

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

For Fiscal Year Ended June 30, 2001



**Commonwealth of Pennsylvania
Tom Ridge
Governor**

Prepared By:

**Office of the Budget
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**Comptroller Operations
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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 7, 2001

ROBERT A. BITTENBENDER
SECRETARY
OFFICE OF THE BUDGET

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

This Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania displays our continued commitment to sound and effective fiscal management and to financial reporting based on generally accepted accounting principles (GAAP). This CAFR includes the Commonwealth's independently audited general purpose financial statements as of and for the fiscal year ended June 30, 2001. It will provide you and the financial community with information required to assess the Commonwealth's financial position, results of operations and the management of its financial resources.

On the budgetary basis, the Commonwealth's General Fund ended the fiscal year with a \$335.5 million unreserved/undesignated fund balance at June 30, 2001. No transfer to the Tax Stabilization Reserve (Rainy Day) Fund occurred for the fiscal year ended June 30, 2001. Including investment income earned during the fiscal year, the balance in the Tax Stabilization Reserve Fund increased to nearly \$1.127 billion. The increased balance in the Tax Stabilization Reserve Fund and the improved balance in the General Fund convinced Moody's Investors Service, a national bond rating agency, to increase the Commonwealth's general obligation bond rating in October 2000 from Aa3 to Aa2, a designation that the Commonwealth's bonds offer excellent financial security.

Economic growth in the United States and in Pennsylvania slowed significantly in 2001. That was evident in statistics on consumer spending, employment, business profits, new investment, and stock market returns. Aggressive interest rate reductions by the Federal Reserve were intended to support the softening economy. Terrorist attacks in the U.S. in the third quarter of 2001 traumatized consumers and businesses. What had been a weak economy became an economy in recession. The manufacturing sector of the economy has felt the brunt of the downturn so far. Pennsylvania, a leading manufacturing state, has shared in that loss, but less so than other major manufacturing states. In September 2001, the unemployment rate in Pennsylvania was 4.5 percent compared to the national level in that month of 4.9 percent. With the economy facing a recession in the coming months, tax revenues will likely fall below expectations. Budget adjustments will likely need to be considered. Compared to previous recessions, I believe the Commonwealth is better able to meet the revenue and spending issues brought upon it by the economy.

Tax changes enacted for the 2001-02 fiscal year, the seventh consecutive year of tax cuts, reflected the tempered financial outlook for the fiscal year. Capital stock tax rates continued their previously enacted decline of one mill per year, a limited sales tax holiday for personal computers instituted in the previous fiscal year was continued and expanded, and the amount of income exempt from the personal income tax was expanded to \$30,000 for a family of four. An annual \$30 million tax credit for contributions made for qualified educational purposes by corporations has been enacted to encourage greater corporate participation in education. The anticipated combined fiscal year cost of these reductions is estimated to be \$236.7 million representing approximately one percent of revenues.

Economic development for job creation 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 were \$39 million transferred from the General Fund to the Ben Franklin/Industrial Resource Centers Partnership Fund to create jobs through the development and application of technology and advanced production techniques. Also, \$33.5 million of loans and grants for infrastructure development of industrial sites were approved and disbursed from the General Fund. The Machinery and Equipment Loan Fund provided \$19.8 million in low interest loans and the Pennsylvania Industrial Development Authority provided \$70 million in loans to local industrial development agencies to stimulate economic

activity. The Opportunity Grants Program, funded by the General Fund, provided \$63 million for grants to attract and retain businesses. The Small Business First Fund, which is partially funded by the General Fund, disbursed more than \$37 million in low interest loans to small businesses. The Pennsylvania Technology Investment Program provided \$26 million for financing of technology businesses and expansion of university-based research and development in technology fields. Financing includes grants, loans and equity investments to build, attract and retain knowledge-based firms.

Pennsylvania is also working to create jobs in other ways. Recognizing that success begins with a well-trained workforce, the Commonwealth provided \$32 million from the General Fund for customized job training. It also recognized the opportunity to capitalize on the global marketplace by providing \$7.6 million to maintain and expand international offices. Marketing Pennsylvania as a tourist destination was funded at \$19 million. The tourism industry was also provided \$8.5 million to facilitate regional tourism coordination and over \$11 million in tourist promotion assistance to local agencies. \$5.5 million was provided for Interactive Marketing to continue internet-based marketing for business attraction and the attraction and retention of students and knowledge workers. Over \$6 million was committed to leverage public and private funds through the catalyst stage funds monitored by Team PA to provide venture capital and financing to companies ready for accelerated growth.

Education is essential to Pennsylvania's future. The General Fund provided nearly \$3.8 billion to our public schools through the Basic Education Funding subsidy. Total funding for basic education was more than \$6.4 billion, including funding for special education, pupil transportation, teacher retirement and social security, and special programs to address the needs of economically and educationally challenged students. In addition, over \$1.8 billion was provided for higher educational institutions and students.

The Commonwealth continued the basic education technology initiative. This initiative is helping to bring global computer resources into Pennsylvania's classrooms and enabling schools to participate in advances in computing and communications. This brings the five-year total investment to nearly \$164 million. This initiative will provide for the development of the community-based Pennsylvania Education Network. In addition, \$33.5 million was provided for the fourth year of a new program in which schools that improve their academic performance are rewarded with additional funding. This builds upon the \$40.6 million that was provided in the previous three years of the program.

The Commonwealth continued its comprehensive welfare reform program based on individual and family self-sufficiency. The program provides time limited cash assistance for families and other support to enable individuals to find and keep a job. As the program passed the mid-point of the five-year limit for those receiving assistance when welfare reform was initiated, efforts concentrated on seeking solutions for those with significant barriers to employment. Federal support includes two block grants: Temporary Assistance to Needy Families and Child Care Development. A five-year program expansion was initiated to significantly reduce the treatment waiting list for persons with mental retardation. This includes expanded community residential opportunities as well as enhanced services for those already in the program. In addition, investments were made in enhanced services for other people with disabilities who had not been eligible for programs in the past.

State and Federal expenditures for Public Welfare amounted to \$14.4 billion in the 2000-01 fiscal year. Approximately 45 percent of the total cost of Public Welfare is funded by the General Fund, with the balance provided by the Federal Government. A Medical Assistance Intergovernmental Transfer provided additional funds totaling \$1.1 billion during the 2000-01 fiscal year.

During the 2000-01 fiscal year several major laws were enacted that created new programs and/or modified existing programs. The following summarizes some of these changes:

- Act 2000-119 amended the Pennsylvania Keystone Opportunity Zone Act by authorizing the establishment of keystone opportunity expansion zones and expansion subzones; permitting banks, thrifts and insurers to receive State tax credits for activity in a zone, expansion zone or expansion subzone; providing job creation tax credits to railroad, truck, bus or airline companies as well as pipeline, natural gas or water companies that create jobs within a zone, expansion zone or expansion

subzone; and extending the expiration date of the program. The Act also extends the program to a total of fifteen years ending December 31, 2013.

- Act 2001-4 amended the Public School Code to provide for independent schools, professional teacher assessments, automatic external defibrillators, educational support services, educational improvement tax credits and special education funding to school districts for 2001-2002. The Act also provides for the Educational Improvement Tax Credit Program authorizing up to \$30 million annually in tax credits to businesses that contribute funds for scholarships or innovative educational programs. Businesses will receive 75 cents for every dollar they contribute to improve education or 90 cents for every dollar contributed for a multi-year commitment. Annual tax credits are not to exceed \$100,000 per business. Act 2001-35 also amended the Public School Code to implement the balance of funding in the Governor's Recommended Budget for 2001-02 for basic education and community colleges.
- Act 2001-9 amended the State and Public School Retirement Codes to increase pension benefits and related member contribution rates, restructure amortization periods and reduce vesting periods for most active members.
- Act 2001-74 suspended transferring 15% of the closing General Fund surplus balance to the Tax Stabilization Reserve Fund for the 2000-01 fiscal year. The transfer is to be reinstated at 10% of the closing 2001-02 fiscal year General Fund surplus balance.
- Act 2001-77 established a special fund for the amounts the Commonwealth receives from the Master Settlement Agreement with tobacco product manufacturers and provided for programs to be funded by Settlement revenue and the distribution of the revenue among the programs. The Act established an investment board to oversee the investment of amounts in the fund and the endowment account established in the Act. The Act provides for the following percentage distribution of the revenues received each year: 8% for the endowment account; 30% for those without health insurance, including a Medicaid buy-in program for the disabled; 12% for prevention/cessation programs; 13% for home and community based care; 19% for research; 10% for hospital uncompensated care; and 8% for a \$1,000 expansion in income eligibility for the PACENET program. The Act also provided several one-time expenditures of Settlement revenue.

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

Sincerely,



Robert A. Bittenbender
Secretary
Office of the Budget

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

December 7, 2001

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

Dear Secretary Bittenbender:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) on the financial position and operations of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2001. This report, which includes the General Purpose Financial Statements (GPFS), was prepared by the Office of the Budget, Comptroller Operations, pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, October 11, 1984.

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

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

In addition to the GPFS, which provide an overview of the Commonwealth's financial position and operating results by fund type, this CAFR includes: combining financial statements presenting information by fund; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic and demographic data about the Commonwealth. The CAFR was prepared in accordance with standards established by the Government Finance Officers Association of the United States and Canada (GFOA) and will be submitted to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

THE FINANCIAL REPORTING ENTITY

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

Based upon the financial accountability criteria, all of the following organizations, as discussed in Note A in 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 Life and Health Insurance Guaranty Association—Agency Fund
Pennsylvania Property and Casualty Insurance Guaranty Association—Agency Fund
Pennsylvania Turnpike Commission—Proprietary Fund
Philadelphia Shipyard Development Corporation—Governmental Fund
Public School Employees' Retirement System—Fiduciary Fund
State Employees' Retirement System—Pension Trust Fund
State Public School Building Authority—Governmental Fund
State System of Higher Education—College and University Funds

BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS

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

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

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

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

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

THE GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS)

Although the Commonwealth plans and manages its financial affairs on a budgetary basis, it also prepares GPFS in conformity with GAAP applicable to governments. These financial statements differ from those prepared on a budgetary basis in that generic funds are combined by fund types and the financial information is presented on the basis of accounting principles applicable to each fund type. Accordingly, governmental, expendable trust, and agency funds are reported on the modified accrual basis of accounting; proprietary and pension trust funds are reported on the accrual basis of accounting. The College and University Funds are reported on the accrual basis of accounting in accordance with the accounting guidance and reporting practices applicable to governmental colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and pronouncements issued by the GASB.

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

ECONOMIC CONDITION AND OUTLOOK

Terrorist attacks conducted on U.S. soil on September 11, 2001, provided the catalyst for the national economy to enter into an economic recession. U.S. economic growth had been decelerating since mid-2000, especially in the industrial sector. Weakness in the industrial sector helped lower annualized quarterly gross domestic product growth rates from 5.7 percent in the second quarter of 2000, to 0.3 percent in the second quarter of 2001. The slide of consumer confidence and the pullback in spending fostered by the attacks have likely pushed the economy into recession. Most likely gross national product growth will be negative in the third quarter of 2001.

The acts of terrorism directed at the United States are expected to have far-reaching effects on the national and the global economy. With the U.S. moving into a recession, a global recession seems inevitable. The cause of the current recession is a crisis of confidence brought to a critical level by the terrorist's acts. Readings of both consumer and business confidence in September 2001 have fallen to levels not seen in many years. Consumers and business appear to be significantly reducing their spending. The results are business contraction, layoffs, and lower income. Current expectations are that an economic recovery should begin sometime during the first half of 2002. That recovery may not be as vigorous as other prior periods of economic recovery, but will be a period of modest positive growth.

The Pennsylvania economy is expected to closely follow the trends of the national economy. Substantial shifts in the composition of employment in Pennsylvania over the past decade should make its economy less sensitive to sharp cyclical changes in industrial production that previously would have magnified the effects of a national recession in Pennsylvania.

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 that 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 59.5 percent of the General Fund budgetary basis revenues. Major fund expenditures are for general government, protection of persons and property, public health and welfare, public education, conservation of natural resources, economic development, transportation and transfers to debt service funds on all obligations except those incurred for highway or other special revenue fund purposes. A comparison of how the Commonwealth has operated within its adopted General Fund budget, as amended, is presented in the "Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)," included in the GPFS.

Budgetary Basis: At June 30, 2001, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of \$335.5 million in the General Fund. This compares to a budgetary basis fund balance of \$610.5 million at June 30, 2000. The budgetary basis fund balance for the fiscal year ended June 30, 2001 was the result of revenue collections totaling \$31,885.4 million less appropriation authorizations totaling \$32,304.4 million, plus other net financing sources totaling \$143.9 million. Included in the \$32,304.4 million appropriation authorizations are \$68.2 million of state supplemental appropriations and \$434.2 million in Federal supplemental appropriations authorized during the fiscal year.

The following table shows the General Fund's 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>
1997 (Restated)	402.3	245.1
1998 (Restated)	265.3	(137.0)
1999	447.5	182.2
2000	610.5	163.0
2001	335.5	(275.0)

Modified Accrual Basis: At June 30, 2001 the Commonwealth's General Fund reported a fund balance of \$4,485 million, an increase of \$221.3 million from the \$4,263.7 million fund balance at June 30, 2000. Total assets increased by \$454.2 million to \$8,183.2 million. Liabilities increased \$232.9 million to \$3,698.2 million. These changes and others are provided in the General Fund summary comparative balance sheet that follows.

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

	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>Increase (Decrease)</u>
Assets			
Cash and investments.....	\$ 5,761.1	\$ 5,268.9	\$ 492.2
Receivables, net.....	1,121.6	1,116.1	5.5
Due from other funds/component units/governments	<u>1,300.5</u>	<u>1,344.0</u>	<u>(43.5)</u>
Total Assets	<u>\$ 8,183.2</u>	<u>\$ 7,729.0</u>	<u>\$ 454.2</u>
Liabilities			
Accounts payable and other accrued liabilities.....	\$ 2,810.3	\$ 2,668.4	\$ 141.9
Due to other funds/component units/governments.....	800.5	755.7	44.8
Deferred revenue	<u>87.4</u>	<u>41.2</u>	<u>46.2</u>
Total Liabilities	<u>3,698.2</u>	<u>3,465.3</u>	<u>232.9</u>
Fund Balance			
Reserved	1,881.1	1,885.7	(4.6)
Unreserved:			
Designated	1,079.1	677.9	401.2
Undesignated	<u>1,524.8</u>	<u>1,700.1</u>	<u>(175.3)</u>
Total Fund Balance	<u>4,485.0</u>	<u>4,263.7</u>	<u>221.3</u>
Total Liabilities and Fund Balance.....	<u>\$ 8,183.2</u>	<u>\$ 7,729.0</u>	<u>\$ 454.2</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, 2001 decreased by \$116.3 million to \$6,520.2 million from a \$6,636.5 million balance at the beginning of the fiscal year. Unreserved/undesignated fund balances at June 30, 2001 amount to \$1,827.1 million as compared to a \$1,982.7 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 \$39,515 million. This represents a 2.7 percent increase over the previous year. Taxes constituted 53.7 percent of general governmental revenues; intergovernmental revenues, primarily Federal funds, constituted 30.6 percent.

<u>Revenue Source</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 2001</u>	<u>June 30, 2000</u>	
Taxes	\$ 21,232	\$ 20,957	\$ 275
Licenses and fees	1,172	1,144	28
Intergovernmental	12,087	11,094	993
Charges for sales and services	2,389	2,489	(100)
Investment income	307	396	(89)
Lottery receipts	1,788	1,695	93
Lease rental principal and interest	2	2	-
Other	538	654	(116)
Total Revenues	<u>\$ 39,515</u>	<u>\$ 38,431</u>	<u>\$ 1,084</u>

Tax revenues increased \$275 million due primarily to an increase in employment and an improvement in the economic condition of the Commonwealth. Intergovernmental revenues increased \$993 million primarily because of an increase in the authorized Federal reimbursement amounts for medical assistance and long-term care programs and other Federal grants. Other revenues decreased by \$116 million due primarily to lower receipts from the Tobacco Master Settlement Agreement.

<u>Taxes by Type</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 2001</u>	<u>June 30, 2000</u>	
Personal income	\$ 7,167	\$ 7,141	\$ 26
Sales and use	7,338	6,858	480
Corporation	3,462	3,660	(198)
Liquid fuels	714	718	(4)
Other	2,551	2,580	(29)
Total Tax Revenue	<u>\$ 21,232</u>	<u>\$ 20,957</u>	<u>\$ 275</u>

General Governmental Expenditures by Function. Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totaled \$39,290 million, an increase of \$2,697 million over the previous year. Of the total amount expended, public health and welfare accounted for 44.5 percent, public education for 22.1 percent and transportation for 10.3 percent.

<u>Expenditure Function</u>	<u>Fiscal Years Ended</u>		<u>Increase (Decrease)</u>
	<u>June 30, 2001</u>	<u>June 30, 2000</u>	
General government.....	\$ 3,292	\$ 2,818	\$ 474
Protection of persons and property.....	3,044	2,934	110
Public health and welfare.....	17,484	16,486	998
Public education.....	8,677	8,283	394
Conservation of natural resources.....	569	511	58
Economic development and assistance.....	745	539	206
Transportation.....	4,065	3,679	386
Capital outlay.....	655	587	68
Debt service:			
Principal retirement.....	477	479	(2)
Interest and fiscal charges.....	<u>282</u>	<u>277</u>	<u>5</u>
Total expenditures.....	<u>\$ 39,290</u>	<u>\$ 36,593</u>	<u>\$ 2,697</u>

Expenditures for public health and welfare increased by \$998 million or 6 percent over the previous fiscal year. Increases in financial support to the economically needy, aid to families with dependent children, and medical assistance comprise a major portion of the public health and welfare expenditure increase.

Expenditures for public education increased \$394 million or 4.8 percent over the previous fiscal year. Increases in subsidies to school districts, colleges and universities were the primary reasons for the expenditure increase.

DISCRETELY PRESENTED COMPONENT UNITS— GOVERNMENTAL FUNDS

The discretely presented component unit governmental fund type includes the Pennsylvania Higher Educational Facilities Authority, the Philadelphia Shipyard Development Corporation, the Ben Franklin/IRC Partnership, the Insurance Fraud Prevention Authority and the State Public School Building Authority. Their combined fund balances at June 30, 2001 decreased \$13.4 million to \$575.8 million from \$589.2 million at the beginning of the fiscal year.

Revenues of the component unit governmental funds totaled \$451.1 million for the fiscal year ended June 30, 2001. Lease rental principal and interest revenue of \$323.2 million represents 71.6 percent of total revenues.

Expenditures of the component unit governmental funds totaled \$1,046.7 million at June 30, 2001. Of the total amount expended, capital outlay was \$670.7 million or 64.1 percent of total expenditures and debt service principal and interest expenditures were \$320.2 million or 30.6 percent.

DEBT ADMINISTRATION

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all funds during the previous five fiscal years. The certified constitutional debt limit at August 31, 2001 was \$40.3 billion. Outstanding capital project debt at August 31, 2001 amounted to \$4.6 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, 2001 was \$5,545 million. Total debt service transfers paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 2001 amounted to \$490.1 million.

During the fiscal year ending June 30, 2002 the Office of the Budget projects general obligation bond issuances amounting to \$879 million, an increase of \$227 million as compared to actual bond issuances of \$652 million during the fiscal year ended June 30, 2001. This forecast reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, highways, bridges, mass transportation and water supply systems. Debt principal retirements of \$479.4 million are forecast during fiscal 2002. 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>
1995	\$ 5,041
1996	5,062
1997	4,842
1998	4,841
1999	5,254
2000	5,367
2001	5,545

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

During the fiscal year ending June 30, 2002, total General Fund revenues and budgeted expenditures, including Federal funds, are expected to increase by 3.4 percent and 3.5 percent, respectively. The Commonwealth has not issued tax anticipation notes during the past three fiscal years and currently has no plans to issue any notes for the 2002 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>
1998	\$ 225	1
1999	-	-
2000	-	-
2001	-	-
2002 (Estimated)	-	-

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. At June 30, 2001 approximately 80 percent of such 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, 2001:

<u>Investment Type</u>	<u>Weighted Average Maturity (days)</u>	<u>Percent</u>
Commercial Paper (Moody's Prime One Rating or Equivalent).....	8	6.6
United States Treasury and Government Agency Obligations	315	20.8
Repurchase Agreements	2	62.4
Certificates of Deposit	71	1.6
Corporate Bonds and Notes	808	0.8
Other.....	184	<u>7.8</u>
		<u>100.0</u>

Total STIP investments amounted to over \$7 billion at June 30, 2001. All STIP investments are reported as temporary investments by participating Funds. The STIP earned \$457 million during the fiscal year, at an average yield of 5.93 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, 2001 amounted to \$651 million. Authorized but unissued general obligation bonds at June 30, 2001 totaled \$32.5 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 and fire/emergency services, for sales of alcoholic beverages and for workers compensation insurance. Commonwealth enterprise funds reported total retained earnings at June 30, 2001 of \$498 million, which represents an increase of \$116.6 million from the \$381.4 million of retained earnings reported the previous year.

Fiduciary type funds, including expendable trust funds, a pension trust fund and an investment trust fund, reported total fund balance of \$33,585 million at June 30, 2001, compared to \$33,690 million in the previous year. Total fund balances of the expendable trust funds increased by \$597 thousand over the previous fiscal year, for total fund balances of \$4,617 million at June 30, 2001. The State Employees' Retirement System, the pension trust fund, reported a fund balance of \$27,880 million, a decrease of \$213 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 \$1,087 million at December 31, 2000 its fiscal year end, as compared to \$980 million in the previous year.

Discretely Presented Component Units

The discretely presented proprietary fund component units account for a turnpike system, loans for improving water and sewer systems, higher education and housing assistance. These discretely presented component units all reported retained earnings at June 30, 2001, totaling \$2,398 million, which represents an increase of \$316 million from the \$2,082 million, of retained earnings reported the previous year.

The Public School Employees' Retirement System, a fiduciary type fund component unit, pension trust fund, reported a fund balance of \$48,153 million at June 30, 2001, which represents a \$5,269 million decrease over the \$53,422 million fund balance in the previous fiscal year.

The total fund equity for the College and University funds, used to account for the State System of Higher Education, a discretely presented component unit, at June 30, 2001 was \$574 million, compared to \$477 million at June 30, 2000.

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, 2001 amounted to \$5,399 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, 2000. This represents the fifteenth consecutive year the Commonwealth of Pennsylvania has received this award.

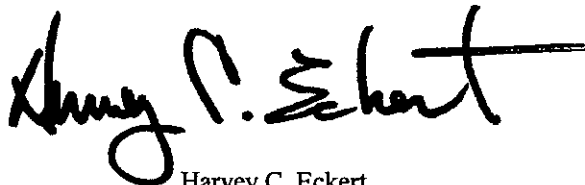
To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement 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, 2001 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

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Presented to

Commonwealth of Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

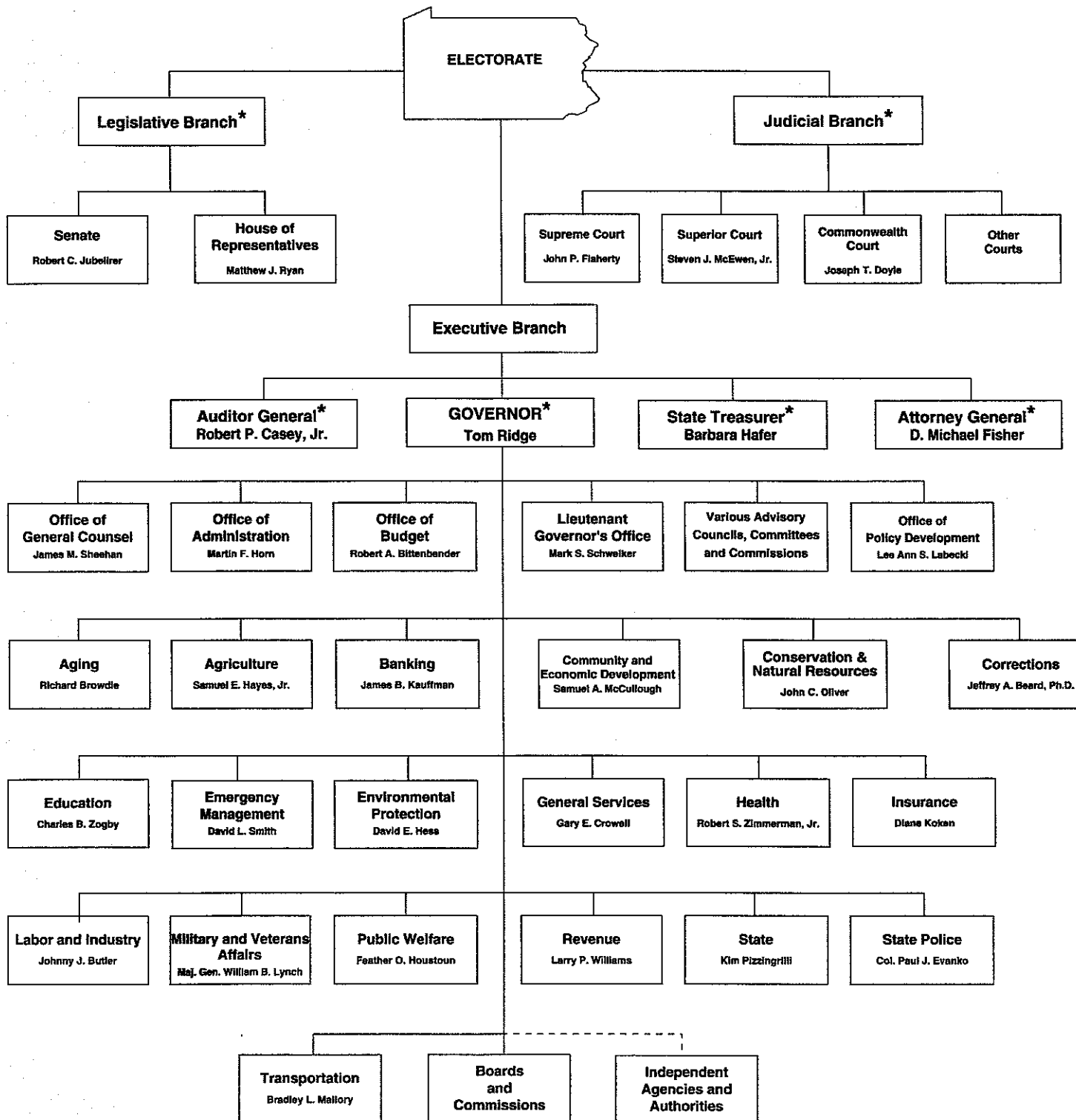
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Imelda Arias
President

Jeffrey L. Esler
Executive Director

COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
JUNE 30, 2001

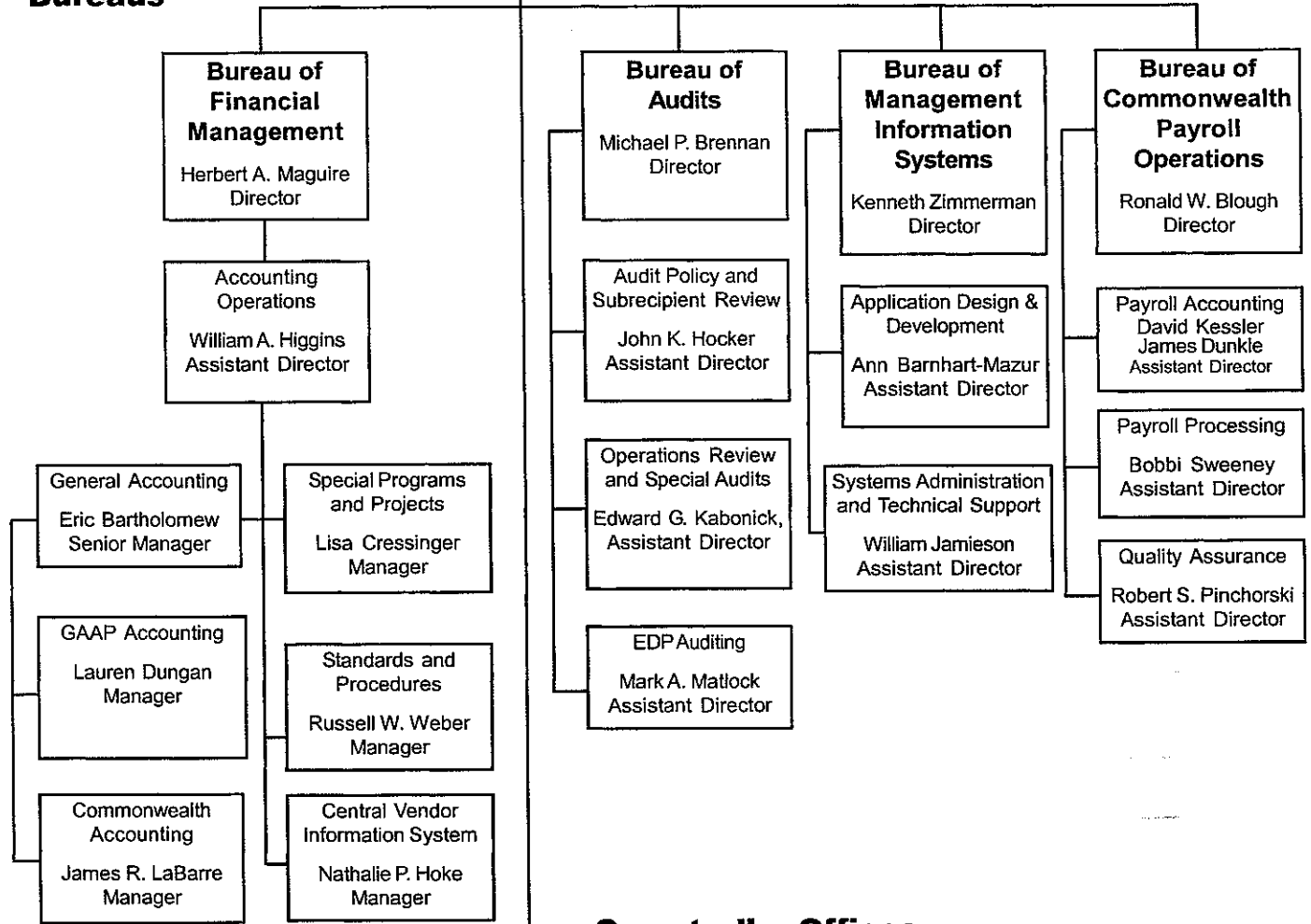


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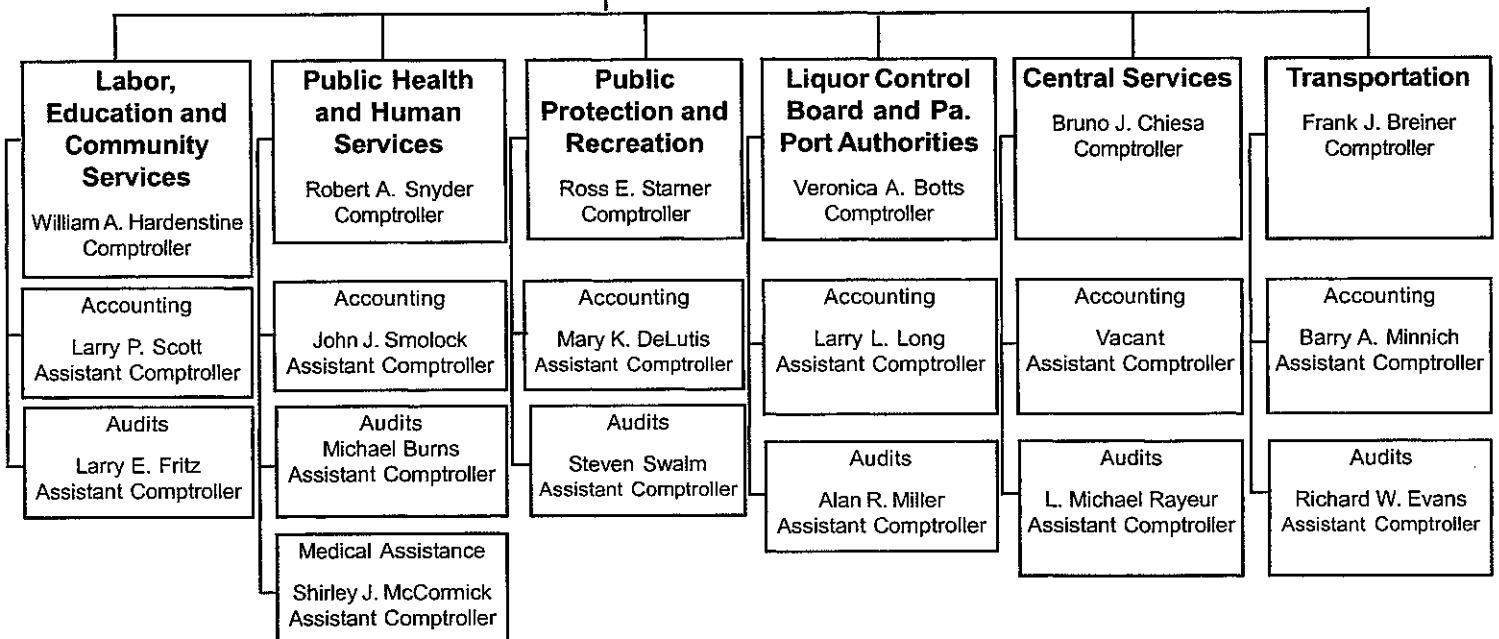
**Office of the Budget
Comptroller Operations
June 30, 2001**

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

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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 Mark S. Schweiker, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited the general purpose financial statements of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2001, 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 80 percent of total assets of the Trust and Agency Funds, 100 percent of the revenues of the Pension Trust Fund, and 100 percent of the discretely presented component units. We also did not jointly audit the financial statements of one enterprise fund which represents 2 percent of total assets of the enterprise funds. The financial statements of these component units and enterprise fund 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 5 percent of total assets and 11 percent of operating revenues of the discretely presented component units.

