....	\$ 163,782	\$ 4,296	\$ 168,078	\$ (183,905)	\$ (15,827)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation.....	5,233	8,445	13,678	156,082	169,760
Net amortization.....	(816)	-	(816)	4,520	3,704
Provision for uncollectible accounts.....	10,637	-	10,637	24,574	35,211
Nonoperating revenues.....	327	4	331	2,561	2,892
Nonoperating expenses.....	-	(6)	(6)	(115,906)	(115,912)
Reclassification of investment income.....	(202,186)	-	(202,186)	(94,573)	(296,759)
Changes in assets and liabilities:					
Increase in receivables.....	(17,910)	(30)	(17,940)	(323,712)	(341,652)
Decrease (increase) in due from other funds.....	2,389	(721)	1,668	-	1,668
Increase in due from primary government.....	-	-	-	(2,256)	(2,256)
Decrease in due from component units.....	-	30	30	15	45
Decrease in due from other governments.....	24	51	75	82	157
(Increase) decrease in inventory.....	(12,394)	1,068	(11,326)	(270)	(11,596)
Decrease in other current assets.....	104	83	187	3,585	3,772
Increase in accounts payable and accrued liabilities.....	5,988	960	6,948	985	7,933
Increase (decrease) in due to other funds.....	5,307	(222)	5,085	-	5,085
Decrease in due to primary government.....	-	-	-	(796)	(796)
Decrease in due to component units.....	-	-	-	(15)	(15)
(Decrease) increase in due to other governments.....	(105)	5	(100)	116,915	116,815
Decrease in deferred revenue.....	(17,090)	(35)	(17,125)	(11,048)	(28,173)
Decrease in insurance loss liability.....	(99,400)	-	(99,400)	-	(99,400)
Increase in tuition benefits payable.....	25,752	-	25,752	-	25,752
Increase in obligations under securities lending.....	33,635	-	33,635	-	33,635
(Decrease) increase in other current liabilities.....	(21,094)	-	(21,094)	10,684	(10,410)
<b>TOTAL ADJUSTMENTS.....</b>	<b>(281,599)</b>	<b>9,632</b>	<b>(271,967)</b>	<b>(228,573)</b>	<b>(500,540)</b>
<b>NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>(117,817)</b>	<b>13,928</b>	<b>(103,889)</b>	<b>(412,478)</b>	<b>(516,367)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Net borrowings under advances from other funds.....	(100)	-	(100)	-	(100)
Proceeds from issuance of debt obligations.....	-	-	-	650,201	650,201
Principal paid on debt obligations.....	-	-	-	(333,235)	(333,235)
Operating transfers from primary government.....	-	-	-	307,916	307,916
Operating transfers out.....	(52,800)	-	(52,800)	-	(52,800)
<b>NET CASH (USED FOR) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(52,900)</b>	<b>-</b>	<b>(52,900)</b>	<b>624,882</b>	<b>571,982</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Principal paid on debt obligations.....	-	-	-	(87,444)	(87,444)
Interest paid on debt obligations.....	-	-	-	(58,769)	(58,769)
Increases in contributed capital.....	6,091	-	6,091	110,876	116,967
Decreases in contributed capital.....	-	-	-	(2,262)	(2,262)
Acquisition and construction of capital assets.....	(4,982)	(11,679)	(16,661)	(181,944)	(198,605)
Proceeds from sale of capital assets.....	-	1,602	1,602	3,917	5,519
Oil company franchise tax.....	-	-	-	41,431	41,431
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>1,109</b>	<b>(10,077)</b>	<b>(8,968)</b>	<b>(174,195)</b>	<b>(183,163)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments.....	(6,018,715)	(76,875)	(6,095,590)	(31,616,533)	(37,712,123)
Proceeds from sale and maturities of investments.....	6,033,405	71,551	6,104,956	31,472,727	37,577,683
Investment income.....	160,801	1,118	161,919	116,715	278,634
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>175,491</b>	<b>(4,206)</b>	<b>171,285</b>	<b>(27,091)</b>	<b>144,194</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>5,883</b>	<b>(355)</b>	<b>5,528</b>	<b>11,118</b>	<b>16,646</b>
<b>CASH, JULY 1, 1997.....</b>	<b>7,294</b>	<b>683</b>	<b>7,977</b>	<b>66,605</b>	<b>74,582</b>
<b>CASH, JUNE 30, 1998.....</b>	<b>\$ 13,177</b>	<b>\$ 328</b>	<b>\$ 13,505</b>	<b>\$ 77,723</b>	<b>\$ 91,228</b>

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

— See notes to financial statements. —

**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**Pension Trust Fund**

*For the Year Ended December 31, 1997*

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

	<b>State Employees' Retirement System</b>
<b>ADDITIONS:</b>	
Net appreciation in fair value of investments.....	\$ 1,302,080
Pension contributions.....	536,649
Investment income.....	<u>2,018,089</u>
<b>TOTAL ADDITIONS .....</b>	<b><u>3,856,818</u></b>
<b>DEDUCTIONS:</b>	
Benefit payments.....	1,008,648
Refunds of contributions.....	13,073
Administrative expenses.....	<u>15,542</u>
<b>TOTAL DEDUCTIONS .....</b>	<b><u>1,037,263</u></b>
Net increase.....	2,819,555
Fund balance reserved for pension benefits:	
<b>JANUARY 1, 1997.....</b>	<b><u>18,492,216</u></b>
<b>DECEMBER 31, 1997.....</b>	<b><u>\$ 21,311,771</u></b>

— See notes to financial statements. —



**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**Investment Trust Fund**

*For the Year Ended December 31, 1997*

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

	<b>INVEST Program For Local Governments</b>
Investment income.....	\$ 27,733
Less: participant administrative expenses.....	202
	<hr/>
Net increase in net assets resulting from operations .....	27,531
	<hr/>
Net investment income distributions to participants.....	(27,655)
	<hr/>
Share transactions (at net asset value of \$1.00 per share):	
Shares purchased.....	1,702,771
Shares issued in lieu of cash distributions.....	20,768
Shares redeemed.....	(1,640,226)
	<hr/>
Net increase in net assets from share transactions.....	83,313
	<hr/>
Net increase in net assets.....	83,189
	<hr/>
FUND BALANCE, JANUARY 1, 1997, AS RESTATED - NOTE C.....	453,989
	<hr/>
FUND BALANCE, DECEMBER 31, 1997.....	\$ 537,178
	<hr/> <hr/>

— See notes to financial statements. —

**COMBINED BALANCE SHEET**  
**Discretely Presented Component Units**

June 30, 1998

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

	Governmental Funds	Proprietary Funds	Fiduciary Fund - Note I	College and University Funds	Total (Memorandum Only) Component Units
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash—Note D.....	\$ 1,001	\$ 73,412	\$ -	\$ 20,976	\$ 95,389
Cash with fiscal agents—Note D.....	349	4,311	-	-	4,660
Temporary investments—Note D.....	202,355	1,678,281	1,143,649	221,969	3,246,254
Long-term investments—Note D.....	425,246	599,746	48,883,487	394,241	50,302,720
Receivable, net:					
Accounts.....	30	15,107	-	32,730	47,867
Accrued interest.....	1,908	76,822	-	-	78,730
Notes and loans—Note G.....	4,938	6,049,238	-	30,211	6,084,387
Lease rental—Note G.....	3,314,738	15,262	-	-	3,330,000
Pension contributions.....	-	-	286,421	-	286,421
Investment proceeds.....	-	-	446,657	-	446,657
Other.....	-	-	188,367	8,670	197,037
Due from other funds—Note H.....	-	-	-	175,616	175,616
Due from primary government—Note H.....	299	6,310	283	135	7,027
Due from component units.....	-	123	-	-	123
Due from other governments—Note B.....	89	50,968	16	-	51,073
Inventory.....	-	6,861	-	5,015	11,876
Fixed assets—Note E.....	-	3,624,331	17,561	892,667	4,534,559
Less: accumulated depreciation.....	-	(1,730,783)	(10,746)	(292,317)	(2,033,846)
Other assets.....	8	68,336	-	37,063	105,407
<b>Other Debits:</b>					
Amounts available for retirement of other bonds.....	53,114	-	-	-	53,114
Amounts to be provided for the retirement of:					
Other bonds.....	3,360,872	-	-	-	3,360,872
Other general long-term obligations.....	235	-	-	-	235
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 7,365,182</b>	<b>\$ 10,538,325</b>	<b>\$ 50,955,695</b>	<b>\$ 1,526,976</b>	<b>\$ 70,386,178</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities.....	\$ 9,612	\$ 204,062	\$ 91,162	\$ 121,119	\$ 425,955
Investment purchases payable.....	-	-	945,366	-	945,366
Obligations under securities lending.....	-	-	5,061,402	-	5,061,402
Due to other funds—Note H.....	-	-	-	175,616	175,616
Due to primary government—Note H.....	3	34,507	416	5,360	40,286
Due to component units.....	-	123	-	-	123
Due to other governments.....	307	129,264	-	-	129,571
Deferred revenue.....	3,314,977	42,946	-	38,714	3,396,637
Notes payable—Note J.....	-	385,790	-	-	385,790
Demand revenue bonds payable—Note J.....	-	796,000	-	-	796,000
Other liabilities.....	96	288,451	-	393,946	682,493
Bonds payable—Note K.....	3,413,986	-	-	-	3,413,986
Revenue bonds payable—Note K.....	-	5,212,311	-	-	5,212,311
Capital lease obligations—Note K.....	235	-	-	361,785	362,020
<b>TOTAL LIABILITIES</b>	<b>6,739,216</b>	<b>7,093,454</b>	<b>6,098,346</b>	<b>1,096,540</b>	<b>21,027,556</b>
<b>Equity and Other Credits:</b>					
Contributed capital—Note H.....	-	1,529,067	-	-	1,529,067
Investment in fixed assets.....	-	-	-	257,400	257,400
Retained earnings:					
Reserved—Note C.....	-	1,342,723	-	-	1,342,723
Unreserved.....	-	573,081	-	-	573,081
Fund balance:					
Reserved for:					
Encumbrances.....	4,691	-	-	35,013	39,704
Pension benefits.....	-	-	44,857,349	-	44,857,349
Loans receivable.....	-	-	-	32,906	32,906
Long-term investments.....	425,246	-	-	-	425,246
Endowment and similar funds.....	-	-	-	14,384	14,384
Restricted fund balance.....	2,207	-	-	32,512	34,719
Other—Note C.....	8,261	-	-	159,902	168,163
Unreserved:					
Designated for:					
Capital projects.....	117,854	-	-	-	117,854
Debt service:					
Retirement of other bonds.....	53,114	-	-	-	53,114
Other.....	5,107	-	-	-	5,107
Undesignated (deficit)—Note C.....	9,486	-	-	(101,681)	(92,195)
<b>TOTAL EQUITY AND OTHER CREDITS</b>	<b>625,966</b>	<b>3,444,871</b>	<b>44,857,349</b>	<b>430,436</b>	<b>49,358,622</b>
<b>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</b>	<b>\$ 7,365,182</b>	<b>\$ 10,538,325</b>	<b>\$ 50,955,695</b>	<b>\$ 1,526,976</b>	<b>\$ 70,386,178</b>

— See notes to financial statements. —

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

June 30, 1998

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

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash—Note D.....	\$ 213	\$ -	\$ 14	\$ 774	\$ 1,001
Cash with fiscal agents.....	-	-	349	-	349
Temporary investments—Note D.....	53,020	9,441	5,538	134,356	202,355
Long-term investments—Note D.....	31,089	-	-	394,157	425,246
Receivables, net:					
Accounts.....	5	-	25	-	30
Accrued interest.....	457	48	-	1,403	1,908
Notes and loans—Note G.....	4,938	-	-	-	4,938
Lease rental—Note G.....	340,654	-	-	2,974,084	3,314,738
Due from primary government—Note H.....	-	299	-	-	299
Due from other governments.....	-	-	89	-	89
Other assets.....	-	-	8	-	8
<b>Other Debits:</b>					
Amounts available for retirement of other bonds.....	2,014	-	-	51,100	53,114
Amounts to be provided for the retirement of:					
Other bonds.....	341,312	-	-	3,019,560	3,360,872
Other general long-term obligations.....	235	-	-	-	235
<b>TOTAL ASSETS AND OTHER DEBITS</b> .....	<b>\$ 773,937</b>	<b>\$ 9,788</b>	<b>\$ 6,023</b>	<b>\$ 6,575,434</b>	<b>\$ 7,365,182</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities.....	\$ 5,972	\$ 1,908	\$ 427	\$ 1,305	\$ 9,612
Due to primary government.....	\$ 3	\$ -	\$ -	\$ -	\$ 3
Due to other governments.....	-	307	-	-	307
Deferred revenue.....	340,654	-	-	2,974,323	3,314,977
Other liabilities.....	96	-	-	-	96
Bonds payable—Note K.....	343,326	-	-	3,070,660	3,413,986
Capital lease and other general long-term obligations.....	235	-	-	-	235
<b>TOTAL LIABILITIES</b> .....	<b>690,286</b>	<b>2,215</b>	<b>427</b>	<b>6,046,288</b>	<b>6,739,216</b>
<b>Fund Balance:</b>					
Reserved for:					
Encumbrances.....	-	4,691	-	-	4,691
Long-term investments.....	31,089	-	-	394,157	425,246
Restricted fund balance.....	2,207	-	-	-	2,207
Other.....	-	-	-	8,261	8,261
Unreserved:					
Designated for:					
Capital projects.....	42,226	-	-	75,628	117,854
Debt service:					
Retirement of other bonds.....	2,014	-	-	51,100	53,114
Other.....	-	-	5,107	-	5,107
Undesignated.....	6,115	2,882	489	-	9,486
<b>TOTAL FUND BALANCES</b> .....	<b>83,651</b>	<b>7,573</b>	<b>5,596</b>	<b>529,146</b>	<b>625,966</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b> .....	<b>\$ 773,937</b>	<b>\$ 9,788</b>	<b>\$ 6,023</b>	<b>\$ 6,575,434</b>	<b>\$ 7,365,182</b>

— See notes to financial statements. —

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

**Governmental Funds -  
Discretely Presented Component Units**

*For the Fiscal Year Ended June 30, 1998*

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

	State Public School Building Authority	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
<b>REVENUES:</b>					
Intergovernmental.....	\$ -	\$ 807	\$ -	\$ -	\$ 807
Charges for sales and services.....	1,097	-	8,247	1,096	10,440
Investment income.....	3,904	544	365	17,518	22,331
Lease rental-principal and interest.....	35,072	-	-	206,123	241,195
Other.....	954	1	142	24,169	25,266
<b>TOTAL REVENUES .....</b>	<b>41,027</b>	<b>1,352</b>	<b>8,754</b>	<b>248,906</b>	<b>300,039</b>
<b>EXPENDITURES:</b>					
Protection of persons and property.....	-	-	8,040	-	8,040
Public education.....	2,129	-	-	1,878	4,007
Economic development and assistance.....	-	35,192	-	-	35,192
Capital outlay.....	20,164	-	-	255,125	275,289
Debt service:					
Principal retirement.....	27,868	-	-	100,225	128,093
Interest and fiscal charges.....	14,371	-	-	144,054	158,425
<b>TOTAL EXPENDITURES.....</b>	<b>64,532</b>	<b>35,192</b>	<b>8,040</b>	<b>501,282</b>	<b>609,046</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(23,505)</b>	<b>(33,840)</b>	<b>714</b>	<b>(252,376)</b>	<b>(309,007)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Bond proceeds.....	55,090	-	-	379,175	434,265
Refunding bond proceeds.....	11,415	-	-	289,425	300,840
Operating transfers in—Note H.....	44,546	-	-	468,523	513,069
Operating transfers out—Note H.....	(44,546)	-	-	(468,523)	(513,069)
Operating transfer from primary government—Note H.....	-	39,700	-	-	39,700
Payment to refunded bond escrow agent.....	(4,592)	-	-	(180,184)	(184,776)
<b>NET OTHER FINANCING SOURCES.....</b>	<b>61,913</b>	<b>39,700</b>	<b>-</b>	<b>488,416</b>	<b>590,029</b>
<b>REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES.....</b>					
<b>FUND BALANCES, AS RESTATED, JULY 1, 1997.....</b>	<b>45,243</b>	<b>1,713</b>	<b>4,882</b>	<b>293,106</b>	<b>344,944</b>
<b>FUND BALANCES, JUNE 30, 1998 .....</b>	<b>\$ 83,651</b>	<b>\$ 7,573</b>	<b>\$ 5,596</b>	<b>\$ 529,146</b>	<b>\$ 625,966</b>

— See notes to financial statements. —

**COMBINING BALANCE SHEET**

**Proprietary Funds - Discretely Presented Component Units**

*June 30, 1998*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1998)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
<b>ASSETS</b>						
Cash—Note D.....	\$ 66,627	\$ -	\$ 2,760	\$ 4,017	\$ 8	\$ 73,412
Cash with fiscal agents—Note D.....	-	2,375	-	1,046	890	4,311
Temporary investments—Note D.....	296,262	135,109	498,579	553,228	195,103	1,678,281
Long-term investments—Note D.....	243,545	59,077	287,128	9,996	-	599,746
Receivables, net:						
Accounts.....	6,476	-	-	8,631	-	15,107
Accrued interest.....	3,011	3,200	-	68,010	2,601	76,822
Notes and loans—Note G.....	-	638,459	2,631,228	1,700,053	1,079,498	6,049,238
Lease rentals—Note G.....	-	15,262	-	-	-	15,262
Due from primary government—Note H.....	6,310	-	-	-	-	6,310
Due from component units—Note H.....	-	-	38	-	85	123
Due from other governments—Note B.....	-	-	-	50,025	943	50,968
Inventory.....	6,861	-	-	-	-	6,861
Fixed assets—Note E.....	3,471,771	-	6,185	146,106	269	3,624,331
Less: accumulated depreciation.....	(1,676,705)	-	(2,687)	(51,188)	(203)	(1,730,783)
Other assets.....	14,329	10,504	12,958	17,265	13,280	68,336
<b>TOTAL ASSETS</b> .....	<b>\$ 2,438,487</b>	<b>\$ 863,986</b>	<b>\$ 3,436,189</b>	<b>\$ 2,507,189</b>	<b>\$ 1,292,474</b>	<b>\$ 10,538,325</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities.....	\$ 73,818	\$ 492	\$ 50,871	\$ 74,592	\$ 4,289	\$ 204,062
Due to primary government—Note H.....	4,570	1	22	113	29,801	34,507
Due to component units—Note H.....	-	-	85	-	38	123
Due to other governments.....	-	-	-	129,261	3	129,264
Deferred revenue.....	-	-	-	42,940	6	42,946
Notes payable—Note J.....	-	-	6,049	379,741	-	385,790
Demand revenue bonds payable—Note J.....	-	-	-	796,000	-	796,000
Other liabilities.....	10,445	11,313	212,756	53,937	-	288,451
Revenue bonds payable—Note K.....	1,091,309	398,848	2,687,564	837,785	196,805	5,212,311
<b>TOTAL LIABILITIES</b> .....	<b>1,180,142</b>	<b>410,654</b>	<b>2,957,347</b>	<b>2,314,369</b>	<b>230,942</b>	<b>7,093,454</b>
<b>Equity:</b>						
Contributed capital—Note H.....	216,547	307,840	1,960	-	1,002,720	1,529,067
Retained earnings:						
Reserved—Note C.....	1,041,798	-	134,014	166,911	-	1,342,723
Unreserved.....	-	145,492	342,868	25,909	58,812	573,081
<b>TOTAL EQUITY</b> .....	<b>1,258,345</b>	<b>453,332</b>	<b>478,842</b>	<b>192,820</b>	<b>1,061,532</b>	<b>3,444,871</b>
<b>TOTAL LIABILITIES AND EQUITY</b> .....	<b>\$ 2,438,487</b>	<b>\$ 863,986</b>	<b>\$ 3,436,189</b>	<b>\$ 2,507,189</b>	<b>\$ 1,292,474</b>	<b>\$ 10,538,325</b>

— See notes to financial statements. —

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

**Proprietary Funds - Discretely Presented Component Units** *For the Fiscal Year Ended June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)						
	Pennsylvania Turnpike Commission (May 31, 1998)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
<b>OPERATING REVENUES:</b>						
Sales and services.....	\$ 335,326	\$ -	\$ 15,970	\$ 400,548	\$ 1,877	\$ 753,721
Investment income.....	-	14,361	38,279	32,262	9,671	94,573
Interest on notes and loans.....	-	21,631	188,244	136,439	19,188	365,502
Other.....	11,235	723	123,158	317	261	135,694
<b>TOTAL OPERATING REVENUES.....</b>	<b>346,561</b>	<b>36,715</b>	<b>365,651</b>	<b>569,566</b>	<b>30,997</b>	<b>1,349,490</b>
<b>OPERATING EXPENSES:</b>						
Cost of sales and services.....	165,763	2,858	17,931	712,906	1,994	901,452
Interest expense.....	-	22,852	172,503	124,474	11,728	331,557
Depreciation.....	144,782	-	513	10,761	26	156,082
Provision for uncollectible accounts.....	-	1,280	25,291	-	(1,997)	24,574
Other.....	-	1,303	118,427	-	-	119,730
<b>TOTAL OPERATING EXPENSES.....</b>	<b>310,545</b>	<b>28,293</b>	<b>334,665</b>	<b>848,141</b>	<b>11,751</b>	<b>1,533,395</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>36,016</b>	<b>8,422</b>	<b>30,986</b>	<b>(278,575)</b>	<b>19,246</b>	<b>(183,905)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income.....	22,274	-	-	-	-	22,274
Interest expense.....	(58,769)	-	-	-	-	(58,769)
Oil company franchise tax.....	41,431	-	-	-	-	41,431
Other revenue.....	-	-	-	2,561	-	2,561
Other expenses.....	-	-	-	(115,906)	-	(115,906)
<b>NONOPERATING REVENUES, NET.....</b>	<b>4,936</b>	<b>-</b>	<b>-</b>	<b>(113,345)</b>	<b>-</b>	<b>(108,409)</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS.....</b>	<b>40,952</b>	<b>8,422</b>	<b>30,986</b>	<b>(391,920)</b>	<b>19,246</b>	<b>(292,314)</b>
<b>OPERATING TRANSFERS:</b>						
Operating transfers from primary government— Note H.....	-	-	10,000	297,916	-	307,916
<b>INCOME BEFORE EXTRAORDINARY ITEMS..</b>	<b>40,952</b>	<b>8,422</b>	<b>40,986</b>	<b>(94,004)</b>	<b>19,246</b>	<b>15,602</b>
Extraordinary loss on early extinguishment of debt.....	(2,775)	-	(396)	-	-	(3,171)
<b>NET INCOME.....</b>	<b>38,177</b>	<b>8,422</b>	<b>40,590</b>	<b>(94,004)</b>	<b>19,246</b>	<b>12,431</b>
<b>RETAINED EARNINGS, AS RESTATED, JULY 1, 1997.....</b>	<b>1,003,621</b>	<b>137,070</b>	<b>436,292</b>	<b>286,824</b>	<b>39,566</b>	<b>1,903,373</b>
<b>RETAINED EARNINGS, JUNE 30, 1998.....</b>	<b>\$ 1,041,798</b>	<b>\$ 145,492</b>	<b>\$ 476,882</b>	<b>\$ 192,820</b>	<b>\$ 58,812</b>	<b>\$ 1,915,804</b>

