

PA Commonwealth of Pennsylvania

# *Comprehensive Annual Financial Report*

*For the Fiscal Year Ended June 30, 2013*



Tom Corbett  
Governor

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# ***Commonwealth of Pennsylvania***

## **Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2013**

***Tom Corbett, Governor***



Prepared By:

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**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INTRODUCTORY SECTION</b>	
Title Page .....	1
Table of Contents .....	2
Letter of Transmittal.....	5
Commonwealth of Pennsylvania Organization Chart.....	9
Office of the Budget-Office of Comptroller Operations Organization Chart.....	10
Principal Leadership.....	11
Certificate of Achievement.....	12
<b>FINANCIAL SECTION</b>	
<b>REPORT OF INDEPENDENT AUDITORS .....</b>	<b>14</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>19</b>
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position.....	42
Statement of Activities.....	44
<b>Fund Financial Statements:</b>	
Balance Sheet-Governmental Funds.....	46
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Position .....	47
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds .....	48
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds to the Statement of Activities.....	49
Statement of Net Position-Proprietary Funds.....	50
Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary Funds .....	52
Statement of Cash Flows-Proprietary Funds.....	54
Statement of Fiduciary Net Position-Fiduciary Funds.....	56
Statement of Changes in Fiduciary Net Position-Fiduciary Funds .....	57
Statement of Net Position-Discretely Presented Component Units.....	58
Statement of Activities-Discretely Presented Component Units.....	60
<b>Notes to Financial Statements.....</b>	<b>61</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedules of Funding Progress and Employer Contributions .....	154
Budgetary Comparison Schedule-Budgeted Major Funds-General Fund .....	155
Budgetary Comparison Schedule-Budgeted Major Funds-Special Revenue Fund-Motor License .....	156
Notes to Required Supplementary Information .....	157
<b>COMBINING FINANCIAL STATEMENTS (including Nonmajor Budgetary Comparison Schedules):</b>	
<b>Governmental Funds-Combining Financial Statements:</b>	
Combining Balance Sheet-Nonmajor Governmental Funds .....	162
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds.....	163
<b>Special Revenue Funds-Combining Financial Statements (including Nonmajor Budgetary Comparison Schedules):</b>	
Special Revenue Funds-Description-Nonmajor Funds.....	166

Combining Balance Sheet-Nonmajor Governmental Funds-Special Revenue Funds .....	167
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Special Revenue Funds.....	168
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Banking Department .....	169
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Milk Marketing .....	170
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Workers' Compensation Administration.....	171
<b>Debt Service Funds-Combining Financial Statements:</b>	
Debt Service Funds-Description-Nonmajor Funds .....	174
Combining Balance Sheet-Nonmajor Governmental Funds-Debt Service Funds .....	175
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Debt Service Funds.....	176
<b>Capital Projects Funds-Combining Financial Statements:</b>	
Capital Projects Funds-Description-Nonmajor Funds .....	178
Combining Balance Sheet-Nonmajor Governmental Funds-Capital Projects Funds.....	179
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Capital Projects Funds.....	180
<b>Proprietary Funds-Combining Financial Statements-Enterprise Funds:</b>	
Enterprise Funds-Description-Nonmajor Funds.....	182
Combining Statement of Net Position-Nonmajor Proprietary Funds-Enterprise Funds.....	184
Combining Statement of Revenues, Expenses and Changes in Net Position- Nonmajor Proprietary Funds-Enterprise Funds .....	186
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Enterprise Funds.....	188
<b>Proprietary Funds-Combining Financial Statements-Internal Service Funds:</b>	
Internal Service Funds-Description .....	192
Combining Statement of Net Position-Nonmajor Proprietary Funds-Internal Service Funds .....	193
Combining Statement of Revenues, Expenses and Changes in Net Position- Nonmajor Proprietary Funds-Internal Service Funds.....	194
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Internal Service Funds .....	195
<b>Fiduciary Funds-Combining Financial Statements-Pension (and Other Employee Benefit) Trust Funds:</b>	
Pension (and Other Employee Benefit) Trust Funds-Description .....	198
Combining Statement of Fiduciary Net Position-Pension (and Other Employee Benefit) Trust Funds .	199
Combining Statement of Changes in Fiduciary Net Position- Pension (and Other Employee Benefit) Trust Funds.....	200
<b>Fiduciary Funds-Combining Financial Statements-Agency Funds:</b>	
Agency Funds-Description .....	202
Combining Statement of Fiduciary Assets and Liabilities-Agency Funds .....	203
Combining Statement of Changes in Fiduciary Assets and Liabilities-Agency Funds.....	204
<b>Discretely Presented Component Units:</b>	
Nonmajor Discretely Presented Component Units-Description .....	210
Combining Statement of Net Position-Nonmajor Discretely Presented Component Units.....	212
Combining Statement of Activities-Nonmajor Discretely Presented Component Units.....	214

## STATISTICAL SECTION

<b>Statistical Section Table of Contents</b> .....	218
Table 1-Net Position by Component.....	220
Table 2-Changes in Net Position.....	222
Table 3-Governmental Fund Type Fund Balances .....	224
Table 4-Revenues by Source and Expenditures by Function-All Governmental Fund Types .....	226
Table 5-Personal Income Tax-Personal Income by Industry.....	227
Table 6-Personal Income Tax-Personal Income Tax Filers and Liability by Income Level.....	228
Table 7-Sales Tax-Estimated Taxable Sales by Industry Classification of the Vendor .....	229
Table 8-Sales Tax-Sales Tax Remittances by Major Industry Classification .....	230
Table 9-Corporate Tax-Corporate Net Income Tax.....	231
Table 10-Corporate Tax-Capital Stock/Foreign Franchise Tax.....	232
Table 11-Outstanding Debt and Outstanding Debt Ratios .....	233
Table 12-Ratios of General Obligation Bonded Debt Outstanding.....	234
Table 13-Computation of Legal Debt Margin .....	235
Table 14-Employment by Nonfarm Related Industry .....	236
Table 15-Population and Per Capita Personal Income .....	237
Table 16-Employment Information .....	237
Table 17-Commonwealth Employees by Function and Agency.....	238
Table 18-Operating Indicators by Function and Agency.....	240
Table 19-Capital Asset Information by Function and Agency.....	242



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

CHARLES B. ZOGBY  
SECRETARY  
OFFICE OF THE BUDGET

December 13, 2013

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

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2013. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements, 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, dated October 11, 1984.

The Basic Financial Statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects and that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net position/fund balances. 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, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. The Commonwealth has established a cost-effective system of internal controls that is however, subject to inherent limitations. As is in any system of internal controls, there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

The Commonwealth's June 30, 2013 Basic Financial Statements have been jointly audited by the Department of the Auditor General and KPMG LLP, an independent public accounting firm. The independent auditors' unmodified opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information that is included in the Basic Financial Statements.

Management's Discussion and Analysis (MD&A), which precedes the June 30, 2013 Basic Financial Statements, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the basic financial statements. This section immediately follows the auditors' opinion. In addition to the MD&A and Basic Financial Statements, this CAFR includes: budgetary comparison schedules; combining fund financial statements; other supporting schedules; narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as reported over the last ten fiscal years.

#### PROFILE OF THE GOVERNMENT

Pennsylvania, also known as the Keystone State, is one of only four Commonwealths in the United States. Pennsylvania earns the title of Commonwealth as a result of its organization by the common consent of the people during colonial times.

The Commonwealth of Pennsylvania provides a wide range of services to enhance the quality of life for its 12.7 million citizens. The Commonwealth divides these essential services into seven broad program categories, consisting of direction and supportive services, protection of persons and property, health and human services, public education, economic development, transportation, and recreation and cultural enrichment. This programmatic approach enables Pennsylvania to effectively serve its citizens.

The Commonwealth of Pennsylvania, aside from the defined primary state government, is also accountable for a number of legally-separate component unit organizations. The major discretely presented component units in Pennsylvania include the Pennsylvania Turnpike Commission, the Pennsylvania Housing Finance Agency, the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Infrastructure Investment Authority, and the State System of Higher Education. Although the Commonwealth does not directly control or operate these component unit organizations, it is still accountable for them, and therefore includes them in the Commonwealth's financial reporting entity and reports them separately within its government-wide financial statements.

Pennsylvania government has three distinct branches: the legislative branch, the judicial branch, and the executive branch. The legislative branch, comprised of the Senate and House of Representatives, develops and passes the Commonwealth's laws. The judicial branch, made up of the Pennsylvania Supreme Court as well as other specialized courts, serves the Commonwealth by interpreting the laws put in place by the legislative branch. The executive branch, consisting of the elected Governor, Auditor General, Attorney General, State Treasurer, and other appointed entities, works to enforce the laws established by the legislative branch. With these three branches of the Pennsylvania state government, an effective system of checks and balances is created. The Commonwealth's principal leadership and organization charts at June 30, 2013 are incorporated immediately following this letter.

#### **GENERAL FUND BUDGETARY BASIS**

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2013. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other special funds, and reflects a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate income, and sales and use taxes, constitute approximately 91.7 percent of the non-Federal General Fund budgetary basis revenues.

#### **BUDGET ADOPTION AND LEGAL COMPLIANCE BUDGETARY COMPARISON SCHEDULE**

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) immediately following the Notes to the Financial Statements. The legally adopted budget provides statutory control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriations. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2013.

#### **BUDGETARY BASIS FUND BALANCE INCREASE/(DECREASE) FIVE MOST RECENT FISCAL YEARS**

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



**General Fund-Budgetary Basis  
Unreserved/Undesignated Balance  
Increase/(Decrease) Last Five Fiscal Years at June 30**

<u>Fiscal Year</u>	<u>Balance/(Deficit)</u>	<u>Increase/(Decrease)</u>
2013	\$ 540.9	\$ (131.6)
2012 (revised)	672.5	(420.1)
2011 (revised)	1,092.6	1,386.5
2010 (revised)	(293.9)	1,731.5
2009 (revised)	(2,025.4)	(2,610.7)

During the fiscal year ended June 30, 2013, total General Fund expenditures and other uses exceeded General Fund revenues and other sources and along with a prior year surplus, at June 30, 2013, the Commonwealth reported an unreserved/undesignated surplus (budgetary basis) in the General Fund. The budgetary basis results for the fiscal year ended June 30, 2013 include revenue collections totaling \$51,175, less appropriation authorizations totaling \$51,495 plus other net financing sources totaling \$189. Included in the \$51,495 appropriation authorizations are \$65 of state supplemental appropriation and \$132 in Federal supplemental appropriation additions authorized during the fiscal year ended June 30, 2013 (amounts in millions).

**ECONOMIC CONDITION**

The Commonwealth's economic performance is largely dependent upon job growth. The Commonwealth benefits from a highly diversified economy in terms of a mix of industries and no one single employment sector dominates. Since the turbulent diversification of the Pennsylvania economy during the 1970's and 1980's, Pennsylvania has a much more stable economy which tends to track the national economy but with less volatility. During periods of economic contraction nationally, Pennsylvania often times will outperform the U.S. in areas such as growth in real gross state product, growth in real personal income and employment growth. The Commonwealth's unemployment rate is generally below the U.S. rate and per capita income levels in the Commonwealth exceed national levels. However, during periods of economic expansion, the Commonwealth will often lag the rate of growth in the national economy.

In the Commonwealth, the Great Recession was shorter and less severe than it was in many other states or in the nation in general. Since the end of the Great Recession, Pennsylvania has added nearly 174,000 jobs. According to IHS Global Insight, through the mid-point of 2012, the Commonwealth had recovered 62 percent of the jobs it lost during the Great Recession while the U.S. had only recovered 44 percent of its lost jobs through the same time period. The Commonwealth's employment slowed slightly in 2012 after two years of double digit growth. Employment in the mining and logging industries grew the most of any sector during 2012 at 9.0 percent followed by leisure and hospitality at 2.9 percent, information services at 2.2 percent and professional and business services at 1.9 percent.

Due to the diversification of the Commonwealth economy, Pennsylvania's unemployment rate has traditionally been equal to or below the national average. The Pennsylvania unemployment rate had been at or below the U.S. rate for 70 consecutive months through August 2012. During the most recent recession, U.S. unemployment peaked at 10.1 percent while the Commonwealth unemployment rate peaked at 8.7 percent. The Commonwealth's unemployment rate is forecast to steadily improve during 2013 and 2014, declining to 7.6 percent and 7.2 percent respectively. A further decline to approximately 5.7 percent is projected by 2017.

**LONG TERM FINANCIAL PLANNING**

Each year, the Governor's Executive Budget includes estimates of total revenues, available balances carried forward and expenditures for all Commonwealth funds for one budget year and four subsequent fiscal years. These multi-year projections illustrate expected revenue and spending changes, which inform the state's policy makers about the status of the Commonwealth's budget. Based on the enacted budget for the 2013-2014 fiscal year, the Commonwealth expects to receive General Fund revenues and transfers of \$28,469 million and to spend \$28,439 million from the Commonwealth's General Fund. The chart on the next page presents a five year summary of projected revenue and expenditures for the General Fund.

**GENERAL FUND**  
(Amounts in thousands)

	2013-14	2014-15	2015-16	2016-17	2017-18
Beginning Balance.....	\$ 543,615	\$ 22,560	\$ 4,917	\$ 21,292	\$ 15,532
Revenues.....	29,251,199	30,246,005	31,066,729	31,880,556	32,682,590
Adjustments*.....	<u>(1,325,000)</u>	<u>(1,355,000)</u>	<u>(1,385,000)</u>	<u>(1,415,000)</u>	<u>(1,445,000)</u>
Funds Available.....	28,469,814	28,913,565	29,686,646	30,486,848	31,253,122
Total State Expenditure.....	<u>(28,439,734)</u>	<u>(28,907,009)</u>	<u>(29,658,257)</u>	<u>(30,466,139)</u>	<u>(31,235,557)</u>
Preliminary Balance.....	30,080	6,556	28,389	20,709	17,565
Less transfer to Budget Stabilization Reserve Fund	<u>(7,520)</u>	<u>(1,639)</u>	<u>(7,097)</u>	<u>(5,177)</u>	<u>(4,391)</u>
Ending Balance.....	<u>\$ 22,560</u>	<u>\$ 4,917</u>	<u>\$ 21,292</u>	<u>\$ 15,532</u>	<u>\$ 13,174</u>

\*Includes refunds, lapses and adjustments to beginning balances.

**CERTIFICATE OF ACHIEVEMENT**

The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its CAFR as of and for the fiscal year ended June 30, 2012. This represents the twenty-seventh 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 CAFR, 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 CAFR of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2013 conforms to the GFOA's award criteria.

**ACKNOWLEDGMENTS**

We wish to express our appreciation to the staff of the Office of the Budget, Office of Comptroller Operations and Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.