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

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial

position of the Commonwealth of Pennsylvania at June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States.

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

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

Robert P. Casey, Jr.

Ernst + Young LLP

November 16, 2001

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GENERAL PURPOSE FINANCIAL STATEMENTS



The Children's Health Insurance Program (CHIP) provides free or subsidized health insurance to children of low-income families.

COMBINED BALANCE SHEET

All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type		Account Groups		Total (Memorandum Only)		Total (Memorandum Only) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Obligations	Primary Government	Component Units	
ASSETS AND OTHER DEBITS												
Assets:												
Cash—Note D.....	\$ 143,392	\$ 47,445	\$ 4	\$ -	\$ 16,690	\$ 279	\$ 11,974	\$ -	\$ -	\$ 219,784	\$ 127,805	\$ 347,589
Cash with fiscal agents—Note D.....	-	-	-	-	524	-	2,905,317	-	-	2,905,841	330,496	3,236,337
Temporary investments—Note D.....	4,135,636	1,810,215	129,059	393,843	757,144	35,636	2,499,311	-	-	9,760,844	4,438,793	14,199,637
Long-term investments—Note D.....	1,482,112	325,376	-	-	1,422,527	-	30,436,241	-	-	33,666,256	52,299,107	85,965,363
Receivables, net:												
Taxes—Note G.....	1,024,550	168,907	-	-	-	-	293,068	-	-	1,486,525	-	1,486,525
Accounts.....	65,573	22,366	6,126	-	11,207	2	157,762	-	-	263,036	108,569	371,605
Accrued interest.....	17,975	10,161	48	1,519	17,021	118	146,427	-	-	193,269	101,945	295,214
Notes and loans—Note G.....	13,503	56,264	-	-	232,260	-	6,728	-	-	308,755	7,251,975	7,560,730
Lease rentals—Note G.....	-	-	1,642	-	-	-	-	-	-	1,642	4,126,578	4,128,220
Pension contributions.....	-	-	-	-	-	-	-	-	-	-	202,052	202,052
Investment proceeds.....	-	-	-	-	-	-	170,341	-	-	170,341	883,149	883,149
Other.....	40,123	42,643	28	16,413	1,913	45,029	40,551	-	-	186,700	235,607	422,307
Due from other funds—Note H.....	-	-	-	-	-	-	-	-	-	-	6,780	6,780
Due from primary government—Note H.....	-	-	-	-	-	-	-	-	-	-	145	32,992
Due from component units—Note H.....	5,460	123	23,835	-	-	517	2,912	-	-	32,847	-	37,759
Due from political subdivisions.....	31	255	-	-	-	334	5,415	-	-	5,701	-	5,701
Due from other governments—Note B.....	1,202,041	210,353	-	-	12	-	17,918	-	-	1,430,658	10,479	1,441,137
Advances to other funds—Note H.....	52,808	3,000	-	-	-	-	-	-	-	55,808	-	55,808
Inventory.....	-	-	-	-	148,613	13,549	-	-	-	162,162	15,204	177,366
Fixed assets—Note E.....	-	-	-	-	98,888	95,287	-	-	-	5,593,469	6,000,289	11,593,758
Less: accumulated depreciation.....	-	-	-	-	(70,992)	(47,897)	-	-	-	(118,889)	(2,553,589)	(2,672,478)
Other assets.....	-	-	-	-	904	15	467,642	-	-	468,561	168,767	637,328
Other Debits:												
Amounts available for:												
Retirement of general obligation bonds.....	-	-	-	-	-	-	-	152,085	-	152,085	-	152,085
Retirement of other bonds.....	-	-	-	-	-	-	-	-	35,548	-	88,092	88,092
Other general long-term obligations.....	-	-	-	-	-	-	-	-	-	35,548	939	36,487
Amounts to be provided for the retirement of:												
General obligation bonds.....	-	-	-	-	-	-	-	-	5,392,996	5,392,996	-	5,392,996
Other bonds.....	-	-	-	-	-	-	-	-	-	-	4,109,619	4,109,619
Other general long-term obligations.....	-	-	-	-	-	-	-	-	2,425,640	2,425,640	-	2,425,640
TOTAL ASSETS AND OTHER DEBITS	\$ 8,183,204	\$ 2,706,173	\$ 160,742	\$ 411,775	\$ 2,636,737	\$ 143,104	\$ 37,161,656	\$ 5,399,294	\$ 8,006,269	\$ 64,808,954	\$ 78,064,572	\$ 142,873,526

(Continued)

- See notes to financial statements. -

COMBINED BALANCE SHEET

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

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

LIABILITIES, EQUITY AND OTHER CREDITS

	Fiduciary										Total (Memorandum Only) Reporting Entity		
	Governmental Fund Types			Proprietary Fund Types			Fund Type		Account Groups			(Memorandum Only) Primary Government	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Primary Government		Component Units	
Liabilities:													
Accounts payable and accrued liabilities.....	\$ 1,981,583	\$ 836,963	\$ -	\$ 159,603	\$ 127,537	\$ 22,987	\$ 219,432	\$ -	\$ -	\$ 3,348,105	\$ 470,055	\$ 3,818,160	
Investment purchases payable.....	-	-	-	-	-	-	782,190	-	-	782,190	2,584,218	3,366,408	
Tax refunds payable.....	547,203	649	-	-	-	-	4,681	-	-	552,533	-	552,533	
Tuition benefits payable—Note F.....	281,506	49,808	-	-	221,126	-	1,071,337	-	-	221,126	-	221,126	
Securities lending obligations.....	114,611	39,679	-	131	371,678	358	19,483	-	-	1,774,329	2,519,806	4,294,135	
Due to other funds—Note H.....	51	8,660	-	-	21,347	-	-	-	-	195,609	235,607	431,216	
Due to primary government—Note H.....	643,377	26,159	-	-	-	-	-	-	-	8,711	32,746	32,746	
Due to component units—Note H.....	40,719	18,201	-	58,027	-	-	-	-	-	669,536	8,856	8,856	
Due to political subdivisions.....	87,439	24,399	7,768	-	21,716	4	248,958	-	-	366,437	257,366	623,803	
Due to other governments.....	-	-	-	-	-	-	-	-	-	141,326	4,158,445	4,299,771	
Deferred revenue.....	-	-	-	-	-	-	-	-	-	-	904,592	904,592	
Notes payable—Note J.....	-	-	-	-	-	-	-	-	-	-	1,711,000	1,711,000	
Demand revenue bonds payable—Note J.....	-	-	-	-	-	-	-	-	-	-	-	-	
Advances from other funds—Note H.....	1,720	12,508	897	-	5,137	38,000	1,230,381	-	-	55,645	-	55,645	
Other liabilities.....	-	-	-	-	2,666	-	-	-	-	1,235,664	1,216,748	2,452,412	
Insurance loss liability—Note F.....	-	-	-	-	1,054,252	-	-	-	-	1,054,252	-	1,054,252	
General obligation bonds payable—Note K.....	-	-	-	-	-	-	-	5,545,081	-	5,545,081	-	5,545,081	
Bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	4,214,372	4,214,372	
Revenue bonds payable—Note K.....	-	-	-	-	-	-	-	-	-	-	5,795,032	5,795,032	
Capital lease and other general long-term obligations—Note K.....	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL LIABILITIES.....	3,698,209	1,017,026	8,665	217,761	1,825,949	61,391	3,576,462	-	2,461,188	18,411,732	24,501,872	42,913,604	
Equity and Other Credits:													
Contributed Capital—Note C.....	-	-	-	-	312,749	9,187	-	-	-	321,936	1,861,504	2,183,440	
Investment in fixed assets.....	-	-	-	-	-	-	-	5,399,294	-	5,399,294	368,545	5,767,839	
Retained earnings:													
Reserved—Note C.....	-	-	-	-	7,484	-	-	-	-	7,484	1,428,736	1,436,220	
Unreserved.....	-	-	-	-	490,555	72,526	-	-	-	563,081	969,633	1,532,714	
Fund balance:													
Reserved for:													
Encumbrances.....	426,956	440,783	-	779,927	-	-	2,927	-	-	1,650,593	41,143	1,691,736	
Advances—Note C.....	52,808	3,000	-	-	-	-	-	-	-	55,808	-	55,808	
Pension and postemployment healthcare benefits.....	-	-	-	-	-	-	27,880,468	-	-	27,880,468	48,153,194	76,033,662	
Loans receivable.....	-	56,264	-	-	-	-	-	-	-	56,264	37,709	93,973	
Tax stabilization.....	1,093,213	-	-	-	-	-	-	-	-	1,093,213	-	1,093,213	
Deferred compensation.....	-	-	-	-	-	-	959,096	-	-	959,096	-	959,096	
INVEST Program participants.....	-	-	-	-	-	-	1,087,420	-	-	1,087,420	-	1,087,420	
Endowment and similar funds.....	-	-	-	-	-	-	-	-	-	-	18,379	18,379	
Restricted fund balance.....	308,125	35,739	-	2,311	-	-	-	-	-	346,175	54,709	54,709	
Other—Note C.....	-	-	-	-	-	-	-	-	-	-	199,318	543,493	
Unreserved:													
Designated for:													
Capital projects.....	-	-	-	79,867	-	-	-	-	-	79,867	451,764	531,631	
Debt service:													
Retirement of general obligation bonds.....	-	-	152,085	-	-	-	-	-	-	152,085	88,092	240,177	
Highways.....	-	182,670	-	-	-	-	-	-	-	182,670	-	182,670	
Other—Note C.....	1,079,047	264	-	-	-	-	-	-	-	1,079,311	4,782	1,084,093	
Undesignated (deficit)—Note C.....	1,524,846	970,427	(8)	(668,091)	-	-	3,655,283	-	-	5,482,457	(114,808)	5,367,649	
TOTAL EQUITY AND OTHER CREDITS.....	4,484,995	1,689,147	152,077	194,014	810,788	81,713	33,585,194	5,399,294	-	46,397,222	53,562,700	99,959,922	
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS.....	\$ 8,183,204	\$ 2,706,173	\$ 160,742	\$ 411,775	\$ 2,636,737	\$ 143,104	\$ 37,161,656	\$ 5,399,294	\$ 8,006,269	\$ 64,808,954	\$ 78,064,572	\$ 142,873,526	

- 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, 2001

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
REVENUES:								
Taxes.....	\$ 19,297,659	\$ 1,887,157	\$ -	\$ 47,380	\$ 6,335	\$ 21,238,531	\$ -	\$ 21,238,531
Unemployment taxes.....	-	-	-	-	1,383,214	1,383,214	-	1,383,214
Licenses and fees.....	202,591	969,781	-	-	64,807	1,237,179	9,487	1,246,666
Intergovernmental.....	10,588,526	1,497,846	-	-	68,228	12,154,600	49,146	12,203,746
Charges for sales and services.....	2,108,677	202,842	-	77,017	-	2,388,536	2,338	2,390,874
Investment income.....	181,235	90,239	8,761	26,967	157,976	465,178	30,207	495,385
Lottery revenues.....	-	1,788,333	-	-	-	1,788,333	-	1,788,333
Lease rental principal and interest.....	-	-	1,544	-	-	1,544	323,227	324,771
Other.....	489,827	48,122	159	178	107,492	645,778	36,719	682,497
TOTAL REVENUES	32,868,515	6,484,320	10,464	151,542	1,788,052	41,302,893	451,124	41,754,017
EXPENDITURES:								
Current:								
General government.....	1,613,383	1,676,264	-	2,541	37,792	3,329,980	-	3,329,980
Protection of persons and property.....	3,026,625	15,319	-	2,130	28,131	3,072,205	9,829	3,082,034
Public health and welfare.....	16,645,180	838,135	-	-	1,721,532	19,204,847	-	19,204,847
Public education.....	8,667,618	1,901	-	7,765	-	8,677,284	5,466	8,682,750
Conservation of natural resources.....	155,468	365,764	-	47,525	-	568,757	-	568,757
Economic development and assistance.....	522,073	6,413	-	216,657	-	745,143	40,417	785,560
Transportation.....	401,621	3,526,772	-	136,731	-	4,065,124	-	4,065,124
Capital outlay.....	117,354	46,712	-	491,182	-	655,248	670,722	1,325,970
Debt service:								
Principal retirement.....	-	-	477,001	-	-	477,001	120,983	597,984
Interest and fiscal charges.....	-	-	281,250	340	-	281,590	199,243	480,833
TOTAL EXPENDITURES	31,149,322	6,477,280	758,251	904,871	1,787,455	41,077,179	1,046,660	42,123,839
REVENUES OVER (UNDER) EXPENDITURES	1,719,193	7,040	(747,787)	(753,329)	597	225,714	(595,536)	(369,822)
OTHER FINANCING SOURCES (USES):								
Bond proceeds.....	-	3,108	-	660,811	-	663,919	511,674	1,175,593
Refunding bond proceeds.....	-	-	-	-	-	-	109,533	109,533
Operating transfers in—Note H.....	75,491	532,051	490,156	-	-	1,097,698	491,994	1,589,692
Operating transfers out—Note H.....	(582,822)	(473,710)	(1)	-	-	(1,056,533)	(491,994)	(1,548,527)
Operating transfers from primary government—Note H.....	-	-	-	-	-	-	39,100	39,100
Operating transfers to component units—Note H.....	(877,609)	-	-	-	-	(877,609)	-	(877,609)
Payment to refunded bond escrow agent.....	-	-	-	-	-	-	(78,145)	(78,145)
Capital lease and installment purchase obligations.....	2,789	3,818	-	-	-	6,607	-	6,607
NET OTHER FINANCING SOURCES (USES)	(1,382,151)	65,267	490,155	660,811	-	(165,918)	582,162	416,244
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	337,042	72,307	(257,632)	(92,518)	597	59,796	(13,374)	46,422
FUND BALANCES JULY 1, 2000	4,263,641	1,676,594	409,709	286,532	4,616,709	11,253,185	589,170	11,842,355
RESIDUAL EQUITY TRANSFERS— NOTE H	(115,688)	(59,754)	-	-	-	(175,442)	-	(175,442)
FUND BALANCES JUNE 30, 2001	\$ 4,484,995	\$ 1,689,147	\$ 152,077	\$ 194,014	\$ 4,617,306	\$ 11,137,539	\$ 575,796	\$ 11,713,335

— 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, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ 18,952,100	\$ 18,972,002	\$ 19,902	\$ 1,104,588	\$ 1,114,388	\$ 9,800
Lottery receipts.....	-	-	-	898,111	858,531	(39,580)
Liquor store profits transfer.....	50,000	50,000	-	-	-	-
Licenses and fees.....	81,300	86,581	5,281	828,474	810,259	(18,215)
Investment income.....	154,347	226,432	72,085	75,821	64,069	(11,752)
Unclaimed property, net of claim payments.....	38,000	49,912	11,912	-	-	-
Fines, penalties and interest.....	27,300	33,082	5,782	30,338	30,038	(300)
Departmental services.....	1,962,909	1,962,909	-	52,828	52,828	-
Miscellaneous.....	58,453	24,736	(33,717)	20,238	17,121	(3,117)
TOTAL STATE PROGRAMS.....	21,324,409	21,405,654	81,245	3,010,398	2,947,234	(63,164)
Federal Programs	11,500,666	10,479,746	(1,020,920)	879,570	1,027,183	147,613
TOTAL REVENUES.....	32,825,075	31,885,400	(939,675)	3,889,968	3,974,417	84,449
EXPENDITURES:						
State Programs:						
General government.....	1,130,417	1,119,646	10,771	357,106	333,905	23,201
Protection of persons and property.....	3,000,510	2,931,922	68,588	330,508	320,397	10,111
Public health and welfare.....	7,903,463	7,884,684	18,779	764,050	727,970	36,080
Public education.....	8,458,765	8,451,977	6,788	1,639	1,077	562
Conservation of natural resources.....	162,123	161,229	894	1,000	1,000	-
Debt service.....	384,079	382,924	1,155	81,283	81,282	1
Economic development and assistance.....	505,711	503,594	2,117	178	178	-
Transportation.....	398,513	388,629	9,884	1,568,818	1,557,685	11,133
TOTAL STATE PROGRAMS.....	21,943,581	21,824,605	118,976	3,104,582	3,023,494	81,088
Federal Programs	11,500,666	10,479,746	1,020,920	879,570	1,027,183	(147,613)
TOTAL EXPENDITURES.....	33,444,247	32,304,351	1,139,896	3,984,152	4,050,677	(66,525)
REVENUES UNDER EXPENDITURES.....	(619,172)	(418,951)	200,221	(94,184)	(76,260)	17,924
OTHER FINANCING SOURCES:						
Prior-year lapses.....	143,882	143,882	-	26,575	26,575	-
Increase in budgeted revenues.....	81,245	-	(81,245)	-	-	-
NET OTHER FINANCING SOURCES	225,127	143,882	(81,245)	26,575	26,575	-
REVENUES AND OTHER SOURCES UNDER EXPENDITURES—NOTE M.....	(394,045)	(275,069)	118,976	(67,609)	(49,685)	17,924
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JULY 1, 2000.....	610,536	610,536	-	558,095	558,095	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JUNE 30, 2001.....	\$ 216,491	\$ 335,467	\$ 118,976	\$ 490,486	\$ 508,410	\$ 17,924

— See notes to financial statements. —

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

All Proprietary Fund Types and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Proprietary Fund Types		Total (Memorandum Only) Primary Government	Component Units	Total (Memorandum Only) Reporting Entity
	Enterprise	Internal Service			
OPERATING REVENUES:					
Sales and services.....	\$ 1,063,643	\$ 406,457	\$ 1,470,100	\$ 540,989	\$ 2,011,089
Investment income.....	141,333	-	141,333	98,310	239,643
Interest on notes and loans.....	7,241	-	7,241	463,459	470,700
Other.....	274	374	648	171,825	172,473
TOTAL OPERATING REVENUES.....	1,212,491	406,831	1,619,322	1,274,583	2,893,905
OPERATING EXPENSES:					
Cost of sales and services.....	1,035,060	391,258	1,426,318	782,404	2,208,722
Interest expense.....	5,910	-	5,910	389,530	395,440
Depreciation.....	5,311	10,675	15,986	167,949	183,935
Provision for uncollectible accounts.....	4,897	-	4,897	28,965	33,862
Other.....	165	-	165	150,930	151,095
TOTAL OPERATING EXPENSES.....	1,051,343	401,933	1,453,276	1,519,778	2,973,054
OPERATING INCOME (LOSS).....	161,148	4,898	166,046	(245,195)	(79,149)
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	6,983	1,941	8,924	67,474	76,398
Interest expense.....	-	-	-	(55,696)	(55,696)
Oil company franchise tax.....	-	-	-	44,379	44,379
Grants and capital contribution revenues.....	-	-	-	146,992	146,992
Grants and capital contribution expenses.....	-	-	-	(7,588)	(7,588)
Other revenues.....	771	716	1,487	-	1,487
Other expenses.....	(132)	(3,810)	(3,942)	-	(3,942)
NONOPERATING REVENUES (EXPENSES), NET..	7,622	(1,153)	6,469	195,561	202,030
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS.....	168,770	3,745	172,515	(49,634)	122,881
OPERATING TRANSFERS:					
Operating transfers out—Note H.....	(52,165)	-	(52,165)	-	(52,165)
Operating transfers from primary government—Note H.....	-	-	-	366,688	366,688
OPERATING TRANSFERS, NET.....	(52,165)	-	(52,165)	366,688	314,523
INCOME BEFORE EXTRAORDINARY ITEMS.....	116,605	3,745	120,350	317,054	437,404
Extraordinary loss on early extinguishment of debt.....	-	-	-	(558)	(558)
NET INCOME.....	116,605	3,745	120,350	316,496	436,846
RETAINED EARNINGS, JULY 1, 2000.....	381,434	68,781	450,215	2,081,873	2,532,088
RETAINED EARNINGS, JUNE 30, 2001.....	\$ 498,039	\$ 72,526	\$ 570,565	\$ 2,398,369	\$ 2,968,934

— 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, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Proprietary Funds		Total (Memorandum Only)	Component Units	Total (Memorandum Only)
	Enterprise	Internal Service	Primary Government		Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ 161,148	\$ 4,898	\$ 166,046	\$ (245,195)	\$ (79,149)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation.....	5,311	10,675	15,986	167,949	183,935
Provision for uncollectible accounts.....	4,897	-	4,897	28,965	33,862
Nonoperating revenues.....	771	716	1,487	146,992	148,479
Nonoperating expenses.....	-	(681)	(681)	(7,588)	(8,269)
Reclassification of investment income.....	(141,333)	-	(141,333)	(98,310)	(239,643)
Changes in assets and liabilities:					
Receivables.....	(37,288)	80	(37,208)	(281,863)	(319,071)
Due from other funds.....	1,436	(22,619)	(21,183)	-	(21,183)
Due from primary government.....	-	-	-	490	490
Due from component units.....	-	1,359	1,359	21	1,380
Due from other governments.....	(12)	(84)	(96)	10,967	10,871
Inventory.....	(15,889)	(731)	(16,620)	(3,899)	(20,519)
Other current assets.....	(202)	7	(195)	2,090	1,895
Accounts payable and accrued liabilities.....	20,317	240	20,557	(24,750)	(4,193)
Due to other funds.....	(65,049)	(22)	(65,071)	-	(65,071)
Due to primary government.....	-	-	-	(620)	(620)
Due to component units.....	-	-	-	(21)	(21)
Due to other governments.....	21	(17)	4	(16,642)	(16,638)
Deferred revenue.....	1,095	4	1,099	(31,041)	(29,942)
Reverse repurchase agreement obligations.....	(5,668)	-	(5,668)	-	(5,668)
Insurance loss liability.....	(83,207)	-	(83,207)	-	(83,207)
Tuition benefits payable.....	50,775	-	50,775	-	50,775
Securities lending obligations.....	(108,880)	-	(108,880)	-	(108,880)
Other current liabilities.....	(1,001)	-	(1,001)	(4,802)	(5,803)
TOTAL ADJUSTMENTS.....	(373,906)	(11,073)	(384,979)	(112,062)	(497,041)
NET CASH USED FOR OPERATING ACTIVITIES.....	(212,758)	(6,175)	(218,933)	(357,257)	(576,190)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Borrowings (repayments) under advances from other funds.....	(119)	29,000	28,881	-	28,881
Proceeds from issuance of debt obligations.....	-	-	-	662,370	662,370
Principal paid on debt obligations.....	-	-	-	(337,969)	(337,969)
Operating transfers from primary government.....	-	-	-	366,688	366,688
Operating transfers out.....	(52,165)	-	(52,165)	-	(52,165)
Increase in contributed capital.....	5,102	-	5,102	13,000	18,102
Decrease in contributed capital.....	(24)	-	(24)	-	(24)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	(47,206)	29,000	(18,206)	704,089	685,883
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from issuance of debt obligations.....	-	-	-	435,070	435,070
Principal paid on debt obligations.....	-	-	-	(48,686)	(48,686)
Interest paid on debt obligations.....	-	-	-	(55,696)	(55,696)
Increases in contributed capital.....	19,000	-	19,000	39,920	58,920
Acquisition and construction of capital assets.....	(7,690)	(17,220)	(24,910)	(448,832)	(473,742)
Oil company franchise tax.....	-	-	-	44,379	44,379
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	11,310	(17,220)	(5,910)	(33,845)	(39,755)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments.....	(13,278,009)	(264,789)	(13,542,798)	(7,403,337)	(20,946,135)
Proceeds from sale and maturities of investments.....	13,401,535	257,171	13,658,706	6,937,676	20,596,382
Investment income.....	127,045	1,888	128,933	163,522	292,455
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	250,571	(5,730)	244,841	(302,139)	(57,298)
NET INCREASE (DECREASE) IN CASH.....	1,917	(125)	1,792	10,848	12,640
CASH, JULY 1, 2000.....	15,297	404	15,701	89,529	105,230
CASH, JUNE 30, 2001.....	\$ 17,214	\$ 279	\$ 17,493	\$ 100,377	\$ 117,870

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. —

COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS

Pension Trust Funds - Component Units

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Blended		Discretely Presented		
	State Employees' Retirement System (December 31, 2000) Pension	Public School Employees' Retirement System			
		Pension	Postemployment Healthcare		Total
			Premium Assistance	Health Options Program	
ADDITIONS:					
Pension contributions:					
Employee.....	\$ 231,667	\$ 579,850	\$ -	\$ 141,875	\$ 721,725
Employer.....	168,002	158,193	27,523	-	185,716
Total contributions.....	399,669	738,043	27,523	141,875	907,441
Investment income:					
Net appreciation (depreciation) in fair value of investments.....	(50,602)	(5,137,879)	260	-	(5,137,619)
Interest, dividend, rental and other income.....	766,911	1,409,966	2,274	1,724	1,413,964
Total investment activity income.....	716,309	(3,727,913)	2,534	1,724	(3,723,655)
Investment expenses.....	(140,526)	(143,663)	(22)	-	(143,685)
Net income from investing activities.....	575,783	(3,871,576)	2,512	1,724	(3,867,340)
Securities lending activities:					
Income.....	87,874	147,852	-	-	147,852
Expenses.....	(77,945)	(124,225)	-	-	(124,225)
Net securities lending activities income.....	9,929	23,627	-	-	23,627
Total net investment income.....	585,712	(3,847,949)	2,512	1,724	(3,843,713)
TOTAL ADDITIONS	985,381	(3,109,906)	30,035	143,599	(2,936,272)
DEDUCTIONS:					
Benefit payments.....	1,166,897	2,090,290	33,894	139,912	2,264,096
Refunds of contributions.....	9,888	22,369	-	-	22,369
Administrative expenses.....	21,309	31,335	997	2,522	34,854
Net account transfers.....	-	10,867	-	-	10,867
TOTAL DEDUCTIONS	1,198,094	2,154,861	34,891	142,434	2,332,186
NET INCREASE (DECREASE)	(212,713)	(5,264,767)	(4,856)	1,165	(5,268,458)
Fund balance reserved for pension and postemployment healthcare benefits:					
JULY 1, 2000	28,093,181	53,361,722	51,228	8,702	53,421,652
JUNE 30, 2001	\$ 27,880,468	\$ 48,096,955	\$ 46,372	\$ 9,867	\$ 48,153,194

— See notes to financial statements. —

STATEMENT OF CHANGES IN PLAN NET ASSETS
Investment Trust Fund

For the Year Ended December 31, 2000

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	INVEST Program For Local Governments
Investment income.....	\$ 61,676
Less: participant administrative expenses.....	<u>573</u>
Net increase in net assets resulting from operations	<u>61,103</u>
Net investment income distributions to participants.....	<u>(61,103)</u>
Share transactions (at net asset value of \$1.00 per share):	
Shares purchased.....	3,094,263
Shares issued in lieu of cash distributions.....	50,384
Shares redeemed.....	<u>(3,036,975)</u>
Net increase in net assets from share transactions.....	<u>107,672</u>
Net increase in net assets.....	107,672
FUND BALANCE RESERVED FOR INVEST PROGRAM PARTICIPANTS	
JANUARY 1, 2000.....	<u>979,748</u>
FUND BALANCE RESERVED FOR INVEST PROGRAM PARTICIPANTS	
DECEMBER 31, 2000.....	<u>\$ 1,087,420</u>

— See notes to financial statements. —

COMBINED BALANCE SHEET
Discretely Presented Component Units

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Governmental Funds	Proprietary Funds	Fiduciary Funds	College and University Funds	Total (Memorandum Only) Component Units
ASSETS AND OTHER DEBITS					
Assets:					
Cash—Note D.....	\$ 41	\$ 92,338	\$ 6,595	\$ 28,831	\$ 127,805
Cash with fiscal agents—Note D.....	322,457	8,039	-	-	330,496
Temporary investments—Note D.....	141,074	2,316,687	1,701,490	279,542	4,438,793
Long-term investments—Note D.....	136,991	940,702	50,816,899	404,515	52,299,107
Receivables, net:					
Accounts.....	91	24,436	34,018	50,024	108,569
Accrued interest.....	3,462	98,483	-	-	101,945
Notes and loans—Note G.....	2,612	7,214,705	-	34,658	7,251,975
Lease rental—Note G.....	4,109,369	17,209	-	-	4,126,578
Pension contributions.....	-	-	202,052	-	202,052
Investment proceeds.....	-	-	712,808	-	712,808
Other.....	-	17	279,341	2,754	282,112
Due from other funds—Note H.....	706	-	-	234,901	235,607
Due from primary government—Note H.....	-	6,461	319	-	6,780
Due from component units—Note H.....	-	145	-	-	145
Due from other governments—Note B.....	4,719	5,742	18	-	10,479
Inventory.....	-	10,215	-	4,989	15,204
Fixed assets—Note E.....	-	4,811,465	11,556	1,177,268	6,000,289
Less: accumulated depreciation.....	-	(2,161,343)	(7,472)	(384,774)	(2,553,589)
Other assets.....	10	142,685	231	25,841	168,767
Other Debits:					
Amounts available for retirement of other bonds.....	88,092	-	-	-	88,092
Amounts available for other general long-term obligations.....	939	-	-	-	939
Amounts to be provided for the retirement of other bonds.....	4,109,619	-	-	-	4,109,619
TOTAL ASSETS AND OTHER DEBITS	\$ 8,920,182	\$ 13,527,986	\$ 53,757,855	\$ 1,858,549	\$ 78,064,572
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 5,674	\$ 230,671	\$ 98,460	\$ 135,250	\$ 470,055
Investment purchases payable.....	-	-	2,584,218	-	2,584,218
Securities lending agreement obligations.....	-	-	2,519,806	-	2,519,806
Due to other funds—Note H.....	706	-	-	234,901	235,607
Due to primary government—Note H.....	-	29,435	2,166	1,145	32,746
Due to component units—Note H.....	-	145	-	-	145
Due to other governments.....	28	257,338	-	-	257,366
Deferred revenue.....	4,131,629	229	1,048	25,539	4,158,445
Notes payable—Note J.....	6,199	898,393	-	-	904,592
Demand revenue bonds payable—Note J.....	-	1,711,000	-	-	1,711,000
Other liabilities.....	1,498	345,870	398,963	470,417	1,216,748
Bonds payable—Note K.....	4,198,402	-	-	15,970	4,214,372
Revenue bonds payable—Note K.....	-	5,795,032	-	-	5,795,032
Capital lease and other general long-term obligations—Note K.....	250	-	-	401,490	401,740
TOTAL LIABILITIES	8,344,386	9,268,113	5,604,661	1,284,712	24,501,872
Equity and Other Credits:					
Contributed capital—Note C.....	-	1,861,504	-	-	1,861,504
Investment in fixed assets.....	-	-	-	368,545	368,545
Retained earnings:					
Reserved—Note C.....	-	1,428,736	-	-	1,428,736
Unreserved.....	-	969,633	-	-	969,633
Fund balance:					
Reserved for:					
Encumbrances.....	1,049	-	-	40,094	41,143
Pension and postemployment healthcare benefits.....	-	-	48,153,194	-	48,153,194
Loans receivable.....	-	-	-	37,709	37,709
Endowment and similar funds.....	-	-	-	18,379	18,379
Restricted fund balance.....	192	-	-	54,517	54,709
Other—Note C.....	2,741	-	-	196,577	199,318
Unreserved:					
Designated for:					
Capital projects.....	451,764	-	-	-	451,764
Debt service:					
Retirement of other bonds.....	88,092	-	-	-	88,092
Other—Note C.....	4,782	-	-	-	4,782
Undesignated (deficit)—Note C.....	27,176	-	-	(141,984)	(114,808)
TOTAL EQUITY AND OTHER CREDITS	575,796	4,259,873	48,153,194	573,837	53,562,700
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 8,920,182	\$ 13,527,986	\$ 53,757,855	\$ 1,858,549	\$ 78,064,572