— See notes to financial statements. —

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

*For the Fiscal Year Ended June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)						
	Pennsylvania Turnpike Commission (May 31, 1998)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Operating income (loss).....	\$ 36,016	\$ 8,422	\$ 30,986	\$ (278,575)	\$ 19,246	\$ (183,905)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation.....	144,782	-	513	10,761	26	156,082
Net amortization.....	4,520	-	-	-	-	4,520
Provision for uncollectible accounts.....	-	1,280	25,291	-	(1,997)	24,574
Nonoperating revenues.....	-	-	-	2,561	-	2,561
Nonoperating expenses.....	-	-	-	(115,906)	-	(115,906)
Reclassification of investment income.....	-	(14,361)	(38,279)	(32,262)	(9,671)	(94,573)
Changes in assets and liabilities:						
Decrease (increase) in receivables.....	637	21,649	(173,985)	(113,881)	(58,132)	(323,712)
Increase in due from primary government.....	(2,256)	-	-	-	-	(2,256)
Decrease (increase) in due from component units.....	-	-	62	-	(47)	15
Decrease (increase) in due from other governments.....	-	-	-	927	(845)	82
Increase in inventory.....	(270)	-	-	-	-	(270)
Decrease (increase) in other current assets.....	2,105	1,707	(852)	435	190	3,585
(Decrease) increase in accounts payable and accrued liabilities.....	(4,093)	(205)	(2,459)	7,587	155	985
Increase (decrease) in due to primary government.....	1,240	-	(14)	(36)	(1,986)	(796)
Increase (decrease) in due to component units.....	-	-	47	-	(62)	(15)
Increase in due to other governments.....	-	-	-	116,915	-	116,915
(Decrease) increase in deferred revenue.....	-	-	-	(11,054)	6	(11,048)
(Decrease) increase in other current liabilities.....	(1,448)	(350)	13,282	(800)	-	10,684
<b>TOTAL ADJUSTMENTS.....</b>	<b>145,217</b>	<b>9,720</b>	<b>(176,394)</b>	<b>(134,753)</b>	<b>(72,363)</b>	<b>(228,573)</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>181,233</b>	<b>18,142</b>	<b>(145,408)</b>	<b>(413,328)</b>	<b>(53,117)</b>	<b>(412,478)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Proceeds from issuance of debt obligations.....	-	-	378,078	272,123	-	650,201
Principal paid on debt obligations.....	-	(15,179)	(145,559)	(172,497)	-	(333,235)
Operating transfers from primary government.....	-	-	10,000	297,916	-	307,916
<b>NET CASH (USED FOR) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>(15,179)</b>	<b>242,519</b>	<b>397,542</b>	<b>-</b>	<b>624,882</b>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Principal paid on debt obligations.....	(77,885)	-	-	-	(9,559)	(87,444)
Interest paid on debt obligations.....	(58,769)	-	-	-	-	(58,769)
Increase in contributed capital.....	27,008	14,999	-	-	68,869	110,876
Decrease in contributed capital.....	-	-	-	-	(2,262)	(2,262)
Acquisition and construction of capital assets.....	(168,664)	-	(182)	(13,061)	(37)	(181,944)
Proceeds from sale of capital assets.....	-	-	-	3,917	-	3,917
Oil company franchise tax.....	41,431	-	-	-	-	41,431
<b>NET CASH (USED FOR) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(236,879)</b>	<b>14,999</b>	<b>(182)</b>	<b>(9,144)</b>	<b>57,011</b>	<b>(174,195)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of investments.....	(707,084)	(27,697,865)	(493,267)	(2,578,586)	(139,731)	(31,616,533)
Proceeds from sale and maturities of investments.....	772,200	27,662,507	360,819	2,552,475	124,726	31,472,727
Investment income.....	22,274	14,360	38,279	32,262	9,540	116,715
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>87,390</b>	<b>(20,998)</b>	<b>(94,169)</b>	<b>6,151</b>	<b>(5,465)</b>	<b>(27,091)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>31,744</b>	<b>(3,036)</b>	<b>2,760</b>	<b>(18,779)</b>	<b>(1,571)</b>	<b>11,118</b>
<b>CASH, JULY 1, 1997.....</b>	<b>34,883</b>	<b>5,411</b>	<b>-</b>	<b>23,842</b>	<b>2,469</b>	<b>66,605</b>
<b>CASH, JUNE 30, 1998.....</b>	<b>\$ 66,627</b>	<b>\$ 2,375</b>	<b>\$ 2,760</b>	<b>\$ 5,063</b>	<b>\$ 898</b>	<b>\$ 77,723</b>

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, 1998*

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

	Public School Employees' Retirement System			
	Pension	Postemployment Healthcare		Total
		Premium Assistance	Health Options Program	
<b>ADDITIONS:</b>				
Net appreciation (depreciation) in fair value of investments.....	\$ 4,893,770	\$ (567)	\$ -	\$ 4,893,203
Pension contributions.....	1,196,043	12,623	97,094	1,305,760
Investment income.....	1,297,247	4,721	722	1,302,690
<b>TOTAL ADDITIONS</b> .....	<b>7,387,060</b>	<b>16,777</b>	<b>97,816</b>	<b>7,501,653</b>
<b>DEDUCTIONS:</b>				
Benefit payments.....	1,856,108	31,017	100,587	1,987,712
Refunds of contributions.....	20,503	-	-	20,503
Administrative expenses.....	26,796	504	2,647	29,947
Net account transfers.....	3,478	(77)	-	3,401
<b>TOTAL DEDUCTIONS</b> .....	<b>1,906,885</b>	<b>31,444</b>	<b>103,234</b>	<b>2,041,563</b>
<b>NET INCREASE</b> .....	<b>5,480,175</b>	<b>(14,667)</b>	<b>(5,418)</b>	<b>5,460,090</b>
Fund balance reserved for pension and postemployment healthcare benefits:				
JULY 1, 1997.....	39,295,528	90,802	10,929	39,397,259
<b>JUNE 30, 1998</b> .....	<b>\$ 44,775,703</b>	<b>\$ 76,135</b>	<b>\$ 5,511</b>	<b>\$ 44,857,349</b>

— See notes to financial statements. —



**COMBINING BALANCE SHEET**

**College and University Funds - Discretely Presented Component Unit**

*June 30, 1998*

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

	Current Funds		Endowment and Similar Funds	Plant Funds			Agency Funds	Component Units	Total
	Unrestricted	Restricted		Loan Funds	Unexpended	Replacement and			
<b>ASSETS:</b>									
Cash—Note D.....	\$ 8,894	\$ -	\$ -	\$ 66	\$ -	\$ 2,619	\$ -	\$ 9,397	\$ 20,976
Temporary investments—Note D.....	173,174	-	-	33,894	8,249	6,652	-	-	221,969
Long-term investments—Note D.....	205,736	293	11,387	2,272	-	168,344	-	6,209	394,241
Receivables, net:									
Accounts.....	19,293	9,066	-	-	962	125	-	3,141	32,730
Notes and loans—Note G.....	-	-	30,211	-	-	-	-	-	30,211
Other.....	-	-	-	8,670	-	-	-	-	8,670
Due from other funds—Note H.....	-	10,170	2,849	31,052	98,598	8,231	-	8,023	175,616
Inventory.....	135	-	-	-	-	-	-	-	135
Fixed assets—Note E.....	5,015	-	-	-	-	-	-	-	5,015
Less: accumulated depreciation.....	-	-	-	-	-	-	885,057	-	892,667
Other assets.....	21,992	73	-	39	486	6,045	(292,317)	-	(292,317)
<b>TOTAL ASSETS</b> .....	<b>\$ 434,239</b>	<b>\$ 19,602</b>	<b>\$ 33,060</b>	<b>\$ 75,993</b>	<b>\$ 108,295</b>	<b>\$ 192,016</b>	<b>\$ 592,740</b>	<b>\$ 42,808</b>	<b>\$ 1,526,976</b>

**LIABILITIES AND FUND EQUITY**

<b>Liabilities:</b>										
Accounts payable and accrued liabilities.....	\$ 92,619	\$ 2,639	\$ -	\$ 9,755	\$ 6,479	\$ -	\$ -	\$ 208	\$ 9,419	\$ 121,119
Due to other funds—Note H.....	175,064	-	-	-	-	-	552	-	-	175,616
Due to primary government—Note H.....	5,360	-	-	-	-	-	-	-	-	5,360
Deferred revenue.....	38,714	-	-	-	-	-	-	-	-	38,714
Other liabilities.....	375,323	-	154	-	-	727	4,111	13,631	-	393,946
Capital lease obligations—Note K.....	-	-	-	11,429	11,207	8,472	330,677	-	-	361,785
<b>TOTAL LIABILITIES</b> .....	<b>687,080</b>	<b>2,639</b>	<b>154</b>	<b>21,184</b>	<b>17,686</b>	<b>9,199</b>	<b>335,340</b>	<b>13,839</b>	<b>9,419</b>	<b>1,096,540</b>
<b>Fund Equity:</b>										
Investment in fixed assets.....	-	-	-	-	-	-	257,400	-	-	257,400
<b>Fund balance:</b>										
Reserved for:										
Encumbrances.....	10,701	1,756	-	10,871	10,043	-	-	-	1,642	35,013
Loans receivable.....	-	-	32,906	-	-	-	-	-	-	32,906
Endowment and similar funds.....	-	-	-	14,384	-	-	-	-	-	14,384
Restricted fund balance.....	-	15,207	-	2,245	12,808	2,252	-	-	-	32,512
Other—Note C.....	111,781	-	-	14,743	21,358	920	-	-	11,100	159,902
Unreserved:										
Undesignated (deficit)—Note C.....	(375,323)	-	-	26,950	46,400	179,645	-	-	20,647	(101,681)
<b>TOTAL FUND EQUITY (DEFICIT)</b> .....	<b>(252,841)</b>	<b>16,963</b>	<b>32,906</b>	<b>54,809</b>	<b>90,609</b>	<b>182,817</b>	<b>257,400</b>	<b>-</b>	<b>33,389</b>	<b>430,436</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b> .....	<b>\$ 434,239</b>	<b>\$ 19,602</b>	<b>\$ 33,060</b>	<b>\$ 75,993</b>	<b>\$ 108,295</b>	<b>\$ 192,016</b>	<b>\$ 592,740</b>	<b>\$ 42,808</b>	<b>\$ 1,526,976</b>	

- See notes to financial statements. -

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

*For the Fiscal Year Ended June 30, 1998*

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

	Current Funds		Endowment and Similar Funds	Plant Funds			Component Units	Total
	Unrestricted	Restricted		Unexpended	Renewal and Replacement	Retirement of Indebtedness		
<b>REVENUES AND OTHER ADDITIONS:</b>								
Unrestricted current funds.....	\$ 604,781	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 604,781
Gifts and bequests.....	-	4,128	706	4,283	1,212	1,022	-	11,496
Grants and contracts.....	-	139,784	-	1,334	215	-	-	142,277
Federal advances.....	-	1,631	-	-	-	-	-	1,631
Endowment income.....	-	666	25	-	-	-	-	692
Investment income.....	-	357	2	1,569	1,193	3,433	998	7,687
Net increase (decrease) in the fair value of investments.....	-	(2)	1,666	67	30,246	-	175	32,152
Interest on loans receivable.....	-	-	714	-	-	-	-	714
Expended for plant facilities—net of disposals (including \$21,946 charged to current funds expenditures).....	-	-	-	-	-	-	-	82,189
Retirement of indebtedness.....	-	-	-	279	319	13,094	-	13,692
Other.....	-	491	79	82	11,285	941	55,858	71,187
<b>TOTAL REVENUES AND OTHER ADDITIONS</b>	<b>604,781</b>	<b>145,424</b>	<b>2,719</b>	<b>7,614</b>	<b>13,905</b>	<b>97,246</b>	<b>57,031</b>	<b>968,498</b>
<b>EXPENDITURES AND OTHER DEDUCTIONS:</b>								
Educational and general.....	827,680	141,053	-	-	-	-	-	968,733
Auxiliary enterprises.....	121,650	303	-	-	-	-	-	121,953
Loan cancellations.....	-	-	764	-	-	-	-	764
Administrative and collection costs.....	-	-	425	-	-	-	253	678
Expended for plant facilities.....	-	-	-	24,693	24,557	21,360	-	70,934
Depreciation on plant facilities.....	-	-	-	-	-	43,185	1,208	44,393
Retirement of indebtedness.....	-	-	-	-	13,692	-	-	13,692
Interest on indebtedness.....	-	-	-	-	18,326	-	349	18,675
Other.....	-	2,161	10	6,662	20	8,289	49,310	66,532
<b>TOTAL EXPENDITURES AND OTHER DEDUCTIONS</b>	<b>949,330</b>	<b>143,517</b>	<b>1,199</b>	<b>31,355</b>	<b>24,577</b>	<b>72,834</b>	<b>51,120</b>	<b>1,306,354</b>
<b>TRANSFERS AND ALLOCATION AMONG FUNDS—ADDITIONS (DEDUCTIONS):</b>								
Mandatory:								
Principal and interest.....	(15,521)	-	-	(339)	(1,283)	17,143	-	-
Other.....	(411)	(606)	632	-	-	-	-	-
Nonmandatory:								
Operating transfers from Primary Government—Note H.....	400,907	4,365	-	748	7,120	-	2	413,142
Other.....	(41,866)	-	72	23,215	20,704	(1,182)	(943)	-
<b>TRANSFERS AND ALLOCATIONS, NET</b>	<b>343,109</b>	<b>3,759</b>	<b>704</b>	<b>23,624</b>	<b>26,541</b>	<b>15,961</b>	<b>(943)</b>	<b>413,142</b>
<b>NET INCREASE (DECREASE) FOR THE YEAR</b>	<b>(1,440)</b>	<b>5,666</b>	<b>3,101</b>	<b>(117)</b>	<b>15,869</b>	<b>20,920</b>	<b>4,968</b>	<b>75,286</b>
<b>FUND BALANCES (DEFICITS), JULY 1, 1997</b>	<b>(251,401)</b>	<b>11,297</b>	<b>11,283</b>	<b>54,926</b>	<b>74,740</b>	<b>232,986</b>	<b>28,421</b>	<b>355,150</b>
<b>FUND BALANCES (DEFICITS), JUNE 30, 1998—NOTE C</b>	<b>\$ (252,841)</b>	<b>\$ 16,963</b>	<b>\$ 14,384</b>	<b>\$ 54,809</b>	<b>\$ 90,609</b>	<b>\$ 182,817</b>	<b>\$ 33,389</b>	<b>\$ 430,436</b>

- See notes to financial statements. -

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

*For the Fiscal Year Ended June 30, 1998*

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

	Unrestricted	Restricted	Total
<b>REVENUES:</b>			
Tuition and fees.....	\$ 408,057	\$ -	\$ 408,057
Government grants and contracts:			
State and local.....	39	61,268	61,307
Federal.....	2,097	68,148	70,245
Private gifts, grants and contracts.....	3,874	7,629	11,503
Investment income.....	19,869	236	20,105
Increase in the fair value of investments.....	1,581	-	1,581
Endowment income.....	90	475	565
Activities of educational departments.....	8,059	-	8,059
Other sources.....	18,700	-	18,700
Auxiliary enterprises.....	142,415	-	142,415
<b>TOTAL REVENUES</b> .....	<b>604,781</b>	<b>137,756</b>	<b>742,537</b>
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>			
<b>EXPENDITURES:</b>			
Educational and general:			
Instruction.....	422,265	7,737	430,002
Research.....	869	2,417	3,286
Public service.....	8,803	18,237	27,040
Academic support.....	85,791	3,713	89,504
Student services.....	77,733	5,314	83,047
Operations and maintenance of plant.....	92,343	331	92,674
General institutional support.....	129,438	3,388	132,826
Student aid.....	10,438	99,916	110,354
<b>TOTAL EDUCATIONAL AND GENERAL</b> .....	<b>827,680</b>	<b>141,053</b>	<b>968,733</b>
Auxiliary enterprises.....	121,650	303	121,953
<b>TOTAL EXPENDITURES</b> .....	<b>949,330</b>	<b>141,356</b>	<b>1,090,686</b>
<b>MANDATORY TRANSFERS:</b>			
Principal and interest.....	15,521	-	15,521
Other.....	411	606	1,017
<b>TOTAL MANDATORY TRANSFERS</b> .....	<b>15,932</b>	<b>606</b>	<b>16,538</b>
<b>TOTAL EXPENDITURES AND MANDATORY TRANSFERS</b> .....	<b>965,262</b>	<b>141,962</b>	<b>1,107,224</b>
<b>OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS:</b>			
Operating transfers from Primary Government—Note H.....	400,907	4,365	405,272
Other transfers.....	(41,866)	-	(41,866)
Additions.....	-	5,506	5,506
<b>OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS, NET</b> .....	<b>359,041</b>	<b>9,871</b>	<b>368,912</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b> .....	<b>\$ (1,440)</b>	<b>\$ 5,665</b>	<b>\$ 4,225</b>

— See notes to financial statements. —

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# NOTES TO FINANCIAL STATEMENTS

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## COMMONWEALTH OF PENNSYLVANIA

### NOTE A—FINANCIAL REPORTING ENTITY

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#### Primary Government

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

#### Component Units

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

#### Blended Component Unit

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

#### Discretely Presented Component Units

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

### Financial Reports

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

### Related Organizations

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

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

# NOTES TO FINANCIAL STATEMENTS

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## NOTE A— Financial Reporting Entity (continued)

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### Joint Venture

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

### Excluded Organizations

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

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

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



# NOTES TO FINANCIAL STATEMENTS

## NOTE B— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### Governmental Funds

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

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

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

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

### Proprietary Funds

*Enterprise Funds*—Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges. The State Workmen's Insurance Fund is included for its fiscal year ended December 31, 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, an Investment Trust Fund and Agency Funds. The State Employees' Retirement System, a Pension Trust Fund, the Deferred Compensation Fund, an Agency Fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 1997.

### 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 or within departments and any supplemental appropriations require both executive and legislative branch approval. Unencumbered and unexpended appropriations lapse at fiscal year end and become available for appropriation in the subsequent year. 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, 1998 demonstrates budgetary compliance at the level of legal control (by appropriation) for specific departmental programs and functions, and is available from the Commonwealth's Office of the Budget. Certain amounts included in the "Status of Appropriations" are reclassified for consistency or omitted to avoid double accounting in the preparation of the Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances – Budget and Actual (Budgetary Basis).

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

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

The legally adopted budget for the General Fund includes \$317 million in supplemental appropriations approved during the fiscal year ended June 30, 1998.

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.

# NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

Several individual funds may 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. Temporary investments are reported at fair value (typically using published market prices) except for nonparticipating interest-bearing contracts, which are reported at cost.

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

*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 Pronouncement:** Effective July 1, 1997 the Commonwealth has adopted GASB Statement 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” This standard requires that most investments be reported at fair value, as defined. Certain nonparticipating contracts, such as non-negotiable certificates of deposit and repurchase agreements, are required to be reported at cost. The Commonwealth has opted to report money market investments at fair value. Changes in the fair value of investments during the fiscal year are included in investment income and are not separately reported. Note C includes a restatement summary for six individual funds’ reported investments and fund equity as of July 1, 1997.

**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 \$19,349, \$12,485 and \$2 (amounts in thousands), respectively, at June 30, 1998.

The Keystone Recreation, Park and Conservation Sinking Fund and the Volunteer Companies Loan Sinking Fund, Debt Service Funds, reported fund balance deficits of \$30 and \$10 (amounts in thousands), respectively, at June 30, 1998. These funds have no fund balance designations.

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$730,438 at June 30, 1998. In total, the Capital Facilities Fund reported a fund balance deficit of \$33,954 at June 30, 1998. Total Capital Projects Funds reported reservations for encumbrances of \$705,463, designations for Capital Projects of \$86,981 and a deficit unreserved/undesignated fund balance of \$730,438, for a total combined fund balance of \$62,006 (amounts in thousands) at June 30, 1998.

The Minority Business Development Fund, an Enterprise Fund, reported deficit retained earnings of \$30,773 (amount in thousands) at June 30, 1998.

The Catastrophic Loss Benefits Continuation Fund, an Expendable Trust Fund, reported a fund balance deficit of \$35,806 (amounts in thousands) at June 30, 1998.

The State System of Higher Education, College and University Funds, reported a current funds unrestricted fund balance deficit of \$252,841 (amount in thousands) at June 30, 1998.

**Restatements:** The unreserved/undesignated budgetary basis fund balance for the General Fund has been restated from \$402,678 at June 30, 1997 to \$402,278 at July 1, 1997 to account for \$400 (amounts in thousands) in spending authority which was increased subsequent to the fiscal year ended June 30, 1997.

The previously reported fund balance/retained earnings for the following funds has been restated as the result of implementing GASB Statement 31 as of July 1, 1997 (amounts in thousands):

### Primary Government

<u>Fund Name (Fund Type)</u>	<u>Amount Previously Reported</u>	<u>Amount of Change</u>	<u>Restated Amount</u>
General	\$ 1,364,900	\$ 3,066	\$ 1,367,966
State Lottery (Special Revenue)	131,127	10,947	142,074
Motor License (Special Revenue)	535,540	1,091	536,631
State Workmen's Insurance (Enterprise) (December 31, 1996)	62,647	(2,231)	60,416
Tuition Payment (Enterprise)	78,360	7,593	85,953

### Discretely Presented Component Units

State Public School Building Authority (Governmental)	45,281	(38)	45,243
Pennsylvania Higher Educational Facilities Authority (Governmental)	293,165	(59)	293,106
Pennsylvania Housing Finance Agency (Proprietary)	420,056	16,236	436,292

# NOTES TO FINANCIAL STATEMENTS

## NOTE C—Fund Balance/Retained Earnings (continued)

**Reclassifications:** The Tuition Payment Fund was previously reported as an Expendable Trust fund type with previously reported fund balance of \$78,360 as of June 30, 1997. Effective July 1, 1997, the Fund is reported as an Enterprise fund type. Accordingly, in addition to increasing fund balance by \$7,593 as part of implementing GASB Statement 31, the Fund reports retained earnings of \$7,011 which includes the effects of reporting tuition benefits payable of \$78,942 (amounts in thousands) as of July 1, 1997.

The INVEST Program For Local Governments was previously reported as an Agency fund type, with total assets and liabilities of \$444,609 as of its fiscal year end of December 31, 1996. Effective January 1, 1997, in accordance with GASB Statement 31, the INVEST Program is reported as an Investment Trust fund type and reports fund balance of \$453,989 (amounts in thousands).