Sincerely,



Charles B. Zogby  
Secretary  
Office of the Budget

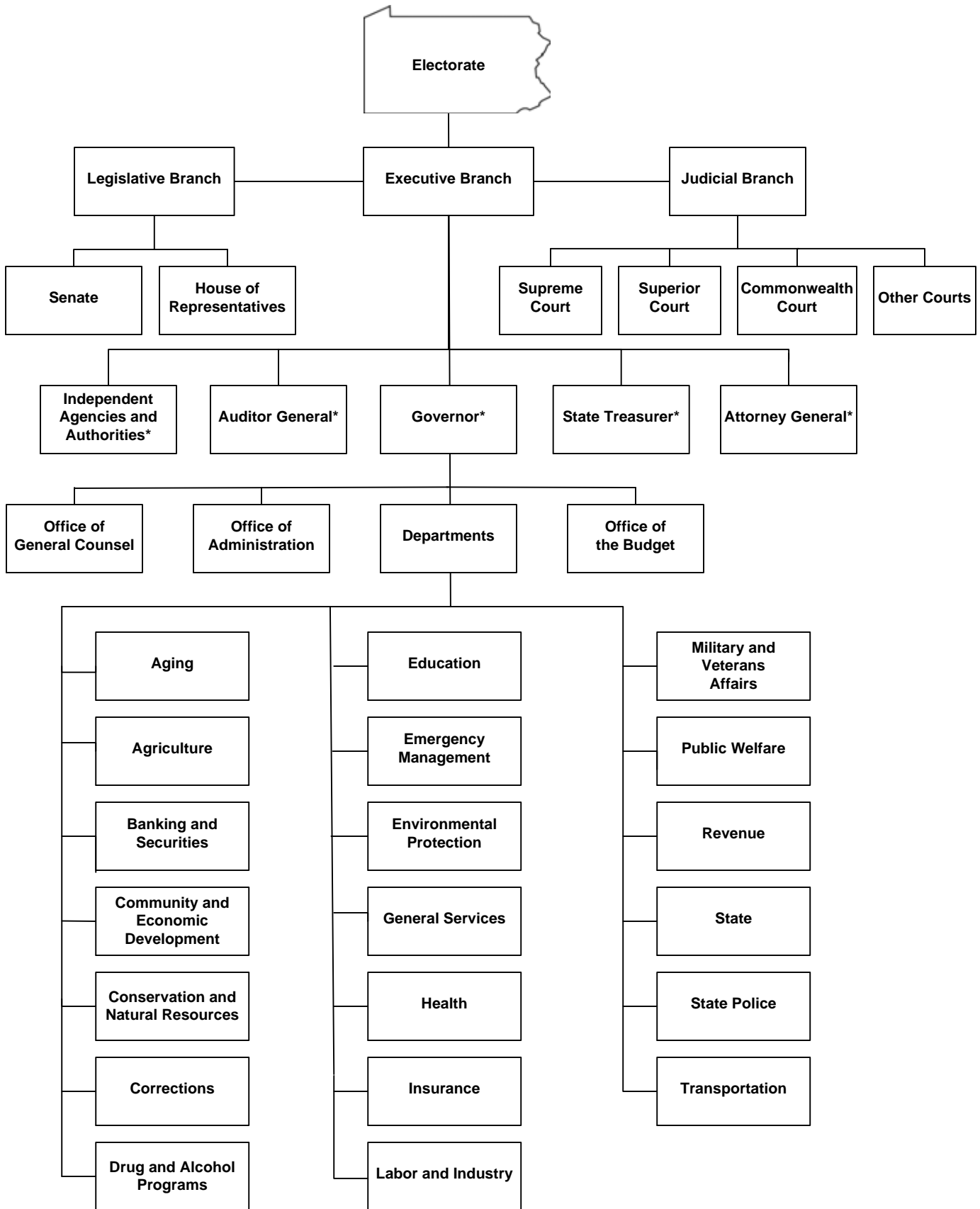


Peter J. Tartline  
Executive Deputy Secretary  
Office of the Budget



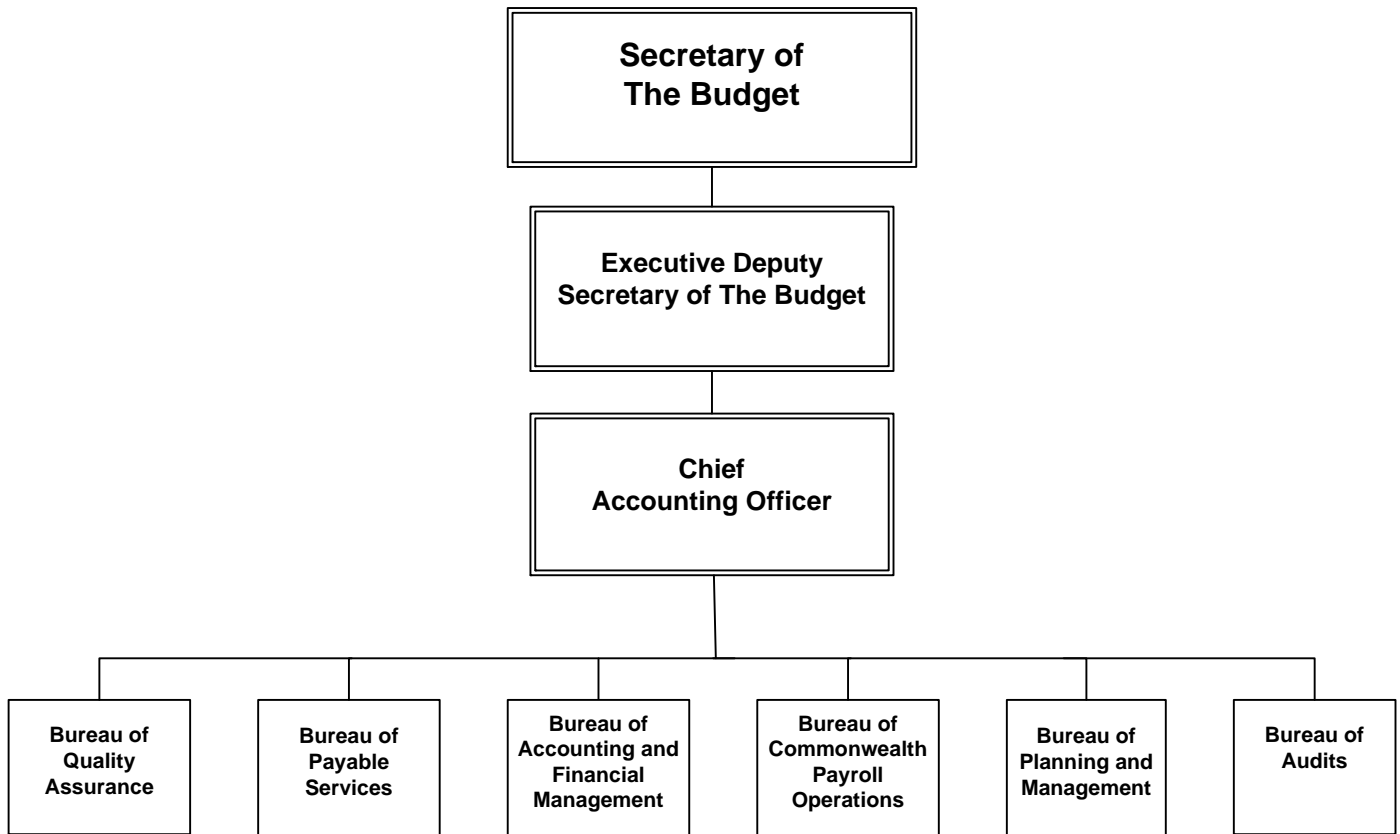
Anna Maria Kiehl, CPA  
Chief Accounting Officer  
Office of the Budget

**COMMONWEALTH OF PENNSYLVANIA  
ORGANIZATION CHART  
JUNE 30, 2013**



\*Independently Elected

**Office of the Budget -  
Office of  
Comptroller Operations  
Organization Chart  
June 30, 2013**



Principal Leadership

Commonwealth Elected and Selected Appointed Officials as of June 30, 2013

Tom Corbett, Governor

Jim Cawley, Lieutenant Governor

Rob McCord, Treasurer

Eugene DePasquale, Auditor General

Kathleen Kane, Attorney General

Charles Zogby, Secretary of the Budget

Kelly Powell Logan, Secretary of Administration

Joseph Scarnati, President pro Tempore, Senate

Samuel Smith, Speaker of the House

Ronald Castille, Chief Justice State Supreme Court



Government Finance Officers Association

Certificate of  
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**Commonwealth of Pennsylvania**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Financial Section



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



KPMG LLP  
Suite 1000  
30 North Third Street  
PO Box 1190  
Harrisburg, PA 17108-1190

## Report of Independent Auditors

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

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of the Tobacco Settlement Fund, a non-major Special Revenue Fund, which represents 1 percent of total assets and 1 percent of total revenues of the governmental activities and 1 percent of total assets and 3 percent of total revenues of the aggregate remaining fund information, the Philadelphia Regional Port Authority and the State Stores Fund, non-major Enterprise Funds, which represent 10 percent of total assets and 16 percent of total revenues of the business-type activities and 1 percent of total assets and 10 percent of total revenues of the aggregate remaining fund information, the Tuition Payment Fund and the Commonwealth Financing



Authority, which are both major Enterprise Funds, and represent 31 percent of total assets and 3 percent of total revenues of the business-type activities, and certain discretely presented component units, which represent 99 percent of total assets and 99 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 99 percent of the total assets and 94 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets and 100 percent of the total additions of the Investment and Private Purpose Trust Funds, which, in total, comprise 85 percent of total assets and 63 percent of total additions/revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commonwealth's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

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

financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S generally accepted accounting principles.

### ***Emphasis of Matter***

#### *Pennsylvania Turnpike Commission*

As discussed in Note S to the financial statements, the Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under a Lease and Funding Agreement as required under the terms of Act 44 of 2007. The Pennsylvania Turnpike Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt. Our opinion is not modified with respect to this matter.

#### *Change in Accounting Principle Resulting from the Adoption of a New Accounting Pronouncement*

As discussed in Notes A and B to the financial statements, effective July 1, 2012, the Commonwealth adopted the provisions of Governmental Accounting Standards Board's Statement No. 61, "The Financial Reporting Entity: Omnibus." Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information on pages 19 through 38 and 153 through 159 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Pennsylvania's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major special revenue funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue funds are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



December 13, 2013

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) is presented as Required Supplementary Information and provides a review and analysis of the Commonwealth's financial statements for the fiscal year ended June 30, 2013 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 5 of this report, and with the Commonwealth's financial statements, which follow.

**Table of Contents**

Section A: Understanding Government Financial Stmts ..... 20  
 Section B: Condensed Financial Information ..... 21  
 Section C: Commonwealth's Overall Financial Activity..... 25  
 Section D: Individual Funds Analysis..... 27  
 Section E: Budget Analysis Overview..... 34  
 Section F: Capital Asset And Long-term Debt Activity ..... 35  
 Section G: Currently Known Facts..... 37

**Section A: Understanding Government Financial Statements**

Three questions are the focal points of the financial data in this report:

- 1) Near-term financing: Will the government be able to pay its bills (both expected and unexpected) on time?
- 2) Financial position: Is the government's financial health improving or deteriorating?
- 3) Economic condition: Is it likely that today's financial position will improve or deteriorate?

To assist the reader in answering these questions and others, the Commonwealth presents both government-wide financial statements and fund financial statements.

**Government-wide Financial Statements** are designed to provide a broad overview of the Commonwealth's finances, in a manner similar to a private-sector business. All of the Commonwealth's activities are reported in the government-wide statements except for activities accounted for in the fiduciary funds.

**Fund Financial Statements** focus on accountability of resources versus the government-wide financial's focus on the ability to meet financial obligations.

	Government-wide Statements			Fund Financial Statements		
	Governmental Activities	Business-Type Activities	Discretely Presented Components Units	Governmental Funds (see note 1)	Proprietary Funds (see note 2)	Fiduciary Funds (see note 3)
<b>Scope of report and Fund Types</b>	Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues	Activities financed in whole or part by fees charged to external parties for goods and services	Legally separate organizations for which the elected officials of the primary government are financially accountable or it would be misleading to exclude them	<ul style="list-style-type: none"> <li>• General Fund</li> <li>• Special Revenue Funds</li> <li>• Debt Service Funds</li> <li>• Capital Projects Funds</li> </ul> *Generally used to account for tax-supported activities	<ul style="list-style-type: none"> <li>• Enterprise Funds</li> <li>• Internal Service Funds</li> </ul> *Activities that focus on the determination of operating income, changes in net position (cost recovery), financial position and cash flow	<ul style="list-style-type: none"> <li>• Agency Funds</li> <li>• Pension Trust Funds</li> <li>• Investment Trust Funds</li> <li>• Private-purpose Trust Funds</li> </ul> *Activities held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs
<b>Required Financial statements</b>	-Statement (Stmnt) of Net Position (1) -Stmnt of Activities (2)			<ul style="list-style-type: none"> <li>• Balance Sheet (3)</li> <li>• Stmnt of Revenues, Expenditures and Changes in Fund Balances (4)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmnt of Net Position (1)</li> <li>• Stmnt of Revenues, Expenses and Changes in Net Position (8)</li> <li>• Stmnt of Cash Flows (5)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmt Fiduciary Net Position (6)</li> <li>• Stmnt of Changes in Fiduciary Net Position (7)</li> </ul>
<b>Accounting Methods</b> ** see below	Accrual and economic resource measurement focus			Modified accrual and current financial resource measurement focus	Accrual and economic resource measurement focus	Accrual

- (1) **Statement of Net Position** is a government-wide financial statement that reports the difference between assets, deferred outflows, liabilities and deferred inflows as net position, not fund balances or equity.
- (2) **Statement of Activities** is a government-wide financial statement that reports the net (expense) revenue of its individual functions.
- (3) **Balance Sheet** presents a comprehensive statement of the assets, liabilities, and fund balances of the government at a point in time.
- (4) **Statement of Revenues, Expenses, and Changes in Fund Balances** presents the inflows, outflows, and balances of current financial resources as well as fund balance at the beginning and end of the financial period.
- (5) **Statement of Cash Flows** provides relevant information about the cash receipts and cash payments during a period.
- (6) **Statement of Fiduciary Net Position** presents information about the assets, liabilities, and net position for each fiduciary fund type.
- (7) **Statement of Changes in Fiduciary Net Position** presents additions and deductions in net position, as well as net position at the beginning and end of the financial period.
- (8) **Statement of Revenues, Expenses, and Changes in Net Position** presents the inflows, outflows, and balances of current financial resources as well as net position at the beginning and end of the financial period.

**Note 1: Governmental Funds** focus primarily on the sources, uses and balances of current financial resources and often have a budgetary focus. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the Commonwealth's programs.

**Note 2: Proprietary Funds** focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds. Enterprise funds are used in situations where a fund provides services primarily to external customers. Internal service funds are designed to function on a cost-reimbursement basis primarily providing benefits to other funds, departments or agencies of the government.

**Note 3: Fiduciary Funds** account for resources held for the benefit of parties outside the government. These activities have been excluded from the Commonwealth's government-wide financial statements because the assets are not available to finance its operations.

For further accounting policy explanations see Note A in the "Notes to Financial Statements" section of the CAFR.

## Section B: Condensed Financial Information

**Government-wide Statement of Net Position as of June 30, 2013 and 2012**  
(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
<b>Assets:</b>						
Cash and investments.....	\$ 9,818	\$ 9,966	\$ 5,815	\$ 4,159	\$ 15,633	\$ 14,125
Capital assets (net).....	33,162	31,872	480	77	33,642	31,949
All other assets.....	7,776	7,383	1,978	1,596	9,754	8,979
<b>Total assets.....</b>	<b>50,756</b>	<b>49,221</b>	<b>8,273</b>	<b>5,832</b>	<b>59,029</b>	<b>55,053</b>
<b>Liabilities</b>						
Accounts payable.....	6,268	5,999	908	858	7,176	6,857
All other current liabilities.....	3,604	3,696	1,033	3,504	4,637	7,200
Bonds payable, non-current.....	11,224	10,771	4,754	-	15,978	10,771
All other long-term liabilities.....	5,337	5,072	2,777	2,628	8,114	7,700
<b>Total liabilities.....</b>	<b>26,433</b>	<b>25,538</b>	<b>9,472</b>	<b>6,990</b>	<b>35,905</b>	<b>32,528</b>
<b>Net position</b>						
Net investment in capital assets.....	27,775	26,581	465	77	28,240	26,658
Restricted.....	2,235	2,562	748	679	2,983	3,241
Deficit.....	(5,687)	(5,460)	(2,412)	(1,914)	(8,099)	(7,374)
<b>Total net position.....</b>	<b>\$ 24,323</b>	<b>\$ 23,683</b>	<b>\$ (1,199)</b>	<b>\$ (1,158)</b>	<b>\$ 23,124</b>	<b>\$ 22,525</b>

**Statement of Net Position Variance Analysis Year Over Year**  
(A discussion of significant activities)

**Cash and investments** increased \$1,508 million year over year for the primary government (PG) (for definition of the PG see Note A).

- Governmental Activities temporary and long term investments decreased by \$222 million while other cash and cash with fiscal agents increased by \$81 million. The Motor License Fund showed the largest decrease in cash and investments, as expenditures exceeded revenue during the fiscal year.
- Business-Type Activities total cash and investments increased by \$1,656 million. A major contributing factor was due to a reporting entity change that added the Commonwealth Financing Authority (CFA) and the Philadelphia Regional Port Authority (PRPA) as blended component units. Additionally, the cash on hand at the Unemployment Insurance Trust increased and restricted cash is being reported that will be used to make debt service payments for the Unemployment Compensation Fund revenue bond obligation outstanding.

**Capital assets (net)** increased \$1,693 million year over year for the PG.

- Governmental Activities reported highway and bridge infrastructure increases primarily as a result of capitalizing improvements to the Commonwealth's roadway system as well as non-highway infrastructure.
- Business-Type Activities capital assets increased almost entirely as a result of blending the PRPA with the PG.

**All other assets** increased \$775 million year over year for the PG. Items reported in this category include taxes receivable, due from other governments, accounts receivable, inventory, supplies and other assets.

- Governmental Activities reported an overall increase of \$393 million. This increase was due to a higher receivable for federal grants due to the expansion of Managed Care Organizations. This was offset by a reduction in interfund advances where it was not necessary this fiscal year for the General Fund to advance fund the State Stores Fund operating activity.
- Business-Type Activities \$382 million increase was largely due to reporting the loans receivable of the CFA and an increase in the Unemployment Compensation assessments receivable.

**Accounts payable (A/P)** increased \$319 million year over year for the PG. A/P reports the outstanding short term debt to creditors incurred during the normal course of business. Significant activity include:

- Governmental Activities A/P \$269 million increase includes an increase in Managed Care Organization expenses of \$130 million and a change in reporting restricted receipts balances in the Capital Projects Fund for \$139 million.
- Business-Type Activities A/P increased by \$50 million as the result of increased payables for the State Lottery Fund and State Stores Fund.

**All other current liabilities** decreased \$2,563 million year over year for the PG. Items reported in this category include tax refunds payable, due to other governments and political subdivisions, bonds payable and other current liabilities. Significant impacts on other current liability activity include:

- Governmental Activities reported a decrease of \$92 million primarily due to a change in eligible reimbursable services for school related medical assistance expenses.
- Business-Type Activities declined by \$2,471 million primarily due to the previously reported liability to the federal government for Unemployment Compensation funds being replaced with a revenue bond.

**Bonds payable, non-current** increased \$5,207 million year over year for the PG. Bonds Payable reports debt instruments that have been issued as payment for long term debt. Significant activity includes:

- Governmental Activities Bonds Payable increased by \$453 million primarily due to a fiscal year 2012-13 general obligation bond issuance for capital facilities.
- Business-Type activities increased by \$4,754 million as a result of reporting the Unemployment Compensation Fund bond liabilities of \$3,192 million and reporting CA's bond liabilities of \$1,654 million.

**All other long-term liabilities** increased \$414 million year over year for the PG. Liabilities reported in this category are due in periods beyond twelve months from the close of the fiscal year and will be repaid with future resources. Reported items include compensated absences, self-insurance, other postemployment benefit obligations and other long-term liabilities. Significant impacts on all other long-term liability activity include:



- Governmental Activities increased by \$265 million as the result of a \$416 million increase in the other post employment benefits liability offset by a combined decrease of \$151 million in all other liabilities including litigation.
- Business-Type Activities increased by \$149 million largely as a result of an increase in the insurance loss liability of \$97 million being reported by the State Workers' Insurance Fund and an increase of \$26 million in tuition benefits payable in the Tuition Payment Fund.