— See notes to financial statements. —

COMBINING BALANCE SHEET
Governmental Funds - Discretely Presented Component Units

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2000)	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
ASSETS AND OTHER DEBITS						
Assets:						
Cash—Note D.....	\$ 41	\$ -	\$ -	\$ -	\$ -	\$ 41
Cash with fiscal agents—Note D.....	-	-	-	273	322,184	322,457
Temporary investments—Note D.....	96,883	19,044	6,749	3,921	14,477	141,074
Long-term investments—Note D.....	25,694	-	-	-	111,297	136,991
Receivables, net:						
Accounts.....	-	-	-	91	-	91
Accrued interest.....	686	159	28	-	2,589	3,462
Notes and loans—Note G.....	2,612	-	-	-	-	2,612
Lease rental—Note G.....	437,412	-	-	-	3,671,957	4,109,369
Due from other funds—Note H.....	-	706	-	-	-	706
Due from other governments.....	-	4,610	-	109	-	4,719
Other assets.....	-	-	-	10	-	10
Other Debits:						
Amounts available for:						
Retirement of other bonds.....	-	-	-	-	88,092	88,092
Other general long-term obligations.....	939	-	-	-	-	939
Amounts to be provided for the retirement of other bonds.....	437,662	-	-	-	3,671,957	4,109,619
TOTAL ASSETS AND OTHER DEBITS	\$ 1,001,929	\$ 24,519	\$ 6,777	\$ 4,404	\$ 7,882,553	\$ 8,920,182
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities.....	\$ 819	\$ 1,249	\$ 3,486	\$ 120	\$ -	\$ 5,674
Due to other funds.....	-	706	-	-	-	706
Due to other governments.....	-	-	28	-	-	28
Deferred revenue.....	437,412	22,260	-	-	3,671,957	4,131,629
Notes payable.....	6,199	-	-	-	-	6,199
Other liabilities.....	267	-	-	-	1,231	1,498
Bonds payable—Note K.....	438,352	-	-	-	3,760,050	4,198,402
Capital lease and other general long-term obligations.....	250	-	-	-	-	250
TOTAL LIABILITIES	883,299	24,215	3,514	120	7,433,238	8,344,386
Fund Balance:						
Reserved for:						
Encumbrances.....	-	-	1,049	-	-	1,049
Restricted fund balance.....	192	-	-	-	-	192
Other—Note C.....	-	-	-	-	2,741	2,741
Unreserved:						
Designated for:						
Capital projects.....	93,282	-	-	-	358,482	451,764
Debt service:						
Retirement of other bonds.....	-	-	-	-	88,092	88,092
Other—Note C.....	939	-	-	3,843	-	4,782
Undesignated.....	24,217	304	2,214	441	-	27,176
TOTAL FUND BALANCES	118,630	304	3,263	4,284	449,315	575,796
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,001,929	\$ 24,519	\$ 6,777	\$ 4,404	\$ 7,882,553	\$ 8,920,182

— 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, 2001

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)						
	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2000)	Ben Franklin/ IRC Partnership	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Total
REVENUES:						
Licenses and fees.....	\$ -	\$ -	\$ -	\$ 9,487	\$ -	\$ 9,487
Intergovernmental.....	-	49,146	-	-	-	49,146
Charges for sales and services.....	1,220	-	-	81	1,037	2,338
Investment income.....	8,667	1,322	574	504	19,140	30,207
Lease rental principal and interest.....	66,429	-	-	-	256,798	323,227
Other.....	3,450	-	-	-	33,269	36,719
TOTAL REVENUES	79,766	50,468	574	10,072	310,244	451,124
EXPENDITURES:						
Protection of persons and property.....	-	-	-	9,829	-	9,829
Public education.....	4,251	-	-	-	1,215	5,466
Economic development and assistance.....	-	-	40,417	-	-	40,417
Capital outlay.....	70,322	79,718	-	-	520,682	670,722
Debt service:						
Principal retirement.....	26,460	-	-	-	94,523	120,983
Interest and fiscal charges.....	22,239	-	-	-	177,004	199,243
TOTAL EXPENDITURES	123,272	79,718	40,417	9,829	793,424	1,046,660
REVENUES OVER (UNDER) EXPENDITURES	(43,506)	(29,250)	(39,843)	243	(483,180)	(595,536)
OTHER FINANCING SOURCES (USES):						
Bond and loan proceeds.....	48,156	28,281	-	-	435,237	511,674
Refunding bond proceeds.....	21,515	-	-	-	88,018	109,533
Operating transfers in—Note H.....	68,021	-	-	-	423,973	491,994
Operating transfers out—Note H.....	(68,021)	-	-	-	(423,973)	(491,994)
Operating transfer from primary government—Note H.....	-	-	39,100	-	-	39,100
Payment to refunded bond escrow agent.....	(40,127)	-	-	-	(38,018)	(78,145)
NET OTHER FINANCING SOURCES	29,544	28,281	39,100	-	485,237	582,162
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(13,962)	(969)	(743)	243	2,057	(13,374)
FUND BALANCES, JULY 1, 2000	132,592	1,273	4,006	4,041	447,258	589,170
FUND BALANCES, JUNE 30, 2001	\$ 118,630	\$ 304	\$ 3,263	\$ 4,284	\$ 449,315	\$ 575,796

— See notes to financial statements. —

COMBINING BALANCE SHEET

Proprietary Funds - Discretely Presented Component Units

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 2001)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
ASSETS						
Cash—Note D.....	\$ 67,802	\$ -	\$ 23,092	\$ 1,440	\$ 4	\$ 92,338
Cash with fiscal agents—Note D.....	-	1,038	-	6,421	580	8,039
Temporary investments—Note D.....	376,440	232,453	806,152	504,964	396,678	2,316,687
Long-term investments—Note D.....	496,072	34,952	130,167	279,511	-	940,702
Receivables, net:						
Accounts.....	14,454	-	-	9,982	-	24,436
Accrued interest.....	6,883	3,447	-	84,934	3,219	98,483
Notes and loans—Note G.....	-	577,875	2,794,714	2,668,934	1,173,182	7,214,705
Lease rentals—Note G.....	-	17,209	-	-	-	17,209
Other.....	-	17	-	-	-	17
Due from primary government—Note H.....	6,461	-	-	-	-	6,461
Due from component units—Note H.....	-	-	17	-	128	145
Due from other governments—Note B.....	-	-	-	5,730	12	5,742
Inventory.....	10,215	-	-	-	-	10,215
Fixed assets—Note E.....	4,665,740	-	8,877	136,369	479	4,811,465
Less: accumulated depreciation.....	(2,100,682)	-	(3,384)	(56,929)	(348)	(2,161,343)
Other assets.....	29,853	10,026	17,266	67,673	17,867	142,685
TOTAL ASSETS	\$ 3,573,238	\$ 877,017	\$ 3,776,901	\$ 3,709,029	\$ 1,591,801	\$ 13,527,986
LIABILITIES AND EQUITY						
Liabilities:						
Accounts payable and accrued liabilities.....	\$ 107,482	\$ 451	\$ 50,658	\$ 68,692	\$ 3,388	\$ 230,671
Due to primary government—Note H.....	3,979	-	3	95	25,358	29,435
Due to component units—Note H.....	-	-	128	-	17	145
Due to other governments.....	-	-	-	257,330	8	257,338
Deferred revenue.....	-	229	-	-	-	229
Notes payable—Note J.....	-	-	41,101	857,292	-	898,393
Demand revenue bonds payable—Note J.....	-	-	-	1,711,000	-	1,711,000
Other liabilities.....	16,899	10,023	268,118	50,830	-	345,870
Revenue bonds payable—Note K.....	1,908,924	332,168	2,853,783	537,925	162,232	5,795,032
TOTAL LIABILITIES	2,037,284	342,871	3,213,791	3,483,164	191,003	9,268,113
Equity:						
Contributed capital—Note C.....	330,192	360,840	1,960	-	1,168,512	1,861,504
Retained earnings:						
Reserved—Note C.....	1,205,762	-	113,794	109,180	-	1,428,736
Unreserved.....	-	173,306	447,356	116,685	232,286	969,633
TOTAL EQUITY	1,535,954	534,146	563,110	225,865	1,400,798	4,259,873
TOTAL LIABILITIES AND EQUITY	\$ 3,573,238	\$ 877,017	\$ 3,776,901	\$ 3,709,029	\$ 1,591,801	\$ 13,527,986

— 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, 2001*

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)						
	Pennsylvania Turnpike Commission (May 31, 2001)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
OPERATING REVENUES:						
Sales and services.....	\$ 365,900	\$ -	\$ 24,850	\$ 142,545	\$ 7,694	\$ 540,989
Investment income.....	-	17,241	44,334	16,204	20,531	98,310
Interest on notes and loans.....	-	20,725	191,423	231,632	19,679	463,459
Other.....	12,741	841	157,989	254	-	171,825
TOTAL OPERATING REVENUES.....	378,641	38,807	418,596	390,635	47,904	1,274,583
OPERATING EXPENSES:						
Cost of sales and services.....	212,365	3,102	24,398	533,970	8,569	782,404
Interest expense.....	-	19,487	181,764	177,741	10,538	389,530
Depreciation.....	156,180	-	78	11,635	56	167,949
Provision for uncollectible accounts.....	-	1,391	27,462	-	112	28,965
Other.....	-	-	150,930	-	-	150,930
TOTAL OPERATING EXPENSES.....	368,545	23,980	384,632	723,346	19,275	1,519,778
OPERATING INCOME (LOSS).....	10,096	14,827	33,964	(332,711)	28,629	(245,195)
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	67,474	-	-	-	-	67,474
Interest expense.....	(55,696)	-	-	-	-	(55,696)
Oil company franchise tax.....	44,379	-	-	-	-	44,379
Grants and capital contribution revenues.....	-	-	-	35,626	111,366	146,992
Grants and capital contribution expenses.....	-	-	-	(1,913)	(5,675)	(7,588)
NONOPERATING REVENUES, NET.....	56,157	-	-	33,713	105,691	195,561
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS.....	66,253	14,827	33,964	(298,998)	134,320	(49,634)
OPERATING TRANSFERS:						
Operating transfers from primary government— Note H.....	-	-	-	366,688	-	366,688
INCOME BEFORE EXTRAORDINARY ITEMS.....	66,253	14,827	33,964	67,690	134,320	317,054
Extraordinary loss on early extinguishment of debt.....	-	-	(558)	-	-	(558)
NET INCOME.....	66,253	14,827	33,406	67,690	134,320	316,496
RETAINED EARNINGS, JULY 1, 2000.....	1,139,509	158,479	527,744	158,175	97,966	2,081,873
RETAINED EARNINGS, JUNE 30, 2001.....	\$ 1,205,762	\$ 173,306	\$ 561,150	\$ 225,865	\$ 232,286	\$ 2,398,369

— See notes to financial statements. —

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

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 2001)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Operating income (loss).....	\$ 10,096	\$ 14,827	\$ 33,964	\$ (332,711)	\$ 28,629	\$ (245,195)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation.....	156,180	-	78	11,635	56	167,949
Provision for uncollectible accounts.....	-	1,391	27,462	-	112	28,965
Nonoperating revenues.....	-	-	-	35,626	111,366	146,992
Nonoperating expenses.....	-	-	-	(1,913)	(5,675)	(7,588)
Reclassification of investment income.....	-	(17,241)	(44,334)	(16,204)	(20,531)	(98,310)
Changes in assets and liabilities:						
Receivables.....	(1,485)	8,332	30,856	(274,257)	(45,309)	(281,863)
Due from primary government.....	(10)	500	-	-	-	490
Due from component units.....	-	-	75	-	(54)	21
Due from other governments.....	-	-	-	10,891	76	10,967
Inventory.....	(3,899)	-	-	-	-	(3,899)
Other current assets.....	(1,496)	255	(1,691)	4,532	490	2,090
Accounts payable and accrued liabilities.....	(13,484)	(1)	(979)	(9,683)	(603)	(24,750)
Due to primary government.....	(8)	-	(10)	51	(653)	(620)
Due to component units.....	-	-	54	-	(75)	(21)
Due to other governments.....	-	-	-	(16,646)	4	(16,642)
Deferred revenue.....	-	150	-	(31,191)	-	(31,041)
Other current liabilities.....	(6,758)	(370)	3,426	(1,100)	-	(4,802)
TOTAL ADJUSTMENTS.....	129,040	(6,984)	14,937	(288,259)	39,204	(112,062)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	139,136	7,843	48,901	(620,970)	67,833	(357,257)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Proceeds from issuance of debt obligations.....	-	-	34,972	627,398	-	662,370
Principal paid on debt obligations.....	-	(23,156)	(18,333)	(296,480)	-	(337,969)
Operating transfers from primary government.....	-	-	-	366,688	-	366,688
Increase in contributed capital.....	-	13,000	-	-	-	13,000
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	-	(10,156)	16,639	697,606	-	704,089
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from issuance of debt obligations.....	435,070	-	-	-	-	435,070
Principal paid on debt obligations.....	(35,245)	-	-	-	(13,441)	(48,686)
Interest paid on debt obligations.....	(55,696)	-	-	-	-	(55,696)
Increase in contributed capital.....	39,920	-	-	-	-	39,920
Acquisition and construction of capital assets.....	(433,443)	-	(738)	(14,600)	(51)	(448,832)
Oil company franchise tax.....	44,379	-	-	-	-	44,379
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(5,015)	-	(738)	(14,600)	(13,492)	(33,845)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments.....	(848,763)	(36,494)	(749,662)	(5,506,825)	(261,593)	(7,403,337)
Proceeds from sale and maturities of investments.....	639,326	21,525	652,929	5,434,960	188,936	6,937,676
Investment income.....	67,474	17,241	44,334	16,204	18,269	163,522
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(141,963)	2,272	(52,399)	(55,661)	(54,388)	(302,139)
NET INCREASE (DECREASE) IN CASH.....	(7,842)	(41)	12,403	6,375	(47)	10,848
CASH, JULY 1, 2000.....	75,644	1,079	10,689	1,486	631	89,529
CASH, JUNE 30, 2001.....	\$ 67,802	\$ 1,038	\$ 23,092	\$ 7,861	\$ 584	\$ 100,377

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 BALANCE SHEET

Trust and Agency Funds - Discretely Presented Component Units

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pension	Agency Funds		Total
	Trust Fund	Pennsylvania	Pennsylvania	
	Public School	Life and Health	Property and	
	Employees'	Insurance	Casualty Insurance	
	Retirement	Guaranty	Guaranty	
	System	Association	Association	
		(December 31, 2000)	(December 31, 2000)	
ASSETS				
Cash—Note D.....	\$ -	\$ 1,534	\$ 5,061	\$ 6,595
Temporary investments—Note D.....	1,382,683	226,346	92,461	1,701,490
Long-term investments—Note D.....	50,816,899	-	-	50,816,899
Receivables, net:				
Accounts.....	-	-	34,018	34,018
Pension contributions.....	202,052	-	-	202,052
Investment proceeds.....	712,808	-	-	712,808
Other.....	239,096	-	40,245	279,341
Due from primary government—Note H.....	319	-	-	319
Due from other governments.....	18	-	-	18
Fixed assets—Note E.....	11,354	-	202	11,556
Less: accumulated depreciation.....	(7,385)	-	(87)	(7,472)
Other assets.....	-	-	231	231
TOTAL ASSETS	\$ 53,357,844	\$ 227,880	\$ 172,131	\$ 53,757,855
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 98,460	\$ -	\$ -	\$ 98,460
Investment purchases payable.....	2,584,218	-	-	2,584,218
Securities lending agreement obligations.....	2,519,806	-	-	2,519,806
Due to primary government—Note H.....	2,166	-	-	2,166
Deferred revenue.....	-	-	1,048	1,048
Other liabilities.....	-	227,880	171,083	398,963
TOTAL LIABILITIES	5,204,650	227,880	172,131	5,604,661
Fund Balance:				
Reserved for:				
Pension and postemployment healthcare benefits.....	48,153,194	-	-	48,153,194
TOTAL FUND BALANCE	48,153,194	-	-	48,153,194
TOTAL LIABILITIES AND FUND BALANCE	\$ 53,357,844	\$ 227,880	\$ 172,131	\$ 53,757,855

— See notes to financial statements. —

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds - Discretely Presented Component Units *For the Fiscal Year Ended December 31, 2000*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance January 1, 2000	Additions	Deductions	Balance December 31, 2000
PENNSYLVANIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 1,493	\$ 19,043	\$ 19,002	\$ 1,534
Temporary investments.....	214,411	11,935	-	226,346
TOTAL ASSETS	\$ 215,904	\$ 30,978	\$ 19,002	\$ 227,880
LIABILITIES				
Other liabilities.....	\$ 215,904	\$ 11,976	\$ -	\$ 227,880
TOTAL LIABILITIES	\$ 215,904	\$ 11,976	\$ -	\$ 227,880
PENNSYLVANIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash.....	\$ 2,553	\$ 78,618	\$ 76,110	\$ 5,061
Temporary investments.....	47,974	44,487	-	92,461
Receivables, net:				
Accounts.....	200	66,534	32,716	34,018
Other.....	113,092	48,253	121,100	40,245
Other assets.....	258	115	27	346
TOTAL ASSETS	\$ 164,077	\$ 238,007	\$ 229,953	\$ 172,131
LIABILITIES				
Deferred revenues.....	\$ 1,056	\$ -	\$ 8	\$ 1,048
Other liabilities.....	163,021	155,669	147,607	171,083
TOTAL LIABILITIES	\$ 164,077	\$ 155,669	\$ 147,615	\$ 172,131
TOTAL				
ASSETS				
Cash.....	\$ 4,046	\$ 97,661	\$ 95,112	\$ 6,595
Temporary investments.....	262,385	56,422	-	318,807
Receivables, net:				
Accounts.....	200	66,534	32,716	34,018
Other.....	113,092	48,253	121,100	40,245
Other assets.....	258	115	27	346
TOTAL ASSETS	\$ 379,981	\$ 268,985	\$ 248,955	\$ 400,011
LIABILITIES				
Deferred revenues.....	\$ 1,056	\$ -	\$ 8	\$ 1,048
Other liabilities.....	378,925	167,645	147,607	398,963
TOTAL LIABILITIES	\$ 379,981	\$ 167,645	\$ 147,615	\$ 400,011

— See notes to financial statements. —

COMBINING BALANCE SHEET
College and University Funds - Discretely Presented Component Unit

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Current Funds		Endowment and Similar Funds	Plant Funds			Agency Funds	Component Units	Total
	Unrestricted	Restricted		Unexpended	Renewal and Replacement	Retirement of Indebtedness			
ASSETS:									
Cash—Note D.....	\$ 12,711	\$ -	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ 14,597	
Temporary investments—Note D.....	242,244	2	17	8,983	3,485	-	-	14,564	
Long-term investments—Note D.....	209,997	616	17,854	-	1	165,074	-	10,973	
Receivables, net:									
Accounts.....	20,183	22,511	-	-	4,549	23	156	2,602	
Notes and loans—Note G.....	-	-	34,658	-	-	-	-	34,658	
Other.....	-	-	-	2,754	-	-	-	2,754	
Due from other funds—Note H.....	-	22,711	484	60,095	124,815	-	9,571	6,172	
Inventory.....	4,989	-	-	-	-	-	-	4,989	
Fixed assets—Note E.....	-	-	-	-	-	1,144,538	-	1,177,268	
Less: accumulated depreciation.....	-	-	-	-	-	(384,774)	-	(384,774)	
Other assets.....	7,960	66	27	270	1,825	5,913	-	9,780	
TOTAL ASSETS	\$ 498,084	\$ 45,906	\$ 18,382	\$ 72,102	\$ 134,685	\$ 190,655	\$ 9,727	\$ 1,858,549	

LIABILITIES AND FUND EQUITY

Liabilities:								
Accounts payable and accrued liabilities.....	\$ 85,121	\$ 13,878	\$ 117	\$ 3	\$ 11,151	\$ 952	\$ 385	\$ 10,447
Due to other funds—Note H.....	231,080	-	-	-	-	3,767	54	-
Bonds payable.....	1,145	-	-	-	-	-	-	1,145
Deferred revenue.....	25,539	-	-	-	-	-	-	15,970
Other liabilities.....	433,545	-	-	-	-	550	9,288	25,539
Capital lease obligations—Note K.....	-	-	-	-	6,569	2,447	-	27,034
TOTAL LIABILITIES	776,430	13,878	117	3	17,720	391,219	9,727	53,451
Fund Equity:								
Investment in fixed assets.....	-	-	-	-	-	368,545	-	368,545
Fund balance:								
Reserved for:								
Encumbrances.....	13,221	1,498	-	-	15,757	8,009	-	1,609
Loans receivable.....	-	-	37,709	-	-	-	-	40,094
Endowment and similar funds.....	-	-	-	18,379	-	-	-	37,709
Restricted fund balance.....	-	30,530	-	-	23,385	602	-	18,379
Other—Note C.....	141,978	-	-	-	7,626	33,111	-	54,517
Unreserved:								
Undesignated (deficit)—Note C.....	(433,545)	-	-	-	30,999	181,310	-	12,635
TOTAL FUND EQUITY (DEFICIT)	(278,346)	32,028	37,709	18,379	54,382	368,545	9,727	37,967
TOTAL LIABILITIES AND FUND EQUITY	\$ 498,084	\$ 45,906	\$ 18,382	\$ 72,102	\$ 134,685	\$ 759,764	\$ 9,727	\$ 1,858,549

- 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, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Component Units	Total
	Unrestricted	Restricted			Unexpended	Renewal and Replacement	Retirement of Indebtedness		
REVENUES AND OTHER ADDITIONS:									
Unrestricted current funds.....	\$ 717,615	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 717,615
Gifts and bequests.....	-	4,687	-	835	2,610	1,098	508	-	10,947
Grants and contracts.....	-	184,893	184	-	226	291	-	-	186,330
Federal advances.....	-	-	1,059	-	-	-	-	-	1,059
Endowment income.....	-	732	-	-	-	-	-	-	732
Investment income.....	-	1,078	153	121	1,264	8,403	-	1,026	14,343
Net increase (decrease) in the fair value of investments.....	-	(33)	-	(1,436)	11	3	-	6	16,965
Interest on loans receivable.....	-	-	784	-	-	-	-	-	784
Expended for plant facilities—net of disposals (including \$25,177 charged to current funds expenditures).....	-	-	-	-	-	-	123,748	-	123,748
Retirement of indebtedness.....	-	-	-	-	6	169	19,991	-	20,249
Other.....	-	613	68	35	211	7,778	1,040	48,717	60,835
TOTAL REVENUES AND OTHER ADDITIONS.....	717,615	191,970	2,248	(445)	4,328	17,742	145,287	49,749	1,153,607
EXPENDITURES AND OTHER DEDUCTIONS:									
Educational and general.....	930,866	188,652	-	-	-	-	-	3,415	1,122,933
Auxiliary enterprises.....	138,511	247	-	-	-	-	-	-	138,758
Loan cancellations.....	-	-	492	-	-	-	-	-	492
Administrative and collection costs.....	-	-	438	-	-	-	-	311	749
Expended for plant facilities.....	-	-	-	-	26,496	43,555	42,432	705	113,360
Depreciation on plant facilities.....	-	-	-	-	-	-	56,150	1,317	57,467
Retirement of indebtedness.....	-	-	-	-	-	-	-	20,249	20,249
Interest on indebtedness.....	-	-	-	-	-	-	-	22,438	22,760
Other.....	-	2,637	84	-	831	-	4,884	42,704	51,619
TOTAL EXPENDITURES AND OTHER DEDUCTIONS.....	1,069,377	191,536	1,014	-	27,327	43,555	103,466	48,774	1,528,387
TRANSFERS AND ALLOCATIONS AMONG FUNDS—									
ADDITIONS (DEDUCTIONS):									
Mandatory:									
Principal and interest.....	(21,599)	-	-	-	(65)	(1,554)	-	-	-
Other.....	(392)	(48)	170	48	71	151	-	-	-
Nonmandatory:									
Operating transfers from Primary Government—Note H.....	453,652	8,250	-	-	687	8,983	249	-	471,821
Other.....	(65,960)	-	-	(10)	27,343	33,790	-	(496)	-
TRANSFERS AND ALLOCATIONS, NET.....	365,701	8,202	170	38	28,036	41,370	249	(496)	471,821
NET INCREASE (DECREASE) FOR THE YEAR.....	13,939	8,636	1,404	(407)	5,037	15,557	42,070	479	97,041
FUND BALANCES (DEFICIT), JULY 1, 2000.....	(292,285)	23,392	36,305	18,786	49,345	104,477	326,475	37,488	476,796
FUND BALANCES (DEFICIT), JUNE 30, 2001—NOTE C.....	\$ (278,346)	\$ 32,028	\$ 37,709	\$ 18,379	\$ 54,382	\$ 120,034	\$ 368,545	\$ 37,967	\$ 573,837

- 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, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES:			
Tuition and fees.....	\$ 487,336	\$ -	\$ 487,336
Government grants and contracts:			
State and local.....	1,080	95,853	96,933
Federal.....	2,580	83,535	86,115
Private gifts, grants and contracts.....	4,227	10,156	14,383
Investment income.....	25,336	898	26,234
Increase (decrease) in the fair value of investments.....	7,961	(32)	7,929
Endowment income.....	112	733	845
Activities of educational departments.....	10,055	-	10,055
Other sources.....	13,344	827	14,171
Auxiliary enterprises.....	165,584	-	165,584
TOTAL REVENUES	<u>717,615</u>	<u>191,970</u>	<u>909,585</u>
EXPENDITURES AND MANDATORY TRANSFERS:			
EXPENDITURES:			
Educational and general:			
Instruction.....	468,930	6,223	475,153
Research.....	1,451	2,493	3,944
Public service.....	9,059	25,459	34,518
Academic support.....	102,216	7,274	109,490
Student services.....	89,272	6,223	95,495
Operations and maintenance of plant.....	97,187	836	98,023
General institutional support.....	150,949	5,838	156,787
Student aid.....	11,802	134,306	146,108
TOTAL EDUCATIONAL AND GENERAL	<u>930,866</u>	<u>188,652</u>	<u>1,119,518</u>
Auxiliary enterprises.....	138,511	247	138,758
TOTAL EXPENDITURES	<u>1,069,377</u>	<u>188,899</u>	<u>1,258,276</u>
MANDATORY TRANSFERS:			
Renewal and replacement.....	69	-	69
Retirement of indebtedness.....	9,483	-	9,483
Loan funds matching grants.....	170	-	170
Unexpended plant funds.....	70	-	70
Other.....	53,301	48	53,349
TOTAL MANDATORY TRANSFERS	<u>63,093</u>	<u>48</u>	<u>63,141</u>
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	<u>1,132,470</u>	<u>188,947</u>	<u>1,321,417</u>
OPERATING TRANSFERS, OTHER TRANSFERS AND DEDUCTIONS:			
Operating transfers from Primary Government—Note H.....	453,652	8,250	461,902
Other transfers.....	(24,858)	-	(24,858)
Deductions.....	-	(2,637)	(2,637)
OPERATING TRANSFERS, OTHER TRANSFERS AND DEDUCTIONS, NET	<u>428,794</u>	<u>5,613</u>	<u>434,407</u>
NET INCREASE IN FUND BALANCES	<u>\$ 13,939</u>	<u>\$ 8,636</u>	<u>\$ 22,575</u>

— See notes to financial statements. —

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NOTES TO FINANCIAL STATEMENTS

NOTE A - FINANCIAL REPORTING ENTITY

Primary Government

For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government (PG). The PG includes all publicly elected members of the executive, legislative and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards and organizations that 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 employee retirement system that covers Commonwealth employees. 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 employees. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees 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 Fund Type) - The IFPA assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards.

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

NOTES TO FINANCIAL STATEMENTS

NOTE A - FINANCIAL REPORTING ENTITY (continued)

Philadelphia Shipyard Development Corporation (PSDC) (Governmental Fund Type) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs.

The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC.

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 loans 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) - 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. 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. 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 PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders.

NOTES TO FINANCIAL STATEMENTS

NOTE A - FINANCIAL REPORTING ENTITY (continued)

Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) (Fiduciary Fund Type) - The PLHIGA was created to protect insurance policy owners, insured persons, beneficiaries annuitants, payees and assignees of direct non-group life, health, annuity and supplemental policies or contracts from potential insurer failure due to the impairment or insolvency of the insurer. The PLHIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PLHIGA is also authorized to assist the Pennsylvania Insurance Commissioner in the prevention and detection of insurer impairments or insolvencies.

The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG.

Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) (Fiduciary Fund Type) - The PPCIGA was created to provide for the payment of insured property and casualty policy claim losses and to avoid losses to claimants or policyholders as a result of insurer insolvency. The PPCIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers.

The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PPCIGA. There is a minor financial burden on the PG.

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE A - FINANCIAL REPORTING ENTITY (continued)

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 PEDDA debt, but the PG could take certain actions to satisfy bondholders.

Historically, the **Philadelphia Parking Authority** (Authority) has been included in the City of Philadelphia's (City) financial reporting entity. Prior to June 30, 2001 the General Assembly passed Senate Bill 780 which provides, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board. The new law provides for an increase from five to eleven board members; the Commonwealth appointed six new members by June 30, 2001. Over the next five years, existing members' (appointed by the City) terms are to expire and neither the Commonwealth nor the City are to appoint replacements for the five current members. Beginning June 1, 2006 the board is to consist of six members. Subsequent to June 30, 2001 the Authority and the City have pursued several legal actions contesting, among other things, the constitutionality of the new law. As of June 30, 2001 the Commonwealth has not included the Authority in its financial reporting entity.

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.

Joint Venture

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

Excluded Organizations

School districts, local governments and counties are considered separate, stand-alone primary governments since 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. The PG appoints a portion, but not a voting majority, of the governing boards at the following four universities (commonly referred to as state related): Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University. The PG provides significant subsidies; however, given the absence of PG appointment of a governing board 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, 2000 and the State Stores Fund for its fiscal year ended June 26, 2001.

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

Fiduciary Funds

Trust and Agency Funds—Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, a Pension Trust Fund, an Investment Trust Fund and Agency Funds. The State Employees' Retirement System, a Pension Trust Fund, the Deferred Compensation Fund, an Expendable Trust Fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 2000.

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.

Discretely presented component units include Governmental Funds, Proprietary Funds, Fiduciary Funds and College and University Funds that are legally separate from the Commonwealth but are considered part of the reporting entity. The Philadelphia Shipyard Development Corporation, the Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association are included for their fiscal years ended December 31, 2000. The College and University Funds are reported as follows:

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

College and University Funds

Account for the operations of the Office of the Chancellor and the 14 state-owned universities, which comprise the State System of Higher Education, in accordance with 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 are an aggregation of the following funds:

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

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

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

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

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

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

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

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

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

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

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

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

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating cost to the fiscal year when the items are used. Expenditures for claims, judgments, compensated absences and

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

The enterprise, internal service (Proprietary Fund Types) and pension trust funds are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus all assets and liabilities associated with the operations of these funds are included on the balance sheet. Fund equity (i.e., net total assets) consists of contributed capital and retained earnings. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. Under Governmental Accounting Standards Board's (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): 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.