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

The amount reserved for advances in the General Fund, \$74.8 million, is applicable to a demand loan to the State Stores Fund for \$66 million, an advance to the State Workmen's Insurance Fund for \$2.3 million, both Enterprise Funds, and an advance to the Motor License Fund for \$2.2 million and the Pharmaceutical Assistance Fund for \$4.3 million, both, Special Revenue Funds. For its fiscal year ended December 31, 1997 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 \$17,502 reported as "Reserved for other" in the General Fund at June 30, 1998 pertains to \$17,422 for other receivables and \$ 80 (amounts in thousands) in other assets.

The \$8 thousand reported as "Reserved for other" in the Special Revenue Funds at June 30, 1998 pertains to reserves for other receivables in the State Lottery Fund.

The \$159.9 million reported as "Reserved for other" in the College and University Funds, a discretely presented component unit, at June 30, 1998 pertains to approved academic projects that will begin in subsequent fiscal periods.

Reserved retained earnings reported for Enterprise Funds are provided principally for reserves for contingencies for the Rehabilitation Center Fund and equipment replacement reserves for other enterprise funds. Reserved retained earnings reported for Discretely Presented Component Unit Proprietary Funds are provided principally for the retirement of revenue bonds relating to the Pennsylvania Turnpike Commission, student loans relating to the Pennsylvania Higher Education Assistance Agency, and housing programs relating to the Pennsylvania Housing Finance Agency. At June 30, 1998 the Commonwealth has included the following reservations of retained earnings for the Enterprise Funds and the Discretely Presented Component Unit Proprietary Funds (amounts in thousands):

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
Rehabilitation Center Fund.....	\$ 2,531	\$ -
Pennsylvania Turnpike Commission .....	-	1,041,798
Pennsylvania Higher Education Assistance Agency .....	-	166,911
Pennsylvania Housing Finance Agency .....	-	134,014
Other Enterprise Funds .....	<u>2,130</u>	<u>-</u>
Total.....	<u>\$ 4,661</u>	<u>\$ 1,342,723</u>



## NOTES TO FINANCIAL STATEMENTS

### NOTE C—Fund Balance/Retained Earnings (continued)

Designations of unreserved fund balances reflect managerial plans for the future use of financial resources. At June 30, 1998 the Commonwealth has included the following amounts as "Designated—Other" for the General Fund and Special Revenue Funds (amounts in thousands):

General Fund:	
Tax stabilization .....	\$ 657,301
Restricted revenue .....	179,468
Continuing programs .....	132,786
Group medical and life insurance .....	72,096
Other .....	<u>102,350</u>
Total General Fund .....	<u>\$1,144,001</u>
Special Revenue Funds:	
Land reclamation .....	\$ 24,148
Pharmaceutical assistance programs .....	2,813
Recycling programs .....	2,061
Fishing, boating and game programs .....	1,978
Other .....	<u>2,552</u>
Total Special Revenue Funds .....	<u>\$ 33,552</u>

In addition, the Self-Insurance Guaranty Fund, an Expendable Trust Fund, reported \$3,339 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 \$5,107 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 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, 1998 (amounts in thousands).

#### Primary Government

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 59,785	\$ 22,083	\$ 7,957	\$ 89,825	\$ 141,035
Cash with fiscal agents.....	2,518,630	1,682	10,901	2,531,213	2,527,358
Certificates of deposit and related items.....	121,331	2,632	14,186	138,149	138,149

The above-listed \$138,149 in certificates of deposit and related items is reported as part of primary government temporary investments at June 30, 1998. To provide increased income while maintaining safety and liquidity, the Treasury Department routinely enters into overnight repurchase agreements typically funded through "float" for outstanding checks. At June 30, 1998 the Treasury Department used \$402 million of available cash for overnight repurchase agreements. These securities are registered in the Commonwealth's name and are not reported in the financial statements.

#### Discretely Presented Component Units

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Carrying Amount</u>
Cash.....	\$ 77,208	\$ 2,082	\$ 33,435	\$ 112,725	\$ 95,389
Cash with fiscal agents.....	2,468	-	3,672	6,140	4,660

# 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 loans, 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, 1998 (amounts in thousands).

#### Primary Government

All primary government investments susceptible to credit risk are in Category 1, except \$5,754 in corporate bonds and notes which are in Category 2.

	<u>Carrying Amount</u>	<u>Market Value</u>
Commercial paper.....	\$ 536,274	\$ 536,274
Common and preferred stock.....	7,185,499	7,185,499
Corporate bonds and notes.....	2,600,673	2,600,673
International fixed income.....	25,748	25,748
Repurchase agreements.....	5,434,263	5,434,263
State and municipal obligations.....	215,218	215,218
U.S. Government obligations.....	2,594,764	2,594,764
U.S. Government agency obligations.....	<u>384,770</u>	<u>384,770</u>
Total categorized investments.....	18,977,209	18,977,209
Add investments not susceptible to credit risk categorization:		
Investments owned by the Deferred Compensation Fund at December 31, 1997:		
Mutual funds.....	531,681	531,681
Investments owned by the State Employees' Retirement System (SERS) at December 31, 1997:		
Mortgage loans.....	274,553	274,553
Mutual funds.....	6,426,362	6,426,362
Real estate.....	1,717,167	1,717,167
Securities lending collateral.....	1,439,462	1,439,462
Venture capital.....	738,893	738,893
Securities lent by SERS at December 31, 1997:		
U.S. Government securities.....	474,208	474,208
Corporate bonds and notes.....	603,620	603,620
Common and preferred stocks.....	464,775	464,775
Investments owned by the Statutory Liquidator Fund at June 30, 1998:		
Annuities.....	1,644	1,644
Loans.....	12,500	12,500
Mortgage loans.....	8,351	8,351
Partnership interests.....	18	18
Subsidiaries.....	447	447
Securities lending collateral held by the Workmen's Compensation Security Trust Fund at June 30, 1998.....	145,932	145,932
Securities lending collateral held by the State Workmen's Insurance Fund at December 31, 1997.....	<u>287,209</u>	<u>287,209</u>
	32,104,031	32,104,031
Certificates of deposit and related items.....	<u>138,149</u>	<u>138,149</u>
Total temporary and long-term investments.....	<u>\$ 32,242,180</u>	<u>\$ 32,242,180</u>

The above-listed \$138,149 in certificates of deposit and related items are reported as investments at June 30, 1998, but are treated as deposits for a determination of the level of credit risk associated with them. From time to time during the fiscal year ended June 30, 1998, the Treasury Department participated in reverse repurchase agreements; an immaterial amount were outstanding at June 30, 1998.

# NOTES TO FINANCIAL STATEMENTS

## NOTE D— Deposits and Investments (continued)

The State Employees' Retirement System, a Pension Trust Fund, owns approximately 97 percent of the common and preferred stock, 89 percent of the corporate bonds and notes and 45 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, 1998.

### 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, 1997, the SERS had contracts maturing through December 3, 1998 to purchase or sell foreign currency as follows (amounts in thousands):

	<u>Buy at</u> <u>Spot Rate</u>	<u>Sell at</u> <u>Spot Rate</u>	<u>Net</u> <u>Payable</u>
Deutschmark .....	\$ 482,588	\$ 921,162	\$ (438,574)
French Franc .....	189,828	342,211	(152,383)
Pound Sterling .....	645,662	858,598	(212,936)
Japanese Yen .....	554,474	789,793	(235,319)
Swedish Kroner .....	13,450	104,156	(90,706)
Swiss Franc .....	120,154	181,453	(61,299)
Other .....	<u>206,945</u>	<u>371,586</u>	<u>(164,641)</u>
	<u>\$2,213,101</u>	<u>\$3,568,959</u>	<u>\$ (1,355,858)</u>

### Discretely Presented Component Units

	<u>Carrying Amount</u>				<u>Market</u> <u>Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>	
Asset backed securities .....	\$ -	\$ 52,206	\$ -	\$ 52,206	\$ 52,206
Commercial paper .....	-	154,003	-	154,003	154,003
Common and preferred stock .....	21,902,332	3,546	16	21,905,894	21,905,894
Corporate bonds and notes .....	2,805,767	160	-	2,805,927	2,805,927
Guaranteed investment contracts .....	-	-	4,896	4,896	4,896
International equities .....	5,880,338	-	-	5,880,338	5,880,338
International fixed income .....	933,151	-	-	933,151	933,151
Investment agreements .....	-	-	112,473	112,473	112,473
Limited partnerships .....	-	-	32	32	32
Mortgage-backed securities .....	3,174,528	83,095	-	3,257,623	3,257,623
Repurchase agreements .....	188,401	128,210	99,152	415,763	415,763
State and municipal obligations .....	161,126	69,488	-	230,614	230,614
U.S. Government obligations .....	-	451,729	-	451,729	453,462
U.S. Government agency obligations .....	2,050,068	267,850	419	2,318,337	2,318,337
Various short-term investments .....	<u>384,368</u>	<u>9,310</u>	<u>-</u>	<u>393,678</u>	<u>393,678</u>
Total categorized investments .....	<u>\$ 37,480,079</u>	<u>\$1,219,597</u>	<u>\$ 216,988</u>	<u>38,916,664</u>	<u>38,918,397</u>

# NOTES TO FINANCIAL STATEMENTS

## NOTE D— Deposits and Investments (continued)

Investments not susceptible to credit risk categorization:	<u>Total</u>	<u>Market Value</u>
Investments owned by the State Public School Building Authority at June 30, 1998:		
Investment agreements .....	7,122	7,122
Money market .....	8,471	8,471
Pennsylvania Treasury investment pool .....	25,949	25,949
Investments owned by the Higher Educational Facilities Authority at June 30, 1998:		
Investment agreements .....	393,203	393,203
Pennsylvania Treasury investment pool .....	102,538	102,538
Investments owned by the Ben Franklin/IRC Partnership in Pennsylvania Treasury investment pool at June 30, 1998 .....	9,441	9,441
Investments owned by the Insurance Fraud Prevention Authority in the Pennsylvania Treasury investment pool at June 30, 1998 .....	5,538	5,538
Investments owned by the Pennsylvania Industrial Development Authority in Pennsylvania Treasury investment pool at June 30, 1998 .....	2,316	2,316
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 1998:		
Investment agreements .....	102,428	102,428
Mutual funds .....	71,514	71,514
Pennsylvania Treasury investment pool .....	3,741	3,741
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 1998:		
Money market .....	199,292	199,292
Pennsylvania Treasury investment pool .....	181,298	181,298
Investments owned by the Pennsylvania Infrastructure Investment Authority at June 30, 1998:		
Mutual funds .....	56,226	56,226
Pennsylvania Treasury investment pool .....	99,890	99,890
Investments owned by the Public School Employees' Retirement System at June 30, 1998:		
Common and preferred stock .....	2,050,459	2,050,459
Corporate bonds and notes .....	63,233	63,233
Farmland investments .....	74,058	74,058
U.S. Government agency .....	1,301,627	1,301,627
International equities .....	1,284,433	1,284,433
International fixed income .....	222,177	222,177
Pennsylvania Treasury investment pool .....	941,173	941,173
Private placements, fixed income and equity .....	23,014	23,014
Real estate .....	1,719,537	1,719,537
Securities lending collateral .....	5,061,402	5,061,402
Venture capital .....	597,915	597,915
Investments owned by the State System of Higher Education at June 30, 1998:		
Mutual funds .....	1,960	1,960
Other investments .....	22,355	22,355
Total temporary and long-term investments .....	<u>\$53,548,974</u>	<u>\$53,550,707</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, and 81 percent of U.S. government agency obligations reported in the above summary. There were no violations of statutory authority or contractual provisions for investments during the fiscal year ended June 30, 1998.

# NOTES TO FINANCIAL STATEMENTS

## NOTE D— Deposits and Investments (continued)

### Financial Instruments with Off-Balance Sheet Risk

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

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

The following table summarizes the aggregate notional or contractual amounts for the PSERS's derivative financial instruments at June 30, 1998 (dollar amounts in thousands):

	<u>Contractual Amount</u>
Futures contracts long and short.....	\$ 2,352,554
Foreign exchange forward and spot contracts, gross.....	2,406,401
Options—calls purchased.....	96,808
Options—puts purchased.....	54,805
Options—calls sold.....	83,037
Options—puts sold.....	52,138

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

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

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$2,406.4 million of foreign currency contracts outstanding at June 30, 1998 consists of "buy" contracts of \$1,153.9 million, which represent the U.S. dollar equivalent of commitments to purchase foreign currency commitments, and "sell" contracts of \$1,252.5 million, which represent U.S. dollar equivalents of commitments to sell foreign currencies.

The PSERS also invests in mortgage-backed securities such as collateralized mortgage obligations (CMOs) in part to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The fair market value of CMOs at June 30, 1998 is \$1,063.9 million.

# NOTES TO FINANCIAL STATEMENTS

## NOTE D— Deposits and Investments (continued)

### Securities Lending Program

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

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

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

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 1998 (December 31, 1997 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, 1998 (December 31, 1997 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 .....	\$ 329,112	\$ 329,112
Workmen's Compensation Security Trust .....	148,548	148,548
State Employees' Retirement System .....	1,542,603	1,542,603
Public School Employees' Retirement System.....	5,361,469	5,361,469

Neither the State Lottery Fund nor the Statutory Liquidator Fund had outstanding lending agreements at June 30, 1998.

# NOTES TO FINANCIAL STATEMENTS

## NOTE E— FIXED ASSETS

A summary of fixed assets by category at June 30, 1998 is as follows (amounts 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	\$ 255,807	\$ 98,749	\$ -	\$ 9,683
Buildings.....	3,619	4,583	3,040,935	446,552	-	419,972
Improvements other than buildings.....	4,741	2,881	256,431	74,159	-	53,220
Machinery and equipment.....	71,774	68,948	552,065	190,068	17,561	371,597
Turnpike infrastructure.....	-	-	-	2,465,622	-	-
Construction in progress.....	-	-	403,146	349,181	-	38,195
Total.....	<u>\$ 80,457</u>	<u>\$ 76,418</u>	<u>\$ 4,508,384</u>	<u>\$ 3,624,331</u>	<u>\$ 17,561</u>	<u>\$ 892,667</u>

Changes in general fixed assets for the fiscal year ended June 30, 1998 are as follows (amounts in thousands):

	Balance June 30, 1997	Additions	Retirements	Balance June 30, 1998
Land.....	\$ 248,735	\$ 7,867	\$ 795	\$ 255,807
Buildings.....	2,993,408	96,218	48,691	3,040,935
Improvements other than buildings.....	246,401	11,831	1,801	256,431
Machinery and equipment.....	547,619	35,914	31,468	552,065
	4,036,163	151,830	82,755	4,105,238
Construction in progress.....	373,014	144,676	114,544	403,146
Total general fixed assets.....	<u>\$ 4,409,177</u>	<u>\$ 296,506</u>	<u>\$ 197,299</u>	<u>\$ 4,508,384</u>

Interest costs of \$800 thousand were capitalized for the Pennsylvania Turnpike Commission, a discretely presented component unit Proprietary Fund, for their fiscal year ended May 31, 1998.

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, 1998 the amount of general fixed assets related to the initial valuation amounts to \$1,916 million.

Construction in progress included in the General Fixed Assets Account Group at June 30, 1998 is composed of the following (amounts in thousands):

	Project Authorization	Expended Through June 30, 1998		Authorization Available
		Amounts Previously Capitalized	Amounts Not Capitalized To Date	
Capital Complex Projects.....	\$ 744,528	\$ 192,400	\$ 96,847	\$ 455,281
Department of Corrections Institutions.....	416,886	42,565	173,362	200,959
Colleges and Universities.....	145,143	-	55,295	89,848
Veteran Homes and Military Armories.....	55,026	-	36,680	18,346
Department of Public Welfare Institutions.....	54,954	-	25,257	29,697
Other.....	53,997	-	15,705	38,292
Total.....	<u>\$1,470,534</u>	<u>\$ 234,965</u>	<u>\$ 403,146</u>	<u>\$ 832,423</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. 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, 1997, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands):

<u>Year Ended</u> <u>December 31</u>	<u>Prior Year</u> <u>Liability</u>	<u>Incurred Claims</u>		<u>Payments</u>		<u>Current Year</u> <u>Liability</u>
		<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	
1997.....	\$1,474,757	\$ 159,158	\$ (19,020)	\$ 18,744	\$ 220,794	\$1,375,357
1996.....	1,463,301	270,942	4,807	32,656	231,637	1,474,757

# NOTES TO FINANCIAL STATEMENTS

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

**Taxes Receivable:** Taxes receivable at June 30, 1998 consisted of the following (amounts in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Trust and Agency Funds</u>	<u>Total</u>
Sales and use.....	\$ 577,890	\$ 24,708	\$ -	\$ 602,598
Unemployment compensation .....	-	-	303,239	303,239
Personal income.....	199,905	-	-	199,905
Corporation.....	79,914	-	-	79,914
Liquid fuels.....	-	68,024	7	68,031
Other.....	16,548	72,697	-	89,245
	<u>\$ 874,257</u>	<u>\$ 165,429</u>	<u>\$ 303,246</u>	<u>\$ 1,342,932</u>

**Notes and Loans Receivable:** Loans receivable at June 30, 1998 consisted of the following (amounts in thousands):

	<u>Primary Government</u>		<u>Discretely Presented Component Units</u>	
	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Proprietary Funds</u>	<u>College and University Funds</u>
Mortgage loans.....	\$ -	\$ -	\$ 2,791,968	\$ -
Student loans .....	-	-	1,715,522	35,072
Business development loans .....	59,831	114,103	662,074	-
Water and sewer system loans.....	20,325	-	1,095,472	-
Volunteer fire company loans.....	-	81,195	-	-
Other notes and loans .....	7,167	9,804	-	-
	<u>87,323</u>	<u>205,102</u>	<u>6,265,036</u>	<u>35,072</u>
Less: Allowance for uncollectible accounts.....	<u>16,520</u>	<u>27,393</u>	<u>215,798</u>	<u>4,861</u>
Notes and loans receivable, net.....	<u>\$ 70,803</u>	<u>\$ 177,709</u>	<u>\$ 6,049,238</u>	<u>\$ 30,211</u>

Discretely presented component unit governmental funds reported \$4,938 thousand of loans to school districts at June 30, 1998.

**Lease Rentals Receivable:** The Capital Facilities Fund, a Capital Projects Fund, reports amounts related to construction projects for educational institutions funded through the issuance of General Obligation Bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the related Capital Debt Fund, a Debt Service Fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. 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, 1998, 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 \$5.5 billion, the present value was \$3.3 billion and interest was \$2.2 billion at June 30, 1998. The Pennsylvania Industrial Development Authority, a discretely presented proprietary fund component unit, reported a lease rental receivable with total minimum payments of \$31 million, present value of \$15 million and interest of \$16 million at June 30, 1998. Minimum lease payments for the five fiscal years succeeding June 30, 1998 are as follows (amounts in thousands):

# NOTES TO FINANCIAL STATEMENTS

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

Fiscal Year Ending June 30	Primary Government	Discretely Presented Governmental Fund Component Units	Discretely Presented Proprietary Fund Component Units
1999 .....	\$ 1,101	\$ 245,695	\$ 518
2000 .....	268	254,953	518
2001 .....	243	253,450	518
2002 .....	244	256,193	519
2003 .....	244	252,043	519

## 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, 1998 is as follows (amounts in thousands):

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General .....	\$ 52,093	\$ 4,271	\$ 105,132	\$ 455
<u>Special Revenue:</u>				
State Lottery Fund .....	-	-	6,185	-
State Racing Fund .....	-	-	12,017	-
Hazardous Sites Clean-up Fund .....	20,840	-	18	-
Motor License Fund .....	10,944	31	17,863	4,856
Vocational Rehabilitation Fund .....	12	-	2,191	-
Pharmaceutical Assistance Fund .....	2,830	-	3	-
Workmen's Compensation Supersedeas Fund .....	-	-	2,654	-
Agricultural Conservation Easement Fund .....	10,502	-	4,000	-
Public Transportation Assistance Fund .....	2,898	-	594	-
Other Funds .....	2,236	3	2,761	85
	<u>50,262</u>	<u>34</u>	<u>48,286</u>	<u>4,941</u>
<u>Debt Service:</u>				
Pennsylvania Infrastructure Investment Authority Redemption Fund .....	-	29,794	-	-
Tax Note Sinking Fund .....	-	-	1,761	-
Other Funds .....	55	-	-	-
	<u>55</u>	<u>29,794</u>	<u>1,761</u>	<u>-</u>
<u>Capital Projects:</u>				
Capital Facilities Fund .....	5,727	-	1	-
Keystone Recreation, Park and Conservation Fund .....	4,349	-	16	-
Other Funds .....	580	-	-	-
	<u>10,656</u>	<u>-</u>	<u>17</u>	<u>-</u>
<u>Enterprise:</u>				
State Stores Fund .....	300	-	20,060	-
State Workmen's Insurance Fund .....	694	-	6,799	-
Rehabilitation Center Fund .....	1,961	-	155	-
Other Funds .....	-	-	104	-
	<u>2,955</u>	<u>-</u>	<u>27,118</u>	<u>-</u>
<u>Internal Service:</u>				
Purchasing Fund .....	4,497	6	405	-
Manufacturing Fund .....	6,820	625	67	-
	<u>11,317</u>	<u>631</u>	<u>472</u>	<u>-</u>
<u>Expendable Trust:</u>				
Unemployment Compensation Fund .....	2,244	204	3	-
Workmen's Compensation Security Trust Fund .....	48,544	-	10	-
Catastrophic Loss Benefits Continuation Fund .....	-	-	48,564	-
	<u>50,788</u>	<u>204</u>	<u>48,577</u>	<u>-</u>
<u>Pension Trust:</u>				
State Employees' Retirement System .....	3,867	12,622	215	-
<u>Agency:</u>				
Local Sales and Use Tax Fund .....	13,187	-	13	-
Allegheny Regional Asset District Sales and Use Tax Fund .....	14,787	-	15	-
Liquid Fuels Tax Fund .....	3,264	-	146	-
Other Funds .....	348	-	830	-
	<u>31,586</u>	<u>-</u>	<u>1,004</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT .....</b>	<b>\$ 213,579</b>	<b>\$ 47,556</b>	<b>\$ 232,582</b>	<b>\$ 5,396</b>

# 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 .....	\$ -	\$ -	\$ 299	\$ -	\$ -	\$ 3
Proprietary:						
Pennsylvania Infrastructure Investment Authority .....	-	85	-	-	38	29,801
Pennsylvania Turnpike Commission .....	-	-	6,310	-	-	4,570
Other Funds .....	-	38	-	-	85	136
	-	123	6,310	-	123	34,507
Fiduciary:						
Public School Employees' Retirement System...	-	-	283	-	-	416
College and University .....	175,616	-	135	175,616	-	5,360
<b>TOTAL DISCRETELY PRESENTED COMPONENT UNITS.....</b>	<b>\$ 175,616</b>	<b>\$ 123</b>	<b>\$ 7,027</b>	<b>\$ 175,616</b>	<b>\$ 123</b>	<b>\$ 40,286</b>

The amount of total interfund receivables of \$443,901 thousand does not agree with total interfund payables of \$454,003 thousand at June 30, 1998 due to different fiscal year ends for certain funds included in the combined balance sheet at June 30, 1998. 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, 1998. The amounts shown as interfund accounts for the State Employees' Retirement System, a Pension Trust Fund, and the INVEST Program for Local Governments, an Investment Trust Fund, and the State Workmen's Insurance Fund, an Enterprise Fund, are as of their fiscal year end of December 31, 1997. The following presents a reconciliation of interfund accounts reported at June 30, 1998 and those amounts which would have been reported if all funds used the same fiscal year end (amounts in thousands):

Due from other funds - Combined Balance Sheet at June 30, 1998 .....	\$ 389,195
Due from primary government - Combined Balance Sheet at June 30, 1998 .....	7,027
Due from component units - Combined Balance Sheet at June 30, 1998 .....	47,679
<b>Interfund receivables — Combined Balance Sheet .....</b>	<b>443,901</b>
Pennsylvania Turnpike Commission decrease in receivables from June 1, 1998 to June 30, 1998.....	(1,469)
State Workmen's Insurance Fund increase in receivables from January 1, 1998 through June 30, 1998 .....	2,002
State Employees' Retirement System increase in receivables from January 1, 1998 through June 30, 1998 .....	2,899
<b>TOTAL INTERFUND RECEIVABLES .....</b>	<b>\$ 447,333</b>
Due to other funds - Combined Balance Sheet at June 30, 1998 .....	\$ 408,198
Due to primary government - Combined Balance Sheet at June 30, 1998.....	40,286
Due to component units - Combined Balance Sheet at June 30, 1998 .....	5,519
<b>Interfund payables — Combined Balance Sheet .....</b>	<b>454,003</b>
Pennsylvania Turnpike Commission decrease in payables from June 1, 1998 to June 30, 1998.....	(621)
INVEST Program for Local Governments increase in payables from January 1, 1998 through June 30, 1998 .....	25
State Employees' Retirement System increase in payables from January 1, 1998 through June 30, 1998 .....	177
State Workmen's Insurance Fund decrease in payables from January 1, 1998 through June 30, 1998 .....	(6,251)
<b>TOTAL INTERFUND PAYABLES .....</b>	<b>\$ 447,333</b>

# NOTES TO FINANCIAL STATEMENTS

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

At June 30, 1998 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, 1997 (amounts in thousands).

