

the acquisition of property, plant and equipment of proprietary fund types are recorded as intergovernmental receivables and contributed capital when the related expenditure for property, plant and equipment occurs. All other Federal reimbursement type grants are recorded as intergovernmental receivables and revenues when the related expenditures, or expenses, are incurred.

*Retirement Costs:*

Substantially all State employees participate in one of three contributory State retirement systems. In addition, certain employees of the Mass Transit Administration participate in the Mass Transit Administration pension plan. The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Effective July 1, 1978, retirement costs have been provided on the accrual basis predicated on actuarial valuations. The State funds a substantial portion of its retirement costs at the time the benefits become payable to the participants instead of during the periods of participant employment. For governmental fund types, the excess amounts of retirement costs provided over the amounts funded that will not be funded during the succeeding year are carried in the long-term obligations account group. For proprietary fund types, the excess is carried in their balance sheet. In the current and prior years, principally all funding of pension costs for proprietary fund types has been made from general fund financial resources.

*Employee Benefit Costs:*

Substantially all costs for pension, health and Federal Social Security benefits of governmental fund types, including approximately \$260 million of costs applicable to teachers and other employees of political subdivisions, are reported as personnel and retirement expenditures in the general fund. Material benefit costs applicable to proprietary fund types are reflected as expenses in the proprietary funds.

*Judgments, Claims and Similar Contingencies:*

Probable losses arising from judgments, claims and similar matters are recorded as expenditures or expenses and liabilities in the period determination of the probable loss is made. Such losses arise principally from litigation and other asserted claims as well as unasserted claims made against the State.

*Intrafund and Interfund Transactions:*

Significant transfers of financial resources between agencies and activities included in the same funds, which are recorded as revenue by the transferee and expenditures or expense by the transferor, have been eliminated.

Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

*B. Governmental Fund Types, Expendable Trust and Agency Funds:*

*Basis of Accounting:*

The accounts of the general, special revenue, debt service, capital projects, expendable trust and agency funds are maintained and reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year; expenditures and liabilities are recognized when obligations are incurred as a result of receipt of goods and services. Modifications to the accrual basis of accounting include:

- Self assessed taxes, principally income and sales taxes, are recognized as receivables and revenues in the period to which they apply subject to their availability with appropriate allowances for uncollectible amounts.
- Interest on long-term obligations reflected in the long-term obligations account group is recognized in the debt service fund when it becomes payable.
- Inventories of materials and supplies are recorded as expenditures when purchased.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

*Investments:*

Investments are stated at cost, adjusted for amortization of premium and accretion of discounts, plus accrued income. Such basis approximates market. Short term investments aggregating \$588,313,000 at June