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

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

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

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

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

Budgetary Expenditure Control: Legally adopted budgets include numerous expenditure appropriations which are the legal level of expenditure control; budgetary expenditure control is exercised at the appropriation level (legislative spending authority level). Encumbrances and expenditures cannot exceed amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Appropriation transfers between or within departments and any supplemental

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

appropriations require both executive and legislative branch approval. Unencumbered and unexpended appropriations lapse at fiscal year end and become available for appropriation in the subsequent year.

The legally adopted budget for the General Fund includes \$68.2 million in state supplemental appropriations and \$434.2 in Federal supplemental appropriations approved during the fiscal year ended June 30, 2001. Not all Special Revenue Funds are controlled by legally adopted budgets. Controls over spending in such Special Revenue Funds are maintained by use of spending limits (executive authorizations) established by the Governor. The Commonwealth also makes appropriations to authorize expenditures for various capital projects. Appropriations for capital projects normally remain in effect until the completion of each project unless modified or rescinded. Note T provides more information on budgetary compliance.

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, only net changes in cash 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. Financial statements for the INVEST Program include a statement of net assets and a statement of changes in net assets prepared using the economic resources measurement focus and the accrual basis of accounting.

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. Periodic STIP earnings are allocated to specific participating funds based on the weighted daily average of "share" balances.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets and Depreciation: General fixed assets are reported at cost or estimated historical cost. Donated general fixed assets are reported at fair market value at the time of donation. All land is reported; for other types of general fixed assets, the following minimum dollar reporting thresholds are used:

Land improvements, buildings and building improvements	\$ 25,000
Vehicles, machinery and equipment	\$ 20,000

Commonwealth agencies maintain inventories of all their respective fixed assets, including assets which are not reported in the GPFS. Public domain general fixed assets (including highways, bridges, highway land and rights-of-way) are not capitalized. No depreciation is reported for 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 reported by the SSHE are stated at cost. Depreciation of SSHE fixed assets is recognized over the estimated useful life of the assets.

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 balance is not to exceed 6 percent of the estimated revenues of the General Fund. Revenue is provided through an executive authorization appropriated by the General Assembly for transfer to this Fund. Act 74 of 2001 provides that, for the fiscal year beginning July 1, 2001 and any fiscal year thereafter during which there is a surplus of operating funds in the General Fund, as certified by the Budget Secretary, ten 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. During the fiscal year ended June 30, 2001 there was no surplus 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. For GAAP reporting purposes, this Fund is reported as a fund balance reservation in the General Fund.

Tobacco Master Settlement Agreement: In 1997, the Pennsylvania Attorney General began litigation in Commonwealth Court against several defendant tobacco product manufacturers to recover certain amounts the Commonwealth allegedly expended to provide health care to numerous tobacco product users. In 1998, along with many other states, the Commonwealth joined in a settlement which provided, among other things, that the Commonwealth ceases its litigation against manufacturers. As part of the settlement, certain manufacturers agreed to remit periodic payments to the Commonwealth and other states (amounting to over \$200 billion, according to some estimates) until 2025. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor used in determining periodic payment amounts. During the fiscal year ended June 30, 2001 the Commonwealth received \$345 million from the settlement; this amount is reported as revenue in the General Fund. Through June 30, 2001 the Commonwealth has received \$809.6 million from tobacco manufacturers. Future payments will be reported as revenue when they are received; no receivable for such payments is reported. At June 30, 2001 \$851.4 million is reported as a General Fund unreserved fund balance designation; this amount includes accumulated investment income of \$41.8 million. Subsequent to June 30, 2001 amounts related to the settlement agreement were transferred to the new Tobacco Settlement 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, 2001 is presented in Note H.

New Accounting Pronouncement: In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." The Commonwealth must adopt the new standard effective July 1, 2001 and issue financial statements in accordance with GASB 34 for the fiscal year ending June 30, 2002. Among other things, the new standard requires issuing "entity wide" financial statements, which are prepared using the economic resources measurement focus and the accrual basis of accounting, to portray the Commonwealth "as a whole." The new requirement represents a significant change from the current financial resources

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

measurement focus and modified accrual basis of accounting for governmental fund types, which are largely being retained for reporting at the "fund perspective."

During March 2000 the Commonwealth began a number of processes as part of complying with the new standard. New financial information, including highway and bridge infrastructure (and related depreciation), is being measured and summarized along with certain tax and other receivables which will be reported within entity wide statements. Following the issuance of the June 30, 2001 Comprehensive Annual Financial Report, governmental fund information will be adjusted and converted to provide a pro forma Statement of Net Assets as of June 30, 2001. Prior to the point of conversion and, subsequently, production of entity wide statements next year, it is not practical to quantify the various financial reporting changes resulting from implementation of GASB 34.

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 EQUITY

Deficits: The Workmen's Compensation Supersedeas Fund and the State Racing Fund, Special Revenue Funds, reported fund balance deficits of \$10,715 and \$970 (amounts in thousands), respectively, at June 30, 2001. The Disaster Relief Redemption Fund, the Local Criminal Justice Sinking Fund and the Tax Note Sinking Fund, Debt Service Funds, reported unreserved/undesignated deficits of \$6, \$1 and \$1 thousand, respectively, at June 30, 2001. None of these funds reported fund balance designated for debt service or any other designations and they are the only debt service funds that reported deficits.

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of \$668,091 at June 30, 2001. In total, the Capital Facilities Fund reported a fund balance of \$71,653 at June 30, 2001. Total Capital Projects Funds reported reservations for encumbrances of \$779,927, other reservations of \$2,311, designations for Capital Projects of \$79,867 and a deficit unreserved/undesignated fund balance of \$668,091, for a total combined fund balance of \$194,014 (amounts in thousands) at June 30, 2001.

The Minority Business Development Fund, an Enterprise Fund, reported deficit retained earnings of \$30,238 (amount in thousands) at June 30, 2001.

The State System of Higher Education, College and University Funds, reported a current funds unrestricted fund balance deficit of \$278,346 (amount in thousands) at June 30, 2001.

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

The amount reserved for advances in the General Fund, \$52.8 million, is applicable to advances as follows: \$38 million to the Purchasing Fund, an Internal Service Fund, \$2.3 million to the State Workmen's Insurance Fund, an Enterprise Fund, \$2.2 million to the Motor License Fund and \$10.3 million to the Pharmaceutical Assistance Fund, both Special Revenue Funds.

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 \$308,125 reported as "reserved for other" in the General Fund at June 30, 2001 pertains to the following (amounts in thousands):

Continuing programs	\$ 130,303
Restricted revenue	155,070
Judicial carryover appropriations	9,249
Receivables.....	<u>13,503</u>
Total General Fund.....	<u>\$ 308,125</u>

The \$35,739 reported as "reserved for other" in the Special Revenue Funds at June 30, 2001 pertains to the following (amounts in thousands):

Land reclamation	\$ 25,450
Pharmaceutical assistance programs	5,763
Recreation programs.....	1,524
Recycling programs.....	366
Other programs.....	<u>2,636</u>
Total Special Revenue Funds	<u>\$ 35,739</u>

The \$2.3 million reported as "reserved for other" in the Capital Facilities Fund, a Capital Projects Fund, pertains to General State Authority maintenance activities. The \$2.7 million reported as "reserved for other" in the Pennsylvania Higher Educational Facilities Authority, a discretely presented governmental component unit, pertains to trust indentures. The \$196.6 million reported as "reserved for other" by the State System of Higher Education, a discretely presented component unit, at June 30, 2001 pertains to approved academic projects that will begin in subsequent fiscal periods.

NOTES TO FINANCIAL STATEMENTS

NOTE C - FUND EQUITY (continued)

Reserved retained earnings reported for Enterprise Funds are provided principally for capital improvements for the Rehabilitation Center Fund in the amount of \$3,421 and program purposes for the Small Business First Fund and the Coal and Clay Mine Subsidence Fund in the amount of \$4,063. 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 in the amount of \$1,205,762, student loans relating to the Pennsylvania Higher Education Assistance Agency of \$109,180, and housing programs relating to the Pennsylvania Housing Finance Agency of \$113,794 (amounts in thousands).

Designations of unreserved fund balances reflect managerial plans for the future use of financial resources. At June 30, 2001 the Commonwealth has included the following amounts as "Designated—Other" for the General Fund and Special Revenue Funds (amounts in thousands):

General Fund:

Tobacco Master Settlement Agreement	\$	851,362
Group medical and life insurance		72,788
Job creation tax credits		53,503
Judicial computer system		43,705
Agency construction projects		41,261
Other		16,428
Total General Fund	\$	<u>1,079,047</u>

Special Revenue Fund:

State Lottery Fund – for litigated prizes	\$	<u>264</u>
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The Insurance Fraud Prevention Authority, a discretely presented governmental fund component unit, reported \$3,843 thousand as "Designated—Other" for future program grants.

Contributed Capital: During the fiscal year ended June 30, 2001, there is a net increase in contributed capital for proprietary fund types – primary government and discretely presented component units of \$76,998. The increases and decrease in contributed capital by fund type are as follows (amounts in thousands):

	Primary Government		Discretely Presented Proprietary Fund Component Units
	Enterprise	Internal Service	
July 1, 2000 balances.....	\$ 288,671	\$ 9,187	\$ 1,808,584
Contributing sources/(uses):			
Primary government.....	19,000	-	41,000
Federal government.....	5,102	-	11,920
Other decrease.....	(24)	-	-
June 30, 2001 balances.....	<u>\$ 312,749</u>	<u>\$ 9,187</u>	<u>\$ 1,861,504</u>

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 Sections 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343) and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929, P.L. 177, No. 175). Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The power of the Treasury Department to invest moneys is subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital. The power to invest such moneys shall include the power to invest in equity securities and mutual funds.

The Treasury Department manages four distinct investment programs, the Short-Term Investment Pool (STIP), General Fund Program, Motor License Fund Program and Tax Stabilization Fund Program. As of June 30, 2001 approximately 80 percent of the temporary investments of practically all Commonwealth Funds are invested on a short term basis in the STIP. The objectives of the STIP are safety, liquidity and yield and all investments are made in accordance with the preceding statutory authority. Throughout the fiscal year, the STIP participates in reverse repurchase agreements; Treasury Department policies require that the maturity date of the reverse repurchase agreements and the maturity date of the regular repurchase agreement purchased with the proceeds occur on the same date. The General Fund Program, Motor License Program and Tax Stabilization Fund Program represent funds accumulated beyond the ordinary needs of these funds. These three Programs invest in equity and intermediate-term securities. Also, the Treasury Department manages the Tuition Assistance Program and the INVEST Program for Local Governments.

Several Commonwealth departments have statutory authority to make their own temporary and long-term investments for the following funds: State Workmen's Insurance, an Enterprise Fund, Deferred Compensation and Workmen's Compensation Security Trust, Expendable Trust Funds, and Underground Storage Tank Indemnification and Statutory Liquidator, Agency Funds.

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, utilize financial instruments with off-balance sheet risk. Specific disclosures about Pension Trust Fund investments are included in this Note.

NOTES TO FINANCIAL STATEMENTS

NOTE D – DEPOSITS AND INVESTMENTS (continued)

Deposits:

The Treasury Department controls the receipt and disbursement of amounts owned by agencies included in the primary government. Certain discretely presented component units, meanwhile, control receipt and disbursement of their own funds, typically through a trustee. The following summaries present the amount of primary government and discretely presented component unit (Commonwealth) deposits which are fully insured or collateralized with securities held by the Commonwealth or its agent in the Commonwealth's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution or the pledging institution's trust department or agent, but not in the Commonwealth's name (Category 3) at June 30, 2001 (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	\$ 99,972	\$ -	\$8,161	\$ \$108,133	\$ 219,784
Cash with fiscal agents	2,905,062	1,946	524	2,907,532	2,905,841
Certificates of deposit and related items	231,583	272	8,095	239,950	239,950

The above-listed \$239,950 in certificates of deposit and related items are reported as part of primary government temporary investments at June 30, 2001. To provide increased income while maintaining safety and liquidity, the Treasury Department routinely enters into overnight repurchase agreements using "float" on outstanding checks. At June 30, 2001 the Treasury Department used \$409 million of available cash for overnight repurchase agreements. These investments 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>Total Category 3</u>	<u>Carrying Bank Balance</u>	<u>Amount</u>
Cash	\$ 96,084	\$ -	\$ 60,255	\$ 156,339	\$ 127,805
Cash with fiscal agents.....	100	-	330,431	330,531	330,496

NOTES TO FINANCIAL STATEMENTS

NOTE D - DEPOSITS AND INVESTMENTS (continued)

Investments:

The Treasury Department, other agencies in the primary government and discretely presented component units (Commonwealth) categorize investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Commonwealth's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or its agent, but not in the Commonwealth's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds, mortgage loans, real estate and venture capital. The following summaries identify the level of credit risk assumed by the Commonwealth and the related carrying amount of Commonwealth investments at June 30, 2001 (amounts in thousands).

Primary Government

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

Commercial paper.....	\$ 540,097
Common and preferred stocks	8,788,970
Corporate bonds and notes.....	3,477,479
Certificates of deposit-negotiable	87
International fixed income	57,737
International equities	52,061
Repurchase agreements.....	5,933,921
State and municipal obligations.....	648,597
U.S. Treasury obligations	2,949,061
U.S. Government agency obligations	<u>2,327,820</u>
Total categorized investments	24,775,830
Add investments not susceptible to credit risk categorization:	
Investments held by Tuition Payment Fund at June 30, 2001	
Securities lending collateral.....	16,082
Treasury Department global pool	7,298
Investments owned by the Deferred Compensation Fund at December 31, 2000	
Mutual funds.....	928,296
Securities lending collateral.....	14,605
Investments owned by the State Employees' Retirement System (SERS) at December 31, 2000:	
Mortgage loans	80,079
Mutual funds.....	9,460,886
Real estate.....	2,627,710
Securities lending collateral.....	940,558
Venture capital.....	2,954,833
Securities lent by SERS at December 31, 2000:	
U.S. Treasury securities.....	475,882
Corporate bonds and notes.....	273,128
Common and preferred stocks	256,381
Investments owned by the Statutory Liquidator Fund at June 30, 2001:	
Treasury Department global pool	73,471
Loans	12,500
Annuities.....	2,190
Subsidiaries.....	67
Mortgage loans	238
Partnership interests.....	18
Investments owned by the Underground Storage Tank Indemnification Fund at June 30, 2001:	
Securities lending collateral	35,548
Treasury Department global pool	4,642
Securities lending collateral held by the State Lottery Fund at June 30, 2001.....	<u>2,029</u>
Subtotal forwarded to next page	\$ 42,942,271

NOTES TO FINANCIAL STATEMENTS

NOTE D – DEPOSITS AND INVESTMENTS (continued)

Subtotal forwarded from prior page	\$ 42,942,271
Investments held by the Workmen’s Compensation Security Trust Fund at June 30, 2001:	
Securities lending collateral	80,626
Treasury Department global pool	57,249
Private placements, fixed income and equities	6,047
Investments held by Custodial Accounts:	
Corporate Bonds and Notes	1,604
Money market funds	3,936
Various miscellaneous	20
Securities lending collateral held by the State Workmen’s Insurance Fund at December 31, 2000	355,596
Investments held by the Tax Stabilization Reserve Fund at June 30, 2001:	
Securities lending collateral	151,234
Private placements, fixed income and equities	3,635
Investments held by the General Fund at June 30, 2001:	
Securities lending collateral	130,272
Private placements, fixed income and equities	5,382
Investments held by the Motor License Fund at June 30, 2001:	
Securities lending collateral	47,779
Private placements, fixed income and equities	<u>2,198</u>
Total	\$43,787,849
Certificates of deposit and related items	239,950
Amount financially reported by discretely presented component units in Pennsylvania Treasury short-term investment pool at June 30, 2001	<u>(600,699)</u>
Total primary government temporary and long-term investments	<u>\$ 43,427,100</u>

The above-listed \$239,950 in certificates of deposit and related items are financially reported as part of temporary investments at June 30, 2001, but are treated as deposits for a determination of the level of credit risk associated with them.

The State Employees’ Retirement System, a Pension Trust Fund, owns approximately 79 percent of the common and preferred stocks, 85 percent of the corporate bonds and notes and 64 percent of the U.S. Treasury obligations reported in the above summary. The Treasury Short-Term Investment Pool owns 85 percent of the repurchase agreements and 62 percent of the U.S. Government agency obligations in the above summary.

Subsequent to June 30, 2001 an independent auditor issued an audit report for the Treasury Department’s INVEST Program for Local Governments (INVEST) for the year ended December 31, 1999. The INVEST financial statements disclosed an auditor conclusion that state laws governing some INVEST participants did not authorize investment of those participants’ funds in a certain repurchase agreement, amounting to \$51.3 million at December 31, 1999. The repurchase agreement matured January 4, 2000 and both principal and interest earned were returned in the INVEST Program.

Applicable laws allow investments which are backed by the full faith and credit of the U.S. Government or investments in U.S. Government Agency securities if they are considered short term. The auditor concluded that the U.S. Government Agency securities used to collateralize the INVEST repurchase agreement were not backed by the full faith and credit of the U.S. Government and were not considered short term. Treasury Department management contends that since the repurchase agreement had a four-day maturity, the repurchase agreement was a permissible short term investment.

During the year ended December 31, 2000 INVEST owned additional similar repurchase agreements; at December 31, 2000 INVEST owned \$146 million of similar repurchase agreements. The Treasury Department is seeking statutory amendments to applicable laws to clarify this matter.

NOTES TO FINANCIAL STATEMENTS

NOTE D – DEPOSITS AND INVESTMENTS (continued)

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. 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. The SERS is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. The SERS generally enters into transactions with institutions regarded as meeting high standards of credit worthiness. Legal risk is mitigated through careful selection of brokers and an extensive process of review of all documentation. The SERS is exposed to market risk—the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed within risk limits set by management by buying or selling instruments or entering into offsetting positions.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. At December 31, 2000, the SERS had contracts maturing through December 31, 2001, to purchase or sell foreign currency. The \$8,140,454 of total foreign currency contracts outstanding at December 31, 2000 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currency of \$4,807,617, and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currency of \$3,332,837 (amounts in thousands). Net unrealized losses on foreign currency contracts were approximately \$33.8 million at December 31, 2000.

Discretely Presented Component Units

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Asset backed securities	\$ -	\$ 59,616	\$ -	\$ 59,616
Commercial paper	-	117,136	46,846	163,982
Common and preferred stocks	20,548,467	716	16	20,549,199
Corporate bonds and notes	5,390,486	88,107	92,804	5,571,397
International equities	7,131,838	-	-	7,131,838
International fixed income	927,537	-	-	927,537
Mortgage-backed securities	6,096,578	78,899	-	6,175,477
Repurchase agreements	105,903	293,341	233,590	632,834
State and municipal obligations	-	19,235	9,000	28,235
U.S. Treasury obligations	-	440,529	57,114	497,643
U.S. Government agency obligations	1,009,648	299,225	176,982	1,485,855
Various short-term investments	853,216	5,811	-	859,027
Total categorized investments	<u>\$ 42,063,673</u>	<u>\$1,402,615</u>	<u>\$ 616,352</u>	<u>\$ 44,082,640</u>

NOTES TO FINANCIAL STATEMENTS

NOTE D - DEPOSITS AND INVESTMENTS (continued)

Investments not susceptible to credit risk categorization:

Investments owned by the State Public School Building Authority at June 30, 2001:	
Guaranteed investment contracts.....	9,500
Money market funds.....	21,001
Pennsylvania Treasury INVEST Program.....	63,768
Investments owned by the Higher Educational Facilities Authority at June 30, 2001:	
Guaranteed investment contracts.....	93,851
Investments owned by the Ben Franklin/IRC Partnership in Pennsylvania Treasury short-term investment pool at June 30, 2001.....	
	6,749
Investments owned by the Insurance Fraud Prevention Authority in Pennsylvania Treasury short-term investment pool at June 30, 2001.....	
	3,921
Investments owned by the Philadelphia Shipyard Development Corporation at December 31, 2000:	
Money market funds.....	19,044
Investments owned by the Pennsylvania Industrial Development Authority in Pennsylvania Treasury short-term investment pool at June 30, 2001.....	
	198
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 2001:	
Investment agreements.....	8,690
Mutual funds.....	299,965
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 2001:	
Guaranteed investment contracts.....	15,219
Investment agreements.....	87,991
Money market funds.....	187,258
Pennsylvania short-term investment pool.....	232,965
Investments owned by the Pennsylvania Infrastructure Investment Authority in Pennsylvania Treasury short-term investment pool at June 30, 2001:.....	
	356,866
Investments owned by the Pennsylvania Turnpike Commission at May 31, 2001:	
Mutual funds.....	16,767
Guaranteed investment contracts.....	168,170
Investments owned by the Public School Employees' Retirement System at June 30, 2001:	
Farmland investments.....	60,384
Invested with Pennsylvania Treasury Department.....	1,020,859
Mutual funds.....	1,189,897
Real estate.....	1,585,812
Securities lending collateral.....	2,519,806
Securities lending investments.....	2,424,942
Venture capital.....	2,224,648
Investments owned by the Pennsylvania Life and Health Insurance Guaranty Association at December 31, 2000:	
Mutual funds.....	1,234
Investments owned by the State System of Higher Education at June 30, 2001:	
Mutual funds and other investments.....	35,755
Total temporary and long-term investments.....	<u>\$56,737,900</u>

The total amount reported by discretely presented component units in the Pennsylvania Treasury short-term investment pool (STIP) is \$600,699 (in thousands) at June 30, 2001; STIP disclosures are included as part of Primary Government investment disclosures.

NOTES TO FINANCIAL STATEMENTS

NOTE D - DEPOSITS AND INVESTMENTS (continued)

The Public School Employees' Retirement System (PSERS), a Pension Trust Fund, owns approximately 100 percent of the common and preferred stocks, 97 percent of the corporate bonds and notes, 100 percent of the international equities, 100 percent of the international fixed income, 99 percent of the mortgage-backed securities, and 65 percent of the 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, 2001.

Financial Instruments with Off-Balance Sheet Risk

The Public School 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; collateralized mortgage obligations (CMOs); other forward contracts; and U.S. Treasury STRIPS. 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. 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, 2001 (amounts in thousands):

Futures contracts long and short.....	\$ 10,725,171
Foreign exchange forward and spot contracts, gross.....	3,444,850
Options—calls purchased.....	55,528
Options—calls sold.....	10,483
Options—puts sold.....	9,840

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 date and 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 or by cash held in segregated accounts by the PSERS custodial bank. Although the PSERS has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged at June 30, 2001 and the amount of cash held in broker margin accounts represent a restriction on the amount of assets available as of year end to use for other purposes.

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. The PSERS has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$500 million.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$3,444.9 million of foreign currency contracts outstanding at June 30, 2001 consist of "buy" contracts of \$2,008.3 million, which represent the U.S. dollar equivalent of commitments to purchase foreign currency, and "sell" contracts of \$1,436.6 million, which represent U.S. dollar equivalents of commitments to sell foreign currencies.

NOTES TO FINANCIAL STATEMENTS

NOTE D - DEPOSITS AND INVESTMENTS (continued)

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2001 is \$1,903.1 million.

Securities Lending Program

The Treasury Department provides a securities lending program authorized by the Fiscal Code, which 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 a 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 obligations. 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, 2001 (December 31, 2000 for the SWIF, the SERS and the Deferred Compensation Fund), 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, 2001 (December 31, 2000 for the SWIF, the SERS and the Deferred Compensation Fund), 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):

General Fund.....	\$ 310,362
State Lottery Fund.....	3,248
Motor License Fund.....	56,010
State Workmen's Insurance Fund	400,377
Tuition Payment Fund.....	16,805
Workmen's Compensation Security Trust Fund ..	85,361
Deferred Compensation Fund	38,592
State Employees' Retirement System	1,002,056
Public School Employees' Retirement System....	2,553,391
Underground Storage Tank Indemnification Fund	41,378

NOTES TO FINANCIAL STATEMENTS

NOTE E – FIXED ASSETS

A summary of fixed assets by category at June 30, 2001 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 Funds	College and University Funds
Land.....	\$ 323	\$ 6	\$ 264,568	\$ 122,126	\$ -	\$ 13,687
Buildings	4,572	3,942	3,541,868	531,245	-	593,841
Improvements other than buildings	15,975	3,126	360,425	84,782	-	85,119
Machinery and equipment.....	78,018	88,213	581,071	227,069	11,556	404,773
Turnpike infrastructure.....	-	-	-	2,976,811	-	-
Construction in progress	-	-	651,362	869,432	-	79,848
Total.....	<u>\$ 98,888</u>	<u>\$ 95,287</u>	<u>\$ 5,399,294</u>	<u>\$ 4,811,465</u>	<u>\$ 11,556</u>	<u>\$ 1,177,268</u>

Changes in general fixed assets for the fiscal year ended June 30, 2001 are as follows (amounts in thousands):

	Balance June 30, 2000	Additions	Retirements	Balance June 30, 2001
Land.....	\$ 259,680	\$ 4,888	\$ -	\$ 264,568
Buildings.....	3,105,933	435,965	30	3,541,868
Improvements other than buildings.....	295,708	65,206	489	360,425
Machinery and equipment.....	601,381	63,372	83,682	581,071
	4,262,702	569,431	84,201	4,747,932
Construction in progress	836,805	313,766	499,209	651,362
Total general fixed assets.....	<u>\$ 5,099,507</u>	<u>\$ 883,197</u>	<u>\$ 583,410</u>	<u>\$ 5,399,294</u>

Interest costs of \$32.4 million were capitalized for the Pennsylvania Turnpike Commission, a discretely presented component unit Proprietary Fund, for their fiscal year ended May 31, 2001.

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, 2001 the amount of general fixed assets related to the initial valuation amounts to \$1,840 million.

Construction in progress included in the General Fixed Assets Account Group at June 30, 2001 includes project information as follows (amounts in thousands):

	Expended Through June 30, 2001			Authorization Available
	Project Authorization	Amounts Previously Capitalized	Amounts Not Capitalized To Date	
Department of Corrections Institutions.....	\$ 822,851	\$ 174,181	\$ 339,074	\$ 309,596
Capital Complex	563,101	192,700	194,582	175,819
Colleges and Universities	106,531	-	36,039	70,492
Veterans Homes and Military Armories	60,657	-	48,268	12,389
Department of Public Welfare Institutions.....	17,772	-	11,398	6,374
Other.....	88,083	-	22,001	66,082
Total.....	<u>\$ 1,658,995</u>	<u>\$ 366,881</u>	<u>\$ 651,362</u>	<u>\$ 640,752</u>

NOTES TO FINANCIAL STATEMENTS

NOTE F - INSURANCE LOSS LIABILITY AND TUITION BENEFITS PAYABLE

Insurance Loss Liability

The reported insurance loss liability of the State Workmen's Insurance Fund (SWIF), an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes a 5.5 percent and a 4.5 percent discount rate at December 31, 1999 and 2000, respectively. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2000 and 1999, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands):

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2000.....	\$1,137,459	\$ 103,184	\$ (31,831)	\$ 11,505	\$ 143,055	\$1,054,252
1999.....	\$1,291,212	\$ 91,270	\$ (69,232)	\$ 11,434	\$ 164,357	\$1,137,459

Tuition Benefits Payable

The reported liability for tuition benefits payable of \$221 million of the Tuition Payment Fund, an Enterprise Fund, at June 30, 2001, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses. As of June 30, 2001 the assumptions related to program expenses were changed to distinguish between fixed and variable expenses, to recognize the growing number of tuition credit contracts and to change the allocation of specific overhead expenses from the Tuition Program to the new Investment Program. The effect of these changes in assumptions related to program expenses reduced the liability for tuition benefits payable by \$6.3 million at June 30, 2001.

NOTES TO FINANCIAL STATEMENTS

NOTE G - TAXES, LOANS AND LEASE RENTAL RECEIVABLES

Taxes Receivable: Taxes receivable at June 30, 2001 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.....	\$ 644,088	\$ 24,953	\$ -	\$ 669,041
Unemployment compensation	-	-	279,672	279,672
Personal income.....	291,739	-	-	291,739
Corporation.....	74,232	-	-	74,232
Liquid fuels.....	-	61,806	-	61,806
Other.....	14,491	82,148	13,396	110,035
	<u>\$ 1,024,550</u>	<u>\$ 168,907</u>	<u>\$ 293,068</u>	<u>\$ 1,486,525</u>

Notes and Loans Receivable: Loans receivable at June 30, 2001 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	\$ -	\$ -	\$ 2,937,297	\$ -
Student loans	-	-	2,677,448	40,075
Economic development loans	48,437	144,042	603,096	-
Water and sewer system loans	13,917	-	1,192,520	-
Volunteer fire company loans	-	103,361	-	-
Other notes and loans.....	13,331	12,648	-	-
	75,685	260,051	7,410,361	40,075
Less: allowance for uncollectible accounts.....	19,421	27,791	195,656	5,417
Notes and loans receivable, net.....	<u>\$ 56,264</u>	<u>\$ 232,260</u>	<u>\$ 7,214,705</u>	<u>\$ 34,658</u>

The General Fund and Trust and Agency Funds reported \$13,503 and \$6,728 thousand of loans, respectively, for program objectives and to replace underground storage tanks at June 30, 2001.

Discretely presented component unit governmental funds reported \$2,612 thousand of loans to school districts at June 30, 2001.