**Net position** is one way of measuring the health of the Commonwealth's finances. An overall surplus of \$24.3 billion is reported for Governmental Activities, however, the majority of the surplus is related to net investment in capital assets which are unavailable to utilize in satisfying the Commonwealth's day-to-day expenses. Other

significant items to consider relative to net position include:

- The increase in net investment in capital assets reflects the Commonwealth's investment in highway and bridge infrastructure, as well as investment in the land, building, right-of-way and waterway improvements.
- Decreases in the restricted net position balances are primarily due to changes in transportation programs related to increases in highway and bridge expenses. The increase in the unrestricted net position deficit is mainly attributable to increases in other post employment benefit liability and the employer share of retirement expenses, and the inclusion of CFA as a blended component unit within the business-type activities. The CFA reported a net position deficit of \$760 million.

**Statement of Activities for the Fiscal Years Ended June 30, 2013 and 2012**  
(Amounts in millions)

Revenues	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program Revenues						
Charges for sales and services	\$ 4,683	\$ 4,466	\$ 8,847	\$ 8,959	\$ 13,530	\$ 13,425
Operating grants and contributions	22,794	22,818	2,167	3,212	24,961	26,030
Capital grants and contributions	91	68	1	-	92	68
Total program revenues	27,568	27,352	11,015	12,171	38,583	39,523
General revenues: taxes & investment income	31,790	30,637	-	-	31,790	30,637
<b>Total revenues</b>	<b>59,358</b>	<b>57,989</b>	<b>11,015</b>	<b>12,171</b>	<b>70,373</b>	<b>70,160</b>
<b>Expenses</b>						
Governmental Activities						
Direction & supportive services	1,529	2,243	-	-	1,529	2,243
Protection of persons & property	6,014	5,541	-	-	6,014	5,541
Public education	13,885	13,394	-	-	13,885	13,394
Health & human services	30,496	30,681	-	-	30,496	30,681
Economic development	1,033	1,537	-	-	1,033	1,537
Transportation	4,764	4,383	-	-	4,764	4,383
Recreation and cultural enrichment	519	514	-	-	519	514
Interest	489	476	-	-	489	476
Business-Type Activities						
State lottery	-	-	3,732	3,432	3,732	3,432
Unemployment compensation	-	-	4,498	6,032	4,498	6,032
Liquor control	-	-	1,618	1,570	1,618	1,570
Commonwealth financing	-	-	261	-	261	-
State worker's insurance	-	-	366	268	366	268
Tuition payment, economic development and other	-	-	290	253	290	253
<b>Total expenses</b>	<b>58,729</b>	<b>58,769</b>	<b>10,765</b>	<b>11,555</b>	<b>69,494</b>	<b>70,324</b>
Excess/(deficiency) before transfers	629	(780)	250	616	879	(164)
Transfers	17	210	(17)	(210)	-	-
<b>Increase (decreases) in net position</b>	<b>646</b>	<b>(570)</b>	<b>233</b>	<b>406</b>	<b>879</b>	<b>(164)</b>
<b>Net position-beginning</b>	<b>23,683</b>	<b>24,253</b>	<b>(1,158)</b>	<b>(1,564)</b>	<b>22,525</b>	<b>22,689</b>
<b>Restated Note B</b>	<b>(6)</b>	<b>-</b>	<b>(274)</b>	<b>-</b>	<b>(280)</b>	<b>-</b>
<b>Net position-ending</b>	<b>\$ 24,323</b>	<b>\$ 23,683</b>	<b>\$ (1,199)</b>	<b>\$ (1,158)</b>	<b>\$ 23,124</b>	<b>\$ 22,525</b>

**Statement of Activities Revenue Variance Analysis Year Over Year**  
(A discussion of significant activities)

**Charges for sales and services** for the PG increased for the fiscal year ended June 30, 2013. Noteworthy contributing factors to the \$105 million increase was in escheated property and investment income. There was also a decline in the Unemployment Compensation assessments attributed to a reduction in the employer assessment rates and the imposition of more stringent eligibility criteria for benefits offset by an increase in lottery revenues.

**Operating grants and contributions** experienced a significant decrease for the PG. These decreases are attributable to the continuing phase out of grant programs that were funded by the federal ARRA grants,

primarily of extended unemployment compensation benefits.

**Capital grants and contributions** reported an increase related, in large part to the Department of Military and Veterans affairs construction project activities.

**Taxes and investment income** reflects an economic climate in Pennsylvania that was better than the prior year, as a net increase of \$1,153 million was reported for the PG. The largest tax increases were reported in personal income tax (\$776 million), corporate tax (\$277 million), and sales and use tax (\$129 million).

**Statement of Activities Expense Variance Analysis Year Over Year**  
(A discussion of significant activities)

**Governmental Activities**

**Direction and supportive services** decreased by \$714 million primarily based on a prior year reporting change related to the Commonwealth's support of the Pennsylvania Convention Center Authority's capital assets and related debt financing.

**Protection of persons and property** reported a net increase of \$473 million primarily due to increased expenses reported for depreciation; an increase in grants to municipalities funded by the Marcellus Shale drilling fees; and an increase in the employer's share of retirement contributions.

**Public education** increased by \$491 million. The increase was primarily due to additional state funding for the Basic Education subsidies, Special Education subsidies, and support of school district administrative costs with an increase in the Retirement and Social Security subsidies.

**Health and human services** decreased by \$185 million. The decrease was primarily due to reduced expenses for grants and payments to individuals for cash assistance and medical assistance programs.

**Economic development** programs decreased by \$504 million as a phase out of federal ARRA grants continued. Expenses for state-funded redevelopment assistance grants decreased materially as a result of program revisions. The prior year also reported a one-time expense for the Commonwealth's support of debt service of the Pennsylvania Convention Center.

**Transportation** expenses increased by \$381 million primarily as a result of a reporting change for other post employment benefits expenses and depreciation expenses in the Motor License Fund for the capitalization of highway and bridge projects.

**Business-Type Activities**

**State Lottery** program expenses increased by \$300 million over the prior year as a result of increased prize awards, marketing and operational expenses for the instant ticket games program.

**Unemployment Compensation (UC)** program expenditures declined by \$1,534 million as eligibility for federal and state funded UC programs were more stringent. Certain extended benefit programs that were funded with federal ARRA grants were discontinued.

**Statement of Activities Expense Variance Analysis Year Over Year**  
(A discussion of significant activities continued)

**Liquor Control Board (LCB)** cost of goods sold increased by \$48 million as a result of increased sales of \$74 million.

**Commonwealth Financing Authority (CFA)** was blended for fiscal year 2012-2013 into the financial statements of the Commonwealth, for the first time. The majority of CFA's expenses is in the form of \$168 million in grants disbursed and interest expense of \$81 million on the CFA's outstanding bonds.

**State workers' insurance** expenses increased \$98 million primarily due to a change in the discount rate utilized in the actuarial valuation of it's the SWIF insurance loss liability.

**Tuition payment and economic development** expenses increased due to several factors including an increase in the actuarially determined tuition benefits liability, an increase in the use of beneficiaries using program credits, and an increase in administrative expenses for promoting and marketing the program.

**Section C: Commonwealth's Overall Financial Activity**

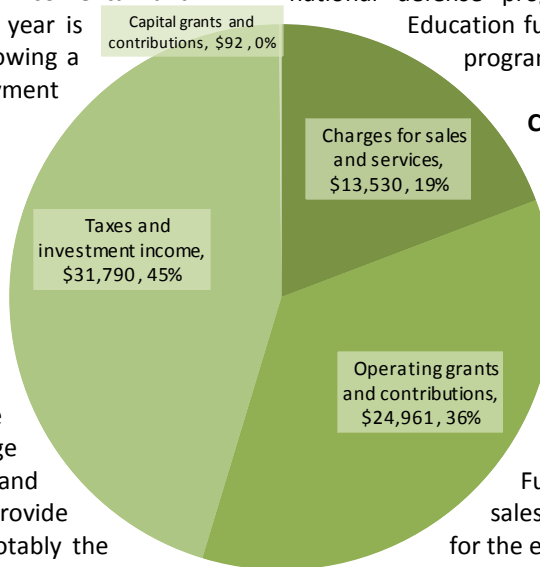
**Government-wide Revenue Total By Categories**  
(amounts in millions)

The revenue for all Governmental and Business-Type Activities contributing toward the Commonwealth's operating programs is displayed on this statement. The Commonwealth reported an overall increase in tax revenue: sales and use tax, personal income tax and corporate taxes. This gain over prior year is attributable to the Commonwealth showing a modest improvement in unemployment rates.

**Tax revenue** is the largest share of revenue reported by the Commonwealth. The majority of the tax revenue is deposited into the General Fund, the Commonwealth's largest operating fund. Significant tax revenue is also reported in the Motor License Fund and is utilized to fund the Commonwealth's highway and bridge infrastructure improvements and enhancements. The gaming taxes provide funding for several initiatives, most notably the Commonwealth's property tax relief program.

**Operating grants and contributions** include the revenue from the federal government in the form of grants. The Department of Public Welfare receives the most federal funds for medical assistance and other social service programs. Other agencies that receive significant federal

funds include the Department of Labor and Industry supporting the UC program, Department of Transportation supporting infrastructure development, Department of Military and Veterans Affairs supporting national defense programs and the Department of Education funding basic and higher education programs.



**Charges for sales and services** report the sales, fees and assessments charged for lottery tickets, licenses, permits and various registration requirements that support many of the Commonwealth's services and programs. The largest portion of charges for sales and services is reported by the State Lottery Fund and the UC Fund; the profits from lottery ticket sales are utilized to support programs for the elderly.

**Capital grants and contributions** makes up a small percentage of the Commonwealth's total revenue. The grant revenue reported here is received from the federal government and supports construction projects for transportation and military affairs.

**Government-wide Expense Total By Categories**

(amounts in millions)

The expense for all Governmental and Business-Type Activities is shown on this statement. Year over year the biggest change in program expense was the continued phase out of the grant programs supported by the American Recovery and Reinvestment Act (ARRA). In order to meet the growing demands of health and human service and education programs, along with the rising cost of the employers' contribution to the pension system, the Commonwealth instituted some government reforms to streamline state government operations and achieve efficiencies.

**Health and human services** programs are the responsibility of the Departments of Public Welfare, Health and Aging. Some agencies include these programs to ensure access to medical care for all citizens, support people seeking self sufficiency and maximize opportunities for individuals and families to participate in society.

**Public education** programs are managed primarily by the Department of Education. The Commonwealth strives to provide a system of learning experiences and opportunities through quality basic, special, technical and higher education programs.

**Protection of persons and property** addresses the substantive areas of consumer and environmental protection, certain regulatory activities, the criminal justice system and the mitigation of the effects of

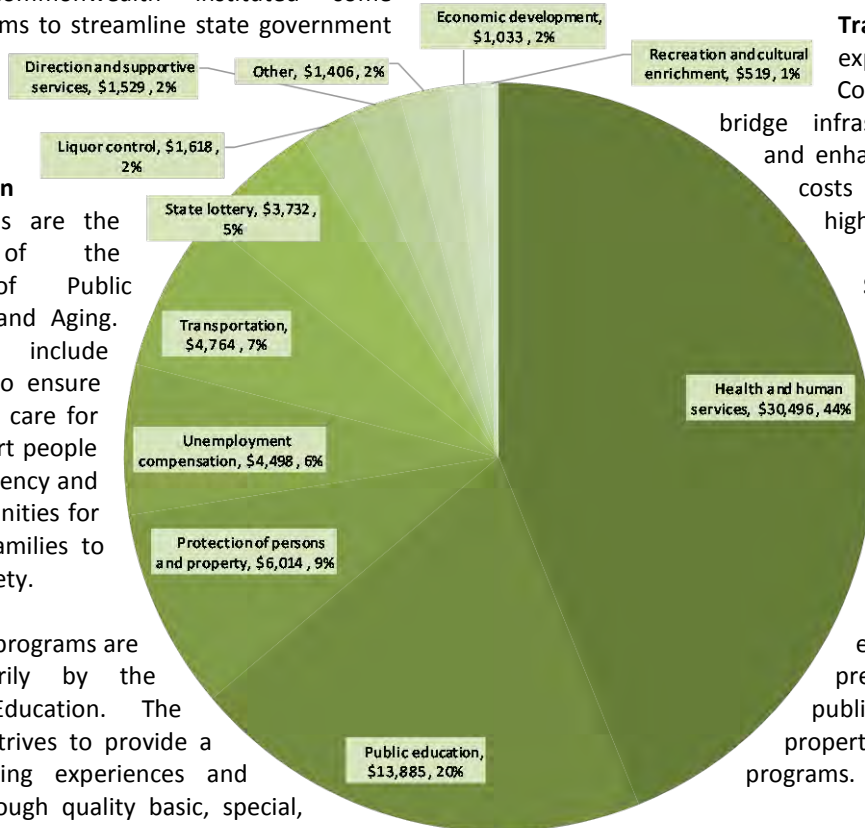
disasters. The State Police, Attorney General, Department of Corrections, Department of Military and Veterans Affairs and the Pennsylvania Emergency Management Agency are some of the agencies that support these programs.

**Unemployment compensation** reports the expenses for payments made to unemployed individuals.

**Transportation** reports the expenses in support of the Commonwealth's road and bridge infrastructure improvements and enhancements as well as the costs to provide licensing and highway safety programs.

**State lottery expenses** report the cost of sales and service to manage and maintain the Commonwealth's lottery program. All profits from the lottery program benefit the elderly population through the funding of programs ensuring reduced costs on prescriptions, access to public transportation, and property tax and rent rebate programs.

**Other expenses** reported include those for economic development, recreation and cultural enrichment, interest, liquor control, workers' compensation and the tuition payment fund program.



Section D: Individual Funds Analysis

**General Fund Assets and Liabilities and Fund Balance**  
 Condensed, comparative, financial information (amounts in millions)

The **General Fund**, the Commonwealth's largest fund, accounts for approximately 81% of the total governmental fund type revenues and other financial sources and 80% of the total governmental fund type

expenditures and other financing uses. The General Fund collects approximately 87% of the total tax revenues and is the primary funding source for most Commonwealth expenditures.

	2013	2012
<b>Assets:</b>		
Cash and investments.....	\$ 4,680	\$ 4,730
Receivables, net.....	4,028	3,998
Due from other funds/governments/advances/other.....	2,849	2,372
<b>Total assets.....</b>	<b>\$ 11,557</b>	<b>\$ 11,100</b>
<b>Liabilities:</b>		
Accounts payable and tax refunds payable.....	\$ 5,835	\$ 5,754
Securities lending obligations.....	6	4
Due to other funds/governments/advances/other.....	2,005	1,953
Unearned revenue.....	2,145	2,129
<b>Total liabilities.....</b>	<b>9,991</b>	<b>9,840</b>
<b>Fund Balance:</b>		
<b>Total fund balance.....</b>	<b>1,566</b>	<b>1,260</b>
<b>Total liabilities and fund balance.....</b>	<b>\$ 11,557</b>	<b>\$ 11,100</b>

**Total Assets** increase is largely attributable to receivables in public welfare programs. A majority of the increase is due to the expansion of the Managed Care Organizations (MCO). The expansion increased the monthly outstanding balances due from the federal government. Along with this increase, the June billing was not posted

until July. Together with this increase, the outstanding receivable from the federal government increased.

**Total Liabilities** increased as a consequence of payables activity related to the expansion of the MCOs previously mentioned. Netting against this increase was a decrease in medical assistance paid to local education agencies.

**General Fund**

Condensed, comparative, financial information (amounts in millions)

	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>		
<b>Taxes, net of refunds</b>		
Personal income.....	\$ 10,763	\$ 10,108
Sales and use.....	8,676	8,611
Corporation.....	4,725	4,474
Inheritance.....	799	805
Cigarette.....	1,018	1,061
Realty transfer.....	337	292
Gaming.....	89	95
Other.....	1,167	1,131
<b>Total taxes, net of refunds.....</b>	<b>27,574</b>	<b>26,577</b>
Intergovernmental.....	20,152	20,276
Charges for sales and services.....	1,452	1,450
Licenses/fees/investment and other income.....	996	880
<b>Total revenues.....</b>	<b>50,174</b>	<b>49,183</b>
<b>Expenditures:</b>		
Direction and supportive services.....	889	943
Protection of persons and property.....	4,344	4,035
Health and human services.....	29,770	30,031
Public education.....	13,225	12,734
Recreation and cultural enrichment.....	235	242
Economic development.....	473	744
Transportation.....	14	43
Capital outlay.....	123	233
Other expenditures.....	25	27
<b>Total expenditures.....</b>	<b>49,098</b>	<b>49,032</b>
Revenues over expenditures.....	1,076	151
<b>Other financing sources (uses):</b>		
Other financing sources.....	-	52
Transfers in.....	450	425
Transfers out.....	(1,215)	(1,097)
Capital lease and installment purchase obligations.....	1	108
<b>Net other financing sources (uses).....</b>	<b>(764)</b>	<b>(512)</b>
<b>Net change in fund balance.....</b>	<b>312</b>	<b>(361)</b>
Fund balance, beginning.....	1,260	1,621
Restated Note B.....	(6)	-
<b>Fund balance, ending.....</b>	<b>\$ 1,566</b>	<b>\$ 1,260</b>

**Total revenues** increased by \$991 million reflecting an overall improvement in the economy. Personal income tax revenue was the largest contributing factor increasing by \$655 million. Corporation income tax also contributed to this positively by adding a \$251 million year over year increase. Act 46 of 2010 created the Enhanced Revenue Collection Account (ERCA) which resulted in enhanced revenue collections and refunds avoided by expanding tax return review and tax collection activities. Both revenue streams were improved by Act 46.