At June 30, 1998 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, has reported an advance to other funds of \$3,000 (in thousands). This amount was advanced to the Small Business First Fund, an Enterprise Fund, which has reported an advance from other funds of \$3,000 (amounts in thousands).

A summary of operating transfers reported for the fiscal year ended June 30, 1998 is as follows (amounts in thousands):

PRIMARY GOVERNMENT	OPERATING TRANSFERS			
	IN	FROM COMPONENT UNITS	OUT	TO COMPONENT UNITS
General.....	\$ 103,662	\$ -	\$ 664,276	\$ 760,758
Special Revenue:				
State Lottery Fund.....	-	-	260,581	-
State Racing Fund.....	-	-	11,981	-
Hazardous Sites Clean-up Fund.....	-	-	14,000	-
Motor License Fund.....	-	-	145,661	-
Vocational Rehabilitation Fund.....	24,929	-	-	-
Pharmaceutical Assistance Fund.....	254,611	-	-	-
Pennsylvania Economic Revitalization Fund.....	-	-	4,966	-
Industrial Sites Clean-up Fund.....	12,000	-	-	-
Other Funds.....	6,208	-	9,082	-
	<u>297,748</u>	<u>-</u>	<u>446,271</u>	<u>-</u>
Debt Service:				
Land and Water Development Sinking Fund.....	16,217	-	-	-
Water Facilities Loan Redemption Fund.....	13,568	-	4,000	-
Capital Debt Fund.....	675,080	-	-	-
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	25,913	-	-	-
Local Criminal Justice Sinking Fund.....	15,293	-	-	-
Nursing Home Loan Sinking Fund.....	1,704	-	6,000	-
Disaster Relief Redemption Fund.....	7,522	-	-	-
Pennsylvania Economic Revitalization Sinking Fund.....	6,799	-	-	-
Volunteer Company Loan Sinking Fund.....	2,507	-	5,000	-
Other Funds.....	13,038	-	704	-
	<u>777,641</u>	<u>-</u>	<u>15,704</u>	<u>-</u>
Enterprise:				
State Stores Fund.....	-	-	51,478	-
Small Business First Fund.....	-	-	1,322	-
	<u>-</u>	<u>-</u>	<u>52,800</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT.....</b>	<b>\$ 1,179,051</b>	<b>\$ -</b>	<b>\$ 1,179,051</b>	<b>\$ 760,758</b>
DISCRETELY PRESENTED COMPONENT UNITS	IN	FROM PRIMARY GOVERNMENT	OUT	TO PRIMARY GOVERNMENT
Governmental Funds.....	\$ 513,069	\$ 39,700	\$ 513,069	\$ -
Proprietary:				
Pennsylvania Higher Education Assistance Agency.....	-	297,916	-	-
Pennsylvania Housing Finance Agency.....	-	10,000	-	-
	<u>-</u>	<u>307,916</u>	<u>-</u>	<u>-</u>
College and University Funds.....	-	413,142	-	-
<b>TOTAL DISCRETELY PRESENTED COMPONENT UNITS.....</b>	<b>\$ 513,069</b>	<b>\$ 760,758</b>	<b>\$ 513,069</b>	<b>\$ -</b>

# NOTES TO FINANCIAL STATEMENTS

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

Increases and decreases in contributed capital for proprietary fund types—primary government and discretely presented component units—during the fiscal year ended June 30, 1998 are summarized as follows (amounts in thousands):

**Cash flows from capital and related financing activities:**

Increases in contributed capital—primary government .....	\$ 6,091
Increases in contributed capital—discretely presented component units .....	110,876
Decreases in contributed capital—discretely presented component units .....	<u>(2,262)</u>
Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units .....	<u>\$ 114,705</u>

The following summary reconciles the above-listed net change in contributed capital to net governmental residual equity transfers out of \$47,000 and net enterprise residual equity transfers out of \$987 (amounts in thousands):

<b>Net residual equity transfers</b> .....	\$ 47,987
add: general obligation bond proceeds received directly by the Volunteer Companies Loan Fund .....	6,063
add: general obligation bond proceeds received directly by the Pennsylvania Infrastructure Investment Authority .....	15,156
add: other increase to the Rehabilitation Center Fund .....	28
less: other decrease for the Purchasing Fund .....	(987)
add: federal funds received by the Pennsylvania Infrastructure Investment Authority .....	53,713
less: program grants disbursed by the Pennsylvania Infrastructure Investment Authority .....	(2,262)
less: amount received by the Pennsylvania Turnpike Commission during June, 1998 .....	(2,333)
less: amount reported as deferred revenue by the Small Business First Fund .....	(4,000)
less: other decrease for Pennsylvania Industrial Development Authority .....	(1)
add: federal funds received by the Pennsylvania Turnpike Commission .....	<u>1,341</u>
Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units .....	<u>\$ 114,705</u>

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

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	General	Legal/contractual	\$ 101
Liquid Fuels Tax	Motor License	Legal/contractual	442
Land and Water Development	Land and Water Development		
	Sinking	Legal/contractual	82
Remining Financial Assurance	Land and Water Development		
	Sinking	Other	106
Water Facilities Loan	PA Economic Revitalization		
	Sinking	Other	144
Fire Insurance Tax	State Insurance	Legal/contractual	1,079
Fire Insurance Tax	Municipal Pension Aid	Legal/contractual	264

# 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 employees. Commonwealth employees 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 employees 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 EMPLOYEES' 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 employees of state government and certain other organizations. At December 31, 1997 there were 107 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits. Retirement benefits vest after 10 years of credited service. Employees 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 employees 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 employees; higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. All member contribution rates are determined by Commonwealth law. During each of the three years ended December 31, the annual required employer contributions (amounts in thousands) and the related percentage of that amount actually contributed are as follows:

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

At December 31, 1997, 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 employee 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 and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. Mortgage loans are valued by the asset manager using the present value of future cash flows. Real

# NOTES TO FINANCIAL STATEMENTS

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

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

**Investment Concentration:** The fair value of individual investments at December 31, 1997 that represent 5 percent or more of plan net assets are as follows (amounts in thousands):

Barclays Global Investors N.A:	
Equity Index Fund P—113,172,093 units.....	\$ 4,003,943
70/30 Enhanced U.S. Tactical Asset Allocation Fund—41,030,514 units ..	1,147,838

**Transition Liability (Asset):** There was no pension liability (asset) at or before the date of Commonwealth transition (July 1, 1997) to GASB Statement 27.

### PUBLIC SCHOOL EMPLOYES' 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, 1998 there were 640 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. Retirement benefits vest after 10 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age. Act 41 of 1998 permitted school employees with at least 30 years of credited service to retire without a reduction in benefits from April 2 through July 10, 1998 and from April 1 through June 30, 1999.

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>
1998	\$718,431	100.00
1997	\$796,205	100.00
1996	\$860,898	100.00

At June 30, 1998 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



## NOTES TO FINANCIAL STATEMENTS

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

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

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

**Investment Concentration:** At June 30, 1998 there were no investments in any one organization that represented 5 percent or more of plan net assets.

#### OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth funds certain health care benefits for retired employes (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled \$176 million for the fiscal year ended June 30, 1998. Approximately 83,000 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, 1998.

# NOTES TO FINANCIAL STATEMENTS

## NOTE J—NOTES AND DEMAND REVENUE BONDS PAYABLE

### Primary Government

During the fiscal year ended June 30, 1998 the Commonwealth issued \$225 million of tax anticipation notes which matured on June 30, 1998. The \$6.4 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 or the 1997-98 fiscal year. The notes bear interest at varying rates, not to exceed 9 percent per annum. Bond anticipation notes outstanding at June 30, 1998 reported by the Capital Facilities Fund, a capital projects fund, and the Disaster Relief Fund, a special revenue fund, are \$30.0 million and \$19.4 million, respectively.

### Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a proprietary fund component unit, has reported \$796.0 million of demand revenue bonds outstanding and \$379.7 million of notes payable consisting of student loan financing of \$339.5 million, other lines of credit of \$30.9 million and other notes and bonds payable of \$9.3 million at June 30, 1998 as follows (amounts in thousands):

Demand student loan revenue bonds payable, due 2018-2027, at a weighted average interest rate of 3.80 percent at June 30, 1998.	\$ 796,000
Student loan financing notes payable, due in 1999-2007, at a weighted average rate of 5.95 percent at June 30, 1998.....	339,482
Other lines of credit, due 1999-2005, at a weighted average interest rate of 5.47 percent at June 30, 1998 .....	30,964
Other notes and bonds payable, due 1999-2009, at a weighted average interest rate of 5.76 percent at June 30, 1998 .....	<u>9,295</u>
Total.....	<u>\$1,175,741</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 30 to 40 basis points on the stated amount of the letter of credit coverage. At June 30, 1998 total letter of credit coverage was \$796.0 million.

All student loan financing notes payable, demand student loan revenue bonds payable and student loan revenue bonds payable are collateralized by student loans and investments. At June 30, 1998, \$2.0 billion of debt is collateralized by \$1.7 billion of student loan principal and related interest receivable, and \$368.0 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, 1998 the PHEAA has \$25.5 million of available credit under student loan financing arrangements and \$10.0 million available under other lines of credit.

## NOTES TO FINANCIAL STATEMENTS

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

Stated maturities of notes and bonds payable for each of the five years subsequent to June 30, 1998 and through maturity are as follows (amounts in thousands):

<u>Year of Maturity</u>	<u>Demand Student Loan Revenue Bonds Payable</u>	<u>Student Loan Financing Notes Payable</u>	<u>Other Notes and Bonds Payable</u>
1999	\$ -	\$ 269,482	\$ 3,067
2000	-	-	2,327
2001	-	-	1,554
2002	-	-	664
2003	-	-	652
2004-27	<u>796,000</u>	<u>70,000</u>	<u>1,031</u>
Total	<u>\$ 796,000</u>	<u>\$ 339,482</u>	<u>\$ 9,295</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, 1998, \$1 million is owed at a range of 4.47 to 6.98 percent against the \$15 million line of credit. No amount is owed against the \$50 million line of credit. Total reported notes payable at June 30, 1998 for the PHFA is \$6 million.

# NOTES TO FINANCIAL STATEMENTS

## NOTE K— LONG-TERM OBLIGATIONS

Long-term obligations of the Commonwealth's primary government at June 30, 1998 and changes for the fiscal year ended are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 1997	Additions	Reductions	Balance June 30, 1998
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities.....	1968-98	4.15-10.16%	2018	\$ 22,718,236	\$ 2,357,215	\$ 391,800	\$ 262,675	\$ 2,486,340
Disaster Relief.....	1973-89	4.91- 6.60%	2003	131,908	35,260	-	5,235	30,025
Land and Water Development.....	1970-94	4.89- 7.07%	2014	300	69,570	-	13,135	56,435
Nursing Home Loan Development.....	1979-83	6.75- 8.26%	2002	31,000	5,385	-	1,595	3,790
Project 70 Land Acquisition.....	1970	6.26%	2000	-	2,160	-	670	1,490
Volunteer Companies Loan.....	1982-98	4.84-10.75%	2018	-	21,605	6,000	1,465	26,140
Vietnam Conflict Veterans								
Compensation.....	1970-74	5.36- 6.11%	2003	3,000	8,695	-	2,155	6,540
Water Facilities Loan.....	1983-97	4.89- 8.26%	2017	11,500	126,310	-	6,990	119,320
Pennsylvania Economic Revitalization	1991-95	5.04- 6.60%	2015	14,000	41,900	-	4,455	37,445
Pennsylvania Infrastructure								
Investment Authority.....	1988-98	4.84- 6.90%	2018	282,000	259,555	15,000	14,215	260,340
Agricultural Conservation Easement								
Purchase.....	1991-94	5.04- 6.60%	2014	19,000	62,250	-	3,155	59,095
Local Criminal Justice.....	1992-97	4.84- 6.60%	2017	14,000	164,095	5,000	6,115	162,980
Keystone Recreation, Park and								
Conservation.....	1994-98	4.84- 6.60%	2018	-	34,590	14,000	1,130	47,460
Refunding Bonds.....	1991-97	5.12- 6.60%	2011	-	1,653,139	2,884	112,099	1,543,924
				<u>23,224,944</u>	<u>4,841,729</u>	<u>434,684</u>	<u>435,089</u>	<u>4,841,324</u>
Other General Long-Term Obligations								
Payable From Tax Revenues:								
Installment Purchase Obligations.....	-	-	-	-	22,025	4,745	8,539	18,231
Capital Lease Obligations.....	-	-	-	-	57,340	709	2,073	55,976
Obligations Under Master Lease								
Agreement—Equipment.....	-	-	-	-	44,520	-	26,255	18,265
Obligations Under Master Lease—								
Prison Facilities.....	-	-	-	-	707,555	-	26,405	681,150
Self-Insurance—Note O.....	-	-	-	-	544,748	149,104	98,828	595,024
Compensated Absences.....	-	-	-	-	577,969	307,635	278,977	606,627
Catastrophic Motor Vehicle Losses.....	-	-	-	-	166,464	32,291	55,857	142,898
Other.....	-	-	-	-	724,224	188,404	381,050	531,578
				-	<u>2,844,845</u>	<u>682,888</u>	<u>877,984</u>	<u>2,649,749</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</b>					<u>\$ 23,224,944</u>	<u>\$ 7,686,574</u>	<u>\$ 1,313,073</u>	<u>\$ 7,491,073</u>

Long-term obligations of the discretely presented component unit organizations at June 30, 1998 (May 31, 1998 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (amounts in thousands):

### GOVERNMENTAL FUNDS

#### Bonds Payable from Lease Rentals:

##### Pennsylvania Higher Educational

Facilities Authority.....	1969-98	2.70- 9.63%	2031	\$ 2,773,703	\$ 669,257	\$ 372,300	\$ 3,070,660
State Public School Building Authority..	1986-98	2.60- 7.88%	2017	316,003	70,206	42,883	343,326

#### TOTAL GOVERNMENTAL FUNDS

	<u>3,089,706</u>	<u>739,463</u>	<u>415,183</u>	<u>3,413,986</u>
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### 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	2,473,650	374,855	132,118	2,716,387	
Pennsylvania Industrial Development								
Authority.....	1994-96	4.50- 7.00%	2014	409,520	-	15,050	394,470	
Pennsylvania Turnpike Commission.....	1991-94	2.50-6.60%	2019	1,205,815	-	77,885	1,127,930	
Pennsylvania Infrastructure Investment								
Authority.....	1990-94	4.10- 7.15%	2014	205,895	-	9,530	196,365	
				<u>5,132,665</u>	<u>374,855</u>	<u>234,583</u>	<u>5,272,937</u>	

Less: Bond discounts.....	-	-	-	56,837	3,740	7,494	53,083
Deferred costs of refunding.....	-	-	-	5,511	2,463	431	7,543

#### TOTAL PROPRIETARY FUNDS

	<u>5,070,317</u>	<u>368,652</u>	<u>226,658</u>	<u>5,212,311</u>
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#### TOTAL COMPONENT UNIT

#### LONG-TERM OBLIGATIONS

	<u>\$ 8,160,023</u>	<u>\$ 1,108,115</u>	<u>\$ 641,841</u>	<u>\$ 8,626,297</u>
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# NOTES TO FINANCIAL STATEMENTS

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

### Primary Government

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

During the fiscal year ended June 30, 1998 the Volunteer Companies Loan Fund, an Enterprise Fund, received Commonwealth general obligation bond proceeds of \$6.1 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, 1998 in the General Long-Term Obligations Account Group for Refunding Bonds includes \$13.3 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

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

Workmen's Compensation Security Trust Claims .....	\$ 343,174
Public Utility Realty Tax Act (PURTA) .....	163,971
Litigation—Note P .....	23,673
Arbitrage Rebate Tax .....	760
	<u>\$ 531,578</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. Amounts included in the General Long-Term Obligations Account Group at June 30, 1998 relating to Workmen's Compensation Claims, PURTA, Litigation, and Arbitrage Rebate Tax, are not payable with currently expendable available financial resources.

In 1991, the Commonwealth entered into lease arrangements with five local government authorities for the rental of five new prisons. Each authority issued bonds to finance the construction of the prisons. Each lease provided for the Commonwealth to pay periodic rentals equal to debt service payments on each authority's debt obligation. On July 1, 1993 a finance corporation issued certificates of participation to refund the authority debt obligations, to consolidate the financing of the prisons and to provide additional construction funding. As a result of the consolidated financing, the Commonwealth makes lease payments equal to the finance corporation's debt service payments. Both the original and the new leases provide that the Commonwealth's obligation to make lease payments is subject to Commonwealth appropriations made to provide for these obligations. In the fiscal year ended June 30, 1994 the Commonwealth began using the new prison facilities. The finance corporation holds nominal title to the facilities as security for the Commonwealth lease payments. When the certificates are fully redeemed, at which time the lease agreement expires, legal title vests with the Commonwealth. At June 30, 1998 the Commonwealth has reported \$681.2 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 \$35.7 billion as of August 26, 1998, 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, 1998 (May 31, 1998 for the PTC) include bond discounts of \$53.1 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, 1998 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, 1998 the SPSBA reported \$235 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, 1998 (May 31, 1998 for the Pennsylvania Turnpike Commission) (amounts in thousands):

	1999	2000	2001	2002	2003	2004 Through Maturity	Total
<b>PRIMARY GOVERNMENT</b>							
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities.....	\$ 389,765	\$ 356,515	\$ 313,987	\$ 267,460	\$ 207,939	\$ 2,024,730	\$ 3,560,396
Disaster Relief.....	6,961	6,820	6,833	6,869	6,903	-	34,386
Land and Water Development.....	14,696	14,506	13,565	7,925	4,554	11,598	66,844
Nursing Home Loan Development.....	1,869	643	596	549	550	-	4,207
Project 70 Land Acquisition.....	783	786	-	-	-	-	1,569
Volunteer Companies Loan.....	3,188	3,094	2,987	2,907	2,521	23,487	38,184
Vietnam Conflict Veterans Compensation.....	2,591	2,601	478	482	487	491	7,130
Water Facilities Loan.....	12,982	12,855	12,630	12,200	11,407	113,798	175,872
Pennsylvania Economic Revitalization...	6,654	6,494	6,323	5,393	2,395	24,090	51,349
Pennsylvania Infrastructure Investment Authority.....	29,137	27,502	25,943	25,301	24,091	253,681	385,655
Agricultural Conservation Easement Purchase.....	6,470	6,409	6,354	6,035	5,610	56,571	87,449
Local Criminal Justice.....	15,676	15,669	15,661	15,650	15,643	172,231	250,530
Keystone Recreation, Park and Conservation.....	4,435	4,399	4,360	4,322	4,289	52,939	74,744
Refunding Bonds.....	197,071	204,011	199,749	199,881	218,001	1,034,386	2,053,099
Total Principal and Interest.....	692,278	662,304	609,466	554,974	504,390	3,768,002	6,791,414
Less: Interest Payments.....	248,602	226,079	205,246	185,064	167,326	917,773	1,950,090
	443,676	436,225	404,220	369,910	337,064	2,850,229	4,841,324
Other General Long-Term Obligations...	294,230	123,698	117,748	116,472	114,303	1,883,298	2,649,749
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</b>	<b>\$ 737,906</b>	<b>\$ 559,923</b>	<b>\$ 521,968</b>	<b>\$ 486,382</b>	<b>\$ 451,367</b>	<b>\$ 4,733,527</b>	<b>\$ 7,491,073</b>
<b>DISCRETELY PRESENTED COMPONENT UNITS</b>							
<b>GOVERNMENTAL FUNDS:</b>							
Other Bonds:							
Pennsylvania Higher Educational Facilities Authority.....	\$ 213,093	\$ 220,362	\$ 218,759	\$ 220,947	\$ 218,042	\$ 4,001,696	\$ 5,092,899
State Public School Building Authority..	36,842	38,980	39,051	39,651	38,344	305,369	498,237
Total Principal and Interest.....	249,935	259,342	257,810	260,598	256,386	4,307,065	5,591,136
Less: Interest Payments.....	152,618	147,858	145,892	140,826	135,519	1,454,437	2,177,150
<b>TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 97,317</b>	<b>\$ 111,484</b>	<b>\$ 111,918</b>	<b>\$ 119,772</b>	<b>\$ 120,867</b>	<b>\$ 2,852,628</b>	<b>\$ 3,413,986</b>
<b>PROPRIETARY FUNDS:</b>							
Revenue Bonds:							
Pennsylvania Higher Education Assistance Agency.....	\$ 54,348	\$ 54,348	\$ 336,787	\$ 36,613	\$ 36,613	\$ 1,103,441	\$ 1,622,150
Pennsylvania Housing Finance Agency..	225,471	225,641	224,770	222,609	221,654	4,421,792	5,541,937
Pennsylvania Industrial Development Authority.....	42,994	43,749	43,006	42,525	42,399	370,095	584,768
Pennsylvania Turnpike Commission.....	96,895	96,965	97,371	97,416	97,760	1,493,494	1,979,901
Pennsylvania Infrastructure Investment Authority.....	21,739	22,418	22,797	22,778	22,612	168,027	280,371
Total Principal and Interest.....	441,447	443,121	724,731	421,941	421,038	7,556,849	10,009,127
Less: Interest Payments.....	326,499	320,606	302,987	288,541	280,456	3,217,101	4,736,190
<b>TOTAL PROPRIETARY FUNDS</b>	<b>114,948</b>	<b>122,515</b>	<b>421,744</b>	<b>133,400</b>	<b>140,582</b>	<b>4,339,748</b>	<b>5,272,937</b>
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 212,265</b>	<b>\$ 233,999</b>	<b>\$ 533,662</b>	<b>\$ 253,172</b>	<b>\$ 261,449</b>	<b>\$ 7,192,376</b>	<b>\$ 8,686,923</b>

## 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, 1998 (amounts 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
1999	\$ 7,255	\$ 5,415	\$ 32,006
2000	7,148	5,107	31,160
2001	6,954	4,999	30,570
2002	6,795	4,885	29,855
2003	6,335	2,109	28,557
Later years	<u>80,841</u>	<u>56,244</u>	<u>480,181</u>
Total minimum lease payments	115,328	78,759	632,329
Less: amount representing estimated executory costs included in total minimum lease payments	<u>14,582</u>	<u>-</u>	<u>-</u>
Net minimum lease payments	100,746	78,759	632,329
Less: amount representing interest	<u>44,770</u>	<u>24,822</u>	<u>270,544</u>
TOTAL CAPITAL LEASE OBLIGATIONS	<u>\$ 55,976</u>	<u>\$ 53,937</u>	<u>\$ 361,785</u>
INSTALLMENT PURCHASE OBLIGATIONS	<u>\$ 18,231</u>		

At June 30, 1998 general fixed assets included \$ 95.8 million of buildings and \$2.5 million of equipment being procured by capital leases. A total of \$42.8 million in general fixed assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 1998 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 \$38.2 million of construction in progress related to capital leases at June 30, 1998.