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects Fund, reports amounts related to construction projects for educational institutions funded through the issuance of General Obligation Bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the related Capital Debt Fund, a Debt Service Fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2001 the total minimum lease payments to be received were \$1.7 million and the present value of the lease payments was \$1.6 million, the difference representing interest of \$.1 million. The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority, discretely presented governmental fund component units, finance construction projects for educational institutions through the issuance of bonds and other obligations, the principal and interest of which are paid through the collection of lease rental payments related to the project. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. For discretely presented governmental fund component units, total minimum lease payments were \$6.6 billion, the present value was \$4.1 billion and interest was \$2.5 billion at June 30, 2001. The Pennsylvania Industrial Development Authority, a discretely presented proprietary fund component unit, reported a lease rental receivable with total minimum payments of \$29 million, present value of \$17 million and interest of \$12 million at June 30, 2001. Minimum lease payments for the five fiscal years succeeding June 30, 2001 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
2002.....	\$ 193	\$ 309,826	\$ 634
2003.....	193	301,012	634
2004.....	193	300,317	634
2005.....	194	295,349	634
2006.....	194	298,785	2,606

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

The composition of interfund balances reported at June 30, 2001 is as follows (amounts in thousands):

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General	\$ 40,123	\$ 5,460	\$ 114,611	\$ 51
<u>Special Revenue:</u>				
State Lottery Fund	1,500	-	81	-
State Racing Fund.....	-	-	8,704	-
Hazardous Sites Clean-up Fund.....	16,220	-	19	-
Motor License Fund.....	3,820	70	24,956	8,660
Vocational Rehabilitation Fund.....	112	-	1,396	-
Pharmaceutical Assistance Fund.....	5,364	-	-	-
Agricultural Conservation Easement Fund.....	10,145	-	-	-
Public Transportation Assistance Fund.....	3,277	-	380	-
Other Funds	2,205	53	4,143	-
	<u>42,643</u>	<u>123</u>	<u>39,679</u>	<u>8,660</u>
<u>Debt Service:</u>				
Pennsylvania Infrastructure Investment Authority Redemption Fund	-	23,835	-	-
Other Funds	28	-	-	-
	<u>28</u>	<u>23,835</u>	<u>-</u>	<u>-</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	12,073	-	-	-
Keystone Recreation, Park and Conservation Fund..	4,340	-	131	-
	<u>16,413</u>	<u>-</u>	<u>131</u>	<u>-</u>
<u>Enterprise:</u>				
State Stores Fund.....	353	-	19,772	-
State Workmen's Insurance Fund.....	224	-	1,506	-
Rehabilitation Center Fund.....	1,304	-	61	-
Other Funds	32	-	8	-
	<u>1,913</u>	<u>-</u>	<u>21,347</u>	<u>-</u>
<u>Internal Service:</u>				
Purchasing Fund	38,639	501	156	-
Manufacturing Fund	6,390	16	202	-
	<u>45,029</u>	<u>517</u>	<u>358</u>	<u>-</u>
<u>Expendable Trust:</u>				
Unemployment Compensation Fund	2,228	290	-	-
Workmen's Compensation Security Trust Fund.....	18,541	-	26	-
Deferred Compensation Fund.....	-	-	106	-
Catastrophic Loss Benefits Continuation Fund.....	-	-	18,551	-
	<u>20,769</u>	<u>290</u>	<u>18,683</u>	<u>-</u>
<u>Pension Trust:</u>				
State Employees' Retirement System	14,417	2,622	-	-
<u>Agency:</u>				
Local Sales and Use Tax Fund.....	1,247	-	-	-
Allegheny Regional Asset District Sales and Use Tax Fund.....	1,407	-	167	-
Liquid Fuels Tax Fund.....	2,391	-	179	-
Other Funds	320	-	454	-
	<u>5,365</u>	<u>-</u>	<u>800</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	\$ 186,700	\$ 32,847	\$ 195,609	\$ 8,711

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	\$ 706	\$ -	\$ -	\$ 706	\$ -	\$ -
Proprietary:						
Pennsylvania Infrastructure Investment Authority	-	128	-	-	17	25,358
Pennsylvania Turnpike Commission	-	-	6,461	-	-	3,979
Other Funds	-	17	-	-	128	98
	-	145	6,461	-	145	29,435
Fiduciary:						
Public School Employees' Retirement System	-	-	319	-	-	2,166
College and University	234,901	-	-	234,901	-	1,145
TOTAL DISCRETELY PRESENTED COMPONENT UNITS	\$ 235,607	\$ 145	\$ 6,780	\$ 235,607	\$ 145	\$ 32,746

The amount of total interfund receivables of \$462,079 thousand does not agree with total interfund payables of \$472,818 thousand at June 30, 2001 due to different fiscal year ends for certain funds included in the combined balance sheet at June 30, 2001. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented proprietary fund component unit, is as of its fiscal year end of May 31, 2001. The amounts reported as interfund accounts for the State Employees' Retirement System, a Pension Trust Fund, the INVEST Program for Local Governments, an Investment Trust Fund, the State Workmen's Insurance Fund, an Enterprise Fund, and the Deferred Compensation Fund, an Expendable Trust Fund, are as of their fiscal years ended December 31, 2000. The following presents a reconciliation of interfund accounts reported at June 30, 2001 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, 2001	\$ 422,307
Due from primary government - Combined Balance Sheet at June 30, 2001	6,780
Due from component units - Combined Balance Sheet at June 30, 2001	<u>32,992</u>
Interfund receivables — Combined Balance Sheet	462,079
Pennsylvania Turnpike Commission increase in receivables from June 1, 2000 to June 30, 2001	2,199
State Workmen's Insurance Fund decrease in receivables from January 1, 2000 through June 30, 2001	(181)
State Employees' Retirement System increase in receivables from January 1, 2000 through June 30, 2001	<u>7,909</u>
TOTAL INTERFUND RECEIVABLES	\$ 472,006
Due to other funds - Combined Balance Sheet at June 30, 2001	\$ 431,216
Due to primary government - Combined Balance Sheet at June 30, 2001	32,746
Due to component units - Combined Balance Sheet at June 30, 2001	<u>8,856</u>
Interfund payables — Combined Balance Sheet	472,818
State Employees' Retirement System increase in payables from January 1, 2000 through June 30, 2001	469
State Workmen's Insurance Fund decrease in payables from January 1, 2000 through June 30, 2001	(1,286)
Deferred Compensation Fund increase in payables from January 1, 2000 through June 30, 2001	<u>5</u>
TOTAL INTERFUND PAYABLES	\$ 472,006

NOTES TO FINANCIAL STATEMENTS

NOTE H - INTERFUND ACCOUNTS/OPERATING TRANSFERS/RESIDUAL EQUITY TRANSFERS (continued)

At June 30, 2001 the General Fund has reported Advances to Other Funds of \$52,808. Specifically, this amount has been advanced as follows: \$2,300 to the State Workmen's Insurance Fund, an Enterprise Fund, \$2,175 to the Motor License Fund, \$10,333 to the Pharmaceutical Assistance Fund, both Special Revenue Funds, and \$38,000 to the Purchasing Fund, an Internal Service Fund. 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 \$1,987 at its fiscal year ended December 31, 2000 (amounts in thousands).

At June 30, 2001 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, has reported an Advance to Other Funds of \$3,000. 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).

At June 30, 2001 the Tuition Payment Fund, an Enterprise Fund, has reported an Advance from Other Funds of \$150 thousand.

A summary of operating transfers reported for the fiscal year ended June 30, 2001 is as follows (amounts in thousands):

PRIMARY GOVERNMENT	OPERATING TRANSFERS			
	In	From Component Units	Out	To Component Units
General.....	\$ 75,491	\$ -	\$ 582,822	\$ 877,609
Special Revenue:				
State Lottery Fund.....	-	-	290,000	-
State Racing Fund.....	-	-	8,696	-
Hazardous Sites Clean-up Fund.....	-	-	5,000	-
Motor License Fund.....	-	-	110,089	-
Vocational Rehabilitation Fund.....	36,198	-	-	-
Pharmaceutical Assistance Fund.....	313,744	-	-	-
Water Facilities Loan Fund.....	-	-	2,308	-
Environmental Stewardship Fund.....	130,000	-	19,828	-
Other Funds.....	52,109	-	37,789	-
	<u>532,051</u>	<u>-</u>	<u>473,710</u>	<u>-</u>
Debt Service:				
Land and Water Development Sinking Fund.....	13,316	-	-	-
Water Facilities Loan Redemption Fund.....	12,629	-	-	-
Capital Debt Fund.....	391,284	-	-	-
Pennsylvania Infrastructure Investment Authority				
Redemption Fund.....	24,590	-	-	-
Local Criminal Justice Sinking Fund.....	15,966	-	-	-
Agricultural Conservation Easement Sinking Fund.....	8,137	-	-	-
Keystone Recreation, Park and Conservation Fund.....	4,360	-	-	-
Disaster Relief Redemption Fund.....	9,498	-	-	-
Pennsylvania Economic Revitalization Sinking Fund.....	6,314	-	-	-
Volunteer Company Loan Sinking Fund.....	2,988	-	-	-
Other Funds.....	1,074	-	1	-
	<u>490,156</u>	<u>-</u>	<u>1</u>	<u>-</u>
Enterprise:				
State Stores Fund.....	-	-	51,758	-
Small Business First Fund.....	-	-	407	-
	<u>-</u>	<u>-</u>	<u>52,165</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT.....	\$ 1,097,698	\$ -	\$ 1,108,698	\$ 877,609

Transfers out exceed transfers in by \$11,000 because of a transfer from the General Fund to the State Employees' Retirement System after December 31, 2000.

DISCRETELY PRESENTED COMPONENT UNITS	In	From Primary Government	Out	To Primary Government
Governmental Funds.....	\$ 491,994	\$ 39,100	\$ 491,994	\$ -
Proprietary:				
Pennsylvania Higher Education Assistance Agency.....	-	366,688	-	-
College and University Funds.....	-	471,821	-	-
TOTAL DISCRETELY PRESENTED COMPONENT UNITS.....	\$ 491,994	\$ 877,609	\$ 491,994	\$ -

NOTES TO FINANCIAL STATEMENTS

NOTE H - INTERFUND ACCOUNTS/OPERATING TRANSFERS/RESIDUAL EQUITY TRANSFERS (continued)

The following summary reconciles total governmental residual equity transfers out of \$175,442 to the reported net increase in proprietary fund contributed capital as follows (in thousands):

Net residual equity transfers	\$ 175,442
less: program grant receipts of the Pennsylvania Infrastructure Investment Authority	(115,442)
add: Federal funds received by the Pennsylvania Turnpike Commission.....	11,920
add: Federal funds received by the Pennsylvania Infrastructure Bank Fund.....	5,102
less: other decrease to the Rehabilitation Center Fund	<u>(24)</u>
 Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units.....	 <u>\$ 76,998</u>

Increases and decreases in contributed capital for proprietary fund types—primary government and discretely presented component units—during the fiscal year ended June 30, 2001 are summarized as follows (amounts in thousands):

Cash flows from capital and noncapital financing activities:	
Increases in contributed capital—primary government	\$ 24,102
Decreases in contributed capital—primary government	(24)
Increases in contributed capital—discretely presented component units	<u>52,920</u>
 Net increase in contributed capital for proprietary fund types—primary government and discretely presented component units.....	 <u>\$ 76,998</u>

Assigned Investment Income: Certain funds, as follows, receive but do not financially report investment income which is assigned to (and reported by) another fund for legal or contractual reasons. Investment income and related interfund transfers are reported by those funds which assign/receive investment income for other than legal or contractual reasons (amounts in thousands).

<u>Assigning Fund</u>	<u>Receiving Fund</u>	<u>Reason</u>	<u>Amount</u>
Liquor License	General	Legal/contractual	\$ 127
Liquid Fuels Tax	Motor License	Legal/contractual	635
Land and Water Development	Land and Water Development		
	Sinking	Legal/contractual	106
Remining Financial Assurance	Land and Water Development		
	Sinking	Other than legal/contractual	154
PA Economic Revitalization	PA Economic Revitalization		
	Sinking	Other than legal/contractual	80
Fire Insurance Tax	State Insurance	Legal/contractual	1,441
Fire Insurance Tax	Municipal Pension Aid	Legal/contractual	278

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 Communications
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, 2000 there were 106 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 with three years of service, 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 with at least three years of service.

The general annual benefit for full retirement is 2 percent of the member's highest three-year average salary multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their 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. Judges are entitled to a benefit of 4 percent of final average salary for each of the first 10 years of service and 3 percent for subsequent years. District Justices are entitled to a benefit of 3 percent of final average salary for each year of service. The Commonwealth has the authority to establish or amend benefit provisions. Act 41, signed into law on April 2, 1998, permitted certain participants with at least 30 years of credited service to retire without a reduction in benefits from July 1, 1998 to June 30, 1999. This early retirement "window" did not require a minimum age in conjunction with length of service for a member to be eligible for full benefits. Act 9, signed into law on May 17, 2001 is to, generally, increase annual full retirement benefits for electing active members by 25 percent and, for certain members of the General Assembly, by 50 percent effective July 1, 2001.

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. All member contribution rates are determined by Commonwealth law. 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. 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>
1999	\$ 269,869	100
1998	\$ 310,501	100
1997	\$ 324,093	100

During the year ended December 31, 2000 employer contributions amounted to \$168,002 thousand; the SERS did not report an annual required contribution for the year ended December 31, 2000. At December 31, 2000, the SERS disclosed no long-term contracts for contributions to the plan.

NOTES TO FINANCIAL STATEMENTS

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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 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 cost plus accrued interest. Since December 31, 2000, due to a decline in the overall fair value of equity securities, there was a decline in the total fair value of SERS assets.

Investment Concentration: At December 31, 2000, approximately \$491 million, or 18.7 percent, of the total real estate portfolio was located in the Commonwealth of Pennsylvania.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employees. At June 30, 2001 there were 694 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.

Benefits for full retirement are generally equal to 2 percent of the member's final average salary multiplied by years of credited 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. The Commonwealth partially reimburses school entities in accordance with Act 29 of 1994. The amount of reimbursement 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>
2001	\$158,193	100
2000	\$390,504	100
1999	\$513,940	100

At June 30, 2001, the PSERS disclosed no long-term contracts for contributions to the plan.

NOTES TO FINANCIAL STATEMENTS

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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 reported at the published market price. Fixed income securities and common and preferred stocks are generally reported 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 projected future net income. Private equity/venture capital, equity real estate and private placements are reported based on amounts established by independent advisors. Futures contracts, foreign exchange contracts, and options are marked-to-market daily; changes in market value are 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 or by cash held in a broker margin account.

Investment Concentration: At June 30, 2001, 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 primary government and certain component unit employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled \$253 million for the fiscal year ended June 30, 2001. Approximately 84,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 2001.

NOTES TO FINANCIAL STATEMENTS

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 1997, the Commonwealth issued General Obligation Bond Anticipation Notes, Series 1997 A (notes), pursuant to a resolution adopted on February 18, 1997, in anticipation of the issuance of general obligation bonds of the Commonwealth. No general obligation bonds to retire the notes were issued during the 1996-97 or the 1997-98 fiscal years. During the fiscal years ended June 30, 1999 and June 30, 2000, general obligation bonds were issued to retire a portion of the notes. Also during these fiscal years, additional notes were issued under the original resolution. During the fiscal year ended June 30, 2001 the term of the original resolution came to a close and all outstanding notes were retired using the proceeds of general obligation bonds.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a proprietary fund component unit, has reported \$1,711.0 million of demand revenue bonds outstanding and \$857.3 million of notes payable consisting of student loan financing of \$735.8 million, other lines of credit of \$20.0 million and other notes and bonds payable of \$101.5 million at June 30, 2001 as follows (amounts in thousands):

Demand student loan revenue bonds payable, due 2018-2040, at weighted average interest rates of 3.23 and 5.10 percent at June 30, 2001 and 2000, respectively	\$ 1,711,000
Student loan financing notes payable, due in 2001-2007, at weighted average interest rates of 5.25 and 6.44 percent at June 30, 2001 and 2000, respectively	735,785
Other lines of credit, due on demand, at weighted average interest rates of 6.50 and 6.49 percent at June 30, 2001 and 2000, respectively	20,000
Other notes and bonds payable, due 2001-2031, at weighted average interest rates of 6.06 and 6.11 percent at June 30, 2001 and 2000, respectively	<u>101,507</u>
Total	<u>\$ 2,568,292</u>

The note and bond indentures among other things require PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit issued by the Student Loan Marketing Association, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2001 through 2030. The PHEAA is required to pay annual commitment fees ranging from 12 to 45 basis points on the stated amount of the letter of credit coverage. At June 30, 2001 total letter of credit coverage was \$2.3 billion.

All student loan financing notes payable, demand student loan revenue bonds payable and student loan revenue bonds payable are collateralized by student loans and investments. At June 30, 2001, \$2.985 billion of debt is collateralized by \$2.7 billion of student loan principal and related interest receivable, and \$466.2 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, 2001 the PHEAA has \$119.2 million of available credit under student loan financing arrangements and \$26 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, 2001 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>
2002	\$ -	\$ 121,275	\$ 7,145
2003	-	31,600	7,211
2004	-	-	7,820
2005	-	547,910	7,907
2006	-	-	4,069
2007-40	<u>1,711,000</u>	<u>35,000</u>	<u>67,355</u>
Total	<u>\$ 1,711,000</u>	<u>\$ 735,785</u>	<u>\$ 101,507</u>

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

The Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, maintains a \$50 million note for the funding of the Hafer Homebuyer Program, bearing interest from the date of issuance at a rate equal to the daily short-term investment pool rate, which was 4.25 percent at June 30, 2001. At June 30, 2001 \$37.5 million is owed against this note. The PHFA also maintains a Regional Housing Development Corporation Bridge Loan Note bearing interest at a fixed rate of 3 percent. At June 30, 2001 \$3.6 million is owed against this note. Total reported notes payable at June 30, 2001 for the PHFA is \$41.1 million.

NOTES TO FINANCIAL STATEMENTS

NOTE K – LONG TERM OBLIGATIONS

Long-term obligations of the Commonwealth's primary government at June 30, 2001 and changes for the fiscal year ended June 30, 2001 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, 2000	Additions	Reductions	Balance June 30, 2001
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities	1972-01	4.47-6.60%	2021	\$ 32,036,905	\$ 3,327,740	\$ 641,000	\$ 280,855	\$ 3,687,885
Disaster Relief	1973-01	4.60- 5.56%	2021	105,908	41,865	3,000	7,315	37,550
Land and Water Development	1972-94	4.89- 6.44%	2014	300	31,805	-	12,145	19,660
Nursing Home Loan Development	1983	8.26%	2002	31,000	1,600	-	525	1,075
Volunteer Companies Loan	1982-98	4.84-10.75%	2018	-	22,525	-	1,850	20,675
Vietnam Conflict Veterans								
Compensation	1974	5.36%	2003	3,000	1,770	-	405	1,365
Water Facilities Loan	1983-97	4.89- 8.26%	2017	11,500	105,875	-	6,995	98,880
Pennsylvania Economic Revitalization	1991-95	5.04- 6.44%	2015	14,000	28,235	-	4,770	23,465
Pennsylvania Infrastructure								
Investment Authority	1991-01	4.62- 6.44%	2021	267,000	239,110	6,000	14,175	230,935
Agricultural Conservation Easement								
Purchase	1991-98	4.47- 6.60%	2018	-	70,515	-	4,445	66,070
Local Criminal Justice	1992-01	4.47- 6.60%	2021	9,000	152,125	2,000	7,525	146,600
Keystone Recreation, Park and								
Conservation	1994-98	4.84- 6.60%	2018	-	43,640	-	2,000	41,640
Refunding Bonds	1992-97	5.12- 5.73%	2011	-	1,299,816	3,460	133,995	1,169,281
				<u>32,478,613</u>	<u>5,366,621</u>	<u>655,460</u>	<u>477,000</u>	<u>5,545,081</u>
Other General Long-Term Obligations								
Payable From Tax Revenues:								
Installment Purchase Obligations	-	-	-	-	38,054	4,481	16,370	26,165
Capital Lease Obligations	-	-	-	-	52,498	3,122	3,321	52,299
Obligations Under Master Lease								
Agreement—Equipment	-	-	-	-	680	-	680	-
Obligations Under Master Lease—								
Prison Facilities	-	-	-	-	624,635	-	30,115	594,520
Self-Insurance—Note O	-	-	-	-	587,054	146,694	100,302	633,446
Compensated Absences	-	-	-	-	667,921	344,652	313,395	699,178
Catastrophic Motor Vehicle Losses	-	-	-	-	162,205	-	35,837	126,368
Other	-	-	-	-	291,524	148,690	111,002	329,212
				-	<u>2,424,571</u>	<u>647,639</u>	<u>611,022</u>	<u>2,461,188</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP				\$ 32,478,613	\$ 7,791,192	\$ 1,303,099	\$ 1,088,022	\$ 8,006,269

Long-term obligations of the discretely presented component unit organizations at June 30, 2001 (May 31, 2001 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

State Public School Building Authority

TOTAL GOVERNMENTAL FUNDS

\$ 3,532,914	\$ 474,039	\$ 246,903	\$ 3,760,050
<u>433,753</u>	<u>70,129</u>	<u>65,530</u>	<u>438,352</u>
<u>3,966,667</u>	<u>544,168</u>	<u>312,433</u>	<u>4,198,402</u>

PROPRIETARY FUNDS

Revenue Bonds Payable from User

Charges:

Pennsylvania Higher Education

Assistance Agency

Pennsylvania Housing Finance Agency

Pennsylvania Industrial Development

Authority

Pennsylvania Turnpike Commission

Pennsylvania Infrastructure Investment

Authority

834,405	-	296,480	537,925
2,904,898	97,185	117,314	2,884,769
351,225	-	23,005	328,220
1,544,535	430,950	39,120	1,936,365
<u>174,765</u>	<u>-</u>	<u>13,365</u>	<u>161,400</u>
<u>5,809,828</u>	<u>528,135</u>	<u>489,284</u>	<u>5,848,679</u>

Less: Bond discounts

Deferred costs of refunding

50,945	4,770	13,633	42,082
<u>12,266</u>	<u>-</u>	<u>701</u>	<u>11,565</u>

TOTAL PROPRIETARY FUNDS

TOTAL COMPONENT UNIT

LONG-TERM OBLIGATIONS

<u>5,746,617</u>	<u>523,365</u>	<u>474,950</u>	<u>5,795,032</u>
\$ 9,713,284	\$ 1,067,533	\$ 787,383	\$ 9,993,434

NOTES TO FINANCIAL STATEMENTS

NOTE K – LONG TERM OBLIGATIONS (continued)

Primary Government

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

The total "Additions" of \$655,460 for General Obligations Bonds Payable from Tax Revenues at June 30, 2001, as reported in Note K, differs from total bond proceeds of \$663,919 for Governmental Fund Types, as reported in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances, by \$8,459. This difference includes premium on bonds issued of \$17,919, less bond proceeds for non-governmental funds of \$6,000 and less principal accretion for capital appreciation bonds of \$3,460 (amounts in thousands).

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

The balance outstanding at June 30, 2001 in the General Long-Term Obligations Account Group for Refunding Bonds includes \$23.0 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	\$ 192,798
Public Utility Realty Tax Act (PURTA)	25,538
Litigation—Note P	108,516
Arbitrage Rebate Tax	<u>2,360</u>
	<u>\$ 329,212</u>

The Workmen's Compensation Security Trust Fund provides for payment of valid claims under the Workmen's Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a General Fund revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. The other amounts included in the General Long-Term Obligations Account Group at June 30, 2001 relating to Workmen's Compensation Claims, Litigation and Arbitrage Rebate Tax are not payable with currently expendable available financial resources.

In 1991, the Commonwealth entered into lease arrangements with five local government authorities for the rental of five new prisons. Each authority issued bonds to finance the construction of the prisons. Each lease provided for the Commonwealth to pay periodic rentals equal to debt service payments on each authority's debt obligation. On July 1, 1993 a finance corporation issued certificates of participation to refund the authority debt obligations, to consolidate the financing of the prisons and to provide additional construction funding. As a result of the consolidated financing, the Commonwealth makes lease payments equal to the finance corporation's debt service payments. Both the original and the new leases provide that the Commonwealth's obligation to make lease payments is subject to Commonwealth appropriations made to provide for these obligations. In the fiscal year ended June 30, 1994 the Commonwealth began using the new prison facilities. The finance corporation holds nominal title to the facilities as security for the Commonwealth lease payments. When the certificates are fully redeemed, at which time the lease agreement expires, legal title vests with the Commonwealth. At June 30, 2001 the Commonwealth has reported \$594.5 million as a liability under prison master lease arrangements and has reported general fixed assets for the related prison facilities.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was \$40.3 billion as of August 31, 2001, with net debt outstanding of \$4.6 billion.

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented proprietary fund component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 2001 (May 31, 2001 for the PTC) include bond discounts and deferred costs of refunding of \$42.1 million and \$11.6 million, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE K – LONG-TERM OBLIGATIONS (continued)

The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority (SPSBA), discretely presented governmental fund component units, have bonds outstanding as of June 30, 2001 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, 2001 the SPSBA reported \$250 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, 2001 (May 31, 2001 for the Pennsylvania Turnpike Commission) (amounts in thousands):

	2002	2003	2004	2005	2006	2007 Through Maturity	Total
PRIMARY GOVERNMENT							
GENERAL OBLIGATION BONDS:							
Capital Facilities	\$ 469,724	\$ 405,096	\$ 379,663	\$ 362,710	\$ 355,788	\$ 3,384,606	\$ 5,357,587
Disaster Relief	9,761	9,717	2,735	2,656	2,577	23,264	50,710
Land and Water Development	7,926	4,554	1,153	1,146	1,142	8,156	24,077
Nursing Home Loan Development	549	550	-	-	-	-	1,099
Volunteer Companies Loan	2,907	2,520	2,061	2,040	2,022	17,364	28,914
Vietnam Conflict Veterans Compensation	482	487	490	-	-	-	1,459
Water Facilities Loan	12,200	11,407	10,871	10,722	10,662	81,543	137,405
Pennsylvania Economic Revitalization ..	5,393	2,394	2,385	2,375	2,370	16,961	31,878
Pennsylvania Infrastructure Investment Authority	26,758	25,511	25,230	24,993	24,761	197,039	324,292
Agricultural Conservation Easement Purchase	7,776	7,308	7,221	7,124	7,036	56,292	92,757
Local Criminal Justice	16,129	16,110	16,095	16,065	16,038	130,035	210,472
Keystone Recreation, Park and Conservation	4,322	4,289	4,244	4,210	4,171	40,314	61,550
Refunding Bonds	<u>199,881</u>	<u>218,002</u>	<u>208,626</u>	<u>173,061</u>	<u>151,725</u>	<u>500,973</u>	<u>1,452,268</u>
Total Principal and Interest	763,808	707,945	660,774	607,102	578,292	4,456,547	7,774,468
Less: Interest Payments	<u>284,413</u>	<u>260,549</u>	<u>237,185</u>	<u>220,645</u>	<u>200,509</u>	<u>1,026,086</u>	<u>2,229,387</u>
Other General Long-Term Obligations ..	479,395	447,396	423,589	386,457	377,783	3,430,461	5,545,081
	<u>161,550</u>	<u>133,951</u>	<u>134,760</u>	<u>135,040</u>	<u>135,621</u>	<u>1,760,266</u>	<u>2,461,188</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	<u>\$ 640,945</u>	<u>\$ 581,347</u>	<u>\$ 558,349</u>	<u>\$ 521,497</u>	<u>\$ 513,404</u>	<u>\$ 5,190,727</u>	<u>\$ 8,006,269</u>
DISCRETELY PRESENTED COMPONENT UNITS							
GOVERNMENTAL FUNDS:							
Other Bonds:							
Pennsylvania Higher Educational Facilities Authority	\$ 266,872	\$ 258,369	\$ 258,523	\$ 255,058	\$ 258,813	\$ 4,783,035	\$ 6,080,670
State Public School Building Authority ..	<u>46,890</u>	<u>46,455</u>	<u>45,608</u>	<u>44,051</u>	<u>43,786</u>	<u>408,134</u>	<u>634,924</u>
Total Principal and Interest	313,762	304,824	304,131	299,109	302,599	5,191,169	6,715,594
Less: Interest Payments	<u>169,912</u>	<u>171,735</u>	<u>166,737</u>	<u>161,165</u>	<u>155,361</u>	<u>1,692,282</u>	<u>2,517,192</u>
TOTAL GOVERNMENTAL FUNDS ...	<u>\$ 143,850</u>	<u>\$ 133,089</u>	<u>\$ 137,394</u>	<u>\$ 137,944</u>	<u>\$ 147,238</u>	<u>\$ 3,498,887</u>	<u>\$ 4,198,402</u>
PROPRIETARY FUNDS:							
Revenue Bonds:							
Pennsylvania Higher Education Assistance Agency	\$ 39,993	\$ 40,008	\$ 40,013	\$ 40,014	\$ 34,738	\$ 982,255	\$ 1,177,021
Pennsylvania Housing Finance Agency ..	242,158	245,708	230,412	231,341	229,313	4,359,997	5,538,929
Pennsylvania Industrial Development Authority	42,525	42,399	42,243	41,623	40,322	245,907	455,019
Pennsylvania Turnpike Commission	361,817	142,125	141,205	141,398	140,707	2,092,026	3,019,278
Pennsylvania Infrastructure Investment Authority	<u>22,226</u>	<u>22,075</u>	<u>21,768</u>	<u>21,388</u>	<u>20,493</u>	<u>100,602</u>	<u>208,552</u>
Total Principal and Interest	708,719	492,315	475,641	475,764	465,573	7,780,787	10,398,799
Less: Interest Payments	<u>326,315</u>	<u>323,073</u>	<u>313,511</u>	<u>304,080</u>	<u>293,393</u>	<u>2,989,748</u>	<u>4,550,120</u>
TOTAL PROPRIETARY FUNDS	<u>382,404</u>	<u>169,242</u>	<u>162,130</u>	<u>171,684</u>	<u>172,180</u>	<u>4,791,039</u>	<u>5,848,679</u>
TOTAL COMPONENT UNITS	<u>\$ 526,254</u>	<u>\$ 302,331</u>	<u>\$ 299,524</u>	<u>\$ 309,628</u>	<u>\$ 319,418</u>	<u>\$ 8,289,926</u>	<u>\$10,047,081</u>

NOTES TO FINANCIAL STATEMENTS

NOTE K – LONG-TERM OBLIGATIONS (continued)

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in-substance purchases (capital leases) and are reported as Capital Lease Obligations. In addition, the Commonwealth also makes purchases using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments under capital leases and installment purchase obligations, together with the present value of the net minimum lease payments as of June 30, 2001 (amounts in thousands):

	<u>Primary Government</u>			<u>Discretely Presented Component Units</u>	
	<u>General Long-Term Obligations</u>	<u>Master Lease Obligations</u>	<u>Installment Purchase Obligations</u>	<u>Pennsylvania Higher Education Assistance Agency</u>	<u>College and University Funds</u>
Fiscal year ending June 30					
2002.....	\$ 8,046	\$ 61,387	\$ 9,906	\$ 6,498	\$ 37,621
2003.....	7,355	61,337	8,584	52,730	36,334
2004.....	6,794	61,287	4,824	-	36,040
2005.....	6,328	61,224	1,784	-	35,518
2006.....	6,224	61,197	708	-	35,045
Later years.....	<u>62,307</u>	<u>520,955</u>	<u>4,255</u>	-	<u>482,192</u>
Total minimum lease payments.....	97,054	827,387	30,061	59,228	662,750
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>12,152</u>	-	-	-	-
Net minimum lease payments and installment purchases.....	84,902	827,387	30,061	59,228	662,750
Less: amount representing interest.....	<u>32,603</u>	<u>232,867</u>	<u>3,896</u>	<u>8,398</u>	<u>261,260</u>
TOTAL CAPITAL LEASE AND INSTALLMENT PURCHASE OBLIGATIONS..	<u>\$ 52,299</u>	<u>\$ 594,520</u>	<u>\$ 26,165</u>	<u>\$ 50,830</u>	<u>\$ 401,490</u>

At June 30, 2001 general fixed assets included \$95.8 million of buildings and \$4.9 million of equipment being procured by capital leases. A total of \$51.7 million in general fixed assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2001 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 \$79.8 million of construction in progress related to capital leases at June 30, 2001.

In prior fiscal years, the Commonwealth 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 provided that the trustee issue certificates of participation, the proceeds of which allowed for immediate payment to Commonwealth equipment vendors. These arrangements were not a general or moral obligation of the Commonwealth; under the arrangements, Commonwealth agencies were 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 maintained custody and use of the leased equipment, the trustee held legal title to the equipment as security for the agency payments. During the fiscal year ended June 30, 2001 the certificates were fully funded and legal title to the equipment now vests with the Commonwealth agencies.

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, 2001 the PEDFA has \$1,240 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 \$99.7 million in revenue bonds outstanding at June 30, 2001. 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, 2001, \$336.1 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, 2001 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 \$20.5 million and \$42.5 million, respectively, of previously issued revenue bonds as follows (amounts in thousands):

Category	School Revenue Bonds North Star School District Series of 2001	College Revenue Bonds Butler County Community College Series A of 2001	University of the Arts Revenue Bonds Series of 2000
Issuing Authority	SPSBA	SPSBA	PHEFA
Bond Type	Revenue	Revenue	Revenue
Date Issued	6/01/01	4/26/01	12/20/00
Refunding Bonds Principal	\$8,330	\$13,925	\$27,150/\$2,250
Interest Rate (Refunding)	4.35%	5.13%	5.84%
Refunded Series	School Revenue Bonds North Star School District Series H of 1991*	College Revenue Bonds Butler County Community College Series D of 2000 Series G of 2000	University of the Arts Revenue Bonds Series of 1999 Series of 2000
Refunded Bonds Principal	\$8,060	\$11,135/\$1,280	\$23,300/\$2,000
Interest Rate (Refunded)	6.56%	5.97%/5.88%	5.40%/Variable
Payment to Escrow Agent	\$8,262	\$13,253	\$22,331
Payment to Paying Agent	-	-	\$2,159
Debt Service Savings (Loss)	\$436	\$211	**
Economic Gain (Loss)	\$418	\$302	**

Category	St. Joseph's University College Revenue Bonds Series A of 2001	Fortier Development Corp. St. Joseph's University Revenue Bonds Series H	King's College Assn. Of Independent Colleges & U. of PA Finance Program Revenue Bonds Series H6 and H7 of 2001
Issuing Authority	PHEFA	PHEFA	PHEFA
Bond Type	Revenue	Revenue	Revenue
Date Issued	3/01/01	6/12/01	6/12/01
Refunding Bonds Principal	\$10,000	\$5,600	\$3,200
Interest Rate (Refunding)	Variable	Variable	Variable
Refunded Series	St. Joseph's University Revenue Bonds Series C-4 of 1998	Fortier Development Corp. St. Joseph's University Revenue Bonds Series G2 of 2000	King's College Revenue Bonds Series B4 of 1997
Refunded Bonds Principal	\$8,600	\$5,500	\$3,100
Interest Rate (Refunded)	Variable	Variable	Variable
Payment to Escrow Agent	\$8,712	-	\$3,125
Payment to Paying Agent	-	\$5,527	-
Debt Service Savings (Loss)	***	****	\$5
Economic Gain	***	****	(\$81)

- * Current refunding.
- ** University of the Arts advance refunded the 1999 issue due to zoning litigation on the proposed construction of a new student dormitory. The 2000 bonds will result in the purchase of two existing buildings for that purpose. The 2000 notes were refunded to convert a short-term note to long-term bonds.
- *** Tax exempt bonds were refunded by taxable bonds due to litigation over a proposed conversion of an apartment building to student housing.
- **** Refunded short-term financing with a long-term bond issue.