**Licenses/fees/investment and other income** increased \$116 million. A major component of the increase is due to a one-time payment received as a result of a litigation settlement with the nation's 5 largest mortgage

servicers. The revenue will be used to provide relief to Pennsylvanians in the form of home financing assistance.

**Total expenditures** increased by a net of \$66 million. The largest increases were in public education (\$491 million) and protection of persons and property (\$309 million) programs. The significant decreases were in economic development (\$271 million), health and human services (\$261 million) and capital outlay (\$110 million) programs.

**Protection of persons and property** experienced an increase in expenditures by \$309 million largely due to an increase in the Commonwealth's employers' share of retirement contributions and grants to municipalities.

**Economic development** experienced a decrease in expenditures by \$271 million largely due to a phase out of the federal ARRA grants and a decrease in the state funded redevelopment assistance grants.

**Public education** expenditures increased by \$491 million primarily with respect to increases in state subsidies and state contributions for school employee retirement contributions.

**Health and human services** overall reduction was mainly due to a decrease due to federal programs being phased out. There was a decrease in these programs from fiscal 2012 to fiscal year 2013. Contributing to the decrease was a reduction of expenditures in the Women, Infants and Children (WIC) Program, specifically a reduction of WIC rebate expenses.

**Motor License Fund**  
Condensed, comparative, financial information (amounts in millions)

Description	2013	2012
Cash and investments.....	\$ 1,190	\$ 1,440
Other assets.....	581	505
<b>Total assets.....</b>	<b>\$ 1,771</b>	<b>\$ 1,945</b>
Accounts payable.....	\$ 541	\$ 595
Securities lending obligations.....	19	22
Other liabilities.....	146	135
Total liabilities.....	706	752
Total fund balance.....	1,065	1,193
<b>Total liabilities and fund balance.....</b>	<b>\$ 1,771</b>	<b>\$ 1,945</b>
Tax revenues.....	\$ 2,058	\$ 2,096
Licenses and fees.....	921	914
Intergovernmental.....	1,935	1,917
Other revenues.....	185	145
Total revenues.....	5,099	5,072
Direction and supportive services.....	32	59
Protection of persons and property.....	743	707
Transportation.....	2,036	2,001
Capital outlay.....	2,384	2,543
Other expenditures.....	1	4
Total expenditures.....	5,196	5,314
Other financing sources.....	1	-
Transfers out, net.....	(32)	(68)
Net other financing uses.....	(31)	(68)
<b>Net change in fund balances.....</b>	<b>\$ (128)</b>	<b>\$ (310)</b>

**Fund Description:** The Motor License Fund receives revenues from various taxes, fees, federal aid and aid from various political entities. The Motor License Fund incurs expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

**Cash and investments** decreased \$250 million. A component of this decrease is due to expenditures exceeding revenue, resulting in a partial liquidation of shares in the Commonwealth Treasury Investment Pool. Netting against this decrease was an increase in investments because of higher market values at June 30 2013.

**Other assets** increase is primarily a result of changes to the federal draw for the Federal Highway Administration (FHWA) grant program. Federal funds receivable included

two invoices outstanding June 30, 2013 compared to the prior year June 30, 2012 of only one outstanding invoice.

**Other revenues** increased by \$40 million attributable mainly to an increase in investment income. This is the result of improved market conditions during the fiscal year.

**Direction and supportive services** expenditures decreased by \$27 million. A portion of this decrease was due to the shift of \$13 million in the appropriations for the Statewide Public Safety Radio System to Protection

of persons and property as part of the State Police expenditures. Also contributing to the decrease was a change in the recording of the Liquid Fuels Refunds which amounted to \$14 million.

**Capital outlay** decreased by \$159 million which is a reflection of a cutback in highway and bridge projects during the fiscal year. This cutback is attributable to the phase out of the FHWA ARRA programs and a year over year reduction in tax receipts.

**Unemployment Compensation Fund**  
Condensed, comparative, financial information (amounts in millions)

Description	2013	2012
Cash and investments.....	\$ 650	\$ 119
Unemployment assessments receivable.....	822	730
Other assets.....	572	296
<b>Total assets</b> .....	<b>2,044</b>	<b>1,145</b>
Accounts payable.....	129	155
Other liabilities.....	3,292	2,701
<b>Total liabilities</b> .....	<b>3,421</b>	<b>2,856</b>
<b>Total net position</b> .....	<b>\$ (1,377)</b>	<b>\$ (1,711)</b>
Sales and services.....	\$ 3,031	\$ 3,447
Other revenues.....	-	1
<b>Total operating revenues</b> .....	<b>3,031</b>	<b>3,448</b>
Total operating expenses: Cost of sales and services.....	4,460	6,032
<b>Operating loss</b> .....	<b>(1,429)</b>	<b>(2,584)</b>
Nonoperating revenues.....	1,764	2,896
<b>Income before transfers</b> .....	<b>335</b>	<b>312</b>
Transfers.....	(1)	(3)
<b>Increase in net position</b> .....	<b>\$ 334</b>	<b>\$ 309</b>

**Fund Description:** The Unemployment Compensation Fund collects employer assessments for unemployment compensation and transfers the assessments to the federal government for deposit in the UC Trust Fund. These funds are drawn down to pay unemployment compensation payments to claimants as needed.

**Cash and investments** increased by \$531 million primarily due to refinancing of federal advances outstanding by issuing \$3.3 billion of Unemployment Compensation (UC) Revenue and Demand Bonds through the Pennsylvania Economic Development Financing Authority (PEDFA) and receipts from employers and the federal government collected during the year exceeded the unemployment benefits paid.

**Other assets** increased by \$276 million. The increase reflects a first time reporting of restricted assets for cash deposited in a bond reserve fund as a result of and in compliance with the PEDFA UC Revenue Bond issuance.

**Other liabilities** increased as a direct result of the first time issuance of PEDFA UC revenue bonds referenced above, and netted against the payoff of the federal UC advances.

**Sales and services** decrease represents several components, the largest of which was the enactment of Act 60 of 2012 amending the UC tax rates, reducing the employer surcharge for contributions to the fund.



Cost of sales and services and Nonoperating revenue both substantially decreased due to the phase out of the

extended unemployment benefits from the state and federal government.

**State Workers Insurance Fund (SWIF)**  
For the Fiscal Years Ended December 31  
Condensed, comparative, financial information (amounts in millions)

Description	2012	2011
Cash and short-term investments.....	\$ 176	\$ 146
Long-term investments.....	1,436	1,452
Other assets.....	75	66
Total assets.....	1,687	1,664
Securities lending obligations.....	82	69
Unearned revenue.....	81	68
Insurance loss liability.....	1,587	1,490
Other liabilities.....	39	43
Total liabilities.....	1,789	1,670
<b>Net position.....</b>	<b>\$ (102)</b>	<b>\$ (6)</b>
Sales and services.....	\$ 178	157
Provision for uncollectible accounts.....	(9)	(10)
Total operating revenues.....	169	147
Total operating expenses: Cost of sales and services.....	352	255
Operating loss.....	(183)	(108)
Investment income.....	91	141
Investment expense.....	(4)	(4)
Net nonoperating revenue.....	87	137
<b>Increase (decrease) in net position.....</b>	<b>\$ (96)</b>	<b>\$ 29</b>

**Fund Description:** The SWIF operates for the purpose of providing workers' compensation insurance to employers, including those refused policies by private insurance firms.

**Cash and short term investments** reported an increase of \$30 million primarily with respect to a \$13 million increase in securities lending program coupled with temporary investments appreciation of \$16 million indicative of the improvement in the investment market during the fiscal year.

**Insurance loss liability** and **Cost of sales and service** both increased by \$97 million; the majority of these increases were due to a reserve account discount rate change from 2.75% in the previous year to 2.00% in the current year

resulting in a higher insurance loss liability and the same increase in the corresponding cost of sales and service.

**Investment income** net decrease of \$50 million consists of a \$21 million increase in investment income and a \$71 million adjustment in net asset value (NAV).

**Overall the SWIF reported** a total decrease in net position of \$96 million for the calendar year. Although the deficit is of concern to the SWIF's management, continuing operations is not. The SWIF's investment assets, projected investment earnings, and premium revenue along with expense savings the SWIF is achieving by utilizing a new medical bill processor and other overhead expense savings will allow the SWIF to operate without interruption for the next several years.

State Lottery Fund

Condensed, comparative, financial information (amounts in millions)

Description	2013	2012
Cash and short-term investments.....	\$ 253	\$ 294
Long-term investments.....	57	53
Other assets.....	70	57
Total assets.....	380	404
Accounts payable.....	461	442
Securities lending obligations.....	2	1
Other liabilities.....	52	29
Total liabilities.....	515	472
<b>Net position.....</b>	<b>\$ (135)</b>	<b>\$ (68)</b>
Total operating revenues: Sales and services.....	\$ 3,701	\$ 3,479
Cost of sales and services.....	3,623	3,316
Other expenses.....	112	115
Total operating expenses.....	3,735	3,431
Operating income (loss).....	(34)	48
Nonoperating revenues, net.....	81	128
Income before transfers.....	47	176
Transfers in.....	167	164
Transfers out.....	(281)	(290)
Transfers, net.....	(114)	(126)
<b>Increase (decrease) in net position.....</b>	<b>\$ (67)</b>	<b>\$ 50</b>

**Fund Description:** The State Lottery Fund is a fund within the Commonwealth operating a lottery that designates all of its net proceeds to programs that benefit older Pennsylvanians.

**Cash and short-term investments** decreased by \$41 million due to increased funding for the Medical Assistance Long Term Care Program as well as a return of federal funding related to Medical Assistance Programs.

**Other assets** increase was mainly due to fixed asset purchases of 158 instant ticket vending machines and 125 play central terminals as a result of an expanded retailer base.

**Other liabilities** increase is mostly related to a tax withholding payment due to the IRS as a result of a large Powerball jackpot drawn on June 22, 2013.

**Sales and services** increased by \$222 million as a result of record sales during fiscal year 2012-13. This is the third year in a row that the Lottery has set a record in total sales. This is attributable in part to a \$170 million increase in instant game sales versus the prior year.

Instant game sales account for approximately 62% of overall game sales. Lottery sales for fiscal year 2012-13 continue to reflect the industry trend of increased consumer demand for instant ticket products.

**Cost of sales and services** increased by \$307 million due in part to increased sales activity and the corresponding direct costs associated with the sales activity. In addition, there was a substantial increase (\$130 million) in funding provided for the Medical Assistance Long Term Care Program during fiscal year 2012-13.

**Nonoperating revenues** decreased \$47 million. This decrease is attributable mainly to a decrease in eligible federal reimbursement for the Area Agencies on Aging (AAA) Medical Assistance programs.

**Net Position** decreased even though the program saw increased activity in sales with the corresponding increase in cost of sales. The main factor for the overall decrease in net position can be attributed to the Medical Assistance Program funding increase.

**Tuition Payment Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2013	2012
Cash and short-term investments.....	\$ 316	\$ 330
Long-term investments.....	1,267	1,132
Other assets.....	16	13
Total assets.....	1,599	1,475
Securities lending obligations.....	60	61
Tuition benefits payable.....	1,481	1,440
Other liabilities.....	29	16
Total liabilities.....	1,570	1,517
<b>Net position.....</b>	<b>\$ 29</b>	<b>\$ (42)</b>
Total operating revenues: Sales and services.....	\$ 182	\$ 186
Total operating expenses: Cost of sales and services.....	244	230
Operating loss.....	(62)	(44)
Nonoperating revenues, net.....	133	33
<b>Increase (decrease) in net position.....</b>	<b>\$ 71</b>	<b>\$ (11)</b>

**Fund Description:** The fund is administered by the Tuition Account Guaranteed Savings Program Bureau, an office within the State Treasurer. The fund provides the Commonwealth residents the opportunity to prepay college tuition towards future education expenses at eligible educational institutions.

**Long-term investments** increased by \$135 million during the fiscal year. A significant portion of the increase is directly related to the increase in customer tuition credit deposits and an increase in investment returns as the markets rebounded.

**Tuition benefits payable** \$41 million increase is primarily due to an increase in purchased tuition credits. The tuition benefit payable is an actuarially determined

present value of future tuition obligations payable by the fund. The present value is based on several assumptions, including those related to tuition cost increases, investment experience, income from account maintenance fees, and program expense.

**Nonoperating revenues** increase of \$100 million during the fiscal year was due mainly to market appreciation for equity and additional contributions to new alternative investment managers. Alternative investments include limited partnerships and limited liability companies invested in venture capital, leveraged buyouts, private equities, hedge funds, real estate investment trusts, and other investments.

**Commonwealth Financing Authority**  
Condensed, comparative, financial information (amounts in millions)

Description	2013	2012
Current assets.....	\$ 660	\$ 451
Long-term assets.....	306	307
Total assets.....	966	758
Current liabilities.....	68	57
Long-term liabilities.....	1,658	1,344
Total liabilities.....	1,726	1,401
<b>Total net position.....</b>	<b>\$ (760)</b>	<b>\$ (643)</b>
Operating revenues.....	\$ 9	\$ 11
Operating expenses.....	174	253
Interest expense.....	81	76
Other nonoperating expenses, net.....	4	14
Total expenditures.....	259	343
Loss before transfers.....	(250)	(332)
Transfers in, net.....	133	144
<b>Decrease in net position.....</b>	<b>\$ (117)</b>	<b>\$ (188)</b>

**Fund Description:** The purpose of CFA is to engage in financial assistance in the form of loans, loan guarantees, grants and private equity participating loans to promote the health, safety, employment, business opportunities, economic activity and general welfare of the people of the Commonwealth.

**Total assets and total liabilities** increased primarily due to the issuance of new bonds in 2013, totaling \$330 million. The bond issuance increase in total liabilities was net of the principal payments made during the year on CFA's long-term debt liabilities. Total assets increase was also net of grant disbursements, and transfers to the Commonwealth, and other Commonwealth component

units. Due to the nature of economic development grants and loans, some of which require drawdowns, funding not immediately disbursed upon Board approval is held as cash, cash equivalents, or authorized investments.

**Operating expenses** decreased by \$79 million due to a decrease of \$81 million in grant disbursements and offset slightly by \$2 million increase in loan guarantee expense.

**Loss before transfers** is mainly attributable to \$168 million in CFA's assets disbursed in the form of grants to the Commonwealth and other Commonwealth component units, and interest expense of \$81 million on the CFA's outstanding bonds.

## Section E: Budget Analysis Overview

### General Fund Budgetary Basis Comparison between original budget and final budget

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2013 is presented immediately following the Notes to the Financial Statements. In the Final Budget, State Program revenues were adjusted to include revenues received by fiscal year-end (but not included in the Commonwealth's official revenue estimate), in an amount equal to 2012-

13 supplemental appropriations passed on June 30, 2013 by Act 1-A.

Final budgeted Tax Revenues were \$199 million (.7%) higher than the original budget, primarily due to projected increases of \$309 million in corporation taxes and \$110 million net decrease in other taxes revenue.

**General Fund Budgetary Basis  
Comparison between final budgeted and actual results**

Actual Total State Program revenues net of refunds were \$286 million (.986%) higher than the final budgeted State Program revenues primarily due to an increase of \$461 million in departmental services and a net decrease in tax and other revenues of \$175 million. The increase in departmental services is mainly attributable to authorized transfers of augmenting revenue from the

Motor License Fund for State Police of protection of Commonwealth highways.

Actual Federal revenues and corresponding expenditures were \$59 million more than budgeted due to an increase of \$12 million in subgrant activity, an increase of \$30 million in disaster relief grants, and an increase of \$17 million in other supplemental grants.

**Section F: Capital Asset And Long-term Debt Activity**

**Capital Asset Overview and Explanation**

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund financial statements, expenditures for capital assets are typically reported as capital outlay. Funding for capital asset acquisition is almost entirely provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the governmental fund financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and assets under construction expenditures at fiscal year-end are reported as part of general capital assets.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both proprietary fund financial statements and in government-wide financial statements. Fiduciary fund capital assets are reported in fiduciary fund financial statements; fiduciary funds are not included in government-wide statements. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of "using up" capital assets over their estimated

useful lives. This treatment differs from reporting capital outlay as 'current expenditures' by governmental fund types.

Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees, transfers from the PA Turnpike Commission, and federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in its financial statements; a portion of such expenditures is reported as additions to capital assets in government-wide financial statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of "using up" the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset's cost over its estimated useful life and is reported in the government-wide financial statements.

**Note A** to the financial statements discusses capital assets significant accounting policies .

**Note E** to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2013.

**Long-term Debt Graph and Explanations**

(Amounts in millions)

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, 2013 was \$59.8 billion. Outstanding capital project debt at August 31, 2013 amounted to \$9.3 billion, for a remaining legal debt margin of \$50.5 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, water facilities restoration, and certain environmental initiatives; and for special purposes approved by the General Assembly, such as disaster relief.

Total general obligation bond principal indebtedness outstanding at June 30, 2013 was \$10,897. During the

fiscal year ended June 30, 2013 total debt service fund transfers were paid from General Fund (\$1,047), Motor License Fund (\$67) and Gaming Economic Development and Tourism Fund (\$47) to make principal and interest payments to bondholders (amounts in millions).