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, 1998, \$50.8 million in general fixed assets is being procured by these master lease arrangements.

### Conduit Debt

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 1998 the PEDFA has \$1,106.4 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 \$114.6 million in revenue bonds outstanding at June 30, 1998. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

# NOTES TO FINANCIAL STATEMENTS

## NOTE L—REFUNDED DEBT

### Primary Government

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 1998, \$762.8 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, 1998, 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 \$140.3 million and \$36.5 million, respectively, of previously issued revenue bonds as follows (amounts in thousands):

<u>Category</u>	<u>School Revenue Refunding Bonds Albert Gallatin Area School District Series A of 1997</u>	<u>School Revenue Refunding Bonds - Brownsville Area School District Series B of 1997</u>	<u>School Revenue Refunding Bonds - Conemaugh Valley School District Series C of 1997</u>
Issuing Authority .....	SPSBA	SPSBA	SPSBA
Bond Type .....	Revenue	Revenue	Revenue
Date Issued .....	11-13-97	11-13-97	11-13-97
Refunding Bonds Principal .....	\$1,620	\$1,455	\$3,675
Interest Rate (Refunding) .....	4.67%	5.07%	4.88%
Refunded Series .....	School Revenue Bonds Albert Gallatin Area School District Refunding Project Series B of 1990*	School Revenue Bonds Brownsville Area School District Refunding Project Series B of 1987*	School Revenue Bonds Conemaugh Valley School District Project Series F of 1992
Refunded Bonds Principal .....	\$1,545*	\$1,450*	\$3,265
Interest Rate (Refunded) .....	7.06%*	6.65%*	6.58%
Payment to Escrow Agent .....	\$1,567	\$1,454	\$3,581
Debt Service Savings (Loss) .....	\$180	\$250	\$97
Economic Gain (Loss) .....	\$169	\$169	\$96

<u>Category</u>	<u>School Revenue Refunding Bonds - Erie County Area Vocational Technical School Series D of 1997</u>	<u>Lehigh Carbon Community College Revenue Bonds Series E of 1997</u>	<u>Revenue Bonds - Saint Francis College Project Series of 1997</u>
Issuing Authority .....	SPSBA	SPSBA	PHEFA
Bond Type .....	Revenue	Revenue	Revenue
Date Issued .....	11-13-97	11-19-97	11-20-97
Refunding Bonds Principal .....	\$3,640	\$1,025	\$9,700
Interest Rate (Refunding) .....	4.55%	5.29%	variable
Refunded Series .....	School Revenue Bonds Erie County Area Vocational Technical School Series G of 1992*	College Revenue Bonds Series of 1992*	Revenue Bonds - Saint Francis College Project Series of 1993*
Refunded Bonds Principal .....	\$3,485*	\$1,305*	\$3,387*
Interest Rate (Refunded) .....	5.69%*	5.75%*	variable*
Payment to Escrow Agent .....	\$3,567	\$1,567	\$3,399
Debt Service Savings (Loss) .....	\$61	\$28	\$431
Economic Gain .....	\$67	\$12	\$642

\* Current refunding.



# NOTES TO FINANCIAL STATEMENTS

## NOTE L— Refunded Debt (continued)

Category	Revenue Bonds Rosemont College Project Series of 1997	Gwynedd-Mercy College Revenue Bonds Series of 1998	Revenue Bonds - State System of Higher Education Series P
Issuing Authority .....	PHEFA	PHEFA	PHEFA
Bond Type .....	Revenue	Revenue	Revenue
Date Issued .....	11-20-97	2-18-98	2-25-98
Refunding Bonds Principal .....	\$5,000	\$6,055	\$72,880
Interest Rate (Refunding) .....	variable	5.50%	4.96%
Refunded Series .....	College Revenue Bonds Rosemont College Project Series of 1986*	Gwynedd-Mercy College Revenue Bonds Series of 1988	Revenue Bonds - State System of Higher Education Series F / Series L
Refunded Bonds Principal .....	\$2,165*	\$2,225	\$27,245/\$41,245
Interest Rate (Refunded) .....	7.67%*	8.40%	5.95%/6.17%
Payment to Escrow Agent .....	\$2,262	\$2,381	\$72,688
Debt Service Savings (Loss) .....	\$611	\$490	\$4,707
Economic Gain (Loss) .....	\$620	\$269	\$3,920

Category	Drexel University Revenue Bonds Second Series of 1998	College Revenue Bonds Geneva College Series of 1998	LaSalle University Revenue Bonds Series of 1998
Issuing Authority .....	PHEFA	PHEFA	PHEFA
Bond Type .....	Revenue	Revenue	Revenue
Date Issued .....	4-19-98	4-22-98	5-21-98
Refunding Bonds Principal .....	\$13,870	\$15,535	\$17,455
Interest Rate (Refunding) .....	4.92%	5.44%	5.19%
Refunded Series .....	Drexel University Revenue Bonds Series of 1993/Series of 1996	College Revenue Notes Geneva College Project Series of 1993*/Series of 1996*	LaSalle University Revenue Bonds Series of 1989/Series of 1993
Refunded Bonds Principal .....	\$6,575/\$6,135	\$1,579*/\$5,600*	\$7,895/\$790
Interest Rate (Refunded) .....	6.17%/5.48%	5.375%*/variable*	7.10%/6.10%
Payment to Escrow Agent .....	\$13,473	\$7,150	\$8,996
Debt Service Savings (Loss) .....	\$165	\$195	\$552
Economic Gain .....	\$385	\$286	\$358

Category	Allegheny College - College Revenue Refunding Bonds Series 1998 A and B	Temple University Revenue Bonds First Series of 1998
Issuing Authority .....	PHEFA	PHEFA
Bond Type .....	Revenue	Revenue
Date Issued .....	6-18-98	6-24-98
Refunding Bonds Principal .....	\$30,510	\$195,315
Interest Rate (Refunding) .....	5.11%	5.15%
Refunded Series .....	College Revenue Bonds Allegheny College Series 1993 A and B	Temple University Revenue Bonds First Series of 1991
Refunded Bonds Principal .....	\$13,415/\$16,000*	\$31,690
Interest Rate (Refunded) .....	6.21%/variable*	6.83%
Payment to Escrow Agent .....	\$14,170/\$16,103*	\$33,820
Debt Service Savings (Loss) .....	\$1,699	\$4,845
Economic Gain (Loss) .....	\$345	\$3,090

\* Current refunding.

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

On June 18, 1998 as reported in the preceding table, the PHEFA issued \$30.5 million in College Revenue Refunding Bonds, Series 1998 A and B, Allegheny College, in part, to current refund the Adjustable Rate Tender Option Bonds, Series of 1996, Allegheny College. The liability for the 1996 bonds will be removed from the

## NOTES TO FINANCIAL STATEMENTS

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### NOTE L— Refunded Debt (continued)

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General Long-Term Obligations Account Group on August 1, 1998, when they are called.

The SPSBA and the PHEFA reported advance and current refundings in their component unit financial statements for the Burgettstown Area School District, the Brookville Area School District, the West Cornwall Township Municipal Authority, the Hospitals and Higher Education Facilities Authority of Philadelphia, the Cumberland County Municipal Authority and the Allegheny County Higher Education Building Authority, which are not reported in the preceding table. The liability for the refunded debt was removed from their General Long-Term Obligations Account Group; however, since the SPSBA and the PHEFA did not issue any new debt, these were not advance or current refunding transactions of the SPSBA or the PHEFA. Furthermore, there were no debt service savings nor any economic gain or loss to the SPSBA or the PHEFA.

At June 30, 1998, \$829.5 million of bonds outstanding, that were previously accounted for in their General Long-Term Obligations Account Group, have been defeased through advance refundings, for the PHEFA and the SPSBA. Included are \$773.1 million for the PHEFA and \$56.4 million for the SPSBA.

During the fiscal year ended June 30, 1998 the Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, redeemed prior to maturity \$22.4 million of Single Family Mortgage Revenue Bonds, Series N, O, Y, Z, 1997-58, 1997-56, 1997-54, 1996-53, 1996-52, 1996-51, 1996-50, 1995-45, 1994-38, 1992-33, 1991-31, 1991-30, 1990-29 and 1990-28 using mortgage prepayments. In addition, the PHFA redeemed prior to maturity \$28.8 million of Single Family Mortgage Revenue Bonds, Series J, K, T and U using bond proceeds. The PHFA completed the refunding to reduce its total debt service payments over the next 22 years by \$10.1 million and to obtain an economic gain of \$6.6 million.

At June 30, 1998, \$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, 1998, \$639.7 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, 1998, \$150.5 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, 1998, \$82.2 million of bonds outstanding, that were previously accounted for in the financial statements of the State System of Higher Education, a college and university fund component unit, have been defeased through refundings.

# NOTES TO FINANCIAL STATEMENTS

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

The Commonwealth adopts formal annual budgets for the General and five Special Revenue Funds (Motor License, State Lottery, Workmen's Compensation Administration, Banking Department, and Milk Marketing). The Combined Statement of Revenues, Expenditures, and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)—presents comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from GAAP primarily by the omission of certain revenue and expenditure accruals.

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

	<b>General Fund</b>	<b>Special Revenue Funds</b>
<b>BUDGETARY BASIS:</b>		
Budgetary basis — revenues and other sources over (under) expenditures and other uses.....	\$ (136,901)	\$ 70,371
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue .....	986,734	1,417,936
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	(2,511,477)	(1,739,354)
To adjust encumbrances .....	<u>2,271,559</u>	<u>481,802</u>
Net adjustments .....	<u>746,816</u>	<u>160,384</u>
<b>NONBUDGETED FUNDS:</b>		
GAAP basis — revenues and other sources under expenditures and other uses.....	-	17,858
<b>TOTAL ALL FUNDS:</b>		
GAAP basis — revenues and other sources over expenditures and other uses.....	<u>\$ 609,915</u>	<u>\$ 248,613</u>

# NOTES TO FINANCIAL STATEMENTS

## NOTE N — SEGMENT INFORMATION

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

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1997)	State Stores	Volunteer Company Loan	Minority Business Development	Machinery and Equipment Loan	Other Enterprise Funds	Total Enterprise Funds
Operating revenues .....	\$ 34,799	\$ 3,261	\$ 311,864	\$ 789,475	\$ 2,430	\$ 746	\$ 2,065	\$ 21,198	\$ 1,165,838
Depreciation.....	-	-	825	3,501	-	-	-	907	5,233
Operating income.....	6,530	1,198	81,045	68,116	2,289	600	2,848	1,156	163,782
Operating transfers out.....	-	1,322	-	51,478	-	-	-	-	52,800
Net income (loss).....	6,530	(124)	81,045	22,235	2,289	600	2,848	2,043	117,466
Increase in contributed capital.....	-	-	-	-	6,063	-	-	28	6,091
Acquisition and construction of capital assets.....	-	-	370	4,056	-	-	-	556	4,982
Net increase (decrease) in cash.....	71	(54)	(1,311)	7,008	179	(19)	(20)	29	5,883
Total assets .....	118,899	66,875	1,847,338	232,473	85,624	10,067	49,466	40,623	2,451,365
Bonds and other long-term liabilities payable from operating revenues .....	-	-	1,375,357	-	-	-	-	-	1,375,357
Total fund equity.....	13,541	59,799	141,461	59,229	85,579	9,887	49,431	34,608	453,535
Net working capital.....	34,618	10,827	48,483	110,711	4,482	7,177	17,289	30,025	263,612

## NOTES TO FINANCIAL STATEMENTS

### NOTE O—SELF-INSURANCE

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

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 1998. 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, 1998. No accrued liability has been reported for property losses.

At June 30, 1998 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, 1998 are reported in the General Long-Term Obligations Account Group (GLTOAG). All accrued self-insurance liabilities at June 30, 1998 are summarized as follows (amounts in thousands):

	General Fund	Motor License Fund	GLTOAG	Total
Employee disability .....	\$ 77,043	\$ -	\$ 346,285	\$ 423,328
Annuitant medical/hospital .....	33,452	-	-	33,452
Automobile tort .....	3,051	-	10,659	13,710
Employee tort .....	2,966	-	20,134	23,100
General tort .....	1,351	-	31,417	32,768
Transportation .....	-	26,836	186,529	213,365
Totals .....	<u>\$ 117,863</u>	<u>\$ 26,836</u>	<u>\$ 595,024</u>	<u>\$ 739,723</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, 1998 and reported self-insurance liabilities at June 30, 1998 (amounts in thousands):

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE O—Self-Insurance (continued)

The following summary provides aggregated information on June 30, 1996 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 1997 and reported self-insurance liabilities at June 30, 1997 (amounts in thousands):

	June 30, 1996	Incurred Claims		Payments		June 30, 1997
	Liability	Current	Prior	Current	Prior	Liability
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 (amount in thousands) due to changes in assumptions about the number, duration and other attributes of claims incurred but not reported.

### NOTE P—COMMITMENTS AND CONTINGENCIES

**Construction and Other Commitments:** At June 30, 1998 the Department of Transportation and at May 31, 1998 the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$1,194 million and \$353.0 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, 1998. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

**Loan Commitments:** At June 30, 1998 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.....		198
Pennsylvania Infrastructure Investment Authority.....		195

**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, 1998 were as follows (amounts in thousands):

Fiscal year ending June 30:

	Primary Government	Discretely Presented Component Units
1999.....	\$ 237,218	\$ 1,673
2000.....	120,321	1,280
2001.....	77,133	1,068
2002.....	58,747	1,020
2003.....	42,052	830
Later years.....	167,574	1,346
Total Minimum Lease Payments.....	<u>\$ 703,045</u>	<u>\$ 7,217</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 1998 amounted to \$284.6 million (\$282.2 million for primary government, \$2.4 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, 1998 with respect to torts as described in Note O, \$398 thousand in the Capital Facilities Fund, a Capital Projects

## NOTES TO FINANCIAL STATEMENTS

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

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Fund and as other General Long-Term Obligations with respect to other matters of litigation in the amount of \$23,673 thousand for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings relative to a funding equity case with a school district in the approximate amount of \$999.8 million and a case relative to an allegation of racial bias in the distribution of state funding in an approximate amount ranging from \$200 million to \$1 billion. Other cases that the Commonwealth is vigorously contesting could range from approximately \$93 to \$669 million, zero to \$182 million, \$2 to \$31 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 \$526 thousand to approximately \$5 million of additional liabilities for the College and University Funds, and could result in approximately \$3 million of additional liabilities for the Governmental Funds.

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

**Federal Grants:** The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the general purpose financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from \$38 to \$157 million. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the general purpose financial statements.

**Student Loan Guarantees:** The Pennsylvania Higher Education Assistance Agency (PHEAA), a Discretely Presented Proprietary Fund Component Unit, guarantees loans made by private lenders to certain resident students. Total original principal for outstanding guarantees issued by PHEAA approximated \$13.4 billion at June 30, 1998. 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, 1998, 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, 1998, the amount of future payments owed to prizewinners is \$2.4 billion. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 1998, the future payments of \$218.0 million have been voluntarily assigned by prizewinners.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE Q—CERTAIN AGENCY FUND CLAIMS LIABILITIES

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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, 1998 totals \$2,123.4 million (\$1,615.6 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, 1998 is \$138.8 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 \$560.2 million at June 30, 1998. 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 \$359.3 million at June 30, 1998; the Fund is not obligated beyond that amount. Owners and operators will be assessed for any claims exceeding \$359.3 million and no financial liability is reported for those claims.

### NOTE R—DEFERRED COMPENSATION

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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 \$545 million in assets (at market value) reported in the Deferred Compensation Fund, an Agency Fund, at December 31, 1997, \$526 million relates to primary government employees and \$17 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**

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### **NOTE S—JOINT VENTURE**

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The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth is required to fund all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Collective bargaining agreements and administrative policies establish contribution rates and/or amounts. During the fiscal year ended June 30, 1998, the Commonwealth contributed over \$485 million to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF. At June 30, 1998, the PEBTF reported total assets of \$342 million, total liabilities and benefit obligations of \$96 million, and net assets available for benefits of \$246 million. During the fiscal year, net assets available for benefits decreased by \$28 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is not evident.

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

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE T—YEAR 2000 COMPLIANCE

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

As of June 30, 1998 the Commonwealth has reviewed its computer programs and has modified, validated/tested and returned to service 90 percent of all programs affecting vital public service. The Commonwealth plans to modify, validate/test and return to service the remainder of these computer programs, as well as all non-critical programs, by December 31, 1998. Modifications, including correcting existing computer programs and/or converting to new software and testing, have all occurred while maintaining normal operations. Also, the Commonwealth is evaluating all computer equipment and other devices which include date-sensitive computer chips to ensure that they are year 2000 compliant. This evaluation will continue through December 31, 1999. Further, the Commonwealth is communicating with significant contractors, suppliers, vendors and other affected parties to ensure that they are taking appropriate measures to properly interface with Commonwealth programs in the year 2000.

The Commonwealth believes that the efforts completed through June 30, 1998 and the measures planned to be taken will fully address this matter. While there can be no guarantee that all of the Commonwealth's vital or non-vital computer programs will be entirely free of year 2000-related problems, no disruptions to normal operations are expected. The amounts committed at June 30, 1998 are not material to either the financial position or the results of operations of the Commonwealth or any of its individual funds.

# NOTES TO FINANCIAL STATEMENTS

## NOTE U—SUBSEQUENT EVENTS

### Primary Government

On August 1, 1998, the Commonwealth issued \$298 million of General Obligation Bonds, Second Series of 1998 with an interest rate of 4.72 percent. Bond proceeds will be used for the construction and acquisition of capital facilities projects, the retirement of bond anticipation notes outstanding, 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 and the purchase of agricultural conservation easements for the preservation of agricultural land.

On December 1, 1998 the Commonwealth issued \$270 million of General Obligation Bonds, Third Series of 1998 with an interest rate of 4.47 percent. Bond proceeds will be used for the construction and acquisition of capital facilities projects, the purchase of agricultural conservation easements for the preservation of agricultural land, and the expansion and construction of county and multicounty regional prison facility projects.

### Discretely Presented Component Units

On July 2, 1998 the Pennsylvania Turnpike Commission (PTC) issued \$53 million of Series Q variable rate demand bonds. The bonds will bear interest at a variable rate determined daily by the remarketing agent and will be used to pay for a construction project in Westmoreland County, Pennsylvania, and expansion and renovation of the PTC's administration building, as well as various other construction projects.

On August 1, 1998 the Pennsylvania Infrastructure Investment Authority issued \$38 million of Revenue Refunding Bonds, Series 1998A. The bonds will be used to finance the refunding of certain maturities of the Series 1990 Revenue Bonds, the Series 1991A Revenue Bonds, the Series 1992A Revenue Bonds, and to pay the cost of issuance of the Series 1998A Bonds.

On August 13, 1998 the PTC issued \$310.5 million of Series A Oil Franchise Tax Senior Revenue Bonds and \$228.4 million of Series B Oil Franchise Tax Subordinated Revenue Bonds. The bonds will bear interest at rates ranging from 3.85 percent to 5.5 percent, and be used for continued construction of the Mon/Fayette extension.

On September 30, 1998 the Pennsylvania Housing Finance Agency (PHFA) issued \$75 million of Single Family Mortgage Revenue Bonds, Series 1998-63. The proceeds of the bonds will be used to refund certain of the PHFA's outstanding Single Family Mortgage Revenue Bonds to fund the purchase of new single family mortgage revenue loans and to provide funds for deposit in the Capital Reserve Fund.

On October 7, 1998 the "Higher Education Amendments of 1998" was enacted. Among other provisions, the law requires that guaranty agencies establish a Federal Student Loan Reserve Fund (the "Federal Fund") within 60 days of enactment, transfer all liquid assets in the guaranty agency's existing reserve fund into the new Federal Fund, and specify that the Federal Fund is the property of the United States. As a result of this law, a substantial portion of PHEAA's retained earnings related to guaranty activities under the Federal Family Education Loan Program may be reclassified as a liability. As of June 30, 1998 such retained earnings amounted to \$106 million.

On October 29, 1998 the PHFA issued \$75 million of Single Family Mortgage Revenue Bonds, Series 1998-64. The proceeds of the 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 U.

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# Combining Financial Statements and Schedules



Commonwealth of Pennsylvania

# Special Revenue Funds



Commonwealth of Pennsylvania

## SPECIAL REVENUE FUNDS DESCRIPTION

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

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

**Motor License Fund** — to account for highway and bridge design, construction, improvement, restoration and maintenance, for the purchase of rights-of-way, for aviation activities and facilities, for transportation general government, licensing and safety activities, for payment of subsidies for construction and maintenance of local roads, and for payment of Pennsylvania State Police highway patrol operations.