NOTES TO FINANCIAL STATEMENTS

NOTE L – REFUNDED DEBT (continued)

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

The SPSBA and the PHEFA reported advance and current refundings in their component unit financial statements for the Hazleton Area School District, the Danville Area School District, the Southern Lehigh School District, the Allegheny County Hospital, 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, 2001, \$490.8 million of bonds outstanding that were previously accounted for in their General Long-Term Obligations Account Group have been defeased through advance or current refundings for the PHEFA and the SPSBA. Included are \$426.7 million for the PHEFA and \$64.1 million for the SPSBA.

During the fiscal year ended June 30, 2001, the Pennsylvania Housing Finance Agency (PHFA), a proprietary fund component unit, redeemed prior to maturity \$53.8 million of Single Family Mortgage Revenue Bonds, Series Z, 1990-29, 1991-30, 1991-31, 1992-33, 1994-38, 1994-41, 1994-42, 1995-44, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1997-62, 1998-64, 1999-65, 1999-66, 1999-67 and 1999-68 using mortgage prepayments. Extraordinary losses of \$548 thousand resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed. During the year ended June 30, 2001 the PHFA did not redeem any Single Family Mortgage Revenue Bonds prior to maturity, using bond proceeds.

At June 30, 2001, \$7.1 million of bonds outstanding that were previously accounted for in the financial statements of the PHFA have been defeased through refundings.

During the fiscal year ended May 31, 2001 the Pennsylvania Turnpike Commission (PTC), a proprietary fund component unit, issued \$244.9 million in Series S Revenue Refunding Bonds at 3.4 to 5.6 percent to advance refund the PTC's Series L Revenue Bonds which occurred on June 1, 2001.

At May 31, 2001, \$724 million of bonds outstanding that were previously accounted for in the financial statements of the PTC have been defeased through refundings.

At June 30, 2001, \$24.3 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Infrastructure Investment Authority, a proprietary fund component unit, have been defeased through refundings.

At June 30, 2001, \$89.4 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, 2001, \$65.0 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 TO GAAP BASIS AMOUNTS

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

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>
BUDGETARY BASIS:		
Budgetary basis — revenues and other sources under expenditures.....	\$ (275,069)	\$ (49,685)
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue.....	917,513	1,831,759
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>(305,402)</u>	<u>(1,722,658)</u>
Net adjustments	<u>612,111</u>	<u>109,101</u>
NONBUDGETED FUNDS:		
GAAP basis — revenues and other sources over expenditures and other uses.....	-	<u>12,891</u>
TOTAL ALL FUNDS:		
GAAP basis — revenues and other sources over expenditures and other uses.....	<u>\$ 337,042</u>	<u>\$ 72,307</u>

The above revenue adjustments include net revenue accruals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

NOTES TO FINANCIAL STATEMENTS

NOTE N – SEGMENT INFORMATION

The Commonwealth's Primary Government includes 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):

	<u>Tuition Payment</u>	<u>Small Business First</u>	<u>State Workmen's Insurance (Dec. 31, 2000)</u>	<u>State Stores (Jun. 26, 2001)</u>	<u>Volunteer Company Loan</u>	<u>Minority Business Development</u>	<u>Machinery and Equipment Loan</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 51,315	\$ 6,515	\$ 200,245	\$ 922,805	\$ 2,780	\$ 365	\$ 3,056	\$ 25,410	\$ 1,212,491
Depreciation	-	-	299	2,959	-	-	-	2,053	5,311
Operating income (loss).....	(11,130)	3,851	78,443	81,270	2,754	(51)	1,664	4,347	161,148
Operating transfers out	-	407	-	51,758	-	-	-	-	52,165
Net income (loss).....	(11,130)	3,444	78,443	36,011	2,754	(51)	1,664	5,470	116,605
Increase in contributed capital	-	13,000	-	-	-	-	6,000	5,078	24,078
Acquisition and construction of capital assets.....	-	-	185	6,999	-	-	-	506	7,690
Net increase (decrease) in cash	(45)	85	886	842	33	15	102	(1)	1,917
Total assets.....	251,548	124,014	1,714,136	282,583	113,766	5,435	63,329	81,926	2,636,737
Bonds and other long-term liabilities payable from operating revenues	-	-	1,054,252	-	-	-	-	-	1,054,252
Total fund equity	14,034	120,895	271,411	145,480	113,694	5,422	63,309	76,543	810,788
Net working capital	83,139	52,742	56,799	124,842	10,498	3,644	19,771	57,159	408,594

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, 2001. 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 of 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, 2001. No accrued liability has been reported for property losses.

At June 30, 2001, the accrued liabilities which will be paid with current expendable available financial resources are reported in the General Fund and the Motor License Fund, a Special Revenue fund. Those liabilities which will not be paid with current expendable available financial resources at June 30, 2001 are reported in the General Long-Term Obligations Account Group (GLTOAG). All accrued self-insurance liabilities at June 30, 2001 are summarized as follows (amounts in thousands):

	General Fund	Motor License Fund	GLTOAG	Total
Employee disability	\$ 71,272	\$ -	\$ 307,662	\$ 378,934
Annuitant medical/hospital	36,181	-	-	36,181
Automobile tort.....	2,771	-	15,015	17,786
Employee tort	2,450	-	23,636	26,086
General tort.....	1,625	-	31,104	32,729
Transportation.....	-	16,786	256,029	272,815
Totals	<u>\$ 114,299</u>	<u>\$ 16,786</u>	<u>\$ 633,446</u>	<u>\$ 764,531</u>

The following summary provides aggregated information on June 30, 2000 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2001 and reported self-insurance liabilities at June 30, 2001 (amounts in thousands):

	June 30, 2000	Incurred Claims		Payments		June 30, 2001
	Liability	Current	Prior	Current	Prior	Liability
Employee disability	\$ 351,801	\$ 42,509	\$ 51,240	\$ 6,770	\$ 59,846	\$ 378,934
Annuitant medical/hospital ..	32,205	289,386	-	253,205	32,205	36,181
Automobile tort.....	17,827	6,079	(3,596)	917	1,607	17,786
Employee tort.....	29,242	1,754	(2,664)	4	2,242	26,086
General tort	36,407	6,751	(8,138)	32	2,259	32,729
Transportation.....	254,131	56,858	(26,811)	440	10,923	272,815
Totals	<u>\$ 721,613</u>	<u>\$ 403,337</u>	<u>\$ 10,031</u>	<u>\$ 261,368</u>	<u>\$ 109,082</u>	<u>\$ 764,531</u>

NOTES TO FINANCIAL STATEMENTS

NOTE O - SELF-INSURANCE (continued)

The following summary provides aggregated information on June 30, 1999 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2000 and reported self-insurance liabilities at June 30, 2000 (amounts in thousands):

	June 30, 1999	Incurred Claims		Payments		June 30, 2000
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability	\$ 366,785	\$ 33,726	\$ 16,869	\$ 5,630	\$ 59,949	\$ 351,801
Annuitant medical/hospital ..	32,630	254,455	-	222,250	32,630	32,205
Automobile tort.....	16,740	1,600	2,785	784	2,514	17,827
Employee tort.....	27,931	232	4,290	-	3,211	29,242
General tort.....	35,931	870	918	17	1,295	36,407
Transportation.....	<u>245,952</u>	<u>4,448</u>	<u>20,188</u>	<u>495</u>	<u>15,962</u>	<u>254,131</u>
Totals	<u>\$ 725,969</u>	<u>\$ 295,331</u>	<u>\$ 45,050</u>	<u>\$ 229,176</u>	<u>\$ 115,561</u>	<u>\$ 721,613</u>

NOTE P - COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2001, the Department of Transportation and at May 31, 2001, the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately \$2,291.4 million and \$499 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 \$5.3 billion at June 30, 2001. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Loan Commitments: At June 30, 2001, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	\$	208
Pennsylvania Industrial Development Authority.....		173
Pennsylvania Infrastructure Investment Authority		362

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, 2001 were as follows (amounts in thousands):

Fiscal year ending June 30:

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
2001	\$ 183,296	\$10,685
2002	130,591	9,515
2003	93,417	4,843
2004	71,194	987
2005	54,044	194
Later years	<u>164,626</u>	<u>219</u>
Total Minimum Lease Payments	<u>\$ 697,168</u>	<u>\$26,443</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2001 amounted to \$329.9 million (\$323.9 million for primary government, \$6 million for discretely presented component units).

NOTES TO FINANCIAL STATEMENTS

NOTE P – COMMITMENTS AND CONTINGENCIES (continued)

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 2001 with respect to torts as described in Note O, and other General Long-Term Obligations with respect to other matters of litigation in the amount of \$108,516 thousand for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings relative to a case concerning the distribution of certain state funding for public education in an approximate amount ranging from \$200 million to \$1 billion. Other cases that the Commonwealth is vigorously contesting could range from approximately \$173 million to \$825 million, zero to \$223 million, zero to \$15 million, zero to \$3 million, zero to \$1 million, and zero to \$27 million of additional liabilities for the General Fund, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Expendable Trust Funds and the Pension Trust Fund, respectively. 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 \$120 to \$496 million at June 30, 2001. 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 component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated \$17 billion at June 30, 2001. 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, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to this agreement, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with various federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA. During the year ended June 30, 2000, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the U.S. Department of Education.

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, 2001, the amount of future payments owed to prizewinners is \$1.6 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, 2001, the future payments of \$365 million have been voluntarily assigned by prizewinners.

Child Support Payments: At June 30, 2001, the Commonwealth is contingently liable for approximately \$48 million in payments received by a contractor to be used for child support payments.

NOTES TO FINANCIAL STATEMENTS

NOTE Q - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Medical Professional Liability Catastrophe Loss Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund levies healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, to pay claims and administrative expenses paid on behalf of healthcare providers during the prior year. The actuarially computed liability to the healthcare providers for claims outstanding at June 30, 2001 totals \$2,283.3 million (\$1,771.8 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, 2001 is \$136.7 million. This is reported as a fund liability. The remaining claims will be funded exclusively through surcharge assessments in future years as claims are settled and paid; as a result, a financial liability for remaining claims is not reported.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The Fund actuary has estimated potential claims of \$380.5 million at December 31, 2000; on a pro-rata basis, \$346.7 million at June 30, 2001. There are statutory limits on the extent of the Fund's liability to participating owners and operators; the Fund is not obligated beyond assets held at June 30, 2001. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE R - DEFERRED COMPENSATION

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

Of the \$974 million in assets reported in the Deferred Compensation Fund, an Expendable Trust Fund, at December 31, 2000, \$943 million relates to primary government employees and \$27 million relates to employees of discretely presented component units. The remaining balance of \$4 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTES TO FINANCIAL STATEMENTS

NOTE S - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth is required to fund all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Collective bargaining agreements and administrative policies establish contribution rates and/or amounts. During the fiscal year ended June 30, 2001, the Commonwealth contributed almost \$715 million to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF. At June 30, 2001, the PEBTF reported total assets of \$362 million, total liabilities and benefit obligations of \$103 million, and net assets available for benefits of \$259 million. During the fiscal year, net assets available for benefits decreased by \$27 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is not evident.

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE T – BUDGETARY COMPLIANCE

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the General Fund includes \$502 million in supplemental appropriations approved during the fiscal year ended June 30, 2001.

A separately available report, the “*Status of Appropriations*,” demonstrates budgetary expenditure compliance for the General Fund for the fiscal year ended June 30, 2001. This report includes a variety of detail information and summaries related to individual appropriations. A second “*Status of Appropriations*” report (for Special Funds) demonstrates compliance for the five budgeted Special Revenue funds: Motor License, State Lottery, Workmen’s Compensation Administration, Banking Department and Milk Marketing. Both “*Status*” reports are available from the Office of the Budget. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

The General Appropriation Act of 2000, for the fiscal year ended June 30, 2001, provided for one-time property tax rebates to qualifying Pennsylvania homeowners. The amounts paid to individual homeowners were based on amounts homeowners paid to school districts during the 1999-2000 fiscal year; the maximum payment per homeowner was one hundred dollars. Total disbursements of \$249 million are reported as a tax revenue reduction for budgetary reporting purposes.

Total reported expenditures for “Total State Programs” included in the Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances – Budget and Actual (Budgetary Basis) are based on appropriation, augmentation and lapse amounts reported in the respective “*Status of Appropriations*” (Total All Current State Ledgers) as follows (in thousands):

	“ <i>Status</i> ” Page Reference	Total Approved Appropriations	+ Total Actual Augmentations	- Total Actual Lapses	= Reported Expenditure Amounts
General Fund amounts	7 ¹	\$ 21,180,672	\$ 1,962,909	\$199,976	\$22,943,605
less: tax refunds	7 ¹	(870,000)	-	-	(870,000)
less: property tax rebates	49	(330,000)	-	(81,000)	(249,000)
Amount reported		<u>\$ 19,980,672</u>	<u>\$ 1,962,909</u>	<u>\$118,976</u>	<u>\$21,824,605</u>
Special Revenue Funds:					
Motor License	50	\$ 2,756,540	\$ 1,167,613	\$ 77,099	\$ 3,847,054
less: reductions ²		(758,324)	(1,122,481)	(52,319)	(1,828,486)
Amount reported		<u>1,998,216</u>	<u>45,132</u>	<u>24,780</u>	<u>2,018,568</u>
State Lottery	3	994,180	7,518	55,312	946,386
Workmen’s Compensation Administration	252	46,388	178	308	46,258
Banking Department	89	10,538	-	649	9,889
Milk Marketing	95	<u>2,432</u>	<u>-</u>	<u>39</u>	<u>2,393</u>
Total Special Revenue Funds		<u>\$ 3,051,754</u>	<u>\$ 52,828</u>	<u>\$ 81,088</u>	<u>\$ 3,023,494</u>

Total actual expenditures for “Federal Programs” for the General Fund are derived from the General Fund “*Status*,” pkt page 239, page no. 239 “Summary of All Current Federal Ledgers by Character of Expenditure” as follows (in thousands): Commitments of \$1,182,478 and Expenditures of \$9,297,268, for a total of \$10,479,746.

NOTES TO FINANCIAL STATEMENTS

NOTE T – BUDGETARY COMPLIANCE (continued)

Total actual expenditures for “Federal Programs,” Special Revenue funds, are derived from the Special Funds “*Status*” as follows (in thousands): Motor License - \$954,542 (calculated in footnote 3 below) and State Lottery - \$72,641 (sum of Commitments of \$7,565 and Expenditures of \$65,076, shown on page no.13), for a total of \$1,027,183.

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

² Excludes the following appropriation symbols, beginning on page 51, Special Funds “*Status of Appropriations*”: 010-003-102-00-1; 010-008-051-00-1; 010-008-053-00-1; 010-008-181-00-1; 010-003-198-00-2; 010-038-230-00-2; 010-008-212-00-2; 010-008-214-00-2; 010-008-217-00-2; 010-008-218-00-2; and 010-008-230-00-2 through 010-008-289-00-2.

³ Consists of \$1,120,054 in Year-to-Date “Total Federal Funds” on page 115 of “*Report of Revenues and Receipts*” less \$165,512 in Year-to-Date Federal Funds amounts for the following revenue codes (also on page 115 of the “*Report*”): 010811-008051-101; 010811-008181-101; 010811-008181-108; 010811-008232-101; 010811-008284-101; 010811-008289-101; and 010811-008289-102.

NOTE U – SUBSEQUENT EVENTS

Primary Government

On September 15, 2001, the Commonwealth issued \$301 million of General Obligation Bonds, Second Series of 2001 with an interest rate of 4.364 percent. Bond proceeds will be used for the construction and major rehabilitation of public buildings, to fund redevelopment assistance and transportation assistance projects, and for the expansion and construction of county and multi-county regional prison facility projects.

On October 30, 2001, the General Assembly passed and the Governor signed Senate Bill 640 that permitted the Commonwealth to take control of the financially and academically distressed Philadelphia City School District. The Mayor of Philadelphia and the Governor continue to pursue agreement on a plan addressing the School District’s financial and academic problems.

Discretely Presented Component Units

On September 26, 2001, the Pennsylvania Housing Finance Agency (PHFA) a proprietary fund component unit, issued \$225 million of Series 2001-72 Single Family Mortgage Revenue Bonds. The proceeds of the bonds will be used to refund certain of the PHFA’s outstanding Single Family Mortgage Revenue Bonds, and to fund the purchase of new single family mortgage loans.

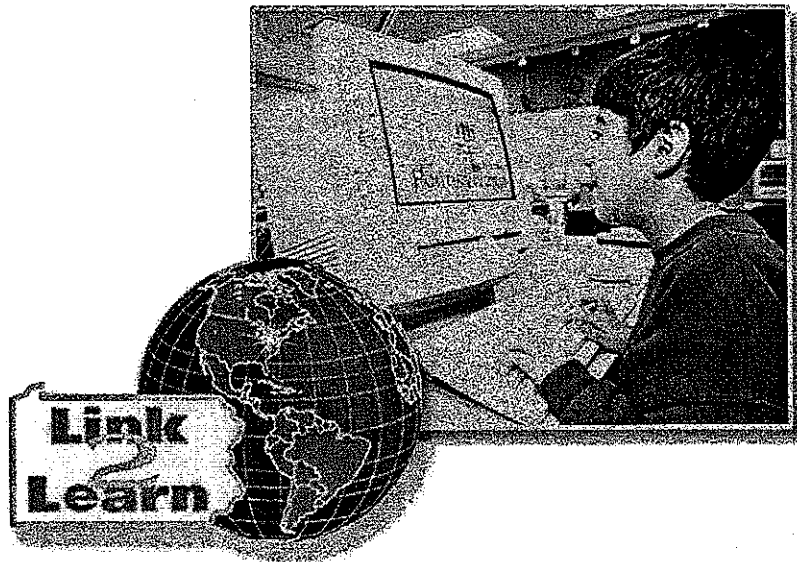
In April 2001, the Pennsylvania Turnpike Commission (PTC), a proprietary fund component unit, approved the issuance of Series T and Series U Revenue Refunding Bonds for the purpose of advance refunding Series M and Series N Revenue Bonds. The PTC also approved the issuance of Series V and Series W Revenue Refunding Bonds for the purpose of advance refunding Series O and Series P Revenue Bonds. Series T, Series U, Series V, and Series W Revenue Refunding Bonds will be issued in fiscal year 2002.

In July 2001, the PTC issued \$476.1 million in Registration Fee Bonds. The bonds, which are used to finance a portion of the costs related to the Mon/Fayette Extension and other construction related projects will be paid back from the PTC’s grants from the Commonwealth of Pennsylvania’s Motor License Fund.

In July 2001, the State System of Higher Education (SSHE), a college and university fund component unit, entered into a loan agreement with the Pennsylvania Higher Educational Facilities Authority (PHEFA) in connection with the issuance by the PHEFA of \$69.6 million of Series T tax-exempt bonds. Under the agreement, the SSHE pledged its full faith and credit for the repayment of the bonds. The bonds were issued to provide funds to undertake various capital projects at the universities within the SSHE.

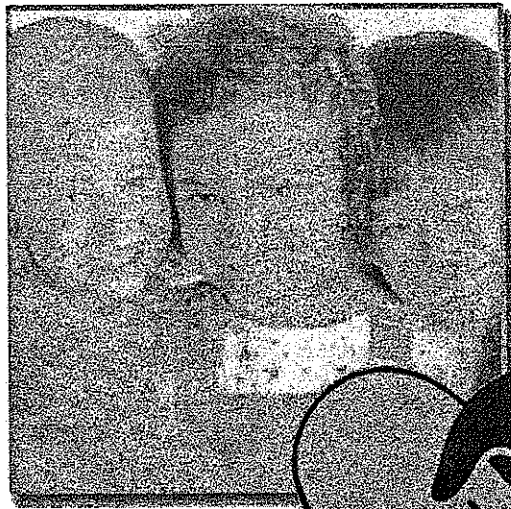
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COMBINING FINANCIAL STATEMENTS AND SCHEDULES



Link to Learn is the Commonwealth's nationally acclaimed education-technology program. This initiative is bringing the resources of the world into Pennsylvania's classrooms.

SPECIAL REVENUE *FUNDS*



CHILDREN'S PARTNERSHIP

The Partnership for Safe Children supports activities that assist local communities in establishing effective programs and services to reduce violence by and against children and youth.

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 that 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 certain other transportation needs of the Commonwealth's mass transit entities. Revenue is derived from a fee on the sale of new tires, a percent of the total sales and use tax receipts, a motor vehicle lease tax, a motor vehicle rental fee and an additional utility realty tax.

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 twenty-five individual special revenue funds.

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

COMBINING BALANCE SHEET
Special Revenue Funds

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

ASSETS:	Budgeted Funds										Total	
	State Lottery	Motor License	Workmen's Compensation Administration	Banking Department	Milk Marketing	Public Transportation Assistance	Pharmaceutical Assistance	Recycling	Fish and Game	Hazardous Sites Cleanup		Other
Cash.....	\$ 139	\$ 42,437	\$ 26	\$ 38	\$ -	\$ 10	\$ -	\$ -	\$ 20	\$ -	\$ 167	\$ 47,445
Temporary investments.....	372,147	595,909	41,064	20,210	2,765	8,621	-	-	67,315	140,801	392,576	1,810,215
Long-term investments.....	14,503	310,873	-	-	-	-	-	-	-	-	-	325,376
Receivables, net:												
Taxes.....	-	143,954	-	-	-	24,953	-	-	-	-	-	168,907
Accounts.....	13,861	-	498	3,470	-	-	4,458	-	-	-	79	22,366
Accrued interest.....	1,315	3,389	9	73	7	129	170	527	242	508	3,792	10,161
Notes and loans.....	-	-	-	-	-	-	-	1,163	-	-	55,101	56,264
Other.....	13	9,048	-	-	-	-	-	-	-	-	4	9,065
Due from other funds.....	1,500	3,820	12	-	-	3,277	5,364	-	1,504	16,220	10,946	42,643
Due from component units.....	-	70	-	-	-	-	-	-	-	-	53	123
Due from political subdivisions.....	-	255	-	-	-	-	-	-	-	-	-	255
Due from other governments.....	4,364	198,159	-	-	-	-	-	-	3,846	-	3,984	210,353
Advances to other funds.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
TOTAL ASSETS.....	\$ 407,842	\$ 1,307,914	\$ 41,609	\$ 23,791	\$ 2,772	\$ 36,990	\$ 60,002	\$ 125,095	\$ 72,927	\$ 160,529	\$ 466,702	\$ 2,706,173
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities.....	\$ 196,715	\$ 445,245	\$ 2,764	\$ 988	\$ 127	\$ 8,228	\$ 26,645	\$ 2,311	\$ 8,431	\$ 12,081	\$ 133,428	\$ 836,963
Tax refunds payable.....	-	649	-	-	-	-	-	-	-	-	-	649
Securities lending obligations.....	2,029	47,779	-	-	-	-	-	-	-	-	-	49,808
Due to other funds.....	81	24,956	94	64	2	380	-	329	711	19	13,043	39,679
Due to component units.....	-	8,660	-	-	-	-	-	-	-	-	-	8,660
Due to political subdivisions.....	4,915	11,894	-	-	-	-	-	9,350	-	-	-	26,159
Due to other governments.....	-	14,478	65	17	6	-	-	13	333	-	3,289	18,201
Deferred revenue.....	2,887	117	-	3,360	902	-	-	-	2,492	-	14,641	24,399
Advances from other funds.....	-	2,175	-	-	-	-	10,333	-	-	-	-	12,508
TOTAL LIABILITIES.....	206,627	555,953	2,923	4,429	1,037	8,608	36,978	12,003	11,967	12,100	164,401	1,017,026
Fund Balance:												
Reserved for:												
Encumbrances.....	5	382,462	314	-	8	-	486	9,346	3,316	13,334	31,512	440,783
Advances.....	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Loans receivable.....	-	-	-	-	-	-	-	1,163	-	-	55,101	56,264
Other.....	13	-	502	-	-	-	5,763	366	1,524	-	27,571	35,739
Unreserved:												
Designated for:												
Highways.....	-	182,670	-	-	-	-	-	-	-	-	-	182,670
Other.....	264	-	-	-	-	-	-	-	-	-	-	264
Undesignated.....	200,933	186,829	37,870	19,362	1,727	28,382	16,775	102,217	56,120	132,095	188,117	970,427
TOTAL FUND BALANCE.....	201,215	751,961	38,686	19,362	1,735	28,382	23,024	113,092	60,960	148,429	302,301	1,689,147
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 407,842	\$ 1,307,914	\$ 41,609	\$ 23,791	\$ 2,772	\$ 36,990	\$ 60,002	\$ 125,095	\$ 72,927	\$ 160,529	\$ 466,702	\$ 2,706,173

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

For Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Budgeted Funds										Recycling	Fish and Game	Hazardous Sites Cleanup	Other	Total	
	State Lottery	Motor License	Workmen's Compensation Administration	Banking Department	Milk Marketing	Public Transportation Assistance	Pharmaceutical Assistance									
REVENUES:																
Taxes.....	\$ -	\$ 1,647,122	\$ -	\$ -	\$ -	\$ 177,957	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,236	\$ 33,842	\$ 1,887,157		
Licenses and fees.....	11	806,726	-	3,868	2,344	-	-	-	-	-	-	2,495	44,177	969,781		
Intergovernmental.....	67,758	1,305,345	-	-	-	-	-	-	-	-	-	-	109,750	1,497,846		
Charges for sales and services.....	7,532	67,031	44,879	7,973	-	-	-	-	-	-	-	-	55,118	202,842		
Investment income.....	21,645	21,655	498	1,142	137	849	1,782	-	-	-	-	8,195	21,766	90,239		
Lottery revenues.....	1,788,333	-	-	-	-	-	-	-	-	-	-	-	-	1,788,333		
Other.....	(65)	34,794	137	58	10	-	-	-	-	-	114	2,575	8,384	48,122		
TOTAL REVENUES.....	1,885,214	3,882,673	45,514	13,041	2,491	178,806	1,782	-	-	-	57,533	41,501	273,037	6,484,320		
EXPENDITURES:																
Current:																
General government.....	1,167,001	399,531	42,825	10,001	2,312	-	-	-	-	-	-	-	-	54,594	1,676,264	
Protection of persons and property.....	-	-	-	-	-	-	-	-	-	-	-	-	-	15,319	15,319	
Public health and welfare.....	355,720	-	-	-	-	-	327,978	-	-	-	-	-	-	154,437	838,135	
Public education.....	-	-	-	-	-	-	-	-	-	-	-	-	-	1,901	1,901	
Conservation of natural resources.....	-	-	-	-	-	-	-	-	-	-	-	-	-	172,440	365,764	
Economic development and assistance.....	-	3,234,879	-	-	-	177,628	-	-	-	-	-	-	-	6,413	3,526,772	
Transportation.....	114,265	46,712	-	-	-	-	-	-	-	-	-	-	-	46,712		
Capital outlay.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL EXPENDITURES.....	1,636,986	3,681,122	42,825	10,001	2,312	177,628	327,978	-	-	-	47,615	40,834	405,104	6,477,280		
REVENUES OVER (UNDER) EXPENDITURES.....	248,228	201,551	2,689	3,040	179	1,178	(326,196)	-	-	-	9,918	667	(132,067)	7,040		
OTHER FINANCING SOURCES (USES):																
Bond proceeds.....	-	-	-	-	-	-	-	-	-	-	-	-	-	3,108	3,108	
Operating transfers in.....	-	-	-	-	-	-	313,744	-	-	-	726	-	215,141	532,051		
Operating transfers out.....	(290,000)	(110,089)	-	-	-	(4,756)	-	-	-	-	(27,129)	-	(5,000)	(473,710)		
Capital lease and installment purchase obligations.....	-	3,818	-	-	-	-	-	-	-	-	-	-	-	3,818		
NET OTHER FINANCING SOURCES (USES).....	(290,000)	(106,271)	-	-	-	(4,756)	313,744	-	-	-	(26,403)	2,440	(5,000)	65,267		
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....	(41,772)	95,280	2,689	3,040	179	(3,578)	(12,452)	-	-	-	(16,485)	293	(4,333)	72,307		
FUND BALANCES, JULY 1, 2000.....	242,987	684,681	35,997	16,322	1,556	31,960	35,476	-	-	-	129,577	60,667	152,762	1,676,594		
RESIDUAL EQUITY TRANSFERS.....	-	(28,000)	-	-	-	-	-	-	-	-	-	-	(31,754)	(59,754)		
FUND BALANCES, JUNE 30, 2001.....	\$ 201,215	\$ 751,961	\$ 38,686	\$ 19,362	\$ 1,735	\$ 28,382	\$ 23,024	\$ -	\$ -	\$ -	\$ 113,092	\$ 60,960	\$ 148,429	\$ 1,689,147		

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

Budgeted Special Revenue Funds

For Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Lottery			Motor License		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ -	\$ -	\$ -	\$ 1,058,200	\$ 1,070,185	\$ 11,985
Lottery receipts.....	898,111	858,531	(39,580)	-	-	-
Licenses and fees.....	-	-	-	814,680	795,370	(19,310)
Investment income.....	25,063	23,023	(2,040)	47,872	39,244	(8,628)
Fines, penalties and interest.....	-	-	-	30,250	29,967	(283)
Departmental services.....	7,518	7,518	-	45,132	45,132	-
Miscellaneous.....	356	(65)	(421)	19,378	17,050	(2,328)
TOTAL STATE PROGRAMS.....	931,048	889,007	(42,041)	2,015,512	1,996,948	(18,564)
Federal Programs	92,208	72,641	(19,567)	787,362	954,542	167,180
TOTAL REVENUES.....	1,023,256	961,648	(61,608)	2,802,874	2,951,490	148,616
EXPENDITURES:						
State Programs:						
General government.....	237,648	218,416	19,232	60,100	57,127	2,973
Protection of persons and property.....	-	-	-	330,508	320,397	10,111
Public health and welfare.....	764,050	727,970	36,080	-	-	-
Public education.....	-	-	-	1,639	1,077	562
Conservation of natural resources.....	-	-	-	1,000	1,000	-
Debt service.....	-	-	-	81,283	81,282	1
Economic development and assistance.....	-	-	-	-	-	-
Transportation.....	-	-	-	1,568,818	1,557,685	11,133
TOTAL STATE PROGRAMS.....	1,001,698	946,386	55,312	2,043,348	2,018,568	24,780
Federal Programs	92,208	72,641	19,567	787,362	954,542	(167,180)
TOTAL EXPENDITURES.....	1,093,906	1,019,027	74,879	2,830,710	2,973,110	(142,400)
REVENUES OVER (UNDER) EXPENDITURES.....	(70,650)	(57,379)	13,271	(27,836)	(21,620)	6,216
OTHER FINANCING SOURCES:						
Prior year lapses.....	2,130	2,130	-	24,345	24,345	-
NET OTHER FINANCING SOURCES.....	2,130	2,130	-	24,345	24,345	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(68,520)	(55,249)	13,271	(3,491)	2,725	6,216
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JULY 1, 2000.....	390,965	390,965	-	112,136	112,136	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS),						
JUNE 30, 2001.....	\$ 322,445	\$ 335,716	\$ 13,271	\$ 108,645	\$ 114,861	\$ 6,216

(Continued)