**Debt Overview – fiscal year ending June 30, 2013**

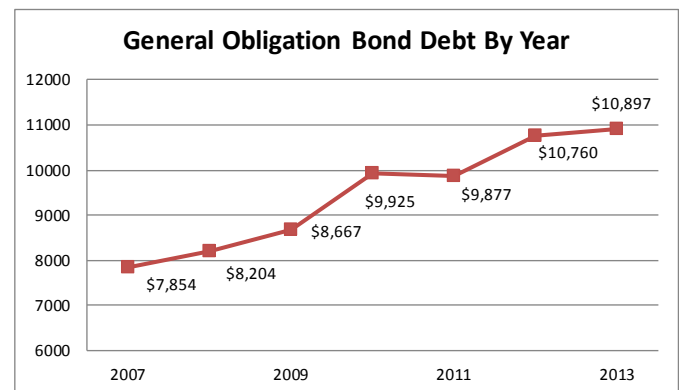
At June 30, 2013, the PG had total General Obligation Bonds principal outstanding of \$10,897 million for the following purposes:

- \$6,816 Capital Facility Bonds
- 2,916 Refunding Bonds
- 1,165 Electorate Approved Debt (various)

Over the seven year period ended June 30, 2013, total net outstanding general obligation debt increased at an average annual rate of 5.2% as reflected in the graph to the right.

The Commonwealth issued \$3.3 billion of revenue bonds related to its unemployment insurance program (see Note F).

**Note K** in the Notes to the financial statements provides more details on long-term debt balances and activity.



**Debt Administration – fiscal year ending June 30, 2014**

During the fiscal year ending June 30, 2014, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,348 million, an increase of \$36 million when compared to actual bond issuances of \$1,312 million, which included refunding issuance of \$362 million, during the fiscal year ended June 30, 2013. This plan reflects the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation infrastructure. Debt principal retirements of \$813 million are currently planned for the fiscal year ending June 30, 2014. As disclosed in Note R to the financial statements, the Commonwealth issued \$750 million of general obligation bonds during November 2013.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs.

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 fiscal year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued any such notes through November 2013.

On October 22, 2013, in connection with the Commonwealth's issuance of Second Series of 2013 General Obligation Bonds, Moody's Investors Service affirmed the Commonwealth's bond rating of Aa2. At the same time, Fitch Ratings affirmed the Commonwealth's bond rating of AA and Standard and Poors also affirmed the Commonwealth's bond rating of AA. There were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2013 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2014.

## Section G: Currently Known Facts

### Job Creation

The Commonwealth continues its efforts to focus on economic development and tax policy changes that will foster an improved climate for job growth. During the fiscal year, the Governor welcomed several new manufacturing employers and distribution facilities to the Commonwealth that created thousands of new jobs. In December of 2012, the Governor signed into law the Keystone Works Program which helps connect unemployed Pennsylvanians with employers who are looking for new hires. The program allows unemployment compensation claimants to receive job training directly from employers looking to fill openings in high priority occupations. The Commonwealth continued its phase out of the capital stock and franchise tax through annual rate reductions, this tax will be completely eliminated by 2016.

### Transportation Funding

In November 2013, transportation funding bill HB 1060 was signed into law providing funding for the Commonwealth's highway and bridge infrastructure. The legislation will generate an increase of \$2.4 billion additional transportation funding dollars over the next five years. The legislation is funded by a fee increase on the cost of wholesale fuel purchases along with increases in vehicle related fees and fines.

### Unemployment Compensation Funding Debt Restructure

In July of 2012 Act 60, Pennsylvania's Unemployment Compensation reform legislation, was signed into law. Act 60 allowed for the issuance of revenue and demand bonds to repay the state's Unemployment Compensation debt to the federal government. \$3.3 billion of bonds were issued in October 2012. Pennsylvanians will save more than \$380 million annually as a result of the solvency measures enacted with Act 60.

### Pension Accounting and Financial Reporting Standard

On June 25, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27". The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The statement is effective for fiscal year ending June 30, 2015. The statement requires all governments that participate in a defined benefit

pension plan to report their asset or liability associated with that plan. The current reporting requirements require governments to report a liability for their participation in a defined benefit pension plan if they have not met their required contribution to the plan on an annual basis. The Commonwealth participates in two defined benefit plans, the State Employees' Retirement System and the Public School Employees' Retirement System, as disclosed in Note I immediately following the Basic Financial Statements. This GASB statement will require the Commonwealth to report a pension liability in its Statement of Net Position. As of the issuance date of this report, the Commonwealth has not prepared an estimate in accordance with GASB Statement No. 68 of the impact that reporting a pension liability will have on its financial statements.

### Pennsylvania Turnpike Commission Lease and Funding Agreement Obligations

As further described in Note N to the Basic Financial Statements, the Pennsylvania Turnpike Commission (PTC), a discretely presented component unit, is required to remit specified amounts to the PA Department of Transportation (DOT) based on the terms of a 2007 Lease and Funding Agreement between the PTC and certain Commonwealth agencies, including DOT. The PTC has remitted all indicated payments to DOT; such payments are deposited in the Motor License Fund and the Public Transportation Trust Fund. Through June 30, 2013, the PTC has remitted payments amounting to \$3.85 billion to the DOT. The lease originally scheduled PTC payments to the DOT in the amount of \$450 million annually through 2057 when the Lease and Funding Agreement would terminate. HB 1060 of 2013 modified the payment schedule reducing the lease payments by the year 2023 to \$50 million per year until the lease expires in 2057.

In its separately-issued and publically-available financial statements as of and for the fiscal year ended May 31, 2013, the PTC's Management's Discussion and Analysis provides that it has made all indicated Lease and Funding Agreement payments and plans to continue to do so for the foreseeable future. The PTC has financed its payments to date through a combination of increased toll rates and increased borrowing, in accordance with the Lease and Funding Agreement. The PTC's Note 7 to its financial statements (Debt) provides extensive disclosure of its borrowings, including borrowings made to finance PTC remittances to DOT. The PTC's audited

financial statements as of May 31, 2013 are available within the PTC Comprehensive Annual Financial Report at: <http://www.paturmpike.com>. The PTC uses May 31 as its fiscal year end.

**Lottery Private Management Agreement**

During the fiscal year, the Commonwealth, acting through the Office of the Budget and the Department of Revenue, explored the possible private management of the Pennsylvania Lottery and solicited bid proposals. In December 2012, the Commonwealth selected a vendor for the private management of the Lottery and negotiated a contract with the selected vendor. In January 2013, the Pennsylvania Attorney General informed the Office of the Budget that it was rejecting the proposed contract between the Commonwealth and the selected vendor. At present, the Office of the Budget and the Governor's Office are evaluating options to resolve the matter.

**Tobacco Settlement Fund – Master Settlement Agreement (MSA) Litigation**

On September 11, 2013, an arbitration panel under the Tobacco Master Settlement Agreement (MSA) issued a decision that the Commonwealth did not diligently enforce provisions of the MSA during calendar year 2003. As a result of the panel's decision, the MSA payment due to the Commonwealth in April 2014 must be reduced by what is known as the Non-Participating Manufacturer (NPM) Adjustment attributable to 2003. The arbitrator's

decision is expected to result in a reduced MSA payment to the Commonwealth of between \$180 million and \$220 million. Prior to the panel's decision, the Commonwealth expected to receive a \$316 million MSA payment in April 2014. Based on a \$180 million to \$220 million reduction, the Commonwealth may receive an MSA payment in April 2014 in the range of \$96 million to \$136 million. The Governor, through the Budget Secretary, has already placed approximately \$100 million of discretionary MSA funds in budgetary reserve to help mitigate any reduction in funds on entitlement programs and impact on the state's General Fund.

**Bond Ratings**

On July 17, 2013, Fitch Ratings (Fitch's) lowered its ratings on Commonwealth General Obligation bonds from AA+ to AA with a negative outlook. Moody's Investor Service (Moody's) has assigned its rating of Aa2 with a stable outlook and Standard and Poor's Ratings Services (S&P) has assigned its municipal bond rating of AA with a negative outlook. The ratings reflect only the views of the respective rating agencies.

The ratings are based upon current information furnished by the Commonwealth or obtained from other sources considered reliable by the rating agencies, which do not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information.





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Basic Financial Statements



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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Government-Wide Financial Statements

**Commonwealth of Pennsylvania**

**Statement of Net Position**

June 30, 2013

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash—Note D, S.....	\$ 287,410	\$ 675,985	\$ 963,395	\$ 1,509,699
Cash with fiscal agents—Note D.....	17,643	625,655	643,298	-
Temporary investments—Note D, S.....	7,107,340	1,095,420	8,202,760	2,724,965
Receivables (net):				
Taxes—Note G.....	1,964,083	-	1,964,083	-
Unemployment assessments.....	-	822,180	822,180	-
Accounts.....	1,035,981	188,882	1,224,863	158,702
Investment income.....	5,720	13,236	18,956	6,552
Interest on notes and loans.....	-	19,505	19,505	121,645
Loans—Note S.....	5,672	61,288	66,960	1,463,112
Lease rentals.....	427	1,115	1,542	-
Investment sale proceeds.....	4,441	12,922	17,363	-
Other.....	122,660	11	122,671	26,868
Due from pension trust funds—Note H.....	6,303	7	6,310	-
Due from primary government—Note H.....	-	-	-	7,415
Due from component units—Note H.....	12,424	522	12,946	237
Due from Federal government.....	2,964,507	48,708	3,013,215	114,647
Due from political subdivisions.....	6,629	10,117	16,746	-
Due from other governments.....	16	35,005	35,021	-
Inventory.....	118,570	198,630	317,200	28,931
Prepaid and deferred expenses.....	-	16,217	16,217	24,875
Other assets.....	9,026	32,133	41,159	232,819
Total current assets.....	<u>13,668,852</u>	<u>3,857,538</u>	<u>17,526,390</u>	<u>6,420,467</u>
Noncurrent assets:				
Restricted cash—Note D.....	-	356,846	356,846	227
Long-term investments—Note D, S.....	2,405,576	3,060,733	5,466,309	2,413,898
Receivables (net):				
Taxes—Note G.....	1,228,418	-	1,228,418	-
Loans—Note G, S.....	77,963	502,224	580,187	13,109,962
Due from primary government—Note H.....	-	-	-	137,000
Due from component units—Note H.....	212,885	-	212,885	-
Non-depreciable capital assets—Note E, S:				
Land.....	2,685,410	129,569	2,814,979	333,994
Construction in progress.....	3,379,269	27,701	3,406,970	854,089
Depreciable or amortizable capital assets—Note E, S:				
Land improvements.....	772,100	42,890	814,990	365,359
Buildings and building improvements.....	7,263,783	367,418	7,631,201	4,734,877
Machinery and equipment.....	1,222,748	196,207	1,418,955	1,273,252
Turnpike infrastructure.....	-	-	-	7,172,878
Highway infrastructure.....	25,280,363	-	25,280,363	-
Bridge infrastructure.....	12,124,878	-	12,124,878	-
Waterway infrastructure.....	26,277	-	26,277	-
Infrastructure-other.....	190,540	-	190,540	-
Library books.....	-	-	-	84,439
Intangible assets.....	179,230	19,334	198,564	28,819
Less: accumulated depreciation and amortization.....	(19,962,913)	(303,047)	(20,265,960)	(6,565,756)
Net depreciable or amortizable capital assets.....	<u>27,097,006</u>	<u>322,802</u>	<u>27,419,808</u>	<u>7,093,868</u>
Other assets.....	-	15,195	15,195	432,935
Total non-current assets.....	<u>37,086,527</u>	<u>4,415,070</u>	<u>41,501,597</u>	<u>24,375,973</u>
<b>TOTAL ASSETS.....</b>	<u>50,755,379</u>	<u>8,272,608</u>	<u>59,027,987</u>	<u>30,796,440</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note S.....</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,884</u>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Net Position**

June 30, 2013

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 6,239,107	\$ 881,108	\$ 7,120,215	\$ 508,923
Investment purchases payable.....	27,559	26,039	53,598	-
Tax refunds payable.....	833,612	-	833,612	-
Tuition benefits payable—Note F.....	-	216,112	216,112	-
Securities lending obligations.....	104,807	150,898	255,705	15,235
Internal balances—Note H.....	(1,937)	2,179	242	-
Due to pension trust funds—Note H.....	44,855	1,608	46,463	-
Due to primary government—Note H.....	-	-	-	12,957
Due to component units—Note H.....	8,601	55	8,656	237
Due to political subdivisions.....	1,172,872	7,389	1,180,261	8
Due to other governments.....	26,512	35,747	62,259	700
Interest payable.....	166,981	95,935	262,916	217,571
Unearned revenue—Note G.....	123,365	93,486	216,851	103,156
Notes payable—Note S.....	-	199	199	176,963
General obligation bonds payable—Note K.....	597,834	-	597,834	-
Bonds payable—Note S.....	-	-	-	46,970
Revenue bonds payable—Note F, S.....	-	181,350	181,350	302,602
Capital lease/installment purchase obligations.....	-	-	-	3,345
Self insurance liabilities—Note M.....	157,200	6,388	163,588	7,468
Compensated absence liability—Notes F, K, S.....	144,803	6,973	151,776	22,036
Insurance loss liability—Note F.....	-	215,868	215,868	-
Other financing obligations—Note J, S.....	9,240	-	9,240	3,635
Other postemployment benefit obligations—Note S.....	-	-	-	56,330
Pollution remediation obligations—Note K.....	19,546	-	19,546	-
Other liabilities—Note K.....	195,432	19,098	214,530	389,986
Total current liabilities.....	9,870,389	1,940,432	11,810,821	1,868,122
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	1,264,944	1,264,944	-
Due to primary government—Note H.....	-	-	-	212,885
Due to component units—Note H.....	137,000	-	137,000	-
Unearned revenue.....	-	-	-	3,383
Student loan auction rate security bonds payable—Note S.....	-	-	-	2,516,700
Demand revenue bonds payable—Note F.....	-	300,000	300,000	-
Insurance loss liability—Note F.....	-	1,371,672	1,371,672	-
Notes payable—Note S.....	-	-	-	5,243,292
General obligation bonds payable—Note K.....	11,223,788	-	11,223,788	-
Bonds payable—Note S.....	-	-	-	1,959,640
Revenue bonds payable—Note F, S.....	-	4,454,410	4,454,410	12,380,694
Capital lease/installment purchase obligations—Note K.....	125,020	-	125,020	85,099
Other financing obligations—Note J, S.....	315,620	-	315,620	49,071
Compensated absence liability—Note F, K, S.....	596,584	29,838	626,422	125,322
Self insurance liabilities—Note M.....	668,272	33,132	701,404	51,457
Other postemployment benefit obligations—Note I, S.....	2,119,427	77,500	2,196,927	884,386
Pollution remediation obligations—Note K.....	217,910	-	217,910	-
Other liabilities—Note K.....	1,157,406	262	1,157,668	930,759
Total non-current liabilities.....	16,561,027	7,531,758	24,092,785	24,442,688
<b>TOTAL LIABILITIES.....</b>	<b>26,431,416</b>	<b>9,472,190</b>	<b>35,903,606</b>	<b>26,310,810</b>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note S.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141,440</b>
<b>NET POSITION—Note C</b>				
Net investment in capital assets.....	27,774,808	465,161	28,239,969	1,954,790
Restricted for:				
General government operations.....	1,739	-	1,739	-
Health-related programs.....	18,830	4,456	23,286	1,800
Transportation.....	352,317	126,986	479,303	-
Capital projects.....	-	-	-	3,458,132
Debt service.....	-	4,199	4,199	582,625
Unemployment/worker's compensation.....	499,547	-	499,547	-
Environmental and conservation programs.....	512,807	-	512,807	-
Economic development.....	-	325,269	325,269	179,392
Gaming licensing/regulation.....	709,348	-	709,348	-
Correctional industries and procurement.....	52,287	-	52,287	-
Emergency support.....	52,178	151,853	204,031	-
Higher education.....	-	29,009	29,009	996,843
Other purposes.....	35,626	105,929	141,555	691,601
Deficit.....	(5,685,524)	(2,412,444)	(8,097,968)	(3,347,109)
<b>TOTAL NET POSITION.....</b>	<b>\$ 24,323,963</b>	<b>\$ (1,199,582)</b>	<b>\$ 23,124,381</b>	<b>\$ 4,518,074</b>