**Workmen's Compensation Administration Fund** — to account for the administration of the Pennsylvania Workmen's Compensation Act and the Pennsylvania Occupational Disease Act. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

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

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

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

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

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

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

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

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

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

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

June 30, 1998

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

	Budgeted Funds								Total			
	State Lottery	Motor License	Workmen's Compensation Administration	Banking Department	Milk Marketing	Public Transportation Assistance	Pharmaceutical Assistance	Recycling		Fish and Game	Hazardous Sites Cleanup	Other
<b>ASSETS:</b>												
Cash.....	4	\$ 16,426	\$ 51	\$ 43	\$ -	\$ 137	\$ -	\$ 26	\$ 592	\$ -	\$ 595	\$ 17,874
Temporary investments.....	320,665	779,744	44,825	10,130	3,091	15,559	43,634	136,889	61,427	155,575	217,127	1,788,666
Long-term investments.....	16,968	-	-	-	-	-	-	-	-	-	-	16,968
Receivables, net:												
Taxes.....	-	140,721	-	-	-	24,708	-	-	-	-	-	165,429
Accounts.....	29,956	-	31	4,581	-	-	1,034	-	-	-	-	35,602
Accrued interest.....	1,488	3,538	204	47	12	97	240	656	281	721	2,297	9,581
Notes and loans.....	-	-	-	-	-	-	-	2,025	-	-	68,778	70,803
Other.....	-	8,767	-	-	-	-	-	-	-	-	10	8,777
Due from other funds.....	-	10,944	-	2	-	2,898	2,830	-	982	20,840	11,766	50,262
Due from component units.....	-	31	-	-	-	-	-	-	-	-	3	34
Due from other governments.....	5,503	74,753	-	-	-	-	-	-	5,683	-	9,024	94,963
Advances to other funds.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Other asset.....	8	-	-	-	-	-	-	-	-	-	-	8
<b>TOTAL ASSETS.....</b>	<b>\$ 374,592</b>	<b>\$ 1,034,924</b>	<b>\$ 45,111</b>	<b>\$ 14,803</b>	<b>\$ 3,103</b>	<b>\$ 43,399</b>	<b>\$ 47,738</b>	<b>\$ 139,596</b>	<b>\$ 68,965</b>	<b>\$ 180,136</b>	<b>\$ 309,600</b>	<b>\$ 2,261,967</b>
<b>LIABILITIES AND FUND BALANCES</b>												
<b>Liabilities:</b>												
Accounts payable and accrued liabilities.....	\$ 148,802	\$ 327,960	\$ 2,690	\$ 653	\$ 171	\$ 15,173	\$ 16,932	\$ 660	\$ 6,378	\$ 2,499	\$ 34,669	\$ 556,587
Tax refunds payable.....	-	1,098	-	-	-	-	-	-	-	-	-	1,098
Due to other funds.....	6,185	17,863	265	59	25	594	3	160	473	18	22,641	48,286
Due to component units.....	-	4,856	-	-	-	-	-	-	-	-	85	4,941
Due to other governments.....	2,612	15,832	102	24	4	-	3	5,884	203	13	801	25,478
Deferred revenue.....	1,814	243	50	4,189	960	-	-	-	2,008	100	15,013	24,377
Advances from other funds.....	-	2,175	-	-	-	-	4,333	-	-	-	-	6,508
Bond anticipation notes payable.....	-	-	-	-	-	-	-	-	-	-	19,400	19,400
<b>TOTAL LIABILITIES.....</b>	<b>159,413</b>	<b>370,027</b>	<b>3,107</b>	<b>4,925</b>	<b>1,160</b>	<b>15,767</b>	<b>21,271</b>	<b>6,704</b>	<b>9,062</b>	<b>2,630</b>	<b>92,609</b>	<b>686,675</b>
<b>Fund Balance:</b>												
Reserved for:												
Encumbrances.....	955	300,787	599	-	22	-	-	8,023	3,547	6,546	15,450	335,929
Advances.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Loans receivable.....	-	-	-	-	-	-	-	2,025	-	-	68,778	70,803
Long-term investments.....	16,968	-	-	-	-	-	-	-	-	-	-	16,968
Other.....	8	-	-	-	-	-	-	-	-	-	-	8
Unreserved:												
Designated for:												
Highways.....	-	223,234	-	-	-	-	-	-	-	-	-	223,234
Other.....	275	-	324	-	-	-	2,813	2,061	1,978	-	26,101	33,552
Undesignated.....	196,973	140,876	41,081	9,878	1,921	27,632	23,654	120,783	54,378	167,960	106,662	891,798
<b>TOTAL FUND BALANCE.....</b>	<b>215,179</b>	<b>664,897</b>	<b>42,004</b>	<b>9,878</b>	<b>1,943</b>	<b>27,632</b>	<b>26,467</b>	<b>132,892</b>	<b>59,903</b>	<b>177,506</b>	<b>216,991</b>	<b>1,575,292</b>
<b>TOTAL LIABILITIES AND FUND BALANCE.....</b>	<b>\$ 374,592</b>	<b>\$ 1,034,924</b>	<b>\$ 45,111</b>	<b>\$ 14,803</b>	<b>\$ 3,103</b>	<b>\$ 43,399</b>	<b>\$ 47,738</b>	<b>\$ 139,596</b>	<b>\$ 68,965</b>	<b>\$ 180,136</b>	<b>\$ 309,600</b>	<b>\$ 2,261,967</b>



**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Special Revenue Funds** **For Fiscal Year Ended June 30, 1998**

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	Banking Department	Milk Marketing	Public Transportation Assistance	Pharmaceutical Assistance	Recycling	Fish and Game	Hazardous Sites Cleanup		Other
<b>REVENUES:</b>												
Taxes.....	\$ -	\$ 1,571,570	\$ -	\$ -	\$ -	\$ 152,465	\$ -	\$ 94	\$ 61	\$ 39,219	\$ 36,859	\$ 1,800,268
Licenses and fees.....	184	708,488	-	3,841	2,149	-	-	40,617	48,708	2,417	27,517	833,921
Intergovernmental.....	57,361	722,000	-	-	-	-	-	-	14,046	-	108,768	902,175
Charges for sales and service.....	5,313	80,249	43,031	7,166	-	-	-	-	16,379	-	56,205	208,343
Investment income.....	15,366	34,690	2,420	563	157	952	1,378	7,545	3,614	8,082	14,231	88,998
Lottery revenues.....	1,684,015	-	-	-	-	-	-	-	-	-	-	1,684,015
Other.....	2,864	36,717	213	70	6	-	-	168	2,266	8,827	17,264	68,395
<b>TOTAL REVENUES.....</b>	<b>1,765,103</b>	<b>3,153,714</b>	<b>45,664</b>	<b>11,640</b>	<b>2,312</b>	<b>153,417</b>	<b>1,378</b>	<b>48,424</b>	<b>85,074</b>	<b>58,545</b>	<b>260,844</b>	<b>5,586,115</b>
<b>EXPENDITURES:</b>												
<b>Current:</b>												
General government.....	1,011,709	345,614	47,064	8,981	2,187	-	-	-	-	-	62,370	1,477,925
Protection of persons and property.....	-	-	-	-	-	-	-	-	-	-	15,749	15,749
Public health and welfare.....	311,087	-	-	-	-	-	242,952	-	-	-	138,949	692,988
Public education.....	-	-	-	-	-	-	-	-	-	-	760	760
Conservation of natural resources.....	-	-	-	-	-	-	-	32,810	90,562	32,876	74,475	230,723
Economic development and assistance.....	-	-	-	-	-	-	-	-	-	-	8,246	8,246
Transportation.....	108,621	2,487,352	-	-	-	147,564	-	-	-	-	230	2,743,767
Capital outlay.....	-	23,552	-	-	-	-	-	-	-	-	-	23,552
<b>TOTAL EXPENDITURES.....</b>	<b>1,431,417</b>	<b>2,856,518</b>	<b>47,064</b>	<b>8,981</b>	<b>2,187</b>	<b>147,564</b>	<b>242,952</b>	<b>32,810</b>	<b>90,562</b>	<b>32,876</b>	<b>300,779</b>	<b>5,193,710</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>333,686</b>	<b>297,196</b>	<b>(1,400)</b>	<b>2,659</b>	<b>125</b>	<b>5,853</b>	<b>(241,574)</b>	<b>15,614</b>	<b>(5,488)</b>	<b>25,669</b>	<b>(39,935)</b>	<b>392,405</b>
<b>OTHER FINANCING SOURCES (USES):</b>												
Operating transfers in.....	-	-	-	-	-	-	254,611	1,322	1,212	-	40,603	297,748
Operating transfers out.....	(260,581)	(145,661)	-	-	-	(4,670)	-	(1,000)	-	(14,000)	(20,359)	(446,271)
Capital lease and installment purchase obligations.....	-	4,731	-	-	-	-	-	-	-	-	-	4,731
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>(260,581)</b>	<b>(140,930)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,670)</b>	<b>254,611</b>	<b>322</b>	<b>1,212</b>	<b>(14,000)</b>	<b>20,244</b>	<b>(143,792)</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>73,105</b>	<b>156,266</b>	<b>(1,400)</b>	<b>2,659</b>	<b>125</b>	<b>1,183</b>	<b>13,037</b>	<b>15,936</b>	<b>(4,276)</b>	<b>11,669</b>	<b>(19,691)</b>	<b>248,613</b>
<b>FUND BALANCES, AS RESTATED, JUNE 30, 1997.....</b>	<b>142,074</b>	<b>536,631</b>	<b>43,404</b>	<b>7,219</b>	<b>1,818</b>	<b>26,449</b>	<b>13,430</b>	<b>116,956</b>	<b>64,179</b>	<b>165,837</b>	<b>236,682</b>	<b>1,354,679</b>
<b>RESIDUAL EQUITY TRANSFERS.....</b>	<b>-</b>	<b>(28,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,000)</b>
<b>FUND BALANCES JUNE 30, 1998.....</b>	<b>\$ 215,179</b>	<b>\$ 664,897</b>	<b>\$ 42,004</b>	<b>\$ 9,878</b>	<b>\$ 1,943</b>	<b>\$ 27,632</b>	<b>\$ 26,467</b>	<b>\$ 132,892</b>	<b>\$ 59,903</b>	<b>\$ 177,506</b>	<b>\$ 216,991</b>	<b>\$ 1,575,292</b>

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

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Lottery			Motor License			Workmen's Compensation Administration		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>									
<b>State Programs:</b>									
Taxes, net of refunds.....	\$ -	\$ -	\$ -	\$ 1,011,931	\$ 1,015,282	\$ 3,351	\$ 42,941	\$ 42,839	\$ (102)
Lottery receipts.....	880,908	909,844	28,936	-	-	-	-	-	-
Licenses and fees.....	-	-	-	705,700	703,051	(2,649)	-	-	-
Departmental services.....	5,194	5,087	(107)	50,084	33,786	(16,298)	213	185	(28)
Miscellaneous.....	8,793	16,969	8,176	84,010	87,289	3,279	5,000	2,662	(2,338)
<b>TOTAL STATE PROGRAMS.....</b>	<b>894,895</b>	<b>931,900</b>	<b>37,005</b>	<b>1,851,725</b>	<b>1,839,408</b>	<b>(12,317)</b>	<b>48,154</b>	<b>45,686</b>	<b>(2,468)</b>
Federal Programs.....	62,233	59,346	(2,887)	702,648	606,675	(95,973)	-	-	-
<b>TOTAL REVENUES.....</b>	<b>957,128</b>	<b>991,246</b>	<b>34,118</b>	<b>2,554,373</b>	<b>2,446,083</b>	<b>(108,290)</b>	<b>48,154</b>	<b>45,686</b>	<b>(2,468)</b>
<b>EXPENDITURES:</b>									
<b>State Programs:</b>									
General government.....	301,885	278,938	22,947	173,894	168,708	5,186	52,984	52,940	44
Protection of persons and property.....	-	-	-	273,571	271,967	1,604	-	-	-
Public health and welfare.....	624,092	610,186	13,906	-	-	-	-	-	-
Public education.....	-	-	-	1,526	1,272	254	-	-	-
Conservation of natural resources.....	-	-	-	1,000	2	998	-	-	-
Economic development and assistance.....	-	-	-	-	-	-	142	142	-
Transportation.....	-	-	-	1,458,296	1,433,291	25,005	-	-	-
<b>TOTAL STATE PROGRAMS</b>	<b>925,977</b>	<b>889,124</b>	<b>36,853</b>	<b>1,908,287</b>	<b>1,875,240</b>	<b>33,047</b>	<b>53,126</b>	<b>53,082</b>	<b>44</b>
Federal Programs.....	62,233	59,346	2,887	702,648	606,675	95,973	-	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>988,210</b>	<b>948,470</b>	<b>39,740</b>	<b>2,610,935</b>	<b>2,481,915</b>	<b>129,020</b>	<b>53,126</b>	<b>53,082</b>	<b>44</b>
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(31,082)</b>	<b>42,776</b>	<b>73,858</b>	<b>(56,562)</b>	<b>(35,832)</b>	<b>20,730</b>	<b>(4,972)</b>	<b>(7,396)</b>	<b>(2,424)</b>
<b>OTHER FINANCING SOURCES:</b>									
Prior year lapses.....	32,869	32,869	-	30,236	30,236	-	4,757	4,757	-
Increase in budgeted revenue.....	-	-	-	-	-	-	-	-	-
<b>NET OTHER FINANCING SOURCES.....</b>	<b>32,869</b>	<b>32,869</b>	<b>-</b>	<b>30,236</b>	<b>30,236</b>	<b>-</b>	<b>4,757</b>	<b>4,757</b>	<b>-</b>
Revenues and other sources over (under) expenditures.....	1,787	75,645	73,858	(26,326)	(5,596)	20,730	(215)	(2,639)	(2,424)
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)</b>									
JULY 1, 1997.....	196,957	196,957	-	114,073	114,073	-	38,273	38,273	-
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1998.....</b>									
	<b>\$ 198,744</b>	<b>\$ 272,602</b>	<b>\$ 73,858</b>	<b>\$ 87,747</b>	<b>\$ 108,477</b>	<b>\$ 20,730</b>	<b>\$ 38,058</b>	<b>\$ 35,634</b>	<b>\$ (2,424)</b>

*For Fiscal Year Ended June 30, 1998*

Banking Department			Milk Marketing			Total		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,054,872	\$ 1,058,121	\$ 3,249
-	-	-	-	-	-	880,908	909,844	28,936
9,702	11,161	1,459	2,007	2,147	140	717,409	716,359	(1,050)
-	-	-	-	-	-	55,491	39,058	(16,433)
487	601	114	179	160	(19)	98,469	107,681	9,212
10,189	11,762	1,573	2,186	2,307	121	2,807,149	2,831,063	23,914
-	-	-	-	-	-	764,881	666,021	(98,860)
10,189	11,762	1,573	2,186	2,307	121	3,572,030	3,497,084	(74,946)
-	-	-	-	-	-	528,763	500,586	28,177
9,201	9,083	118	2,527	2,307	220	285,299	283,357	1,942
-	-	-	-	-	-	624,092	610,186	13,906
-	-	-	-	-	-	1,526	1,272	254
-	-	-	-	-	-	1,000	2	998
-	-	-	-	-	-	142	142	-
-	-	-	-	-	-	1,458,296	1,433,291	25,005
9,201	9,083	118	2,527	2,307	220	2,899,118	2,828,836	70,282
-	-	-	-	-	-	764,881	666,021	98,860
9,201	9,083	118	2,527	2,307	220	3,663,999	3,494,857	169,142
988	2,679	1,691	(341)	-	341	(91,969)	2,227	94,196
210	210	-	72	72	-	68,144	68,144	-
-	-	-	-	-	-	-	-	-
210	210	-	72	72	-	68,144	68,144	-
1,198	2,889	1,691	(269)	72	341	(23,825)	70,371	94,196
5,684	5,684	-	1,737	1,737	-	356,724	356,724	-
<u>\$ 6,882</u>	<u>\$ 8,573</u>	<u>\$ 1,691</u>	<u>\$ 1,468</u>	<u>\$ 1,809</u>	<u>\$ 341</u>	<u>\$ 332,899</u>	<u>\$ 427,095</u>	<u>\$ 94,196</u>

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# Debt Service Funds



Commonwealth of Pennsylvania

## **DEBT SERVICE FUNDS DESCRIPTION**

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

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

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

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

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

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

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

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

There are a total of fourteen individual debt service funds.

**COMBINING BALANCE SHEET**

**Debt Service Funds**

*June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
<b>ASSETS:</b>								
Cash.....	\$ -	\$ 1	\$ -	\$ 1	\$ -	\$ 1	\$ 3	\$ 6
Cash with fiscal agents.....	357	-	9,767	44	30	532	171	10,901
Temporary investments.....	-	-	166,186	150	-	9	1,355	167,700
Receivables, net:								
Accounts.....	-	-	8,899	-	-	-	-	8,899
Accrued interest.....	-	-	164	1	-	-	480	645
Lease rental.....	-	-	2,392	-	-	-	-	2,392
Due from other funds.....	-	-	-	29	-	26	-	55
Due from component unit.....	-	29,794	-	-	-	-	-	29,794
<b>TOTAL ASSETS</b> .....	<b>\$ 357</b>	<b>\$ 29,795</b>	<b>\$ 187,408</b>	<b>\$ 225</b>	<b>\$ 30</b>	<b>\$ 568</b>	<b>\$ 2,009</b>	<b>\$ 220,392</b>
<b>LIABILITIES AND FUND BALANCES:</b>								
<b>Liabilities:</b>								
Matured debt principal and interest payable.....	\$ 357	\$ -	\$ 9,767	\$ 44	\$ 30	\$ 532	\$ 171	\$ 10,901
Due to other funds.....	-	-	-	-	-	-	1,761	1,761
Deferred revenue.....	-	-	11,291	-	-	-	-	11,291
Other liabilities.....	-	26	722	-	-	-	40	788
<b>TOTAL LIABILITIES</b> .....	<b>357</b>	<b>26</b>	<b>21,780</b>	<b>44</b>	<b>30</b>	<b>532</b>	<b>1,972</b>	<b>24,741</b>
<b>Fund balance:</b>								
<b>Unreserved:</b>								
<b>Designated for:</b>								
<b>Debt service:</b>								
Retirement of general obligation bonds.....	-	29,769	165,628	181	-	36	77	195,691
Undesignated deficit.....	-	-	-	-	-	-	(40)	(40)
<b>TOTAL FUND BALANCES</b> .....	<b>-</b>	<b>29,769</b>	<b>165,628</b>	<b>181</b>	<b>-</b>	<b>36</b>	<b>37</b>	<b>195,651</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b> .....	<b>\$ 357</b>	<b>\$ 29,795</b>	<b>\$ 187,408</b>	<b>\$ 225</b>	<b>\$ 30</b>	<b>\$ 568</b>	<b>\$ 2,009</b>	<b>\$ 220,392</b>

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

**Debt Service Funds**

*For the Fiscal Year Ended June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
<b>REVENUES:</b>								
Investment income.....	\$ 4	\$ 11	\$ 3,832	\$ 1	\$ 175	\$ 201	\$ 1,188	\$ 5,412
Lease rental principal and interest.....	-	-	2,159	-	-	-	-	2,159
Other.....	7	1	2,191	-	-	-	-	2,199
<b>TOTAL REVENUES</b> .....	<b>11</b>	<b>12</b>	<b>8,182</b>	<b>1</b>	<b>175</b>	<b>201</b>	<b>1,188</b>	<b>9,770</b>
<b>EXPENDITURES:</b>								
Debt service:								
Principal retirement.....	5,235	14,215	374,775	4,455	6,990	13,135	16,285	435,090
Interest and fiscal charges.....	2,307	13,721	211,767	2,367	6,773	3,312	16,747	256,994
<b>TOTAL EXPENDITURES</b> .....	<b>7,542</b>	<b>27,936</b>	<b>586,542</b>	<b>6,822</b>	<b>13,763</b>	<b>16,447</b>	<b>33,032</b>	<b>692,084</b>
<b>REVENUES UNDER EXPENDITURES</b> .....	<b>(7,531)</b>	<b>(27,924)</b>	<b>(578,360)</b>	<b>(6,821)</b>	<b>(13,588)</b>	<b>(16,246)</b>	<b>(31,844)</b>	<b>(682,314)</b>
<b>OTHER FINANCING SOURCES (USES):</b>								
Operating transfers in.....	7,522	25,913	675,080	6,799	13,568	16,217	32,542	777,641
Operating transfers out.....	-	-	-	-	(4,000)	-	(11,704)	(15,704)
Payment to refunded bond escrow agent.....	-	-	-	-	-	-	-	-
<b>NET OTHER FINANCING SOURCES</b> .....	<b>7,522</b>	<b>25,913</b>	<b>675,080</b>	<b>6,799</b>	<b>9,568</b>	<b>16,217</b>	<b>20,838</b>	<b>761,937</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>								
	(9)	(2,011)	96,720	(22)	(4,020)	(29)	(11,006)	79,623
<b>FUND BALANCES, JULY 1, 1997.....</b>	<b>9</b>	<b>31,780</b>	<b>68,908</b>	<b>203</b>	<b>4,020</b>	<b>65</b>	<b>11,043</b>	<b>116,028</b>
<b>FUND BALANCES, JUNE 30, 1998.....</b>	<b>\$ -</b>	<b>\$ 29,769</b>	<b>\$ 165,628</b>	<b>\$ 181</b>	<b>\$ -</b>	<b>\$ 36</b>	<b>\$ 37</b>	<b>\$ 195,651</b>



# Capital Projects Funds



Commonwealth of Pennsylvania

## CAPITAL PROJECTS FUNDS DESCRIPTION

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

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

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

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

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

There are a total of four individual capital projects funds.

**COMBINING BALANCE SHEET**

**Capital Projects Funds**

*June 30, 1998*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Capital Facilities	Local Criminal Justice	Keystone Recreation, Park and Conservation	Land and Water Development	Total
<b>ASSETS</b>					
Cash.....	\$ 3	\$ -	\$ 1	\$ -	\$ 4
Temporary investments.....	69,470	2,117	95,056	1,365	168,008
Receivables, net:					
Accrued interest.....	506	12	455	-	973
Due from other funds.....	5,727	-	4,349	580	10,656
<b>TOTAL ASSETS</b> .....	<b>\$ 75,706</b>	<b>\$ 2,129</b>	<b>\$ 99,861</b>	<b>\$ 1,945</b>	<b>\$ 179,641</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 73,500	\$ 1,225	\$ 6,732	\$ 2	\$ 81,459
Due to other funds.....	1	-	16	-	17
Due to other governments.....	6,159	-	-	-	6,159
Bond anticipation notes payable.....	30,000	-	-	-	30,000
<b>TOTAL LIABILITIES</b> .....	<b>109,660</b>	<b>1,225</b>	<b>6,748</b>	<b>2</b>	<b>117,635</b>
Fund Balance:					
Reserved for:					
Encumbrances.....	696,484	429	8,530	20	705,463
Unreserved:					
Designated for:					
Capital projects.....	-	475	84,583	1,923	86,981
Undesignated deficit.....	(730,438)	-	-	-	(730,438)
<b>TOTAL FUND BALANCES</b> .....	<b>(33,954)</b>	<b>904</b>	<b>93,113</b>	<b>1,943</b>	<b>62,006</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b> .....	<b>\$ 75,706</b>	<b>\$ 2,129</b>	<b>\$ 99,861</b>	<b>\$ 1,945</b>	<b>\$ 179,641</b>

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

**Capital Projects Funds**

*For the Fiscal Year Ended June 30, 1998*

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

	Capital Facilities	Local Criminal Justice	Keystone Recreation, Park and Conservation	Land and Water Development	Total
<b>REVENUES:</b>					
Taxes.....	\$ -	\$ -	\$ 42,272	\$ -	\$ 42,272
Intergovernmental.....	640	-	-	30	670
Charges for sales and services.....	48,783	-	-	-	48,783
Investment income.....	6,320	250	4,842	2	11,414
Other.....	-	6	-	-	6
<b>TOTAL REVENUES.....</b>	<b>55,743</b>	<b>256</b>	<b>47,114</b>	<b>32</b>	<b>103,145</b>
<b>EXPENDITURES:</b>					
General government.....	506	-	-	-	506
Protection of persons and property.....	-	6,968	-	-	6,968
Conservation of natural resources.....	3,350	-	34,471	-	37,821
Economic development and assistance.....	34,549	-	-	-	34,549
Transportation.....	127,908	-	-	-	127,908
Capital outlay.....	325,875	-	-	2	325,877
Debt service:					
Interest and fiscal charges.....	-	-	9	-	9
<b>TOTAL EXPENDITURES.....</b>	<b>492,188</b>	<b>6,968</b>	<b>34,480</b>	<b>2</b>	<b>533,638</b>
<b>REVENUES UNDER EXPENDITURES.....</b>	<b>(436,445)</b>	<b>(6,712)</b>	<b>12,634</b>	<b>30</b>	<b>(430,493)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Bond proceeds.....	395,935	5,060	14,140	-	415,135
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>395,935</b>	<b>5,060</b>	<b>14,140</b>	<b>-</b>	<b>415,135</b>
<b>REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES.....</b>					
	(40,510)	(1,652)	26,774	30	(15,358)
<b>FUND BALANCES, JULY 1, 1997.....</b>	<b>6,556</b>	<b>2,556</b>	<b>66,339</b>	<b>1,913</b>	<b>77,364</b>
<b>FUND BALANCES, JUNE 30, 1998.....</b>	<b>\$ (33,954)</b>	<b>\$ 904</b>	<b>\$ 93,113</b>	<b>\$ 1,943</b>	<b>\$ 62,006</b>

# Enterprise Funds



Commonwealth of Pennsylvania

## ENTERPRISE FUNDS DESCRIPTION

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

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

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

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

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

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

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

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

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

There are a total of fifteen individual enterprise funds.