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

Budgeted Special Revenue Funds (Continued)

For Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Workmen's Compensation Administration			Banking Department		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ 46,388	\$ 44,203	\$ (2,185)	\$ -	\$ -	\$ -
Lottery receipts.....	-	-	-	-	-	-
Licenses and fees.....	-	-	-	11,660	12,544	884
Investment income.....	1,867	497	(1,370)	873	1,162	289
Fines, penalties and interest.....	30	8	(22)	50	53	3
Departmental services.....	178	178	-	-	-	-
Miscellaneous.....	503	134	(369)	-	2	2
TOTAL STATE PROGRAMS.....	48,966	45,020	(3,946)	12,583	13,761	1,178
Federal Programs	-	-	-	-	-	-
TOTAL REVENUES.....	48,966	45,020	(3,946)	12,583	13,761	1,178
EXPENDITURES:						
State Programs:						
General government.....	46,388	46,080	308	10,538	9,889	649
Protection of persons and property.....	-	-	-	-	-	-
Public health and welfare.....	-	-	-	-	-	-
Public education.....	-	-	-	-	-	-
Conservation of natural resources.....	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-
Economic development and assistance.....	178	178	-	-	-	-
Transportation.....	-	-	-	-	-	-
TOTAL STATE PROGRAMS	46,566	46,258	308	10,538	9,889	649
Federal Programs	-	-	-	-	-	-
TOTAL EXPENDITURES.....	46,566	46,258	308	10,538	9,889	649
REVENUES OVER (UNDER) EXPENDITURES.....	2,400	(1,238)	(3,638)	2,045	3,872	1,827
OTHER FINANCING SOURCES:						
Prior year lapses.....	18	18	-	34	34	-
NET OTHER FINANCING SOURCES.....	18	18	-	34	34	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	2,418	(1,220)	(3,638)	2,079	3,906	1,827
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JULY 1, 2000.....	38,447	38,447	-	15,061	15,061	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2001.....						
	\$ 40,865	\$ 37,227	\$ (3,638)	\$ 17,140	\$ 18,967	\$ 1,827

(Continued)

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

Budgeted Special Revenue Funds (Continued)

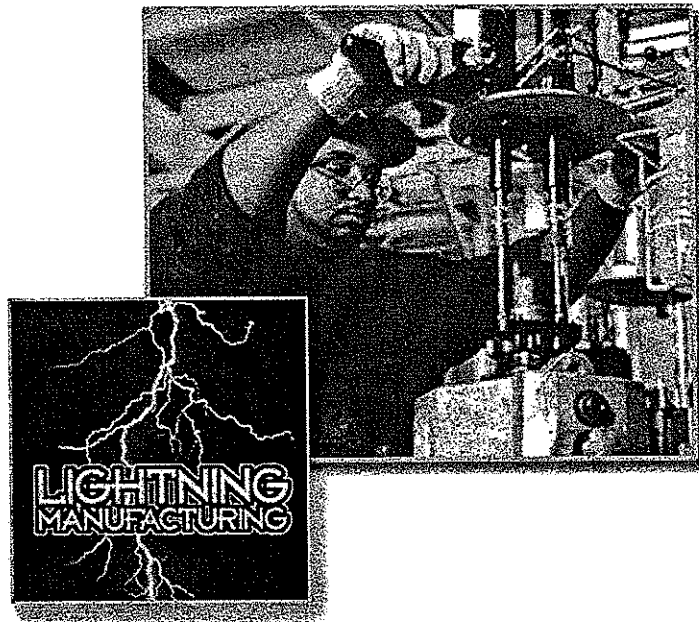
For Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Milk Marketing			Total		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds.....	\$ -	\$ -	\$ -	\$ 1,104,588	\$ 1,114,388	\$ 9,800
Lottery receipts.....	-	-	-	898,111	858,531	(39,580)
Licenses and fees.....	2,134	2,345	211	828,474	810,259	(18,215)
Investment income.....	146	143	(3)	75,821	64,069	(11,752)
Fines, penalties and interest.....	8	10	2	30,338	30,038	(300)
Departmental services.....	-	-	-	52,828	52,828	-
Miscellaneous.....	1	-	(1)	20,238	17,121	(3,117)
TOTAL STATE PROGRAMS.....	2,289	2,498	209	3,010,398	2,947,234	(63,164)
Federal Programs.....	-	-	-	879,570	1,027,183	147,613
TOTAL REVENUES.....	2,289	2,498	209	3,889,968	3,974,417	84,449
EXPENDITURES:						
State Programs:						
General government.....	2,432	2,393	39	357,106	333,905	23,201
Protection of persons and property.....	-	-	-	330,508	320,397	10,111
Public health and welfare.....	-	-	-	764,050	727,970	36,080
Public education.....	-	-	-	1,639	1,077	562
Conservation of natural resources.....	-	-	-	1,000	1,000	-
Debt service.....	-	-	-	81,283	81,282	1
Economic development and assistance.....	-	-	-	178	178	-
Transportation.....	-	-	-	1,568,818	1,557,685	11,133
TOTAL STATE PROGRAMS.....	2,432	2,393	39	3,104,582	3,023,494	81,088
Federal Programs.....	-	-	-	879,570	1,027,183	(147,613)
TOTAL EXPENDITURES.....	2,432	2,393	39	3,984,152	4,050,677	(66,525)
REVENUES OVER (UNDER) EXPENDITURES.....	(143)	105	248	(94,184)	(76,260)	17,924
OTHER FINANCING SOURCES:						
Prior year lapses.....	48	48	-	26,575	26,575	-
NET OTHER FINANCING SOURCES.....	48	48	-	26,575	26,575	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....	(95)	153	248	(67,609)	(49,685)	17,924
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS)						
JULY 1, 2000.....	1,486	1,486	-	558,095	558,095	-
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2001.....	\$ 1,391	\$ 1,639	\$ 248	\$ 490,486	\$ 508,410	\$ 17,924

DEBT SERVICE FUNDS



Lightning Manufacturing creates Virtual Corporation Management Systems to provide an on-line forum for groups of companies to collaborate as "virtual corporations" for joint bids on manufacturing and design contracts.

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, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS:								
Cash.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 4
Temporary investments.....	1	-	128,972	69	-	17	-	129,059
Receivables, net:								
Accounts.....	-	-	6,126	-	-	-	-	6,126
Accrued interest.....	-	-	48	-	-	-	-	48
Lease rental.....	-	-	1,642	-	-	-	-	1,642
Due from other funds.....	-	-	-	12	-	16	-	28
Due from component unit.....	-	23,835	-	-	-	-	-	23,835
TOTAL ASSETS	\$ 1	\$ 23,835	\$ 136,788	\$ 81	\$ -	\$ 33	\$ 4	\$ 160,742
LIABILITIES AND FUND BALANCES:								
Liabilities:								
Deferred revenue.....	\$ -	\$ -	\$ 7,768	\$ -	\$ -	\$ -	\$ -	\$ 7,768
Other liabilities.....	7	11	877	-	-	-	2	897
TOTAL LIABILITIES	7	11	8,645	-	-	-	2	8,665
Fund balance:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds.....	-	23,824	128,143	81	-	33	4	152,085
Undesignated deficit.....	(6)	-	-	-	-	-	(2)	(8)
TOTAL FUND BALANCES (DEFICIT)	(6)	23,824	128,143	81	-	33	2	152,077
TOTAL LIABILITIES AND FUND BALANCES	\$ 1	\$ 23,835	\$ 136,788	\$ 81	\$ -	\$ 33	\$ 4	\$ 160,742

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

Debt Service Funds

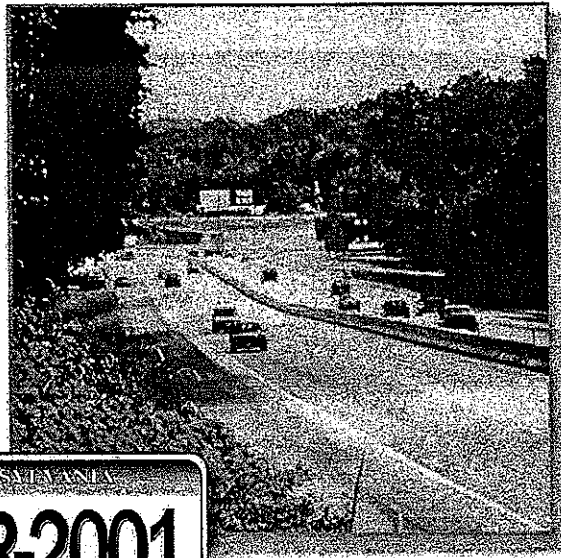
For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
REVENUES:								
Investment income.....	\$ -	\$ 6	\$ 8,513	\$ 1	\$ -	\$ 239	\$ 2	\$ 8,761
Lease rental principal and interest.....	-	-	1,544	-	-	-	-	1,544
Other.....	1	-	158	-	-	-	-	159
TOTAL REVENUES	1	6	10,215	1	-	239	2	10,464
EXPENDITURES:								
Debt service:								
Principal retirement.....	7,315	14,175	414,850	4,770	6,995	12,145	16,751	477,001
Interest and fiscal charges.....	2,137	12,419	242,309	1,553	5,635	1,420	15,777	281,250
TOTAL EXPENDITURES	9,452	26,594	657,159	6,323	12,630	13,565	32,528	758,251
REVENUES UNDER EXPENDITURES	(9,451)	(26,588)	(646,944)	(6,322)	(12,630)	(13,326)	(32,526)	(747,787)
OTHER FINANCING SOURCES (USES):								
Operating transfers in.....	9,498	24,590	391,284	6,314	12,629	13,316	32,525	490,156
Operating transfers out.....	-	-	-	-	-	-	(1)	(1)
NET OTHER FINANCING SOURCES	9,498	24,590	391,284	6,314	12,629	13,316	32,524	490,155
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....	47	(1,998)	(255,660)	(8)	(1)	(10)	(2)	(257,632)
FUND BALANCES (DEFICIT), JULY 1, 2000.....	(53)	25,822	383,803	89	1	44	3	409,709
FUND BALANCES (DEFICIT), JUNE 30, 2001.....	\$ (6)	\$ 23,824	\$ 128,143	\$ 81	\$ -	\$ 34	\$ 1	\$ 152,077

CAPITAL PROJECTS

FUNDS



Pennsylvania's goal is to deliver a transportation system that provides fast, safe and efficient intermodal transportation, as well as convenient related services throughout the Commonwealth.

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.

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.

Local Criminal Justice — to account for the proceeds of bonds issued for grants to counties and multi-county authorities for the repair, expansion, construction, rehabilitation and improvement of local correctional facilities or multi-county regional prison facilities.

There are a total of three individual capital projects funds.

COMBINING BALANCE SHEET
Capital Projects Funds

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Capital Facilities</u>	<u>Keystone Recreation, Park and Conservation</u>	<u>Local Criminal Justice</u>	<u>Total</u>
ASSETS				
Temporary investments.....	\$ 256,296	\$ 136,211	\$ 1,336	\$ 393,843
Receivable:				
Accrued interest.....	1,013	501	5	1,519
Due from other funds.....	<u>12,073</u>	<u>4,340</u>	<u>-</u>	<u>16,413</u>
TOTAL ASSETS	<u>\$ 269,382</u>	<u>\$ 141,052</u>	<u>\$ 1,341</u>	<u>\$ 411,775</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 140,908	\$ 18,695	\$ -	\$ 159,603
Due to other funds.....	-	131	-	131
Due to other governments.....	<u>56,821</u>	<u>446</u>	<u>760</u>	<u>58,027</u>
TOTAL LIABILITIES.....	<u>197,729</u>	<u>19,272</u>	<u>760</u>	<u>217,761</u>
Fund Balance:				
Reserved for:				
Encumbrances.....	737,433	42,494	-	779,927
Other.....	2,311	-	-	2,311
Unreserved:				
Designated for:				
Capital projects.....	-	79,286	581	79,867
Undesignated deficit.....	<u>(668,091)</u>	<u>-</u>	<u>-</u>	<u>(668,091)</u>
TOTAL FUND BALANCES.....	<u>71,653</u>	<u>121,780</u>	<u>581</u>	<u>194,014</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 269,382</u>	<u>\$ 141,052</u>	<u>\$ 1,341</u>	<u>\$ 411,775</u>

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

Capital Projects Funds

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Capital Facilities</u>	<u>Keystone Recreation, Park and Conservation</u>	<u>Local Criminal Justice</u>	<u>Total</u>
REVENUES:				
Taxes.....	\$ -	\$ 47,380	\$ -	\$ 47,380
Charges for sales and services.....	77,017	-	-	77,017
Investment income.....	19,085	7,821	61	26,967
Other.....	178	-	-	178
TOTAL REVENUES.....	96,280	55,201	61	151,542
EXPENDITURES:				
General government.....	2,541	-	-	2,541
Protection of persons and property.....	-	-	2,130	2,130
Public education.....	-	7,765	-	7,765
Conservation of natural resources.....	2,262	45,263	-	47,525
Economic development and assistance.....	216,657	-	-	216,657
Transportation.....	136,731	-	-	136,731
Capital outlay.....	491,182	-	-	491,182
Debt service:				
Interest and fiscal charges.....	340	-	-	340
TOTAL EXPENDITURES.....	849,713	53,028	2,130	904,871
REVENUES OVER (UNDER) EXPENDITURES.....	(753,433)	2,173	(2,069)	(753,329)
OTHER FINANCING SOURCES:				
Bond proceeds.....	658,763	-	2,048	660,811
NET OTHER FINANCING SOURCES.....	658,763	-	2,048	660,811
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....				
	(94,670)	2,173	(21)	(92,518)
FUND BALANCES, JULY 1, 2000.....	166,323	119,607	602	286,532
FUND BALANCES, JUNE 30, 2001.....	\$ 71,653	\$ 121,780	\$ 581	\$ 194,014

ENTERPRISE FUNDS



The Made in PA logo symbolizes and identifies the wide range of quality products made in 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 five individual enterprise funds.

There are a total of twelve individual enterprise funds.

COMBINING BALANCE SHEET
Enterprise Funds

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 2000)	State Stores (Jun. 26, 2001)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
ASSETS:									
Cash.....	\$ 581	\$ 317	\$ 2,165	\$ 13,082	\$ 188	\$ 9	\$ 241	\$ 107	\$ 16,690
Cash with fiscal agents.....	-	-	-	-	-	524	-	-	524
Temporary investments.....	97,590	52,073	418,004	96,724	10,278	3,074	19,342	60,059	757,144
Long-term investments.....	152,171	-	1,270,356	-	-	-	-	-	1,422,527
Receivables, net:									
Accounts.....	12	-	8,861	2,134	-	-	-	200	11,207
Accrued interest.....	1,194	471	14,008	363	104	50	208	623	17,021
Notes and loans.....	-	71,149	-	-	103,196	1,777	43,517	12,621	232,260
Other.....	-	4	-	-	-	1	21	-	26
Due from other funds.....	-	-	224	353	-	-	-	1,336	1,913
Due from other governments.....	-	-	-	-	-	-	-	12	12
Inventory.....	-	-	-	148,458	-	-	-	155	148,613
Fixed assets.....	-	-	12,662	63,165	-	-	-	23,061	98,888
Less: accumulated depreciation.....	-	-	(12,167)	(42,527)	-	-	-	(16,298)	(70,992)
Other assets.....	-	-	23	831	-	-	-	50	904
TOTAL ASSETS	\$ 251,548	\$ 124,014	\$ 1,714,136	\$ 282,583	\$ 113,766	\$ 5,435	\$ 63,329	\$ 81,926	\$ 2,636,737
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable and accrued liabilities.....	\$ 145	\$ 45	\$ 7,146	\$ 116,970	\$ -	\$ -	\$ -	\$ 3,231	\$ 127,537
Tuition benefits payable.....	221,126	-	-	-	-	-	-	-	221,126
Securities lending obligations.....	16,082	-	355,596	-	-	-	-	-	371,678
Due to other funds.....	8	-	1,506	19,772	-	-	-	61	21,347
Due to other governments.....	3	-	-	361	-	-	-	126	490
Deferred revenue.....	-	74	19,597	-	72	13	-	1,960	21,716
Advances from other funds.....	150	3,000	1,987	-	-	-	-	-	5,137
Other liabilities.....	-	-	2,641	-	-	-	20	5	2,666
Insurance loss liability.....	-	-	1,054,252	-	-	-	-	-	1,054,252
TOTAL LIABILITIES	237,514	3,119	1,442,725	137,103	72	13	20	5,383	1,825,949
Fund Equity:									
Contributed capital.....	-	109,068	-	2,294	80,416	35,660	54,700	30,611	312,749
Retained earnings:									
Reserved.....	-	1,300	5	-	-	-	-	6,179	7,484
Unreserved (deficit).....	14,034	10,527	271,406	143,186	33,278	(30,238)	8,609	39,753	490,555
TOTAL FUND EQUITY	14,034	120,895	271,411	145,480	113,694	5,422	63,309	76,543	810,788
TOTAL LIABILITIES AND FUND EQUITY	\$ 251,548	\$ 124,014	\$ 1,714,136	\$ 282,583	\$ 113,766	\$ 5,435	\$ 63,329	\$ 81,926	\$ 2,636,737

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

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 2000)	State Stores (Jun. 26, 2001)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
OPERATING REVENUES:									
Sales and services.....	\$ 58,556	\$ -	\$ 60,097	\$ 922,805	\$ -	\$ -	\$ -	\$ 22,185	\$ 1,063,64
Investment income.....	(7,241)	3,375	140,047	-	783	194	1,380	2,795	141,33
Interest on notes and loans.....	-	3,140	-	-	1,997	163	1,511	430	7,241
Other.....	-	-	101	-	-	8	165	-	274
TOTAL OPERATING REVENUES.....	51,315	6,515	200,245	922,805	2,780	365	3,056	25,410	1,212,49
OPERATING EXPENSES:									
Cost of sales and services.....	62,445	1,260	114,042	838,174	-	(29)	167	19,001	1,035,060
Interest expense.....	-	-	5,910	-	-	-	-	-	5,91
Depreciation.....	-	-	299	2,959	-	-	-	2,053	5,31
Provision for uncollectible accounts.....	-	1,404	1,551	402	26	280	1,225	9	4,897
Other.....	-	-	-	-	-	165	-	-	165
TOTAL OPERATING EXPENSES.....	62,445	2,664	121,802	841,535	26	416	1,392	21,063	1,051,34
OPERATING INCOME.....	(11,130)	3,851	78,443	81,270	2,754	(51)	1,664	4,347	161,148
NONOPERATING REVENUES (EXPENSES):									
Investment income.....	-	-	-	6,631	-	-	-	352	6,98
Other revenues.....	-	-	-	-	-	-	-	771	77
Other expenses.....	-	-	-	(132)	-	-	-	-	(132)
NONOPERATING REVENUES, NET.....	-	-	-	6,499	-	-	-	1,123	7,62
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	(11,130)	3,851	78,443	87,769	2,754	(51)	1,664	5,470	168,770
OPERATING TRANSFERS:									
Operating transfers out.....	-	(407)	-	(51,758)	-	-	-	-	(52,165)
OPERATING TRANSFERS, NET.....	-	(407)	-	(51,758)	-	-	-	-	(52,165)
NET INCOME (LOSS).....	(11,130)	3,444	78,443	36,011	2,754	(51)	1,664	5,470	116,60
RETAINED EARNINGS (DEFICIT), JULY 1, 2000.....	25,164	8,383	192,968	107,175	30,524	(30,187)	6,945	40,462	381,434
RETAINED EARNINGS (DEFICIT), JUNE 30, 2001.....	\$ 14,034	\$ 11,827	\$ 271,411	\$ 143,186	\$ 33,278	\$ (30,238)	\$ 8,609	\$ 45,932	\$ 498,03

COMBINING STATEMENT OF CASH FLOWS
Enterprise Funds

For the Fiscal Year Ended June 30, 2001

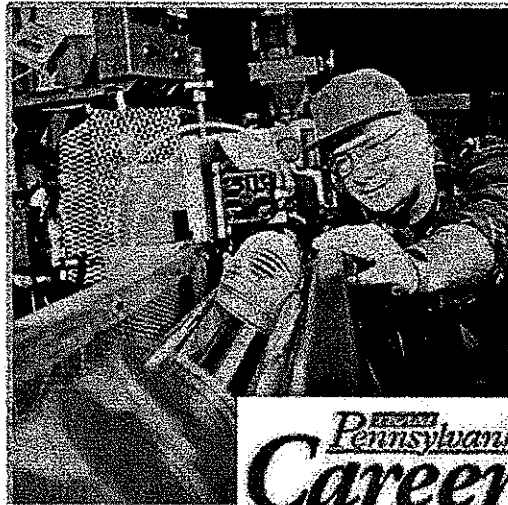
COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Tuition Payment	Small Business First	State Workmen's Insurance (Dec. 31, 2000)	State Stores (Jun. 27, 2001)	Volunteer Companies Loan	Minority Business Development	Machinery and Equipment Loan	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Operating income	\$ (11,130)	\$ 3,851	\$ 78,443	\$ 81,270	\$ 2,754	\$ (51)	\$ 1,664	\$ 4,347	\$ 161,148
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:									
Depreciation.....	-	-	299	2,959	-	-	-	2,053	5,311
Provision for uncollectible accounts.....	-	1,404	1,551	402	26	280	1,225	9	4,897
Nonoperating revenues.....	-	-	-	-	-	-	-	771	771
Reclassification of investment income.....	7,241	(3,375)	(140,047)	-	(783)	(194)	(1,380)	(2,795)	(141,333)
Change in assets and liabilities:									
Receivables.....	(227)	(16,261)	339	(976)	(6,408)	395	(9,112)	(5,038)	(37,288)
Due from other funds.....	-	-	267	(25)	-	-	-	1,194	1,436
Due from other governments.....	-	-	-	-	-	-	-	(12)	(12)
Inventory.....	-	-	-	(15,867)	-	-	-	(22)	(15,889)
Other assets.....	-	-	(23)	(186)	-	-	-	7	(202)
Accounts payable and accrued liabilities.....	(120)	(3)	4,251	16,101	-	(189)	-	277	20,317
Due to other funds.....	(2)	-	(108)	(64,882)	-	-	-	(57)	(65,049)
Due to other governments.....	1	-	-	13	-	-	-	7	21
Deferred revenue.....	-	(33)	2,797	-	10	(10)	-	(1,669)	1,095
Insurance loss liability.....	-	-	(83,207)	-	-	-	-	-	(83,207)
Tuition benefits payable.....	50,775	-	-	-	-	-	-	-	50,775
Reverse repurchase agreement obligations.....	-	-	-	(5,668)	-	-	-	-	(5,668)
Securities lending program obligations.....	16,082	-	(124,962)	-	-	-	-	-	(108,880)
Other liabilities.....	-	-	(1,000)	-	-	-	(2)	1	(1,001)
Total adjustments.....	73,750	(18,268)	(339,843)	(68,129)	(7,155)	282	(9,269)	(5,274)	(373,906)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	62,620	(14,417)	(261,400)	13,141	(4,401)	231	(7,605)	(927)	(212,758)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Repayments under advances from other funds	(100)	-	(19)	-	-	-	-	-	(119)
Operating transfers out.....	-	(407)	-	(51,758)	-	-	-	-	(52,165)
Increase in contributed capital.....	-	-	-	-	-	-	-	5,102	5,102
Decrease in contributed capital.....	-	-	-	-	-	-	-	(24)	(24)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES.....	(100)	(407)	(19)	(51,758)	-	-	-	5,078	(47,206)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Increase in contributed capital.....	-	13,000	-	-	-	-	6,000	-	19,000
Acquisition and construction of capital assets.....	-	-	(185)	(6,999)	-	-	-	(506)	(7,690)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....	-	13,000	(185)	(6,999)	-	-	6,000	(506)	11,310
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments.....	(11,783,650)	(25,316)	(756,575)	(649,598)	(12,031)	(1,463)	(18,427)	(30,949)	(13,278,009)
Proceeds from sale and maturities of investments.....	11,713,723	23,928	914,674	689,425	15,698	1,058	18,783	24,246	13,401,535
Investment income.....	7,362	3,297	104,391	6,631	767	189	1,351	3,057	127,045
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(62,565)	1,909	262,490	46,458	4,434	(216)	1,707	(3,646)	250,571
NET INCREASE (DECREASE) IN CASH.....	(45)	85	886	842	33	15	102	(1)	1,917
CASH, JULY 1, 2000.....	626	232	1,279	12,240	155	518	139	108	15,297
CASH, JUNE 30, 2001.....	\$ 581	\$ 317	\$ 2,165	\$ 13,082	\$ 188	\$ 533	\$ 241	\$ 107	\$ 17,214

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



Pennsylvania
CareerLink

CareerLink is a one-stop on-line resource for training and services for job seekers and businesses.

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, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
ASSETS			
Cash.....	\$ 95	\$ 184	\$ 279
Temporary investments.....	18,016	17,620	35,636
Receivables, net:			
Accounts.....	2	-	2
Accrued interest.....	53	65	118
Other.....	-	235	235
Due from other funds.....	38,639	6,390	45,029
Due from component units.....	501	16	517
Due from other governments.....	247	87	334
Inventory.....	1,368	12,181	13,549
Fixed assets.....	71,377	23,910	95,287
Less: accumulated depreciation.....	(34,187)	(13,710)	(47,897)
Other assets.....	-	15	15
TOTAL ASSETS	<u>\$ 96,111</u>	<u>\$ 46,993</u>	<u>\$ 143,104</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities.....	\$ 17,229	\$ 5,758	\$ 22,987
Due to other funds.....	156	202	358
Due to other governments.....	7	35	42
Deferred revenue.....	-	4	4
Advances from other funds.....	38,000	-	38,000
TOTAL LIABILITIES	<u>55,392</u>	<u>5,999</u>	<u>61,391</u>
Fund Equity:			
Contributed capital.....	9,187	-	9,187
Retained earnings:			
Unreserved.....	31,532	40,994	72,526
TOTAL FUND EQUITY	<u>40,719</u>	<u>40,994</u>	<u>81,713</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 96,111</u>	<u>\$ 46,993</u>	<u>\$ 143,104</u>

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

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
OPERATING REVENUES:			
Sales and services.....	\$ 362,362	\$ 44,095	\$ 406,457
Other.....	-	374	374
TOTAL OPERATING REVENUES	<u>362,362</u>	<u>44,469</u>	<u>406,831</u>
OPERATING EXPENSES:			
Cost of sales and services.....	357,336	33,922	391,258
Depreciation.....	9,239	1,436	10,675
TOTAL OPERATING EXPENSES	<u>366,575</u>	<u>35,358</u>	<u>401,933</u>
OPERATING INCOME (LOSS)	<u>(4,213)</u>	<u>9,111</u>	<u>4,898</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	1,116	825	1,941
Other revenues.....	713	3	716
Other expenses.....	(3,265)	(545)	(3,810)
NONOPERATING REVENUES (EXPENSES), NET	<u>(1,436)</u>	<u>283</u>	<u>(1,153)</u>
NET INCOME (LOSS)	<u>(5,649)</u>	<u>9,394</u>	<u>3,745</u>
RETAINED EARNINGS, JULY 1, 2000	<u>37,181</u>	<u>31,600</u>	<u>68,781</u>
RETAINED EARNINGS, JUNE 30, 2001	<u>\$ 31,532</u>	<u>\$ 40,994</u>	<u>\$ 72,526</u>

COMBINING STATEMENT OF CASH FLOWS

Internal Service Funds

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ (4,213)	\$ 9,111	\$ 4,898
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation.....	9,239	1,436	10,675
Nonoperating revenues.....	713	3	716
Nonoperating expenses.....	(675)	(6)	(681)
Changes in assets and liabilities:			
Receivables.....	88	(8)	80
Due from other funds.....	(21,624)	(995)	(22,619)
Due from component units.....	1,372	(13)	1,359
Due from other governments.....	(29)	(55)	(84)
Inventory.....	(259)	(472)	(731)
Other assets.....	-	7	7
Accounts payable and accrued liabilities.....	1,788	(1,548)	240
Due to other funds.....	(83)	61	(22)
Due to other governments.....	(17)	-	(17)
Deferred revenue.....	-	4	4
TOTAL ADJUSTMENTS.....	(9,487)	(1,586)	(11,073)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	(13,700)	7,525	(6,175)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Borrowings under advances from other funds.....	29,000	-	29,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES.....	29,000	-	29,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(15,803)	(1,417)	(17,220)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	(15,803)	(1,417)	(17,220)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(236,608)	(28,181)	(264,789)
Proceeds from sale and maturities of investments.....	236,051	21,120	257,171
Investment income.....	1,089	799	1,888
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	532	(6,262)	(5,730)
NET INCREASE (DECREASE) IN CASH.....	29	(154)	(125)
CASH, JULY, 1, 2000.....	66	338	404
CASH, JUNE 30, 2001.....	\$ 95	\$ 184	\$ 279

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



**Pennsylvania
Agriculture**



**Products
for the
Planet**

Agriculture, the state's number one industry, provides wholesome agricultural products for consumers in the global marketplace.

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.

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.

Catastrophic Loss Benefit 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.