**Commonwealth of Pennsylvania**  
**Statement of Activities**  
For the Fiscal Year Ended June 30, 2013  
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
<b>Governmental activities:</b>								
Direction and supportive services.....	\$ 1,528,057	\$ 363,296	\$ 91,158	\$ 1	\$ (1,073,602)	\$ -	\$ (1,073,602)	\$ -
Protection of persons and property.....	6,010,950	1,380,582	1,069,452	45,000	(3,515,916)	-	(3,515,916)	-
Public education.....	13,885,466	5,926	1,961,582	-	(11,917,958)	-	(11,917,958)	-
Health and human services.....	30,495,970	1,641,534	16,932,439	4,468	(11,917,529)	-	(11,917,529)	-
Economic development.....	1,032,887	13,910	385,719	-	(633,258)	-	(633,258)	-
Transportation.....	4,764,139	972,417	2,285,874	40,791	(1,465,057)	-	(1,465,057)	-
Recreation and cultural enrichment.....	519,242	304,903	65,808	1,343	(147,188)	-	(147,188)	-
Interest.....	489,401	-	-	-	(489,401)	-	(489,401)	-
<b>Total governmental activities.....</b>	<b>58,726,112</b>	<b>4,682,568</b>	<b>22,792,032</b>	<b>91,603</b>	<b>(31,159,909)</b>	<b>-</b>	<b>(31,159,909)</b>	<b>-</b>
<b>Business-type activities:</b>								
State lottery.....	3,732,233	3,671,780	108,673	-	-	48,220	48,220	-
State workers' insurance.....	365,900	178,058	90,783	-	-	(97,059)	(97,059)	-
Tuition payment.....	248,592	182,555	137,491	-	-	71,454	71,454	-
Unemployment compensation.....	4,498,001	3,031,318	1,801,363	-	-	334,680	334,680	-
Commonwealth financing.....	261,428	10,172	1,128	-	-	(250,128)	(250,128)	-
Liquor control.....	1,618,065	1,747,060	503	-	-	129,498	129,498	-
Economic development and other.....	41,199	25,816	26,534	1,128	-	12,279	12,279	-
<b>Total business-type activities.....</b>	<b>10,765,418</b>	<b>8,846,759</b>	<b>2,166,475</b>	<b>1,128</b>	<b>-</b>	<b>248,944</b>	<b>248,944</b>	<b>-</b>
Total primary government.....	\$ 69,491,530	\$ 13,529,327	\$ 24,958,507	\$ 92,731	(31,159,909)	248,944	(30,910,965)	-
<b>Component units:</b>								
Total component units.....	\$ 5,581,419	\$ 3,166,698	\$ 1,902,054	\$ 358,591	-	-	-	(154,076)
<b>General revenues:</b>								
Taxes:								
Personal income.....					10,798,328	-	10,798,328	-
Sales and use.....					9,106,779	-	9,106,779	-
Corporation.....					4,781,555	-	4,781,555	-
Liquid fuels and motor carriers.....					2,058,226	-	2,058,226	-
Gaming.....					1,447,796	-	1,447,796	-
Inheritance.....					796,007	-	796,007	-
Cigarette.....					1,038,605	-	1,038,605	-
Realty transfer.....					396,552	-	396,552	-
Other.....					1,353,566	-	1,353,566	-
Total taxes.....					31,777,414	-	31,777,414	-
Investment income.....					12,876	-	12,876	-
Total general revenues.....					31,790,290	-	31,790,290	-
Special item-discontinued project—Note S.....					-	-	-	(51,009)
Transfers—Note H.....					17,275	(17,275)	-	-
Net general revenues and transfers.....					31,807,565	(17,275)	31,790,290	(51,009)
Change in net position.....					647,656	231,669	879,325	(205,085)
<b>Net position, July 1, 2012 (restated)—Note B.....</b>					<b>23,676,307</b>	<b>(1,431,251)</b>	<b>22,245,056</b>	<b>4,723,159</b>
<b>Net position, June 30, 2013—Note C.....</b>					<b>\$ 24,323,963</b>	<b>\$ (1,199,582)</b>	<b>\$ 23,124,381</b>	<b>\$ 4,518,074</b>

- The notes to the financial statements are an integral part of this statement. -



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Fund

# Financial Statements



Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2013

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
<b>Assets:</b>				
Cash—Note D.....	\$ 56,315	\$ 11,238	\$ 205,073	\$ 272,626
Cash with fiscal agents—Note D.....	17,643	-	-	17,643
Temporary investments—Note D.....	4,391,604	463,773	2,225,690	7,081,067
Long-term investments—Note D.....	213,982	714,674	1,459,721	2,388,377
Receivables, net:				
Taxes—Note G.....	2,997,951	172,350	22,200	3,192,501
Accounts.....	919,528	25,530	88,875	1,033,933
Investment income.....	547	60	5,107	5,714
Loans—Note G.....	25,497	-	58,138	83,635
Lease rentals.....	-	-	427	427
Investment sale proceeds.....	-	-	4,441	4,441
Other.....	84,400	14,533	23,727	122,660
Due from other funds—Note H.....	56,052	25,370	70,105	151,527
Due from pension trust funds—Note H.....	337	157	1,132	1,626
Due from component units—Note H.....	222,471	5	2,611	225,087
Due from Federal government.....	2,562,666	339,074	62,767	2,964,507
Due from political subdivisions.....	99	4,678	1,785	6,562
Advances to other funds—Note H.....	4,775	-	4,500	9,275
Other assets.....	3,000	-	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 11,556,867</b>	<b>\$ 1,771,442</b>	<b>\$ 4,236,299</b>	<b>\$ 17,564,608</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 5,003,937	\$ 540,381	\$ 663,518	\$ 6,207,836
Investment purchases payable.....	-	-	27,559	27,559
Tax refunds payable.....	831,347	2,265	-	833,612
Securities lending obligations.....	5,800	19,444	79,095	104,339
Due to other funds—Note H.....	97,367	44,991	24,685	167,043
Due to component units—Note H.....	453	8,126	15,020	23,599
Due to pension trust funds—Note H.....	39,718	4,026	1,049	44,793
Due to political subdivisions.....	1,024,378	67,805	80,689	1,172,872
Due to other governments.....	8,376	17,508	602	26,486
Unearned revenue—Note G.....	2,144,725	1,399	159,946	2,306,070
Advances from other funds—Note H.....	69,000	2,175	300	71,475
Other liabilities.....	765,756	-	-	765,756
<b>TOTAL LIABILITIES.....</b>	<b>9,990,857</b>	<b>708,120</b>	<b>1,052,463</b>	<b>11,751,440</b>
<b>Fund balances:</b>				
Nonspendable.....	223,930	-	-	223,930
Restricted.....	76	1,063,322	2,493,794	3,557,192
Committed.....	1,334,872	-	693,209	2,028,081
Assigned.....	7,132	-	-	7,132
Unassigned deficit.....	-	-	(3,167)	(3,167)
<b>TOTAL FUND BALANCES.....</b>	<b>1,566,010</b>	<b>1,063,322</b>	<b>3,183,836</b>	<b>5,813,168</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 11,556,867</b>	<b>\$ 1,771,442</b>	<b>\$ 4,236,299</b>	<b>\$ 17,564,608</b>

- The notes to the financial statements are an integral part of this statement. -



**Commonwealth of Pennsylvania**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
 June 30, 2013

(Amounts in thousands)

The governmental funds balance sheet reports total fund balance for all governmental funds. In the governmental activities column in the Statement of Net Position, amounts are reported for all governmental funds and are adjusted to account for specific items that are treated differently on the Statement of Net Position than on the governmental funds balance sheet. Under the modified accrual basis of accounting, numerous governmental assets are not reported because they may not be "available," (that is, they are not current financial resources) and, similarly, numerous governmental liabilities are not reported because they are not due and payable until after fiscal year end. The following reconciliation begins with total governmental funds fund balance and ends with total net position for governmental activities. It includes all of the adjustments made to "convert" governmental fund information in the fund financial statements to governmental activities information in the Statement of Net Position.

**Total Fund Balances--Governmental Funds**..... \$ 5,813,168

General capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds balance sheet. (Refer to Note E.)

These assets consist of:

Land.....	\$ 2,685,410	
Land improvements.....	771,908	
Buildings and building improvements.....	7,258,168	
Machinery and equipment.....	1,125,343	
Infrastructure.....	37,622,058	
Intangible.....	179,230	
Construction in progress.....	3,379,269	
Accumulated depreciation.....	<u>(19,901,376)</u>	
Net general capital assets.....		33,120,010

Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet ..... 2,182,705

Certain receivables are not reported as governmental fund assets because they are not collected during the availability period under the modified accrual basis of accounting..... 6,017

Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets and liabilities of the internal service funds are included in the Statement of Net Position as governmental activities ..... 93,347

The Statement of Net Position includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 100,979

Certain general long-term liabilities are not due and payable at fiscal year-end and therefore are not reported in the governmental funds balance sheet. (Refer to Note K.)  
 These liabilities are:

Bonds payable.....	\$ (11,821,622)	
Accrued bond interest payable.....	(166,981)	
Capital lease and installment purchase obligations.....	(124,405)	
Compensated absence liability.....	(738,833)	
Self-insurance liabilities.....	(822,751)	
Other post employment benefits.....	(2,113,764)	
Other liabilities.....	<u>(1,203,907)</u>	
		<u>(16,992,263)</u>

**Total Net Position--Governmental Activities**..... \$ 24,323,963

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2013**

(Amounts in thousands)

	<b>General Fund</b>	<b>Motor License Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
<b>REVENUES:</b>				
Taxes, net of refunds.....	\$ 27,574,159	\$ 2,058,228	\$ 2,090,274	\$ 31,722,661
Licenses and fees.....	587,720	920,536	641,146	2,149,402
Intergovernmental.....	20,151,590	1,935,313	596,221	22,683,124
Charges for sales and services.....	1,451,899	108,456	279,152	1,839,507
Investment income.....	11,488	73,914	70,443	155,845
Interest on notes and loans.....	356	-	1,240	1,596
Other.....	396,605	2,680	366,582	765,867
<b>TOTAL REVENUES</b> .....	<b>50,173,817</b>	<b>5,099,127</b>	<b>4,045,058</b>	<b>59,318,002</b>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	888,592	31,593	637,121	1,557,306
Protection of persons and property.....	4,343,958	743,349	580,954	5,668,261
Health and human services.....	29,766,550	-	604,567	30,371,117
Public education.....	13,226,745	459	630,874	13,858,078
Recreation and cultural enrichment.....	234,799	901	239,266	474,966
Economic development.....	473,059	-	555,769	1,028,828
Transportation.....	14,396	2,036,728	1,291,297	3,342,421
Capital outlay.....	123,486	2,384,372	408,124	2,915,982
Debt service:				
Principal retirement.....	9,370	-	760,020	769,390
Interest and fiscal charges.....	16,109	-	515,455	531,564
<b>TOTAL EXPENDITURES</b> .....	<b>49,097,064</b>	<b>5,197,402</b>	<b>6,223,447</b>	<b>60,517,913</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<b>1,076,753</b>	<b>(98,275)</b>	<b>(2,178,389)</b>	<b>(1,199,911)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	950,300	950,300
Refunding bonds issued.....	-	-	361,760	361,760
Premium on bonds/refunding bonds.....	-	-	216,416	216,416
Transfers in—Note H.....	450,234	37,327	1,426,860	1,914,421
Transfers out—Note H.....	(1,215,358)	(69,442)	(603,373)	(1,888,173)
Payment to refunded bond escrow agent.....	-	-	(444,364)	(444,364)
Capital lease and installment purchase obligations.....	1,251	714	-	1,965
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>(763,873)</b>	<b>(31,401)</b>	<b>1,907,599</b>	<b>1,112,325</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>312,880</b>	<b>(129,676)</b>	<b>(270,790)</b>	<b>(87,586)</b>
<b>FUND BALANCES, JULY 1, 2012 (RESTATED)—Note B</b> .....	<b>1,253,130</b>	<b>1,192,998</b>	<b>3,454,626</b>	<b>5,900,754</b>
<b>FUND BALANCES, JUNE 30, 2013</b> .....	<b>\$ 1,566,010</b>	<b>\$ 1,063,322</b>	<b>\$ 3,183,836</b>	<b>\$ 5,813,168</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statements of Activities**

For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic resources basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2013. Expenses such as depreciation and certain claims and judgments and revenues that may not be collected for several months after fiscal-year end are included in the government-wide statement but are not included in the governmental funds statement. This reconciliation reports all economic events during the fiscal year that appear on the government-wide Statement of Activities but are not included in the governmental funds statement.

**Net change in total fund balances of governmental funds..... \$ (87,586)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds; however, in the government-wide statements capital outlays are reported as increases in capital assets (not expenses) and the cost of general capital assets is allocated over their estimated useful lives and reported as depreciation expense. All depreciation is reported as part of functional program expenses. (Refer to Note E) The current amounts were:

Capital asset acquisitions .....	\$ 2,915,957	
Depreciation expense and losses on retirement or sale of assets.....	(1,522,343)	
Capital lease, installment purchase and related payments.....	<u>7,028</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,400,642

Bond proceeds provide current financial resources to governmental funds; however, issuing bonds increases general long-term liabilities in the statement of net position. During the current fiscal year, proceeds were received from:

General obligation bonds, including a premium of \$133,812.....	\$ (1,084,112)	
Refunding bonds, including a premium of \$82,604.....	(444,364)	
Capital lease and installment purchase acquisitions.....	<u>(2,291)</u>	
Total bond proceeds and capital lease and installment purchase acquisitions.....		(1,530,767)

Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net position. During the current fiscal year, these amounts consisted of:

Bond principal retirement.....	\$ 769,390	
Payments to refunded bond escrow agent.....	<u>444,364</u>	
Total bond principal retirement and payment to refunded bond escrow agent.....		1,213,754

Internal service funds charge the costs of certain goods and services to individual funds. The net income of the internal service funds is reported as part of governmental activities expenses..... (4,336)

Certain tax and other revenues due by fiscal year end will not be collected for several months or years after fiscal year end; they are not considered available revenues in the governmental funds, but they are reported as revenues in the statement of activities..... 34,873

Certain expense adjustments are reported in the statement of activities because they are not due and payable and are funded with future economic resources rather than current available financial resources..... (378,924)

**Net change in governmental net position in the statement of activities..... \$ 647,656**

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Proprietary Funds  
June 30, 2013

(Amounts in thousands)

**Enterprise Funds**

	Enterprise Funds							Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2012)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	
<b>ASSETS</b>								
Current assets:								
Cash—Note D.....	\$ 19,511	\$ 2,687	\$ 225	\$ 3,577	\$ 629,210	\$ 20,775	\$ 675,985	\$ 14,783
Cash with fiscal agents.....	625,654	-	-	-	-	1	625,655	-
Temporary investments—Note D.....	4,766	173,776	252,415	312,040	-	352,423	1,095,420	26,272
Receivables (net):								
Unemployment assessments.....	822,180	-	-	-	-	-	822,180	-
Accounts.....	98,026	62,726	26,908	-	-	1,222	188,882	2,044
Investment income.....	-	9,996	36	3,176	-	28	13,236	5
Interest on loans.....	16,957	-	-	-	1,815	733	19,505	-
Loans—Note G.....	-	-	-	-	17,042	44,246	61,288	-
Lease rental.....	-	-	-	-	-	1,115	1,115	-
Investment sale proceeds.....	-	-	-	12,922	-	-	12,922	-
Other.....	-	-	-	-	-	11	11	-
Due from other funds—Note H.....	3,950	-	1,004	-	-	9,759	14,713	17,641
Due from pension trust funds—Note H.....	7	-	-	-	-	-	7	4,677
Due from component units—Note H.....	505	-	-	-	-	17	522	222
Due from Federal government.....	43,350	-	5,146	-	-	212	48,708	-
Due from political subdivisions.....	10,117	-	-	-	-	-	10,117	67
Due from other governments.....	34,978	-	-	-	-	27	35,005	16
Inventory.....	-	-	-	-	-	198,630	198,630	17,591
Prepaid expenses.....	12,810	-	-	-	-	3,407	16,217	-
Other assets.....	-	2,304	17,485	-	12,344	-	32,133	16
<b>Total current assets</b> .....	<b>1,692,811</b>	<b>251,489</b>	<b>303,219</b>	<b>331,715</b>	<b>660,411</b>	<b>632,606</b>	<b>3,872,251</b>	<b>83,334</b>
Noncurrent assets:								
Restricted cash.....	351,356	-	-	-	-	5,490	356,846	-
Long-term investments—Note D.....	-	1,435,628	57,332	1,267,010	-	300,763	3,060,733	17,199
Receivables (net):								
Loans—Note G.....	-	-	-	-	305,606	196,618	502,224	-
Land.....	-	-	-	-	-	129,569	129,569	-
Construction in progress.....	-	-	-	-	-	27,701	27,701	-
Depreciable or amortizable capital assets—Note E:								
Land improvements.....	-	-	-	-	-	42,890	42,890	192
Buildings and building improvements.....	-	-	-	-	-	367,418	367,418	5,615
Machinery and equipment.....	-	1,512	69,775	-	-	124,920	196,207	97,405
Intangible assets.....	-	-	-	-	-	19,334	19,334	-
Less: accumulated depreciation and amortization.....	-	(1,512)	(49,973)	-	-	(251,562)	(303,047)	(61,537)
Net depreciable or amortizable capital assets.....	-	-	19,802	-	-	303,000	322,802	41,675
Other assets.....	-	-	-	-	-	15,195	15,195	-
<b>Total noncurrent assets</b> .....	<b>351,356</b>	<b>1,435,628</b>	<b>77,134</b>	<b>1,267,010</b>	<b>305,606</b>	<b>978,336</b>	<b>4,415,070</b>	<b>58,874</b>
<b>TOTAL ASSETS</b> .....	<b>\$ 2,044,167</b>	<b>\$ 1,687,117</b>	<b>\$ 380,353</b>	<b>\$ 1,598,725</b>	<b>\$ 966,017</b>	<b>\$ 1,610,942</b>	<b>\$ 8,287,321</b>	<b>\$ 142,208</b>

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Proprietary Funds  
June 30, 2013

(Amounts in thousands)