# COMBINING BALANCE SHEET

## Enterprise Funds

June 30, 1998

### COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1997)	State Stores	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
<b>ASSETS:</b>									
Cash.....	\$ 151	\$ 362	\$ 1,265	\$ 10,800	\$ 180	\$ 28	\$ 272	\$ 119	\$ 13,177
Temporary investments.....	34,139	14,304	333,807	77,821	4,101	7,256	16,898	33,395	521,721
Long-term investments.....	84,067	-	1,460,688	-	-	-	-	-	1,544,755
Receivables, net:									
Accounts.....	8	-	21,586	1,259	-	-	-	148	23,001
Accrued interest.....	534	237	19,078	382	246	73	154	170	20,874
Notes and loans.....	-	51,972	8,169	-	81,097	2,710	32,142	1,619	177,709
Due from other funds.....	-	-	694	300	-	-	-	1,961	2,955
Due from other governments.....	-	-	-	-	-	-	-	14	14
Inventory.....	-	-	-	127,044	-	-	-	233	127,277
Fixed assets.....	-	-	12,394	55,308	-	-	-	12,755	80,457
Less: accumulated depreciation.....	-	-	(10,916)	(40,790)	-	-	-	(9,791)	(61,497)
Other assets.....	-	-	573	349	-	-	-	-	922
<b>TOTAL ASSETS .....</b>	<b>\$ 118,899</b>	<b>\$ 66,875</b>	<b>\$ 1,847,338</b>	<b>\$ 232,473</b>	<b>\$ 85,624</b>	<b>\$ 10,067</b>	<b>\$ 49,466</b>	<b>\$ 40,623</b>	<b>\$ 2,451,365</b>
<b>LIABILITIES AND FUND EQUITY</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities.....	\$ 175	\$ -	\$ 7,031	\$ 86,876	\$ -	\$ 152	\$ 2	\$ 3,989	\$ 98,225
Tuition benefits payable.....	104,694	-	-	-	-	-	-	-	104,694
Obligations under securities lending.....	-	-	287,209	-	-	-	-	-	287,209
Due to other funds.....	35	5	6,799	20,060	-	4	7	208	27,118
Due to other governments.....	3	-	-	308	-	-	-	127	438
Deferred revenue.....	1	4,071	19,773	-	45	24	-	1,687	25,601
Advances from other funds.....	450	3,000	2,000	66,000	-	-	-	-	71,450
Other liabilities.....	-	-	7,708	-	-	-	26	4	7,738
Insurance loss liability.....	-	-	1,375,357	-	-	-	-	-	1,375,357
<b>TOTAL LIABILITIES .....</b>	<b>105,358</b>	<b>7,076</b>	<b>1,705,877</b>	<b>173,244</b>	<b>45</b>	<b>180</b>	<b>35</b>	<b>6,015</b>	<b>1,997,830</b>
<b>Fund Equity:</b>									
Contributed capital.....	-	56,568	-	2,294	60,416	40,660	45,200	3,867	209,005
Retained earnings (deficit):									
Reserved.....	-	-	5	-	-	-	-	4,782	4,787
Unreserved.....	13,541	3,231	141,456	56,935	25,163	(30,773)	4,231	25,959	239,743
<b>TOTAL FUND EQUITY.....</b>	<b>13,541</b>	<b>59,799</b>	<b>141,461</b>	<b>59,229</b>	<b>85,579</b>	<b>9,887</b>	<b>49,431</b>	<b>34,608</b>	<b>453,535</b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b>\$ 118,899</b>	<b>\$ 66,875</b>	<b>\$ 1,847,338</b>	<b>\$ 232,473</b>	<b>\$ 85,624</b>	<b>\$ 10,067</b>	<b>\$ 49,466</b>	<b>\$ 40,623</b>	<b>\$ 2,451,365</b>

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

**Enterprise Funds**

*For the Fiscal Year Ended June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1997)	State Stores	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
<b>OPERATING REVENUES:</b>									
Sales and services.....	\$ 18,065	\$ -	\$ 130,237	\$ 789,475	\$ -	\$ -	\$ -	\$ 19,794	\$ 957,571
Investment income.....	16,732	849	181,599	-	281	403	954	1,368	202,186
Interest on notes and loans.....	-	2,412	-	-	1,610	337	988	36	5,383
Other.....	2	-	28	-	539	6	123	-	698
<b>TOTAL OPERATING REVENUES.....</b>	<b>34,799</b>	<b>3,261</b>	<b>311,864</b>	<b>789,475</b>	<b>2,430</b>	<b>746</b>	<b>2,065</b>	<b>21,198</b>	<b>1,165,838</b>
<b>OPERATING EXPENSES:</b>									
Cost of sales and services.....	28,269	528	198,631	717,370	10	470	136	19,138	964,552
Interest expense.....	-	-	20,008	-	-	-	-	-	20,008
Depreciation.....	-	-	825	3,501	-	-	-	907	5,233
Provision for uncollectible accounts.....	-	1,535	10,173	488	131	(768)	(919)	(3)	10,637
Other.....	-	-	1,182	-	-	444	-	-	1,626
<b>TOTAL OPERATING EXPENSES.....</b>	<b>28,269</b>	<b>2,063</b>	<b>230,819</b>	<b>721,359</b>	<b>141</b>	<b>146</b>	<b>(783)</b>	<b>20,042</b>	<b>1,002,056</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>6,530</b>	<b>1,198</b>	<b>81,045</b>	<b>68,116</b>	<b>2,289</b>	<b>600</b>	<b>2,848</b>	<b>1,156</b>	<b>163,782</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income.....	-	-	-	5,597	-	-	-	560	6,157
Other revenues.....	-	-	-	-	-	-	-	327	327
<b>NONOPERATING REVENUES, NET.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,597</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>887</b>	<b>6,484</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS.....</b>	<b>6,530</b>	<b>1,198</b>	<b>81,045</b>	<b>73,713</b>	<b>2,289</b>	<b>600</b>	<b>2,848</b>	<b>2,043</b>	<b>170,266</b>
<b>OPERATING TRANSFERS:</b>									
Operating transfers out.....	-	(1,322)	-	(51,478)	-	-	-	-	(52,800)
<b>OPERATING TRANSFERS, NET.....</b>	<b>-</b>	<b>(1,322)</b>	<b>-</b>	<b>(51,478)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52,800)</b>
<b>NET INCOME (LOSS).....</b>	<b>6,530</b>	<b>(124)</b>	<b>81,045</b>	<b>22,235</b>	<b>2,289</b>	<b>600</b>	<b>2,848</b>	<b>2,043</b>	<b>117,466</b>
<b>RETAINED EARNINGS (DEFICIT), AS RESTATED, JULY 1, 1997.....</b>	<b>7,011</b>	<b>3,355</b>	<b>60,416</b>	<b>34,700</b>	<b>22,874</b>	<b>(31,373)</b>	<b>1,383</b>	<b>28,698</b>	<b>127,064</b>
<b>RETAINED EARNINGS (DEFICIT), JUNE 30, 1998.....</b>	<b>\$ 13,541</b>	<b>\$ 3,231</b>	<b>\$ 141,461</b>	<b>\$ 56,935</b>	<b>\$ 25,163</b>	<b>\$ (30,773)</b>	<b>\$ 4,231</b>	<b>\$ 30,741</b>	<b>\$ 244,530</b>



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

*For the Fiscal Year Ended June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 1997)	State Stores	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>									
Operating income .....	\$ 6,530	\$ 1,198	\$ 81,045	\$ 68,116	\$ 2,289	\$ 600	\$ 2,848	\$ 1,156	\$ 163,782
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:									
Depreciation.....	-	-	825	3,501	-	-	-	907	5,233
Net amortization.....	-	-	-	-	-	-	-	(816)	(816)
Provision for uncollectible accounts.....	-	1,535	10,173	488	131	(768)	(919)	(3)	10,637
Nonoperating revenues.....	-	-	-	-	-	-	-	327	327
Reclassification of investment income.....	(16,732)	(849)	(181,599)	-	(281)	(403)	(954)	(1,368)	(202,186)
Change in assets and liabilities:									
(Increase) decrease in receivables.....	(143)	(9,675)	1,027	(670)	(9,813)	1,307	(159)	216	(17,910)
Decrease in due from other funds.....	-	-	435	117	-	-	-	1,837	2,389
Decrease in due from other governments.....	-	-	-	-	-	-	-	24	24
Increase in inventory.....	-	-	-	(12,390)	-	-	-	(4)	(12,394)
Decrease in other assets.....	-	-	98	6	-	-	-	-	104
Increase (decrease) in accounts payable and accrued liabilities.....	115	(32)	(152)	5,525	-	(243)	(10)	785	5,988
Increase (decrease) in due to other funds.....	29	5	1,277	3,879	-	4	(5)	118	5,307
Increase (decrease) in due to other governments.....	2	-	-	(123)	-	-	-	16	(105)
Increase (decrease) in deferred revenue.....	-	4,002	(19,427)	-	3	(22)	-	(1,646)	(17,090)
Decrease in insurance loss liability.....	-	-	(99,400)	-	-	-	-	-	(99,400)
Increase in tuition benefits payable.....	25,752	-	-	-	-	-	-	-	25,752
Increase in obligations under securities lending.....	-	-	33,635	-	-	-	-	-	33,635
Decrease in other liabilities.....	-	-	(21,063)	-	-	-	(28)	(3)	(21,094)
Total adjustments.....	9,023	(5,014)	(274,171)	333	(9,960)	(125)	(2,075)	390	(281,599)
<b>NET CASH PROVIDED BY (USED FOR)</b>									
<b>OPERATING ACTIVITIES.....</b>	15,553	(3,816)	(193,126)	68,449	(7,671)	475	773	1,546	(117,817)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>									
Net borrowing under advances from other funds.....	(100)	-	-	-	-	-	-	-	(100)
Operating transfers out.....	-	(1,322)	-	(51,478)	-	-	-	-	(52,800)
<b>NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES.....</b>	(100)	(1,322)	-	(51,478)	-	-	-	-	(52,900)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>									
Increase in contributed capital.....	-	-	-	-	6,063	-	-	28	6,091
Acquisition and construction of capital assets.....	-	-	(370)	(4,056)	-	-	-	(556)	(4,982)
<b>NET CASH (USED FOR) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	-	-	(370)	(4,056)	6,063	-	-	(528)	1,109
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>									
Purchase of investments.....	(3,773,419)	(14,356)	(1,633,591)	(548,125)	(15,287)	(2,270)	(10,674)	(20,993)	(6,018,715)
Proceeds from sale and maturities of investments.....	3,749,132	18,610	1,683,792	536,621	16,798	1,383	8,949	18,120	6,033,405
Investment income.....	8,905	830	141,984	5,597	276	393	932	1,884	160,801
<b>NET CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES.....</b>	(15,382)	5,084	192,185	(5,907)	1,787	(494)	(793)	(989)	175,491
<b>NET INCREASE (DECREASE) IN CASH.....</b>	71	(54)	(1,311)	7,008	179	(19)	(20)	29	5,883
<b>CASH, JULY 1, 1997.....</b>	80	416	2,576	3,792	1	47	292	90	7,294
<b>CASH, JUNE 30, 1998.....</b>	\$ 151	\$ 362	\$ 1,265	\$ 10,800	\$ 180	\$ 28	\$ 272	\$ 119	\$ 13,177

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

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# Internal Service Funds



Commonwealth of Pennsylvania

## INTERNAL SERVICE FUNDS DESCRIPTION

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

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

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

There are a total of two individual internal service funds.

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

**June 30, 1998**

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>ASSETS</b>			
Cash.....	\$ 105	\$ 223	\$ 328
Temporary investments.....	18,165	4,188	22,353
Receivables, net:			
Accounts.....	32	-	32
Accrued interest.....	88	12	100
Other.....	-	113	113
Due from other funds.....	6,820	4,497	11,317
Due from component units.....	625	6	631
Due from other governments.....	113	129	242
Inventory.....	1,423	12,114	13,537
Fixed assets.....	52,809	23,609	76,418
Less: accumulated depreciation.....	(25,388)	(12,188)	(37,576)
Other assets.....	-	1	1
<b>TOTAL ASSETS .....</b>	<b>\$ 54,792</b>	<b>\$ 32,704</b>	<b>\$ 87,496</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities.....	\$ 8,089	\$ 5,307	\$ 13,396
Due to other funds.....	405	67	472
Due to other governments.....	15	31	46
Deferred revenue.....	90	-	90
<b>TOTAL LIABILITIES.....</b>	<b>8,599</b>	<b>5,405</b>	<b>14,004</b>
<b>Fund Equity:</b>			
Contributed capital.....	9,187	-	9,187
Retained earnings:			
Unreserved.....	37,006	27,299	64,305
<b>TOTAL FUND EQUITY.....</b>	<b>46,193</b>	<b>27,299</b>	<b>73,492</b>
<b>TOTAL LIABILITIES AND FUND EQUITY .....</b>	<b>\$ 54,792</b>	<b>\$ 32,704</b>	<b>\$ 87,496</b>

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

*For the Fiscal Year Ended June 30, 1998*

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

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services.....	\$ 106,806	\$ 36,051	\$ 142,857
Other.....	-	60	60
<b>TOTAL OPERATING REVENUES .....</b>	<b>106,806</b>	<b>36,111</b>	<b>142,917</b>
<b>OPERATING EXPENSES:</b>			
Cost of sales and services.....	97,048	33,128	130,176
Depreciation.....	7,200	1,245	8,445
<b>TOTAL OPERATING EXPENSES.....</b>	<b>104,248</b>	<b>34,373</b>	<b>138,621</b>
<b>OPERATING INCOME.....</b>	<b>2,558</b>	<b>1,738</b>	<b>4,296</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	1,007	141	1,148
Other revenues.....	491	-	491
Other expenses.....	-	(101)	(101)
<b>NONOPERATING REVENUES, NET.....</b>	<b>1,498</b>	<b>40</b>	<b>1,538</b>
<b>NET INCOME.....</b>	<b>4,056</b>	<b>1,778</b>	<b>5,834</b>
<b>RETAINED EARNINGS, JULY 1, 1997.....</b>	<b>33,937</b>	<b>25,521</b>	<b>59,458</b>
<b>RESIDUAL EQUITY TRANSFER OUT.....</b>	<b>(987)</b>	<b>-</b>	<b>(987)</b>
<b>RETAINED EARNINGS, JUNE 30, 1998.....</b>	<b>\$ 37,006</b>	<b>\$ 27,299</b>	<b>\$ 64,305</b>

**COMBINING STATEMENT OF CASH FLOWS**

**Internal Service Funds**

*For the Fiscal Year Ended June 30, 1998*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating income.....	\$ 2,558	\$ 1,738	\$ 4,296
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation.....	7,200	1,245	8,445
Nonoperating revenues.....	4	-	4
Nonoperating expenses.....	-	(6)	(6)
Changes in assets and liabilities:			
Increase in receivables.....	(17)	(13)	(30)
Decrease (increase) in due from other funds.....	795	(1,516)	(721)
Decrease (increase) in due from component units.....	36	(6)	30
Decrease (increase) in due from other governments.....	90	(39)	51
Decrease in inventory.....	198	870	1,068
Decrease in other assets.....	-	83	83
(Decrease) increase in accounts payable and accrued liabilities.....	(61)	1,021	960
Decrease in due to other funds.....	(208)	(14)	(222)
Increase in due to other governments.....	-	5	5
Decrease in deferred revenue.....	(35)	-	(35)
<b>TOTAL ADJUSTMENTS.....</b>	<b>8,002</b>	<b>1,630</b>	<b>9,632</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>10,560</b>	<b>3,368</b>	<b>13,928</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets.....	(9,933)	(1,746)	(11,679)
Proceeds from sale of capital assets.....	1,602	-	1,602
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(8,331)</b>	<b>(1,746)</b>	<b>(10,077)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments.....	(54,091)	(22,784)	(76,875)
Proceeds from sale and maturities of investments.....	50,706	20,845	71,551
Investment income.....	983	135	1,118
<b>NET CASH (USED FOR) INVESTING ACTIVITIES.....</b>	<b>(2,402)</b>	<b>(1,804)</b>	<b>(4,206)</b>
<b>NET DECREASE IN CASH.....</b>	<b>(173)</b>	<b>(182)</b>	<b>(355)</b>
<b>CASH, JULY 1, 1997.....</b>	<b>278</b>	<b>405</b>	<b>683</b>
<b>CASH, JUNE 30, 1998.....</b>	<b>\$ 105</b>	<b>\$ 223</b>	<b>\$ 328</b>

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

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# Trust and Agency Funds



Commonwealth of Pennsylvania

## TRUST AND AGENCY FUNDS DESCRIPTION

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

### EXPENDABLE TRUST FUNDS

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

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

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

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

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

### PENSION TRUST FUND

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

### INVESTMENT TRUST FUND

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

### AGENCY FUNDS

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

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

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

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

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

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

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

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

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

June 30, 1998

COMMONWEALTH OF PENNSYLVANIA  
 (Expressed in Thousands)

	Expendable Trust Funds	Pension Trust Fund	Investment Trust Fund	Agency Funds	Total
<b>ASSETS</b>					
Cash.....	\$ 5,975	\$ -	\$ -	\$ 6,600	\$ 12,575
Cash with fiscal agents.....	2,507,197	-	-	9,260	2,516,457
Temporary investments.....	531,635	503,781	539,334	849,990	2,424,740
Long-term investments.....	129,545	22,234,360	-	627,434	22,991,339
Receivables, net:					
Taxes.....	303,239	-	-	7	303,246
Accounts.....	8,670	-	-	189,975	198,645
Accrued interest.....	4,255	94,040	621	4,757	103,673
Investment proceeds.....	-	105,737	-	-	105,737
Other.....	-	1,152	-	38	1,190
Due from other funds.....	50,788	3,867	-	31,586	86,241
Due from component units.....	204	12,622	-	-	12,826
Due from other governments.....	14,852	5,005	-	-	19,857
Other assets.....	222	-	-	343,593	343,815
<b>TOTAL ASSETS</b> .....	<u>\$ 3,556,582</u>	<u>\$ 22,960,564</u>	<u>\$ 539,955</u>	<u>\$ 2,063,240</u>	<u>\$ 29,120,341</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities.....	\$ 156,092	\$ 23,332	\$ 2,777	\$ 560,715	\$ 742,916
Tax refunds payable.....	5,100	-	-	-	5,100
Investment purchases payable.....	-	185,784	-	-	185,784
Obligations under securities lending.....	145,932	1,439,462	-	-	1,585,394
Due to other funds.....	48,577	215	-	1,004	49,796
Due to other governments.....	3,293	-	-	234,367	237,660
Other liabilities.....	-	-	-	1,267,154	1,267,154
<b>TOTAL LIABILITIES</b> .....	<u>358,994</u>	<u>1,648,793</u>	<u>2,777</u>	<u>2,063,240</u>	<u>4,073,804</u>
<b>Fund Balance:</b>					
Reserved for:					
Encumbrances.....	1,962	-	-	-	1,962
Pension benefits.....	-	21,311,771	-	-	21,311,771
Long-term investments.....	129,545	-	-	-	129,545
Other.....	-	-	537,178	-	537,178
Unreserved:					
Designated for:					
Other.....	3,339	-	-	-	3,339
Undesignated.....	3,062,742	-	-	-	3,062,742
<b>TOTAL FUND BALANCE</b> .....	<u>3,197,588</u>	<u>21,311,771</u>	<u>537,178</u>	<u>-</u>	<u>25,046,537</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b> .....	<u>\$ 3,556,582</u>	<u>\$ 22,960,564</u>	<u>\$ 539,955</u>	<u>\$ 2,063,240</u>	<u>\$ 29,120,341</u>

**COMBINING BALANCE SHEET**

**Expendable Trust Funds**

*June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Benefits Continuation	Self-Insurance Guaranty	Real Estate Recovery	Total
<b>ASSETS</b>						
Cash.....	\$ 5,929	\$ 43	\$ 1	\$ 1	\$ 1	\$ 5,975
Cash with fiscal agents.....	2,507,197	-	-	-	-	2,507,197
Temporary investments.....	200	462,735	63,534	4,137	1,029	531,635
Long-term investments.....	-	129,545	-	-	-	129,545
Receivables, net:						
Taxes.....	303,239	-	-	-	-	303,239
Accounts.....	1,918	-	6,751	-	1	8,670
Accrued interest.....	19	4,046	165	20	5	4,255
Due from other funds.....	2,244	48,544	-	-	-	50,788
Due from component units.....	204	-	-	-	-	204
Due from other governments.....	14,852	-	-	-	-	14,852
Other assets.....	-	222	-	-	-	222
<b>TOTAL ASSETS</b> .....	<b>\$ 2,835,802</b>	<b>\$ 645,135</b>	<b>\$ 70,451</b>	<b>\$ 4,158</b>	<b>\$ 1,036</b>	<b>\$ 3,556,582</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities.....	\$ 73,302	\$ 25,055	\$ 57,693	\$ 22	\$ 20	\$ 156,092
Tax refunds payable.....	5,100	-	-	-	-	5,100
Obligations under securities lending.....	-	145,932	-	-	-	145,932
Due to other funds.....	3	10	48,564	-	-	48,577
Due to other governments.....	3,293	-	-	-	-	3,293
<b>TOTAL LIABILITIES</b> .....	<b>81,698</b>	<b>170,997</b>	<b>106,257</b>	<b>22</b>	<b>20</b>	<b>358,994</b>
<b>Fund Balance:</b>						
Reserved for:						
Encumbrances.....	-	1,962	-	-	-	1,962
Long-term investments.....	-	129,545	-	-	-	129,545
Unreserved:						
Designated for:						
Other.....	-	-	-	3,339	-	3,339
Undesignated (deficit).....	2,754,104	342,631	(35,806)	797	1,016	3,062,742
<b>TOTAL FUND BALANCE (DEFICIT)</b> .....	<b>2,754,104</b>	<b>474,138</b>	<b>(35,806)</b>	<b>4,136</b>	<b>1,016</b>	<b>3,197,588</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b> .....	<b>\$ 2,835,802</b>	<b>\$ 645,135</b>	<b>\$ 70,451</b>	<b>\$ 4,158</b>	<b>\$ 1,036</b>	<b>\$ 3,556,582</b>