PENSION TRUST FUND

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

INVESTMENT TRUST FUND

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

AGENCY FUNDS

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

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

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

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

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

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

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

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

COMBINING BALANCE SHEET
Trust and Agency Funds

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Expendable Trust Funds	Pension Trust Fund	Investment Trust Fund	Agency Funds	Total
ASSETS					
Cash.....	\$ 242	\$ -	\$ -	\$ 11,732	\$ 11,974
Cash with fiscal agents.....	2,899,536	-	-	5,781	2,905,317
Temporary investments.....	230,218	649,559	1,091,534	528,000	2,499,311
Long-term investments.....	1,416,891	28,675,028	-	344,322	30,436,241
Receivables, net:					
Taxes.....	279,672	-	-	13,396	293,068
Accounts.....	10,075	-	-	147,687	157,762
Accrued interest.....	4,208	132,435	3,603	6,181	146,427
Loans.....	-	-	-	6,728	6,728
Investment proceeds.....	-	170,341	-	-	170,341
Other.....	45	4	-	-	49
Due from other funds.....	20,769	14,417	-	5,365	40,551
Due from component units.....	290	2,622	-	-	2,912
Due from political subdivisions.....	5,415	-	-	-	5,415
Due from other governments.....	16,818	1,100	-	-	17,918
Other assets.....	-	-	-	467,642	467,642
TOTAL ASSETS	\$ 4,884,179	\$ 29,645,506	\$ 1,095,137	\$ 1,536,834	\$ 37,161,656
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 144,075	\$ 42,290	\$ 7,717	\$ 25,350	\$ 219,432
Tax refunds payable.....	4,681	-	-	-	4,681
Investment purchases payable.....	-	782,190	-	-	782,190
Securities lending obligations.....	95,231	940,558	-	35,548	1,071,337
Due to other funds.....	18,683	-	-	800	19,483
Due to other governments.....	4,203	-	-	244,755	248,958
Other liabilities.....	-	-	-	1,230,381	1,230,381
TOTAL LIABILITIES	266,873	1,765,038	7,717	1,536,834	3,576,462
Fund Balance:					
Reserved for:					
Encumbrances.....	2,927	-	-	-	2,927
Pension benefits.....	-	27,880,468	-	-	27,880,468
Deferred compensation.....	959,096	-	-	-	959,096
Invest program participants.....	-	-	1,087,420	-	1,087,420
Unreserved:					
Undesignated.....	3,655,283	-	-	-	3,655,283
TOTAL FUND BALANCES	4,617,306	27,880,468	1,087,420	-	33,585,194
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,884,179	\$ 29,645,506	\$ 1,095,137	\$ 1,536,834	\$ 37,161,656

COMBINING BALANCE SHEET
Expendable Trust Funds

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
 (Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Deferred Compensation (December 31, 2000)	Catastrophic Loss Benefit	Total
ASSETS					
Cash.....	\$ 204	\$ 37	\$ 1	\$ -	\$ 242
Cash with fiscal agents.....	2,899,536	-	-	-	2,899,536
Temporary investments.....	200	137,875	30,238	61,905	230,218
Long-term investments.....	-	472,471	944,420	-	1,416,891
Receivables, net:					
Taxes.....	279,672	-	-	-	279,672
Accounts.....	2,217	-	-	7,858	10,075
Accrued interest.....	4	3,744	238	222	4,208
Other.....	-	-	45	-	45
Due from other funds.....	2,228	18,541	-	-	20,769
Due from component units.....	290	-	-	-	290
Due from political subdivisions.....	5,415	-	-	-	5,415
Due from other governments.....	16,818	-	-	-	16,818
TOTAL ASSETS	\$ 3,206,584	\$ 632,668	\$ 974,942	\$ 69,985	\$ 4,884,179
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities.....	\$ 98,893	\$ 28,161	\$ 1,135	\$ 15,886	\$ 144,075
Tax refunds payable.....	4,681	-	-	-	4,681
Securities lending obligations.....	-	80,626	14,605	-	95,231
Due to other funds.....	-	26	106	18,551	18,683
Due to other governments.....	4,203	-	-	-	4,203
TOTAL LIABILITIES	107,777	108,813	15,846	34,437	266,873
Fund Balance:					
Reserved for:					
Encumbrances.....	-	2,927	-	-	2,927
Deferred compensation.....	-	-	959,096	-	959,096
Unreserved:					
Undesignated.....	3,098,807	520,928	-	35,548	3,655,283
TOTAL FUND BALANCES	3,098,807	523,855	959,096	35,548	4,617,306
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,206,584	\$ 632,668	\$ 974,942	\$ 69,985	\$ 4,884,179

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

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Deferred Compensation (December 31, 2000)	Catastrophic Loss Benefit	Total
REVENUES:					
Taxes.....	\$ 6,335	\$ -	\$ -	\$ -	\$ 6,335
Unemployment taxes.....	1,383,214	-	-	-	1,383,214
Licenses and fees.....	-	22,630	-	42,177	64,807
Intergovernmental.....	68,228	-	-	-	68,228
Investment income.....	184,790	1,659	(31,453)	2,980	157,976
Other.....	851	-	106,635	6	107,492
TOTAL REVENUES	1,643,418	24,289	75,182	45,163	1,788,052
EXPENDITURES:					
Current:					
General government.....	-	6,595	29,908	1,289	37,792
Protection of persons and property.....	-	15,770	-	12,361	28,131
Public health and welfare.....	1,721,532	-	-	-	1,721,532
TOTAL EXPENDITURES.....	1,721,532	22,365	29,908	13,650	1,787,455
REVENUES OVER (UNDER) EXPENDITURES.....	(78,114)	1,924	45,274	31,513	597
FUND BALANCES					
JULY 1, 2000.....	3,176,921	521,931	913,822	4,035	4,616,709
FUND BALANCES, JUNE 30, 2001.....	\$ 3,098,807	\$ 523,855	\$ 959,096	\$ 35,548	\$ 4,617,306

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2001</u>
UNDERGROUND STORAGE TANK				
INDEMNIFICATION FUND				
ASSETS				
Cash.....	\$ 10,197	\$ 2,824,100	\$ 2,826,017	\$ 8,280
Temporary investments.....	60,421	2,557,759	2,573,826	44,354
Long-term investments.....	284,036	246,308	230,110	300,234
Receivables, net:				
Loans.....	5,887	841	-	6,728
Accrued interest.....	48	3,168	2,730	486
TOTAL ASSETS	<u>\$ 360,589</u>	<u>\$ 5,632,176</u>	<u>\$ 5,632,683</u>	<u>\$ 360,082</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 13,033	\$ 14,152	\$ 12,997	\$ 14,188
Securities lending obligations.....	-	35,548	-	35,548
Due to other funds.....	51	57	51	57
Due to other governments.....	330	14	330	14
Other liabilities.....	347,175	50,048	86,948	310,275
TOTAL LIABILITIES	<u>\$ 360,589</u>	<u>\$ 99,819</u>	<u>\$ 100,326</u>	<u>\$ 360,082</u>
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash.....	\$ 1	\$ -	\$ 1	\$ -
Cash with fiscal agents.....	4,263	5,781	4,263	5,781
Temporary investments.....	111,381	105,914	111,381	105,914
Long-term investments.....	38,370	5,714	-	44,084
Receivables, net:				
Accounts.....	153,020	131,981	153,020	131,981
Accrued interest.....	757	4,418	757	4,418
Due from other funds.....	31	21	31	21
Other assets.....	445,554	463,119	445,554	463,119
TOTAL ASSETS	<u>\$ 753,377</u>	<u>\$ 716,948</u>	<u>\$ 715,007</u>	<u>\$ 755,318</u>
LIABILITIES				
Other liabilities.....	\$ 753,377	\$ 1,941	\$ -	\$ 755,318
TOTAL LIABILITIES	<u>\$ 753,377</u>	<u>\$ 1,941</u>	<u>\$ -</u>	<u>\$ 755,318</u>
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash.....	\$ 3,110	\$ 29,367	\$ 29,695	\$ 2,782
Temporary investments.....	13,834	4,634	4,613	13,855
Long-term investments.....	7	-	3	4
Receivables, net:				
Accounts.....	7,349	9,784	7,349	9,784
Other assets.....	4,402	151	30	4,523
TOTAL ASSETS	<u>\$ 28,702</u>	<u>\$ 43,936</u>	<u>\$ 41,690</u>	<u>\$ 30,948</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 5,147	\$ 5,407	\$ 5,124	\$ 5,430
Other liabilities.....	23,555	17,903	15,940	25,518
TOTAL LIABILITIES	<u>\$ 28,702</u>	<u>\$ 23,310</u>	<u>\$ 21,064</u>	<u>\$ 30,948</u>

(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
FIRE INSURANCE TAX FUND				
ASSETS				
Cash.....	\$ -	\$ 114,491	\$ 114,491	\$ -
Temporary investments.....	54,421	60,252	57,904	56,769
Receivables, net:				
Accrued interest.....	284	216	284	216
TOTAL ASSETS	<u>\$ 54,705</u>	<u>\$ 174,959</u>	<u>\$ 172,679</u>	<u>\$ 56,985</u>
LIABILITIES				
Due to other funds.....	\$ 284	\$ 216	\$ 284	\$ 216
Due to other governments.....	54,295	56,589	54,200	56,684
Other liabilities.....	126	85	126	85
TOTAL LIABILITIES	<u>\$ 54,705</u>	<u>\$ 56,890</u>	<u>\$ 54,610</u>	<u>\$ 56,985</u>
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash.....	\$ -	\$ 282,505	\$ 282,505	\$ -
Temporary investments.....	130,523	140,402	139,012	131,913
Receivables, net:				
Accrued interest.....	699	3,830	4,052	477
Due from other funds.....	278	299	278	299
TOTAL ASSETS	<u>\$ 131,500</u>	<u>\$ 427,036</u>	<u>\$ 425,847</u>	<u>\$ 132,689</u>
LIABILITIES				
Due to other funds.....	\$ -	\$ -	\$ -	\$ -
Due to other governments.....	131,198	138,436	137,143	132,491
Other liabilities.....	302	198	302	198
TOTAL LIABILITIES	<u>\$ 131,500</u>	<u>\$ 138,634</u>	<u>\$ 137,445</u>	<u>\$ 132,689</u>
MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND				
ASSETS				
Cash.....	\$ 155	\$ 703,964	\$ 704,016	\$ 103
Temporary investments.....	167,951	643,881	675,696	136,136
Receivables, net:				
Accounts.....	3,511	5,916	3,511	5,916
Accrued interest.....	875	10,697	11,104	468
TOTAL ASSETS	<u>\$ 172,492</u>	<u>\$ 1,364,458</u>	<u>\$ 1,394,327</u>	<u>\$ 142,623</u>
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 5,426	\$ 15,564	\$ 15,258	\$ 5,732
Due to other funds.....	26	156	26	156
Due to other governments.....	7	9	7	9
Other liabilities.....	167,033	314,741	345,048	136,726
TOTAL LIABILITIES	<u>\$ 172,492</u>	<u>\$ 330,470</u>	<u>\$ 360,339</u>	<u>\$ 142,623</u>

(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2001

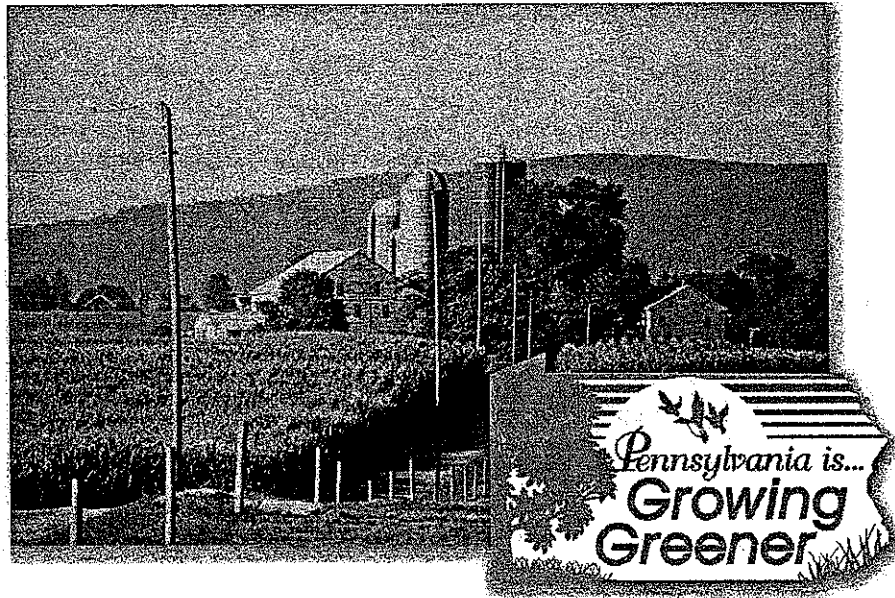
COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
OTHER FUNDS				
ASSETS				
Cash.....	\$ 1,460	\$ 1,089,772	\$ 1,090,665	\$ 567
Temporary investments.....	34,683	524,871	520,495	39,059
Receivables, net:				
Taxes.....	12,418	13,396	12,418	13,396
Accounts.....	5	6	5	6
Accrued interest.....	175	242	301	116
Due from other funds.....	1,928	7,046	3,929	5,045
TOTAL ASSETS	\$ 50,669	\$ 1,635,333	\$ 1,627,813	\$ 58,189
LIABILITIES				
Due to other funds.....	\$ 426	\$ 371	\$ 426	\$ 371
Due to other governments.....	48,003	572,458	564,904	55,557
Other liabilities.....	2,240	110	89	2,261
TOTAL LIABILITIES	\$ 50,669	\$ 572,939	\$ 565,419	\$ 58,189
TOTAL — ALL FUNDS				
ASSETS				
Cash.....	\$ 14,923	\$ 5,044,199	\$ 5,047,390	\$ 11,732
Cash with fiscal agents.....	4,263	5,781	4,263	5,781
Temporary investments.....	573,214	4,037,713	4,082,927	528,000
Long-term investments.....	322,413	252,022	230,113	344,322
Receivables, net:				
Taxes.....	12,418	13,396	12,418	13,396
Accounts.....	163,885	147,687	163,885	147,687
Accrued interest.....	2,838	22,571	19,228	6,181
Loans.....	5,887	841	-	6,728
Due from other funds.....	2,237	7,366	4,238	5,365
Other assets.....	449,956	463,270	445,584	467,642
TOTAL ASSETS	\$ 1,552,034	\$ 9,994,846	\$ 10,010,046	\$ 1,536,834
LIABILITIES				
Accounts payable and accrued liabilities.....	\$ 23,606	\$ 35,123	\$ 33,379	\$ 25,350
Securities lending obligations.....	-	35,548	-	35,548
Due to other funds.....	787	800	787	800
Due to other governments.....	233,833	767,506	756,584	244,755
Other liabilities.....	1,293,808	385,026	448,453	1,230,381
TOTAL LIABILITIES	\$ 1,552,034	\$ 1,224,003	\$ 1,239,203	\$ 1,536,834

GENERAL FIXED ASSETS

ACCOUNT GROUP



The new Growing Greener Program signed into law by Gov. Tom Ridge will invest nearly \$650 million over five years to preserve farmland and protect open space; eliminate the maintenance backlog in State Parks; clean up abandoned mines and restore watersheds; and provide new and upgraded water and sewer systems.

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, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
CATEGORY				
Land	\$ 259,680	\$ 4,888	\$ -	\$ 264,568
Buildings	3,105,933	435,965	30	3,541,868
Improvements other than buildings	295,708	65,206	489	360,425
Machinery and equipment	<u>601,381</u>	<u>63,372</u>	<u>83,682</u>	<u>581,071</u>
	4,262,702	569,431	84,201	4,747,932
Construction in progress	<u>836,805</u>	<u>313,766</u>	<u>499,209</u>	<u>651,362</u>
Total General Fixed Assets	<u>\$ 5,099,507</u>	<u>\$ 883,197</u>	<u>\$ 583,410</u>	<u>\$ 5,399,294</u>
INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE				
Acquired before July 1, 1986	\$ 1,853,788	\$ -	\$ 13,554	\$ 1,840,234
Acquired after June 30, 1986 from:				
General fund	900,708	117,354	42,663	975,399
General obligation bonds	1,045,703	393,151	206	1,438,648
Federal grants	39,041	11,894	5,909	45,026
Special revenue funds	408,405	46,712	21,869	433,248
Local funds	31	21	-	52
Donations	14,832	299	-	15,131
Confiscations	<u>194</u>	<u>-</u>	<u>-</u>	<u>194</u>
Total sources	4,262,702	569,431	84,201	4,747,932
Construction in progress	<u>836,805</u>	<u>313,766</u>	<u>499,209</u>	<u>651,362</u>
Total Investment in General Fixed Assets	<u>\$ 5,099,507</u>	<u>\$ 883,197</u>	<u>\$ 583,410</u>	<u>\$ 5,399,294</u>

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

SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Total</u>
FUNCTION					
General government.....	\$ 10,131	\$ 716,409	\$ 28,416	\$ 35,578	\$ 790,534
Protection of persons and property.....	18,960	1,474,944	170,934	74,573	1,739,411
Public health and welfare.....	1,913	505,799	24,335	41,136	573,183
Public education.....	17,624	714,084	84,145	2,575	818,428
Conservation of natural resources.....	213,311	81,238	46,416	43,595	384,560
Economic development and assistance	-	-	-	29	29
Transportation.....	<u>2,629</u>	<u>49,394</u>	<u>6,179</u>	<u>383,585</u>	<u>441,787</u>
Totals Allocated To Functions.....	<u>\$ 264,568</u>	<u>\$ 3,541,868</u>	<u>\$ 360,425</u>	<u>\$581,071</u>	<u>4,747,932</u>
Construction in progress					<u>651,362</u>
Total General Fixed Assets					<u>\$ 5,399,294</u>

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

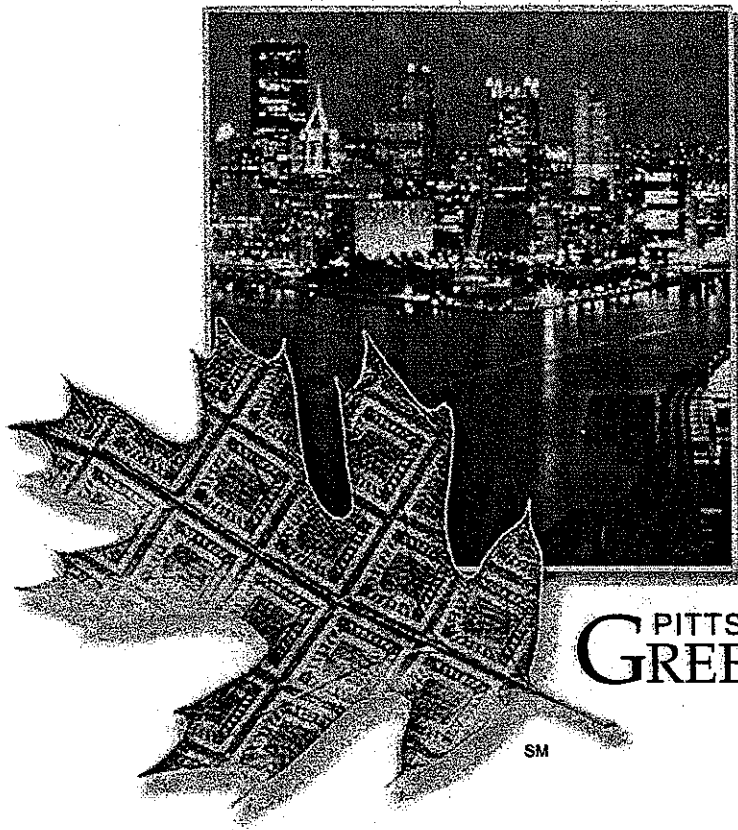
For the Fiscal Year Ended June 30, 2001

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Balance June 30, 2001</u>
General government.....	\$ 594,977	\$ 218,948	\$ 68,473	\$ 46,957	\$ 1,875	\$ 790,534
Protection of persons and property	1,615,689	139,725	11,594	265	4,674	1,739,411
Public health and welfare.....	553,001	42,340	1,563	127	20,722	573,183
Public education.....	726,373	92,400	345	-	-	818,428
Conservation of natural resources.....	346,630	38,768	962	145	21	384,560
Economic development and assistance ...	333	-	-	-	304	29
Transportation.....	<u>425,699</u>	<u>37,250</u>	<u>1,264</u>	<u>246</u>	<u>20,144</u>	<u>441,787</u>
	4,262,702	569,431	84,201	47,740	47,740	4,747,932
Construction in progress	<u>836,805</u>	<u>313,766</u>	<u>499,209</u>	<u>-</u>	<u>-</u>	<u>651,362</u>
Total General Fixed Assets	<u>\$ 5,099,507</u>	<u>\$ 883,197</u>	<u>\$ 583,410</u>	<u>\$ 47,740</u>	<u>\$ 47,740</u>	<u>\$ 5,399,294</u>

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STATISTICAL SECTION



PITTSBURGH DIGITAL
GREENHOUSE

Pittsburgh Digital Greenhouse is a public/private partnership that will provide support, infrastructure and the expertise needed to accelerate the development and re-use of system-on-a-chip (SOC) technology.

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

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	1992	1993	1994 ⁽²⁾	1995 ⁽²⁾	1996 ⁽²⁾	1997 ⁽²⁾	1998 ⁽²⁾	1999 ⁽²⁾	2000 ⁽²⁾	2001 ⁽²⁾
REVENUES BY SOURCE										
Taxes.....	\$ 15,444,361	\$ 15,467,501	\$ 16,094,540	\$ 16,990,198	\$ 17,220,048	\$ 18,168,581	\$ 19,043,735	\$ 20,105,276	\$ 20,956,743	\$ 21,232,196
Licenses and fees.....	699,141	717,508	740,723	773,463	796,150	804,429	1,004,050	1,019,256	1,143,789	1,172,372
Intergovernmental.....	6,004,765	6,949,683	7,822,596	7,959,997	9,517,277	9,499,083	9,669,407	10,563,455	11,093,738	12,016,449
Charges for sales and services.....	1,754,679	1,654,175	847,520	894,852	1,311,375	1,516,527	1,697,933	2,057,375	2,489,196	2,388,536
Investment income.....	141,433	94,362	79,329	145,124	152,724	174,604	225,805	258,525	396,499	307,202
Lottery receipts.....	1,374,271	1,440,784	1,574,949	1,595,726	1,699,277	1,722,558	1,684,015	1,659,305	1,695,371	1,788,333
Other ⁽³⁾	343,661	348,727	171,555	167,452	228,931	187,592	178,042	214,254	656,086	539,830
TOTAL REVENUES	\$ 25,762,311	\$ 26,672,740	\$ 27,331,212	\$ 28,526,812	\$ 30,925,782	\$ 32,073,374	\$ 33,502,987	\$ 35,877,446	\$ 38,431,422	\$ 39,444,918
EXPENDITURES BY FUNCTION										
General government.....	\$ 1,917,410	\$ 2,004,638	\$ 2,152,254	\$ 2,313,118	\$ 2,630,517	\$ 2,468,746	\$ 2,586,529	\$ 2,722,917	\$ 2,817,426	\$ 3,292,188
Protection of persons and property.....	1,377,461	1,466,885	1,772,639	1,927,228	2,345,462	2,462,026	2,613,021	2,785,269	2,933,612	3,044,074
Public health and welfare.....	11,132,219	11,288,552	11,810,077	12,249,729	13,651,317	13,907,167	14,341,539	15,320,410	16,486,542	17,483,315
Public education.....	6,015,589	6,460,659	6,784,190	7,006,744	7,417,504	7,397,274	7,714,443	7,842,732	8,283,144	8,677,284
Conservation of natural resources.....	468,431	483,644	525,401	571,502	348,639	369,467	396,087	436,601	510,732	568,757
Economic development and assistance.....	302,028	284,940	272,212	338,377	285,092	300,310	338,984	469,005	539,068	675,220
Transportation.....	2,265,894	2,536,894	2,693,546	2,773,086	2,832,031	2,912,583	3,243,334	3,654,269	3,679,188	4,065,124
Capital outlay.....	207,168	418,062	210,083	264,464	319,195	253,758	360,238	582,863	586,801	655,248
Debt service:										
Principal retirement.....	568,900	594,472	482,344	516,705	447,790	437,880	435,090	443,675	479,350	477,001
Interest and fiscal charges.....	487,479	430,947	291,731	301,480	289,138	287,866	263,356	262,669	277,044	281,590
TOTAL EXPENDITURES	\$ 24,742,579	\$ 25,969,693	\$ 26,996,477	\$ 28,262,433	\$ 30,566,685	\$ 30,797,077	\$ 32,292,621	\$ 34,520,410	\$ 36,592,907	\$ 39,219,801

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

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

(3) Includes primary government only.

NET BONDED DEBT PER CAPITA

TABLE 2

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

<u>At Fiscal Year Ended June 30</u>	<u>(Expressed in Thousands)</u>		
	<u>Net Bonded Debt</u>	<u>Population</u>	<u>Debt Per Capita</u>
1991	\$ 4,787,512	11,946	\$ 401
1992	4,873,542	11,989	407
1993	5,040,938	12,026	419
1994	5,100,012	12,040	423
1995	5,040,662	12,044	418
1996	5,061,530	12,038	420
1997	4,841,729	12,015	403
1998	4,841,324	12,002	403
1999	5,253,614	11,994	438
2000	5,366,621	12,281	437

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

<u>For The Fiscal Year Ended June 30</u>	<u>(Expressed in Thousands)</u>		
	<u>Debt Service Requirements Funded by General Fund</u>	<u>Budgetary Basis General Fund Expenditures⁽¹⁾</u>	<u>%</u>
1992	\$ 521,875	\$ 19,540,459	2.67
1993	497,045	19,986,749	2.49
1994	512,094	21,060,058	2.43
1995	525,889	22,467,672	2.34
1996	551,133	23,480,336	2.35
1997	649,759	23,384,414	2.78
1998	624,642	24,891,340	2.51
1999	761,572	26,624,901	2.86
2000	627,817	28,755,784	2.18
2001	382,924	29,717,425	1.29

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

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

As of August 31, 2001

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years	\$ 23,008,382,095
Constitutional factor	x <u>1.75</u>
Constitutional debt limit for debt incurred without the approval of the electors	40,264,668,666
Less outstanding net debt (non-electorate approved).....	<u>4,554,304,562</u>
Legal debt margin	<u>\$ 35,710,364,104</u>

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

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

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

The figures above are abstracted from a certification of the Auditor General dated August 31, 2001.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1992	\$ 312,079	\$ 113,217	\$ 198,862	\$ 7,450	\$ 76,628	\$ 84,078	2.37
1993	329,452	134,844	194,608	11,595	65,600	77,195	2.52
1994	344,617	142,915	201,702	9,405	70,892	80,297	2.51
1995	375,754	146,325	229,429	15,715	72,548	88,263	2.60
1996	389,774	162,150	227,624	23,900	75,644	99,544	2.29
1997	398,897	158,705	240,192	22,845	74,462	97,307	2.47
1998	410,266	165,763	244,503	28,240	72,274	100,514	2.43
1999	441,235	190,179	251,056	29,085	86,483	115,568	2.17
2000	458,728	180,671	278,057	36,775	90,784	127,559	2.18
2001	490,494	212,365	278,129	48,245	106,949	155,194	1.79

Pennsylvania Industrial Development Authority ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1992	\$ 24,592	\$ 1,994	\$ 22,598	\$ 10,645	\$ 18,920	\$ 29,565	0.76
1993	25,204	2,368	22,836	10,645	18,595	29,240	0.78
1994	29,802	2,138	27,664	23,085	19,116	42,201	0.66
1995	30,806	2,864	27,942	4,335	20,123	24,458	1.14
1996	30,487	2,898	27,589	10,695	19,747	30,442	0.91
1997	32,963	2,865	30,098	12,955	22,314	35,269	0.85
1998	35,967	2,861	33,106	19,380	22,852	42,232	0.78
1999	30,227	3,187	27,040	20,660	21,845	42,505	0.64
2000	34,581	3,315	31,266	22,585	20,615	43,200	0.72
2001	38,807	3,102	35,705	23,005	19,487	42,492	0.84

Pennsylvania Housing Finance Agency ^(b)							
(Expressed in Thousands)							
For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest ^(a)	Total	
1992	\$ 206,991	\$ 8,496	\$ 198,495	\$ 28,118	\$ 172,146	\$ 200,264	0.99
1993	200,268	9,803	190,465	27,410	166,480	193,890	0.98
1994	194,025	13,325	180,700	29,426	143,904	173,330	1.05
1995	196,023	16,095	179,928	51,406	139,621	191,027	0.94
1996	208,048	16,979	191,069	40,839	146,452	187,291	1.02
1997	222,736	16,748	205,988	39,463	157,989	197,452	1.04
1998	247,841	17,931	229,910	43,558	172,268	215,826	1.06
1999	237,346	19,544	217,802	54,438	175,337	229,775	0.95
2000	249,336	20,303	229,033	93,240	176,399	269,639	0.85
2001	260,049	24,398	235,651	62,582	174,349	236,931	0.99

^(a) Excludes interest on notes payable.

^(b) Discretely Presented Component Unit.

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

TABLE 6
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)		<u>%</u>
	<u>United States</u>	<u>Pennsylvania</u>	
1991	252,106	11,946	4.70
1992	255,011	11,989	4.70
1993	257,753	12,026	4.66
1994	260,289	12,040	4.63
1995	262,803	12,044	4.58
1996	265,228	12,038	4.54
1997	267,783	12,015	4.49
1998	270,248	12,002	4.44
1999	272,690	11,994	4.40
2000	281,422	12,281	4.36

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

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

TABLE 7
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

<u>Calendar Year</u>	(Expressed in Thousands)	
	<u>Demand Deposits</u>	<u>Time and Savings Deposits</u>
1991	\$ 6,308,495	\$ 52,112,591
1992	7,150,024	51,434,858
1993	7,620,397	54,334,637
1994	6,952,868	49,674,200
1995	7,124,441	51,766,777
1996	4,233,735	37,254,292
1997	4,764,449	40,036,785
1998	4,581,076	35,885,048
1999	4,469,669	38,497,993
2000	4,680,714	40,344,204

SOURCE: Pennsylvania Department of Banking

TABLE 8
For the Last Ten Calendar Years

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

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
COMMONWEALTH OF PENNSYLVANIA										
(Expressed in Thousands Except Percents)										
PENNSYLVANIA										
Civilian labor force.....	5,826	5,886	5,889	5,826	5,838	5,903	5,984	5,936	5,969	5,972
Employment.....	5,419	5,440	5,470	5,465	5,495	5,590	5,673	5,661	5,707	5,722
Unemployment.....	407	446	416	360	343	313	311	275	262	250
Rate %.....	6.9	7.5	7.1	6.2	5.9	5.3	5.2	4.6	4.4	4.2
UNITED STATES										
Civilian labor force.....	126,346	128,105	129,200	131,056	132,304	133,943	136,297	137,674	139,368	146,863
Employment.....	117,718	118,492	120,260	123,060	124,900	126,708	129,538	131,464	133,488	135,208
Unemployment.....	8,628	9,613	8,940	7,996	7,404	7,235	6,739	6,210	5,880	5,655
Rate %.....	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4

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

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

TABLE 9

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1991	\$4,963,545	\$ 239,478	4.80	\$ 19,689	\$ 20,047	101.80
1992	5,260,922	252,224	4.80	20,631	21,038	102.00
1993	5,469,485	260,109	4.80	21,220	21,635	102.00
1994	5,741,050	269,002	4.70	22,056	22,343	101.30
1995	6,192,235	285,923	4.60	23,562	23,738	100.70
1996	6,538,103	299,001	4.60	24,651	24,838	100.75
1997	6,928,545	313,457	4.50	25,924	26,211	101.10
1998	7,383,476	328,589	4.40	27,203	27,469	101.00
1999	7,784,137	343,263	4.40	28,518	28,676	100.60
2000	8,351,512	362,773	4.34	29,676	29,539	99.53

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

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS

TABLE 10

For the Calendar Year 2000

COMMONWEALTH OF PENNSYLVANIA

EMPLOYER	RANK
Wal-Mart Stores, Inc.....	1
Trustees of the University of Pennsylvania	2
Pennsylvania State University	3
US Airways, Inc.....	4
United Parcel Services, Inc.	5
K-Mart Corporation.	6
Weis Markets, Inc.	7
Mellon Financial Corporation.....	8
Sears Roebuck and Company... ..	9
Verizon.....	10
Giant Food Stores... ..	11
University of Pittsburgh.....	12
Merck & Co. Inc.... ..	13
PNC Bank, NA.....	14
May Department Stores Company.....	15
Giant Eagle, Inc.. ..	16
Acme Markets, Inc.....	17
Tenel Healthsystems Philadelphia.....	18
J.C. Penney Company, Inc.....	19
Aramark Services Management... ..	20
Lucent Technologies, Inc.....	21
Vanguard Group Inc.....	22
Hershey Foods Corporation	23
The Home Depot USA, Inc.....	24
University of Pittsburgh Medical Center	25
Highmark Blue Cross/Blue Shield.....	26
Boscov's Department Store, Inc.	27
Southeastern PA Transportation	28
Temple University	29
Rite Aid Corporation.....	30

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

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

TABLE 11

COMMONWEALTH OF PENNSYLVANIA

Adelphia Communications Corp.	Jones Apparel Group, Inc.
Air Products and Chemicals, Inc.	Kennametal, Inc.
Airgas, inc.	Knoll, Inc.
Alcoa, Inc.	Kulicke and Soffa Industries, Inc.
Allegheny Technologies, Inc.	New Holland North America, Inc.
American Eagle Outfitters, Inc.	Mylan Laboratories, Inc.
Ametek, Inc.	P.H. Glatfelter Company
Amkor Technology, Inc.	Pep Boys
Armstrong Holding, Inc.	Pet Quarters, Inc.
Bethlehem Steel Corporation	PPG Industries, Inc.
Blair Corporation	Rite Aid Corporation
Bon-Ton Stores	Rohm and HAAS Company
Brandywine Realty Trust	SEI Investments Co.
Cable Design Technology Corporation	SmithKline Beecham Corp.
Carpenter Technology Corporation	SPS Technologies, Inc.
CDI Corporation	Sunguard Data System, Inc.
Charming Shoppes, Inc.	Sunoco, Inc.
Chromalloy	SunSource, Inc.
Comcast Corporation	Teleflex, Inc.
Crown Cork and Seal Company	Technitrol, Inc.
Dentsply International, Inc	Toll Brothers, Inc.
Federated Investors, Inc.	UNISYS Corporation
Foamex International, Inc.	Universal Health Services, Inc.
Grove Worldwide	USX Corporation
H.J. Heinz Company	Vishay Intertechnology, Inc.
Harsco Corporation	Webtech Corp.
Hershey Foods Corporation	Weis Markets, Inc.
Ikon Office Solutions, Inc.	Wesco Distribution, Inc.
JLG Industries, Inc.	York International Corporation

SOURCE: *Ward's Business Directory 2000*

June 30, 2001

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	40,051
Land Area – in square miles	44,888
State Police Protection:	
Number of Stations	90
Number of State Police	4,118
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	238*
Number of educators	22,782*
Number of students	647,290*
Recreation:	
Number of State Parks	116
Area of State Parks	280,796 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
 *as of June 2000

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