**Enterprise Funds**

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2012)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and accrued liabilities.....	\$ 129,142	\$ 8,574	\$ 461,477	\$ 2,979	\$ -	\$ 278,936	\$ 881,108	\$ 31,262
Investment purchases payable.....	-	-	-	26,039	-	-	26,039	-
Tuition benefits payable—Note F.....	-	-	-	216,112	-	-	216,112	-
Securities lending obligations.....	-	81,852	1,560	59,530	-	7,956	150,898	468
Due to other funds—Note H.....	1,348	-	2,878	-	415	7,049	11,690	5,488
Due to pension trust funds—Note H.....	-	-	75	-	-	1,533	1,608	62
Due to component units—Note H.....	3	-	-	-	-	52	55	2
Due to political subdivisions.....	-	-	7,348	-	-	41	7,389	-
Due to other governments.....	14,652	-	20,296	-	-	799	35,747	26
Interest payable.....	83,271	-	-	-	12,168	496	95,935	-
Unearned revenue.....	-	80,772	9,386	-	-	3,328	93,486	-
Notes payable.....	-	-	-	-	-	199	199	-
Revenue bonds payable.....	122,300	-	-	-	55,870	3,180	181,350	-
Self insurance liabilities—Note M.....	-	335	374	-	-	5,679	6,388	440
Compensated absences—Note F,K.....	-	485	575	-	-	5,913	6,973	486
Insurance loss liability—Note F.....	-	215,868	-	-	-	-	215,868	-
Advances from other funds—Note H.....	-	2,202	-	-	-	3,000	5,202	-
Other liabilities.....	850	18,220	-	-	-	28	19,098	-
Total current liabilities.....	351,566	408,308	503,969	304,660	68,453	318,189	1,955,145	38,234
Noncurrent liabilities:								
Tuition benefits payable—Note F.....	-	-	-	1,264,944	-	-	1,264,944	-
Demand revenue bonds payable—Note F.....	300,000	-	-	-	-	-	300,000	-
Insurance loss liability—Note F.....	-	1,371,407	-	-	-	265	1,371,672	-
Revenue bonds payable—Note F.....	2,769,626	-	-	-	1,658,057	26,727	4,454,410	-
Installment purchase obligation—Note K.....	-	-	-	-	-	-	-	615
Compensated absences—Note F,K.....	-	2,067	2,451	112	-	25,208	29,838	2,068
Self insurance liabilities—Note M.....	-	1,735	1,942	-	-	29,455	33,132	2,281
Other postemployment benefit obligations—Note I.....	-	5,757	7,097	-	-	64,646	77,500	5,663
Other liabilities.....	-	-	-	-	-	262	262	-
Total noncurrent liabilities.....	3,069,626	1,380,966	11,490	1,265,056	1,658,057	146,563	7,531,758	10,627
<b>TOTAL LIABILITIES.....</b>	<b>3,421,192</b>	<b>1,789,274</b>	<b>515,459</b>	<b>1,569,716</b>	<b>1,726,510</b>	<b>464,752</b>	<b>9,486,903</b>	<b>48,861</b>
<b>NET POSITION—Note C</b>								
Net investment in capital assets.....	-	-	19,802	-	-	445,359	465,161	41,060
Restricted for:								
Health-related programs.....	-	-	-	-	-	4,456	4,456	-
Transportation.....	-	-	-	-	-	126,986	126,986	-
Debt service.....	-	-	-	-	-	4,199	4,199	-
Economic development.....	-	-	-	-	-	325,269	325,269	-
Correctional industries and procurement.....	-	-	-	-	-	-	-	52,287
Emergency support.....	-	-	-	-	-	151,853	151,853	-
Higher Education.....	-	-	-	29,009	-	-	29,009	-
Other purposes.....	-	-	-	-	-	105,929	105,929	-
Deficit.....	(1,377,025)	(102,157)	(154,908)	-	(760,493)	(17,861)	(2,412,444)	-
<b>TOTAL NET POSITION.....</b>	<b>\$ (1,377,025)</b>	<b>\$ (102,157)</b>	<b>\$ (135,106)</b>	<b>\$ 29,009</b>	<b>\$ (760,493)</b>	<b>\$ 1,146,190</b>	<b>\$ (1,199,582)</b>	<b>\$ 93,347</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Revenues, Expenses and Changes in Net Position**

Proprietary Funds  
 For the Fiscal Year Ended June 30 2013

(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2012)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>OPERATING REVENUES:</b>								
Sales and services.....	\$ 3,031,318	\$ 177,986	\$ 3,699,186	\$ 182,555	\$ 145	\$ 1,763,753	\$ 8,854,943	\$ 84,336
Interest on loans.....	-	-	-	-	9,085	6,865	15,950	-
Other.....	-	72	-	-	28	90	190	13
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>3,031,318</b>	<b>178,058</b>	<b>3,699,186</b>	<b>182,555</b>	<b>9,258</b>	<b>1,770,708</b>	<b>8,871,083</b>	<b>84,349</b>
Provision for uncollectible accounts.....	-	(8,893)	-	-	98	11	(8,784)	-
<b>NET OPERATING REVENUES.....</b>	<b>3,031,318</b>	<b>169,165</b>	<b>3,699,186</b>	<b>182,555</b>	<b>9,356</b>	<b>1,770,719</b>	<b>8,862,299</b>	<b>84,349</b>
<b>OPERATING EXPENSES:</b>								
Cost of sales and services.....	4,459,619	353,359	3,621,866	244,334	173,550	1,617,641	10,470,369	81,477
Depreciation and amortization.....	-	-	2,772	-	-	34,377	37,149	6,492
Other.....	-	-	107,519	-	539	4,946	113,004	-
<b>TOTAL OPERATING EXPENSES .....</b>	<b>4,459,619</b>	<b>353,359</b>	<b>3,732,157</b>	<b>244,334</b>	<b>174,089</b>	<b>1,656,964</b>	<b>10,620,522</b>	<b>87,969</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(1,428,301)</b>	<b>(184,194)</b>	<b>(32,971)</b>	<b>(61,779)</b>	<b>(164,733)</b>	<b>113,755</b>	<b>(1,758,223)</b>	<b>(3,620)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment income.....	10,097	90,783	4,989	137,491	1,128	26,231	270,719	1,312
Interest expense.....	(33,951)	-	-	-	(80,758)	-	(114,709)	-
Investment expense.....	-	(3,648)	-	(4,258)	-	-	(7,906)	-
Grants and other revenues.....	1,791,266	-	76,278	-	914	2,974	1,871,432	-
Other expenses.....	(4,431)	-	(76)	-	(6,679)	(2,311)	(13,497)	(2,028)
<b>NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>1,762,981</b>	<b>87,135</b>	<b>81,191</b>	<b>133,233</b>	<b>(85,395)</b>	<b>26,894</b>	<b>2,006,039</b>	<b>(716)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS.....</b>	<b>334,680</b>	<b>(97,059)</b>	<b>48,220</b>	<b>71,454</b>	<b>(250,128)</b>	<b>140,649</b>	<b>247,816</b>	<b>(4,336)</b>
<b>TRANSFERS AND CONTRIBUTIONS:</b>								
Capital contributions.....	-	-	-	-	-	10,101	10,101	-
Transfers in—Note H.....	-	-	166,800	-	147,022	38,965	352,787	-
Transfers out—Note H.....	(1,200)	-	(281,268)	-	(14,000)	(82,567)	(379,035)	-
<b>TRANSFERS AND CONTRIBUTIONS, NET.....</b>	<b>(1,200)</b>	<b>-</b>	<b>(114,468)</b>	<b>-</b>	<b>133,022</b>	<b>(33,501)</b>	<b>(16,147)</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN NET POSITION.....</b>	<b>333,480</b>	<b>(97,059)</b>	<b>(66,248)</b>	<b>71,454</b>	<b>(117,106)</b>	<b>107,148</b>	<b>231,669</b>	<b>(4,336)</b>
<b>TOTAL NET POSITION, JULY 1, 2012 (RESTATED)-Note B</b>	<b>(1,710,505)</b>	<b>(5,098)</b>	<b>(68,858)</b>	<b>(42,445)</b>	<b>(643,387)</b>	<b>1,039,042</b>	<b>(1,431,251)</b>	<b>97,683</b>
<b>TOTAL NET POSITION, JUNE 30, 2013.....</b>	<b>\$ (1,377,025)</b>	<b>\$ (102,157)</b>	<b>\$ (135,106)</b>	<b>\$ 29,009</b>	<b>\$ (760,493)</b>	<b>\$ 1,146,190</b>	<b>\$ (1,199,582)</b>	<b>\$ 93,347</b>

- The notes to the financial statements are an integral part of this statement. -

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Commonwealth of Pennsylvania  
**Statement of Cash Flows**  
 Proprietary Funds  
 For the Fiscal Year Ended June 30, 2013  
 (Amounts in thousands)

	Enterprise Funds							Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2012)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Receipts from employers.....	\$ 3,009,441	\$ 173,834	\$ -	\$ -	\$ -	\$ -	\$ 3,183,275	\$ -
Receipts from customers and participants.....	-	-	3,690,512	182,555	-	1,776,458	5,649,525	87,281
Receipts from borrowers for fees and loan repayments.....	-	-	-	-	39,827	63,465	103,292	-
Receipt of premiums.....	-	-	-	-	-	4,906	4,906	-
Payments to programs for the elderly.....	-	-	(1,034,442)	-	-	-	(1,034,442)	-
Payments to prize winners.....	-	-	(2,305,227)	-	-	-	(2,305,227)	-
Payments to participants.....	-	-	-	(196,253)	-	-	(196,253)	-
Payments to claimants.....	(4,501,280)	(194,127)	-	-	-	(1,078)	(4,696,485)	-
Payments to borrowers.....	-	-	-	-	(28,463)	(41,196)	(69,659)	-
Payments for vendors, employees and other costs.....	-	(57,428)	(348,482)	(6,914)	(3,073)	(1,592,613)	(2,008,510)	(86,428)
Payments of grants and loan guarantees.....	-	-	-	-	(170,635)	-	(170,635)	-
Other receipts.....	1,825	72	-	-	28	52	1,977	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>(1,490,014)</b>	<b>(77,649)</b>	<b>2,361</b>	<b>(20,612)</b>	<b>(162,316)</b>	<b>209,994</b>	<b>(1,538,236)</b>	<b>853</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>								
Net repayments under advances from other funds.....	-	(68)	-	-	-	(110,000)	(110,068)	-
Net repayments under advances to other funds.....	-	-	-	-	-	1,400	1,400	-
Proceeds from other non-capital borrowings.....	6,750,934	-	-	-	330,000	-	7,080,934	-
Bond premium.....	416,485	-	-	-	40,376	-	456,861	-
Principal payments on other non-capital debt.....	(6,515,096)	-	-	-	(50,210)	-	(6,565,306)	-
Interest payments on other non-capital debt.....	(84,700)	-	-	-	(74,826)	-	(159,526)	-
Transfers in.....	-	-	166,800	-	147,022	2,613	316,435	-
Transfers out.....	(1,200)	-	(281,268)	-	(14,000)	(82,070)	(378,538)	-
Grants and other revenues.....	1,811,965	-	76,336	-	-	2,131	1,890,432	-
Other payments.....	(16,391)	-	-	-	(8,058)	(712)	(25,161)	-
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>2,361,997</b>	<b>(68)</b>	<b>(38,132)</b>	<b>-</b>	<b>370,304</b>	<b>(186,638)</b>	<b>2,507,463</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>								
Acquisition and construction of capital assets.....	-	-	(6,604)	-	-	(40,316)	(46,920)	(23,172)
Capital lease/installment purchase payments.....	-	-	-	-	-	-	-	(175)
Principal payments on other capital debt.....	-	-	-	-	-	(3,249)	(3,249)	-
Interest payments on other capital debt.....	-	-	-	-	-	(1,585)	(1,585)	-
Transfers in.....	-	-	-	-	-	33,682	33,682	-
Capital contributions.....	-	-	-	-	-	1,111	1,111	-
Other receipts.....	-	-	-	-	-	119	119	-
Other payments.....	-	-	-	-	-	(3,305)	(3,305)	-
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>(6,604)</b>	<b>-</b>	<b>-</b>	<b>(13,543)</b>	<b>(20,147)</b>	<b>(23,347)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of investments.....	(18,023)	(1,422,154)	(1,551,832)	(1,671,148)	-	(1,475,905)	(6,139,062)	(390,491)
Sales and maturities of investments.....	14,540	1,418,571	1,592,436	1,665,171	-	1,444,694	6,135,412	423,269
Investment income.....	10,097	85,703	1,650	30,662	1,128	6,614	135,854	443
Investment expense.....	-	(3,648)	-	(4,258)	-	-	(7,906)	-
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>6,614</b>	<b>78,472</b>	<b>42,254</b>	<b>20,427</b>	<b>1,128</b>	<b>(24,597)</b>	<b>124,298</b>	<b>33,221</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>878,597</b>	<b>755</b>	<b>(121)</b>	<b>(185)</b>	<b>209,116</b>	<b>(14,784)</b>	<b>1,073,378</b>	<b>10,727</b>
<b>CASH AT JULY 1, 2012.....</b>	<b>117,924</b>	<b>1,932</b>	<b>346</b>	<b>3,762</b>	<b>420,094</b>	<b>41,050</b>	<b>585,108</b>	<b>4,056</b>
<b>CASH AT JUNE 30, 2013 (including \$356,846 included in restricted assets).....</b>	<b>\$ 996,521</b>	<b>\$ 2,687</b>	<b>\$ 225</b>	<b>\$ 3,577</b>	<b>\$ 629,210</b>	<b>\$ 26,266</b>	<b>\$ 1,658,486</b>	<b>\$ 14,783</b>



**Commonwealth of Pennsylvania**  
**Statement of Cash Flows**  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2013  
(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2012)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>								
Operating income (loss).....	\$ (1,428,301)	\$ (184,194)	\$ (32,971)	\$ (61,779)	\$ (164,733)	\$ 113,755	\$ (1,758,223)	\$ (3,620)
Depreciation and amortization.....	-	-	2,772	-	-	34,377	37,149	6,492
Provision for uncollectible accounts.....	-	8,893	-	-	(98)	(11)	8,784	-
Other adjustments.....	-	-	-	-	-	4,946	4,946	(341)
Changes in assets and liabilities:								
Unemployment assessments receivable.....	(92,038)	-	-	-	-	-	(92,038)	-
Accounts receivable.....	(5,869)	(17,256)	(8,683)	-	-	16,774	(15,034)	(540)
Interest on loans receivable.....	73,722	-	-	-	(332)	(16)	73,374	-
Loans receivable.....	-	-	-	-	3,004	15,335	18,339	-
Lease rental receivable.....	-	-	-	-	-	(421)	(421)	-
Due from other funds.....	252	-	(977)	-	-	823	98	(2,981)
Due from pension trust funds.....	-	-	-	-	-	-	-	(902)
Due from component units.....	52	-	-	-	-	(3)	49	90
Due from political subdivisions.....	4,394	-	-	-	-	-	4,394	(27)
Due from other governments.....	(5,219)	-	-	-	-	5	(5,214)	(4)
Inventory.....	-	-	-	-	-	(22,030)	(22,030)	(2,560)
Prepaid expenses.....	-	-	-	-	-	(353)	(353)	-
Other current and noncurrent assets.....	-	-	(107)	-	-	-	(107)	(8)
Accounts payable and accrued liabilities.....	(25,503)	2,578	19,193	208	(16)	33,379	29,839	1,432
Tuition benefits payable.....	-	-	-	40,958	-	-	40,958	-
Due to other funds.....	(8,874)	-	2,642	(2)	415	(392)	(6,211)	2,662
Due to pension trust funds.....	-	-	27	-	-	538	565	7
Due to component units.....	3	-	-	-	-	48	51	1
Due to primary government.....	-	-	-	-	(556)	(33)	(589)	-
Due to political subdivisions.....	-	-	60	-	-	19	79	-
Due to other governments.....	(2,633)	-	19,103	-	-	164	16,634	1
Unearned revenue.....	-	13,104	9	-	-	(385)	12,728	-
Self insurance liabilities.....	-	(176)	(122)	-	-	1,302	1,004	(99)
Compensated absences.....	-	(205)	154	3	-	317	269	82
Insurance loss liability.....	-	97,176	-	-	-	(38)	97,138	-
Other postemployment benefit obligations.....	-	1,006	1,261	-	-	11,927	14,194	1,168
Other current and noncurrent liabilities.....	-	1,425	-	-	-	(33)	1,392	-
<b>Total Adjustments.....</b>	<b>(61,713)</b>	<b>106,545</b>	<b>35,332</b>	<b>41,167</b>	<b>2,417</b>	<b>96,239</b>	<b>219,987</b>	<b>4,473</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ (1,490,014)</b>	<b>\$ (77,649)</b>	<b>\$ 2,361</b>	<b>\$ (20,612)</b>	<b>\$ (162,316)</b>	<b>\$ 209,994</b>	<b>\$ (1,538,236)</b>	<b>\$ 853</b>
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 5,348	\$ 3,350	\$ 106,932	\$ -	\$ 19,620	\$ 135,250	\$ 875
Increase (decrease) in investments from changes in securities lending obligations.....	-	13,101	482	(1,709)	-	2,458	14,332	145
Capital asset transfers from governmental fund and related organization.....	-	-	-	-	-	8,990	8,990	-
Capital asset disposals by scrapping.....	-	-	(76)	-	-	(13)	(89)	(2,028)
Amortization of bond premium/discount (net).....	(51,964)	-	-	-	(913,803)	-	(965,767)	-
Amortization of bond issuance costs.....	2,436	-	-	-	678,700	-	681,136	-

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

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Fiduciary Net Position**  
Fiduciary Funds  
June 30, 2013