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

*For the Fiscal Year Ended June 30, 1998*

COMMONWEALTH OF PENNSYLVANIA  
(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Benefits Continuation	Self-Insurance Guaranty	Real Estate Recovery	Total
<b>REVENUES:</b>						
Taxes.....	\$ 5,287	\$ -	\$ -	\$ -	\$ -	\$ 5,287
Unemployment taxes.....	1,513,110	-	-	-	-	1,513,110
Licenses and fees.....	-	20,722	37,754	76	40	58,592
Intergovernmental.....	46,563	-	-	-	-	46,563
Investment income.....	154,353	40,108	1,191	235	59	195,946
Other.....	301	-	-	-	-	301
<b>TOTAL REVENUES</b> .....	<b>1,719,614</b>	<b>60,830</b>	<b>38,945</b>	<b>311</b>	<b>99</b>	<b>1,819,799</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	-	4,209	1,225	-	-	5,434
Protection of persons and property.....	-	18,952	55,857	132	111	75,052
Public health and welfare.....	1,504,122	-	-	-	-	1,504,122
Debt service:						
Principal retirement.....	-	9,683	-	-	-	9,683
<b>TOTAL EXPENDITURES</b> .....	<b>1,504,122</b>	<b>32,844</b>	<b>57,082</b>	<b>132</b>	<b>111</b>	<b>1,594,291</b>
<b>REVENUES OVER (UNDER)</b>						
<b>EXPENDITURES</b> .....	<b>215,492</b>	<b>27,986</b>	<b>(18,137)</b>	<b>179</b>	<b>(12)</b>	<b>225,508</b>
<b>FUND BALANCES (DEFICIT), AS RESTATED, JULY 1, 1997</b> .....	<b>2,538,612</b>	<b>446,152</b>	<b>(17,669)</b>	<b>3,957</b>	<b>1,028</b>	<b>2,972,080</b>
<b>FUND BALANCES (DEFICIT), JUNE 30, 1998</b> .....	<b>\$ 2,754,104</b>	<b>\$ 474,138</b>	<b>\$ (35,806)</b>	<b>\$ 4,136</b>	<b>\$ 1,016</b>	<b>\$ 3,197,588</b>

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

**Agency Funds**

*For the Fiscal Year Ended June 30, 1998*

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

	Balance <u>July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 1998</u>
<b>UNDERGROUND STORAGE TANK</b>				
<b>INDEMNIFICATION FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 86,409	\$ 85,697	\$ 712
Temporary investments.....	311,488	65,862	17,606	359,744
Receivables, net:				
Accrued interest.....	1,438	18,881	18,611	1,708
<b>TOTAL ASSETS .....</b>	<b>\$ 312,926</b>	<b>\$ 171,152</b>	<b>\$ 121,914</b>	<b>\$ 362,164</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 3,799	\$ 3,330	\$ 3,144	\$ 3,985
Due to other funds.....	73	57	73	57
Due to other governments.....	1	1	1	1
Other liabilities.....	309,053	69,528	20,460	358,121
<b>TOTAL LIABILITIES .....</b>	<b>\$ 312,926</b>	<b>\$ 72,916</b>	<b>\$ 23,678</b>	<b>\$ 362,164</b>
<b>STATUTORY LIQUIDATOR FUND</b>				
<b>ASSETS</b>				
Cash.....	1	140,848	140,848	1
Cash with fiscal agents.....	17,885	9,254	17,885	9,254
Temporary investments.....	94,660	142,476	111,125	126,011
Long-term investments.....	68,249	19,302	-	87,551
Receivables, net:				
Accounts.....	213,514	-	29,723	183,791
Accrued interest.....	2,525	1,337	2,525	1,337
Due from other funds.....	268	47	268	47
Other assets.....	314,728	23,906	-	338,634
<b>TOTAL ASSETS .....</b>	<b>\$ 711,830</b>	<b>\$ 337,170</b>	<b>\$ 302,374</b>	<b>\$ 746,626</b>
<b>LIABILITIES</b>				
Other liabilities.....	\$ 711,830	\$ 153,597	\$ 118,801	\$ 746,626
<b>TOTAL LIABILITIES .....</b>	<b>\$ 711,830</b>	<b>\$ 153,597</b>	<b>\$ 118,801</b>	<b>\$ 746,626</b>
<b>DEFERRED COMPENSATION FUND</b>				
<b>(December 31)</b>				
<b>ASSETS</b>				
Cash.....	\$ 1	\$ 183,659	\$ 183,659	\$ 1
Cash with fiscal agents.....	6	-	-	6
Temporary investments.....	3,528	27,663	25,703	5,488
Long-term investments.....	396,995	155,996	13,124	539,867
Receivables, net:				
Accrued interest.....	59	68	59	68
Other.....	165	38	165	38
<b>TOTAL ASSETS .....</b>	<b>\$ 400,754</b>	<b>\$ 367,424</b>	<b>\$ 222,710</b>	<b>\$ 545,468</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 400,609	\$ 160,126	\$ 15,346	\$ 545,389
Due to other funds.....	145	79	145	79
<b>TOTAL LIABILITIES .....</b>	<b>\$ 400,754</b>	<b>\$ 160,205</b>	<b>\$ 15,491</b>	<b>\$ 545,468</b>

(Continued)

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

**Agency Funds (continued)**

*For the Fiscal Year Ended June 30, 1998*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	Balance July 1, 1997	Additions	Deductions	Balance June 30, 1998
<b>FIRE INSURANCE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 1	\$ 110,257	\$ 110,257	\$ 1
Temporary investments.....	54,222	56,072	56,858	53,436
Receivables, net:				
Accrued interest.....	266	264	266	264
<b>TOTAL ASSETS</b> .....	<b>\$ 54,489</b>	<b>\$ 166,593</b>	<b>\$ 167,381</b>	<b>\$ 53,701</b>
<b>LIABILITIES</b>				
Due to other funds.....	\$ 266	\$ 264	\$ 266	\$ 264
Due to other governments.....	54,223	53,367	54,223	53,367
Other liabilities.....	-	70	-	70
<b>TOTAL LIABILITIES</b> .....	<b>\$ 54,489</b>	<b>\$ 53,701</b>	<b>\$ 54,489</b>	<b>\$ 53,701</b>
<b>MUNICIPAL PENSION AID FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 278,978	\$ 278,977	\$ 1
Temporary investments.....	125,604	138,025	139,785	123,844
Receivables, net:				
Accrued interest.....	607	3,326	3,330	603
Due from other funds.....	318	289	318	289
<b>TOTAL ASSETS</b> .....	<b>\$ 126,529</b>	<b>\$ 420,618</b>	<b>\$ 422,410</b>	<b>\$ 124,737</b>
<b>LIABILITIES</b>				
Due to other governments.....	\$ 126,529	\$ 124,574	\$ 126,529	\$ 124,574
Other liabilities.....	-	163	-	163
<b>TOTAL LIABILITIES</b> .....	<b>\$ 126,529</b>	<b>\$ 124,737</b>	<b>\$ 126,529</b>	<b>\$ 124,737</b>
<b>MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 7,404	\$ 706,533	\$ 712,910	\$ 1,027
Temporary investments.....	46,337	397,764	304,105	139,996
Receivables, net:				
Accounts.....	1,908	2,630	1,908	2,630
Accrued interest.....	303	6,809	6,467	645
Due from other funds.....	-	12	-	12
<b>TOTAL ASSETS</b> .....	<b>\$ 55,952</b>	<b>\$ 1,113,748</b>	<b>\$ 1,025,390</b>	<b>\$ 144,310</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 8,986	\$ 553	\$ 4,467	\$ 5,072
Due to other funds.....	73	399	73	399
Due to other governments.....	9	11	9	11
Other liabilities.....	46,884	132,774	40,830	138,828
<b>TOTAL LIABILITIES</b> .....	<b>\$ 55,952</b>	<b>\$ 133,737</b>	<b>\$ 45,379</b>	<b>\$ 144,310</b>

(Continued)

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

**Agency Funds (continued)**

*For the Fiscal Year Ended June 30, 1998*

**COMMONWEALTH OF PENNSYLVANIA**

(Expressed in Thousands)

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1998</u>
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 3,640	\$ 569,548	\$ 568,331	\$ 4,857
Temporary investments.....	52,328	463,881	474,738	41,471
Long-term investments.....	268	-	252	16
Receivables, net:				
Taxes.....	2,763	7	2,763	7
Accounts.....	3,178	3,554	3,178	3,554
Accrued interest.....	147	922	937	132
Due from other funds.....	15,428	31,238	15,428	31,238
Other assets.....	4,738	9,085	8,864	4,959
<b>TOTAL ASSETS .....</b>	<b>\$ 82,490</b>	<b>\$ 1,078,235</b>	<b>\$ 1,074,491</b>	<b>\$ 86,234</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 9,702	\$ 7,097	\$ 10,530	\$ 6,269
Due to other funds.....	292	148	235	205
Due to other governments.....	49,801	479,202	472,589	56,414
Other liabilities.....	22,695	47,940	47,289	23,346
<b>TOTAL LIABILITIES .....</b>	<b>\$ 82,490</b>	<b>\$ 534,387</b>	<b>\$ 530,643</b>	<b>\$ 86,234</b>
<b>TOTAL — ALL FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 11,047	\$ 2,076,232	\$ 2,080,679	\$ 6,600
Cash with fiscal agents.....	17,891	9,254	17,885	9,260
Temporary investments.....	688,167	1,291,743	1,129,920	849,990
Long-term investments.....	465,512	175,298	13,376	627,434
Receivables, net:				
Taxes.....	2,763	7	2,763	7
Accounts.....	218,600	6,184	34,809	189,975
Accrued interest.....	5,345	31,607	32,195	4,757
Other.....	165	38	165	38
Due from other funds.....	16,014	31,586	16,014	31,586
Other assets.....	319,466	32,991	8,864	343,593
<b>TOTAL ASSETS .....</b>	<b>\$ 1,744,970</b>	<b>\$ 3,654,940</b>	<b>\$ 3,336,670</b>	<b>\$ 2,063,240</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 423,096	\$ 171,106	\$ 33,487	\$ 560,715
Due to other funds.....	849	947	792	1,004
Due to other governments.....	230,563	657,155	653,351	234,367
Other liabilities.....	1,090,462	404,072	227,380	1,267,154
<b>TOTAL LIABILITIES .....</b>	<b>\$ 1,744,970</b>	<b>\$ 1,233,280</b>	<b>\$ 915,010</b>	<b>\$ 2,063,240</b>



# General Fixed Assets Account Group



Commonwealth of Pennsylvania

## GENERAL FIXED ASSETS ACCOUNT GROUP DESCRIPTION

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

### SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS

*For the Fiscal Year Ended June 30, 1998*

#### COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 1997	Additions	Retirements	Balance June 30, 1998
<b>CATEGORY</b>				
Land.....	\$ 248,735	\$ 7,867	\$ 795	\$ 255,807
Buildings.....	2,993,408	96,218	48,691	3,040,935
Improvements other than buildings.....	246,401	11,831	1,801	256,431
Machinery and equipment .....	<u>547,619</u>	<u>35,914</u>	<u>31,468</u>	<u>552,065</u>
	4,036,163	151,830	82,755	4,105,238
Construction in progress .....	<u>373,014</u>	<u>144,676</u>	<u>114,544</u>	<u>403,146</u>
Total General Fixed Assets.....	<u>\$ 4,409,177</u>	<u>\$ 296,506</u>	<u>\$ 197,299</u>	<u>\$ 4,508,384</u>
<b>INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE</b>				
Acquired before July 1, 1986.....	\$ 1,953,408	\$ -	\$ 37,779	\$ 1,915,629
Acquired after June 30, 1986 from:				
General fund .....	869,545	10,763	11,323	868,985
General obligation bonds .....	863,757	99,363	12,391	950,729
Federal grants .....	32,045	18,058	14,146	35,957
Special revenue funds .....	305,707	23,508	7,065	322,150
Local funds .....	31	50	50	31
Donations.....	11,476	88	1	11,563
Confiscations .....	<u>194</u>	<u>-</u>	<u>-</u>	<u>194</u>
Total sources.....	4,036,163	151,830	82,755	4,105,238
Construction in progress .....	<u>373,014</u>	<u>144,676</u>	<u>114,544</u>	<u>403,146</u>
Total Investment in General Fixed Assets .....	<u>\$ 4,409,177</u>	<u>\$ 296,506</u>	<u>\$ 197,299</u>	<u>\$ 4,508,384</u>

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

## SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION

June 30, 1998

### 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>
<b>FUNCTION</b>					
General government .....	\$ 9,564	\$ 477,235	\$ 25,252	\$ 42,423	\$ 554,474
Protection of persons and property .....	16,317	1,328,014	150,277	74,251	1,568,859
Public health and welfare .....	2,801	520,262	15,059	77,830	615,952
Public education .....	17,426	607,511	48,749	3,004	676,690
Conservation of natural resources.....	207,070	59,558	10,996	27,736	305,360
Economic development and assistance.....	-	-	-	333	333
Transportation .....	<u>2,629</u>	<u>48,355</u>	<u>6,098</u>	<u>326,488</u>	<u>383,570</u>
Totals Allocated To Functions .....	<u>\$ 255,807</u>	<u>\$ 3,040,935</u>	<u>\$ 256,431</u>	<u>\$552,065</u>	4,105,238
Construction in progress .....					<u>403,146</u>
Total General Fixed Assets .....					<u>\$ 4,508,384</u>

## SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 1998

### COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)

	<u>Balance July 1, 1997</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Balance June 30, 1998</u>
General government .....	\$ 577,968	\$ 7,811	\$ 47,798	\$ 25,909	\$ 9,416	\$ 554,474
Protection of persons and property .....	1,459,810	117,039	2,147	306	6,149	1,568,859
Public health and welfare .....	616,256	1,603	382	26	1,551	615,952
Public education .....	674,937	1,753	-	-	-	676,690
Conservation of natural resources.....	301,216	4,242	152	54	-	305,360
Economic development and assistance...	358	-	25	-	-	333
Transportation .....	<u>405,618</u>	<u>19,382</u>	<u>32,251</u>	<u>64</u>	<u>9,243</u>	<u>383,570</u>
	4,036,163	151,830	82,755	26,359	26,359	4,105,238
Construction in progress .....	<u>373,014</u>	<u>144,676</u>	<u>114,544</u>	<u>-</u>	<u>-</u>	<u>403,146</u>
Total General Fixed Assets.....	<u>\$ 4,409,177</u>	<u>\$ 296,506</u>	<u>\$ 197,299</u>	<u>\$ 26,359</u>	<u>\$ 26,359</u>	<u>\$ 4,508,384</u>

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# Statistical Section



Commonwealth of Pennsylvania

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

	1989	1990	1991	1992	1993	1994 <sup>(2)</sup>	1995 <sup>(2)</sup>	1996 <sup>(2)</sup>	1997 <sup>(2)</sup>	1998 <sup>(2)</sup>
<b>COMMONWEALTH OF PENNSYLVANIA</b> (Expressed in Thousands)										
<b>REVENUES BY SOURCE</b>										
Taxes.....	\$ 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	\$ 19,043,735
Licenses and fees.....	629,370	661,265	685,196	699,141	717,508	740,723	773,463	796,150	804,429	1,004,050
Intergovernmental.....	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	9,669,407
Charges for sales and services.....	528,691	503,643	1,015,169	1,754,679	1,654,175	847,520	894,852	1,311,375	1,516,527	1,697,933
Investment income.....	226,190	221,835	158,280	141,433	94,362	79,329	145,124	152,724	174,604	225,805
Lottery receipts.....	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	1,684,015
Other <sup>(3)</sup> .....	281,251	389,318	411,195	343,661	348,727	171,555	167,452	228,931	187,592	178,042
<b>TOTAL REVENUES</b> .....	<b>\$ 19,248,290</b>	<b>\$ 19,716,122</b>	<b>\$ 20,936,437</b>	<b>\$ 25,762,311</b>	<b>\$ 26,672,740</b>	<b>\$ 27,331,212</b>	<b>\$ 28,526,812</b>	<b>\$ 30,925,782</b>	<b>\$ 32,073,374</b>	<b>\$ 33,502,987</b>
<b>EXPENDITURES BY FUNCTION</b>										
General government.....	\$ 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	\$ 2,586,529
Protection of persons and property.....	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	2,613,021
Public health and welfare.....	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	14,341,539
Public education.....	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	7,714,443
Conservation of natural resources.....	368,906	373,719	431,006	468,431	483,644	525,401	571,502	348,639	369,467	396,087
Economic development and assistance.....	349,767	363,950	315,362	302,028	284,940	272,212	338,377	285,092	300,310	338,984
Transportation.....	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	3,243,334
Capital outlay.....	229,753	168,807	298,506	207,168	418,062	210,083	264,464	319,195	253,758	360,238
Debt service:										
Principal retirement.....	440,152	608,360	526,625	568,900	594,472	482,344	516,705	447,790	437,880	435,090
Interest and fiscal charges.....	448,482	455,574	452,986	487,479	430,947	291,731	301,480	289,138	287,866	263,356
<b>TOTAL EXPENDITURES</b> .....	<b>\$ 19,449,224</b>	<b>\$ 20,844,138</b>	<b>\$ 22,651,653</b>	<b>\$ 24,742,579</b>	<b>\$ 25,969,693</b>	<b>\$ 26,996,477</b>	<b>\$ 28,262,433</b>	<b>\$ 30,566,685</b>	<b>\$ 30,797,077</b>	<b>\$ 32,299,621</b>

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

**NET BONDED DEBT PER CAPITA**

**TABLE 2**

*For the Last Ten Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

<b>For The Fiscal Year Ended June 30</b>	<b>(Expressed in Thousands)</b>		
	<b>Net Bonded Debt</b>	<b>Population</b>	<b>Debt Per Capita</b>
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	401
1992	4,873,542	11,989	407
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
1997	4,841,729	12,020	403

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

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

**TABLE 3**

*For the Last Ten Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

<b>For The Fiscal Year Ended June 30</b>	<b>(Expressed in Thousands)</b>		
	<b>Debt Service Requirements Funded by General Fund</b>	<b>Budgetary Basis General Fund Expenditures<sup>(1)</sup></b>	<b>%</b>
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
1998	624,642	24,891,340	2.51

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

# COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

*As of August 26, 1998*

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## COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years .....	\$ 20,392,050,801
Constitutional factor .....	x <u>1.75</u>
Constitutional debt limit for debt incurred without the approval of the electors.....	35,686,088,902
Less outstanding net debt (non-electorate approved).....	<u>3,682,944,258</u>
Legal debt margin.....	<u>\$ 32,003,144,644</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 26, 1998.



**SCHEDULE OF REVENUE BOND COVERAGE**

**TABLE 5**

*For the Last Ten Fiscal Years*

**COMMONWEALTH OF PENNSYLVANIA**

<b>Pennsylvania Turnpike Commission <sup>(b)</sup></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	
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
1998	410,266	165,763	244,503	28,240	72,274	100,514	2.43

<b>Pennsylvania Industrial Development Authority <sup>(b)</sup></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	
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
1998	35,967	2,861	33,106	19,380	22,852	42,232	0.78

<b>Pennsylvania Housing Finance Agency <sup>(b)</sup></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 <sup>(a)</sup>	Total	
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
1998	247,841	17,931	229,910	43,558	172,268	215,826	1.06

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

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

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

**TABLE 6**  
*For the Last Ten Calendar Years*

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

<u>Calendar Year</u>	<u>United States</u>	<u>Pennsylvania</u>	<u>%</u>
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	257,753	12,022	4.66
1994	260,292	12,043	4.63
1995	262,760	12,046	4.58
1996	265,179	12,041	4.54
1997	267,636	12,020	4.49

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

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

**TABLE 7**  
*For the Last Ten Calendar Years*

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

<u>Calendar Year</u>	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
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
1997	4,764,449	40,036,785

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*

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>COMMONWEALTH OF PENNSYLVANIA</b>										
(Expressed in Thousands Except Percents)										
<b>PENNSYLVANIA</b>										
Civilian labor force.....	5,764	5,857	5,791	5,826	5,886	5,889	5,826	5,838	5,903	5,984
Employment.....	5,470	5,592	5,476	5,419	5,440	5,470	5,465	5,495	5,590	5,673
Unemployment.....	294	265	315	407	446	416	360	343	313	311
Rate %.....	5.1	4.5	5.4	6.9	7.5	7.1	6.2	5.9	5.3	5.2
<b>UNITED STATES</b>										
Civilian labor force.....	121,669	123,869	125,840	126,346	128,105	129,200	131,056	132,304	133,943	136,297
Employment.....	114,968	117,342	118,793	117,718	118,492	120,260	123,060	124,900	126,708	129,558
Unemployment.....	6,701	6,527	7,047	8,628	9,613	8,940	7,996	7,404	7,235	6,739
Rate %.....	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9

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**

<b>Calendar Year</b>	<b>TOTAL PERSONAL INCOME</b> (Millions of Dollars)			<b>PER CAPITA PERSONAL INCOME</b> (Dollars)		
	<b>United States</b>	<b>Pennsylvania</b>	<b>%</b>	<b>United States</b>	<b>Pennsylvania</b>	<b>%</b>
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	5,507,657	262,281	4.80	21,368	21,816	102.10
1994	5,774,875	270,925	4.70	22,186	22,496	101.40
1995	6,137,878	285,160	4.70	23,359	23,673	101.30
1996	6,480,031	299,211	4.60	24,436	24,851	101.50
1997	6,851,080	313,204	4.60	25,598	26,058	101.80

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

**THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS**

**TABLE 10**

*For the Calendar Year 1997*

**COMMONWEALTH OF PENNSYLVANIA**

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

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**COMMONWEALTH OF PENNSYLVANIA**

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

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

*June 30, 1998*

**COMMONWEALTH OF PENNSYLVANIA**

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	40,243
Land Area – in square miles	44,888
State Police Protection:	
Number of Stations	90
Number of State Police	4,016
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	236
Number of educators	22,385
Number of students	636,889
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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