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2012)	Private Purpose Trust Fund Tuition Account Investment Program	Agency Funds
<b>ASSETS</b>				
Cash—Note D.....	\$ 218,341	\$ 676	\$ 1,880	\$ 14,105
Cash with fiscal agents.....	-	-	-	39,330
Temporary investments—Note D.....	72,176	571,428	-	826,534
Long-term investments—Note D.....	207,362	-	1,339,472	3,161,970
Short-term funds—Note D.....	3,476,458	-	-	-
Corporate obligations—Note D.....	2,206,839	-	-	-
Collective trust funds—Note D.....	13,236,453	-	-	-
Real estate—Note D.....	9,668,071	-	-	-
Alternative—Note D.....	20,874,744	-	-	-
Securities lending collateral—Note D.....	828,864	-	-	-
Asset-backed securities—Note D.....	1,516,588	-	-	-
Commercial paper—Note D.....	34,867	-	-	-
Derivatives—Note D.....	50	-	-	-
Domestic equities—Note D.....	10,813,087	-	-	-
International equities—Note D.....	7,825,192	-	-	-
International private debt securities—Note D.....	416,786	-	-	-
International public debt securities—Note D.....	1,154,504	-	-	-
Mortgage-backed securities—Note D.....	1,173,730	-	-	-
Private placements—Note D.....	347,898	-	-	-
Repurchase agreements—Note D.....	87,258	-	-	-
State and municipal obligations—Note D.....	1,690	-	-	-
U.S. Treasury obligations—Note D.....	3,958,828	-	-	-
U.S. government agency debt securities—Note D.....	456,042	-	-	-
Receivables, net:				
Taxes—Note G.....	-	-	-	29,807
Accounts.....	-	-	163	44,673
Investment income.....	208,520	-	-	13,363
Interest on notes and loans.....	484	22	-	-
Pension contributions.....	764,601	-	-	-
Investment sale proceeds.....	444,794	298,809	-	17,328
Other.....	18,955	-	-	-
Due from other funds—Note H.....	9,774	-	-	-
Due from pension trust funds—Note H.....	784	-	-	-
Due from component units—Note H.....	11,140	-	-	-
Due from political subdivisions.....	11,553	-	-	-
Due from other governments.....	11,883	-	-	-
Advances to other funds—Note H.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,547	-	-	-
Intangible assets.....	31,983	-	-	-
Less: accumulated depreciation and amortization.....	(22,127)	-	-	-
Net depreciable or amortizable capital assets.....	22,403	-	-	-
Other assets.....	-	-	-	4,250,662
<b>TOTAL ASSETS.....</b>	<b>80,080,719</b>	<b>870,935</b>	<b>1,341,515</b>	<b>8,465,272</b>
<b>LIABILITIES</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities.....	194,483	45	756	180,197
Investment purchases payable.....	952,769	299,353	223	5,256
Securities lending obligations.....	900,441	-	-	17,648
Due to other funds—Note H.....	912	-	-	-
Due to pension trust funds—Note H.....	1,642	-	-	-
Due to political subdivisions.....	-	-	-	431,531
Due to other governments.....	-	-	-	5
Interest payable.....	-	88	-	-
Compensated absence liability.....	-	-	-	419
Self insurance liabilities—Note M.....	-	-	-	401
Other postemployment benefit obligations—Note I.....	-	-	-	1,229
Other liabilities.....	785,157	-	-	7,828,586
<b>TOTAL LIABILITIES.....</b>	<b>2,835,404</b>	<b>299,486</b>	<b>979</b>	<b>8,465,272</b>
<b>NET POSITION</b>				
Held in trust for:				
Pension benefits.....	74,404,896	-	-	-
Postemployment healthcare benefits.....	408,706	-	-	-
Employee salary deferrals.....	2,431,713	-	-	-
INVEST Program participants.....	-	571,449	-	-
Tuition Account Investment Program participants.....	-	-	1,340,536	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 77,245,315</b>	<b>\$ 571,449</b>	<b>\$ 1,340,536</b>	<b>\$ -</b>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2013**

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2012)	Private Purpose Trust Fund Tuition Account Investment Program
<b>ADDITIONS:</b>			
Pension contributions:			
Employer.....	\$ 2,822,497	\$ -	\$ -
Employee.....	1,695,791	-	-
Transfer in from other plans.....	48,890	-	-
Total contributions.....	<u>4,567,178</u>	<u>-</u>	<u>-</u>
Investment income:			
Net appreciation in fair value of investments.....	6,148,075	-	90,255
Interest income.....	432,181	860	32,438
Dividend income.....	449,878	-	-
Rental and other income.....	839,672	-	-
Total investment activity income.....	<u>7,869,806</u>	<u>860</u>	<u>122,693</u>
Less: investment expenses			
Investment activity expense.....	<u>(750,563)</u>	<u>(532)</u>	<u>-</u>
Net investment earnings.....	<u>7,119,243</u>	<u>328</u>	<u>122,693</u>
Securities lending activities:			
Income.....	13,505	-	-
Expenses.....	<u>(1,847)</u>	<u>-</u>	<u>-</u>
Total securities lending income.....	<u>11,658</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>7,130,901</u>	<u>328</u>	<u>122,693</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares issued in lieu of cash distributions.....	-	281	-
Shares purchased/redeemed (net).....	<u>-</u>	<u>61,673</u>	<u>117,900</u>
Net increase in net position from share transactions.....	<u>-</u>	<u>61,954</u>	<u>117,900</u>
<b>TOTAL ADDITIONS.....</b>	<u>11,698,079</u>	<u>62,282</u>	<u>240,593</u>
<b>DEDUCTIONS:</b>			
Benefit payments.....	9,733,223	-	-
Refunds of contributions.....	34,352	-	-
Transfers to other plans.....	76,570	-	-
Administrative expenses.....	84,688	-	5,324
Other expenses.....	3,061	-	-
Distributions to participants.....	-	329	-
<b>TOTAL DEDUCTIONS.....</b>	<u>9,931,894</u>	<u>329</u>	<u>5,324</u>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>			
Pension benefits.....	1,493,921	-	-
Postemployment healthcare benefits.....	46,605	-	-
Employee salary deferrals.....	225,659	-	-
INVEST program participants.....	-	61,953	-
Tuition Account Investment Program participants.....	-	-	235,269
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST.....</b>	<u>1,766,185</u>	<u>61,953</u>	<u>235,269</u>
<b>Net position, July 1, 2012.....</b>	<u>75,479,130</u>	<u>509,496</u>	<u>1,105,267</u>
<b>Net position, June 30, 2013.....</b>	<u>\$ 77,245,315</u>	<u>\$ 571,449</u>	<u>\$ 1,340,536</u>

- The notes to the financial statements are an integral part of this statement. -

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Discretely Presented Component Units  
June 30, 2013

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2013)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
<b>ASSETS</b>							
Current assets:							
Cash—Note S.....	\$ 658,437	\$ 511,556	\$ 80,698	\$ 59,679	\$ 167,105	\$ 32,224	\$ 1,509,699
Temporary investments—Note S.....	289,866	10,879	761,719	985,702	439,061	237,738	2,724,965
Receivables:							
Accounts .....	37,925	-	34,610	-	82,448	3,719	158,702
Investment income.....	5,218	1,206	5	-	-	123	6,552
Interest on notes and loans.....	-	-	117,502	3,120	-	1,023	121,645
Loans—Note S.....	-	104,826	1,067,929	241,373	6,360	42,624	1,463,112
Other .....	-	-	-	-	26,297	571	26,868
Due from primary government—Note H.....	6,624	4	3	1	783	-	7,415
Due from component units—Note H.....	-	41	-	150	46	-	237
Due from Federal government.....	-	-	84,332	1,923	27,263	1,129	114,647
Inventory.....	16,871	-	-	-	11,654	406	28,931
Prepaid and deferred expenses.....	-	-	15,257	-	8,400	1,218	24,875
Other assets.....	-	151,980	78,582	-	2,257	-	232,819
Total current assets .....	1,014,941	780,492	2,240,637	1,291,948	771,674	320,775	6,420,467
Noncurrent assets:							
Restricted cash.....	-	-	-	-	25	202	227
Long-term investments—Note S.....	728,103	255,286	-	-	1,403,752	26,757	2,413,898
Receivables (net):							
Loans—Note S.....	-	4,056,816	6,576,772	2,137,671	27,466	311,237	13,109,962
Due from primary government—Note H.....	-	-	-	15,000	-	122,000	137,000
Non-depreciable capital assets—Note S							
Land.....	271,310	2,454	2,946	-	56,129	1,155	333,994
Construction in progress.....	661,613	-	-	-	188,943	3,533	854,089
Depreciable or amortizable capital assets—Note S							
Land improvements.....	112,632	-	-	-	251,586	1,141	365,359
Buildings and building improvements.....	893,705	30,096	71,924	-	2,979,083	760,069	4,734,877
Machinery and equipment.....	549,578	10,412	27,802	-	518,775	166,685	1,273,252
Turnpike infrastructure.....	7,172,878	-	-	-	-	-	7,172,878
Library books.....	-	-	-	-	83,911	528	84,439
Intangible assets.....	-	-	28,786	-	-	33	28,819
Less: accumulated depreciation and amortization.....	(4,829,814)	(12,083)	(70,890)	-	(1,422,436)	(230,533)	(6,565,756)
Net depreciable or amortizable capital assets.....	3,898,979	28,425	57,622	-	2,410,919	697,923	7,093,868
Other assets.....	158,471	52,796	46,721	14	152,327	22,606	432,935
Total noncurrent assets .....	5,718,476	4,395,777	6,684,061	2,152,685	4,239,561	1,185,413	24,375,973
<b>TOTAL ASSETS.....</b>	<b>6,733,417</b>	<b>5,176,269</b>	<b>8,924,698</b>	<b>3,444,633</b>	<b>5,011,235</b>	<b>1,506,188</b>	<b>30,796,440</b>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note S.....</b>							
	117,369	56,515	-	-	-	-	173,884

(continued)

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Discretely Presented Component Units  
June 30, 2013

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2013)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities.....	170,893	4,850	138,712	2,238	179,705	12,525	508,923
Securities lending obligations.....	-	-	-	15,235	-	-	15,235
Due to primary government—Note H.....	37	-	223	9,429	1,132	2,136	12,957
Due to component units—Note H.....	-	150	-	41	-	46	237
Due to political subdivisions.....	-	-	-	-	-	8	8
Due to other governments.....	-	-	-	-	-	700	700
Interest payable.....	167,257	34,894	8,913	61	-	6,446	217,571
Unearned revenue.....	48,190	-	151	60	53,140	1,615	103,156
Notes payable—Note S.....	-	1,000	165,963	10,000	-	-	176,963
Bonds payable—Note S.....	-	-	-	-	46,970	-	46,970
Revenue bonds payable—Note S.....	198,800	80,782	-	2,295	-	20,725	302,602
Capital lease/installment purchase obligations.....	-	-	-	-	3,345	-	3,345
Self insurance liabilities.....	2,665	-	-	-	4,803	-	7,468
Compensated absences.....	9,202	-	833	80	11,585	336	22,036
Other financing obligations—Note S.....	-	-	3,635	-	-	-	3,635
Other postemployment benefit obligations—Note S.....	-	-	-	-	56,154	176	56,330
Other liabilities.....	-	219,880	78,582	-	91,318	206	389,986
Total current liabilities.....	597,007	341,593	397,012	39,439	448,152	44,919	1,868,122
Non-current liabilities:							
Due to primary government—Note H.....	-	-	-	212,885	-	-	212,885
Unearned revenue.....	-	-	-	-	3,383	-	3,383
Student loan auction rate security bonds payable—Note S.....	-	-	2,516,700	-	-	-	2,516,700
Notes payable—Note S.....	-	25,000	4,992,861	-	225,431	-	5,243,292
Bonds payable—Note S.....	-	-	-	-	1,959,640	-	1,959,640
Revenue bonds payable—Note S.....	8,526,198	3,595,941	-	1,689	-	256,866	12,380,694
Capital lease/installment purchase obligations.....	-	-	-	-	85,099	-	85,099
Other financing obligations—Note S.....	-	-	49,071	-	-	-	49,071
Compensated absences.....	7,529	-	17,420	339	98,324	1,710	125,322
Self insurance liabilities.....	34,916	-	-	-	16,541	-	51,457
Other postemployment benefit obligations—Note S.....	-	-	-	559	877,536	6,291	884,386
Other liabilities.....	161,321	419,247	-	-	208,345	141,846	930,759
Total non-current liabilities.....	8,729,964	4,040,188	7,576,052	215,472	3,474,299	406,713	24,442,688
<b>TOTAL LIABILITIES.....</b>	<b>9,326,971</b>	<b>4,381,781</b>	<b>7,973,064</b>	<b>254,911</b>	<b>3,922,451</b>	<b>451,632</b>	<b>26,310,810</b>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note S.....</b>	<b>141,440</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141,440</b>
<b>NET POSITION</b>							
Net investment in capital assets.....	653,109	10,879	60,492	-	653,720	576,590	1,954,790
Restricted for:							
Health-related programs.....	-	-	-	-	-	1,800	1,800
Capital projects.....	228,757	-	-	3,189,722	39,653	-	3,458,132
Debt service.....	49,655	178,906	295,895	-	-	58,169	582,625
Economic development.....	-	-	-	-	-	179,392	179,392
Higher Education.....	-	-	595,247	-	395,411	6,185	996,843
Other purposes.....	-	661,218	-	-	-	30,383	691,601
Unrestricted/(Deficit).....	(3,549,146)	-	-	-	-	202,037	(3,347,109)
<b>TOTAL NET POSITION.....</b>	<b>\$ (2,617,625)</b>	<b>\$ 851,003</b>	<b>\$ 951,634</b>	<b>\$ 3,189,722</b>	<b>\$ 1,088,784</b>	<b>\$ 1,054,556</b>	<b>\$ 4,518,074</b>

- The notes to the financial statements are an integral part of this statement. -

(concluded)

**Commonwealth of Pennsylvania**  
**Statement of Activities**  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	<b>Pennsylvania Turnpike Commission (May 31, 2013)</b>	<b>Pennsylvania Housing Finance Agency</b>	<b>Pennsylvania Higher Education Assistance Agency</b>	<b>Pennsylvania Infrastructure Investment Authority</b>	<b>State System of Higher Education</b>	<b>Nonmajor Discretely Presented Component Units</b>	<b>Total</b>
Expenses.....	\$ 1,568,041	\$ 626,583	\$ 914,549	\$ 72,804	\$ 2,244,505	\$ 154,937	\$ 5,581,419
Program revenues:							
Charges for goods and services.....	831,636	214,717	662,542	32,862	1,383,738	41,203	3,166,698
Operating grants and contributions.....	49,925	441,866	407,834	60,791	871,212	70,426	1,902,054
Capital grants and contributions.....	97,836	-	-	228,969	29,543	2,243	358,591
<b>Total program revenues.....</b>	<b>979,397</b>	<b>656,583</b>	<b>1,070,376</b>	<b>322,622</b>	<b>2,284,493</b>	<b>113,872</b>	<b>5,427,343</b>
<b>Net (expense) revenue.....</b>	<b>(588,644)</b>	<b>30,000</b>	<b>155,827</b>	<b>249,818</b>	<b>39,988</b>	<b>(41,065)</b>	<b>(154,076)</b>
Special item-discontinued project—Note S.....	(51,009)	-	-	-	-	-	(51,009)
Net general revenues and special item.....	(51,009)	-	-	-	-	-	(51,009)
<b>Change in net position.....</b>	<b>(639,653)</b>	<b>30,000</b>	<b>155,827</b>	<b>249,818</b>	<b>39,988</b>	<b>(41,065)</b>	<b>(205,085)</b>
<b>Net position, July 1, 2012 (restated)—Note B,S..</b>	<b>(1,977,972)</b>	<b>821,003</b>	<b>795,807</b>	<b>2,939,904</b>	<b>1,048,796</b>	<b>1,095,621</b>	<b>4,723,159</b>
<b>Net position, June 30, 2013.....</b>	<b>\$ (2,617,625)</b>	<b>\$ 851,003</b>	<b>\$ 951,634</b>	<b>\$ 3,189,722</b>	<b>\$ 1,088,784</b>	<b>\$ 1,054,556</b>	<b>\$ 4,518,074</b>

- The notes to the financial statements are an integral part of this statement. -

**INDEX TO NOTES**

	<u>Page</u>
<b>Note A</b> Summary of Significant Accounting Policies .....	62
<b>Note B</b> Restatements .....	78
<b>Note C</b> Net Position and Fund Balance .....	80
<b>Note D</b> Deposits, Investments and Financial Instruments with Off-Balance Sheet Risk.....	83
<b>Note E</b> Capital Assets .....	98
<b>Note F</b> Long-Term Obligations – Business-Type Activities and Proprietary Funds.....	101
<b>Note G</b> Taxes, Loans, and Governmental Funds Unearned Revenue.....	104
<b>Note H</b> Internal/Interfund Balances and Transfers .....	106
<b>Note I</b> Pension and Other Postemployment Benefits.....	111
<b>Note J</b> Short-Term Debt, Notes Payable and Other Financing Obligations .....	118
<b>Note K</b> General Long-Term Obligations – Governmental Activities .....	120
<b>Note L</b> Refunded Debt .....	125
<b>Note M</b> Self-Insurance Liabilities.....	126
<b>Note N</b> Commitments and Contingencies .....	128
<b>Note O</b> Certain Agency Fund Claims Liabilities.....	131
<b>Note P</b> Deferred Compensation Plan .....	132
<b>Note Q</b> Joint Venture .....	133
<b>Note R</b> Subsequent Events .....	134
<b>Note S</b> Discretely Presented Component Units .....	135

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Presentation**

The basic financial statements of the Commonwealth of Pennsylvania have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments.

**Government-Wide Financial Statements**

Government-wide financial statements report the financial position and results of activities for the Commonwealth of Pennsylvania as a whole, except for its fiduciary activities. Separate columns are presented for governmental and business-type activities within the primary government (PG) and discretely presented component units (DPCU). The Statement of Net Position reports all assets, deferred outflows of resources, liabilities and deferred inflows of resources for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues; and after including general revenues, reports whether the total net position of the government increased or decreased during the fiscal year ended June 30, 2013. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (CU) that are fiduciary in nature because they are held for the benefit of others and are not available to address activities or obligations of the PG. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds and two blended CUs.

**Financial Reporting Entity**

The basic financial statements include all funds of the PG, which for reporting purposes represents the Commonwealth of Pennsylvania, as well as the CUs determined to be included in the Commonwealth's financial reporting entity. A fund is a self-balancing set of accounts, segregated for specific purposes. A CU is a legally separate organization, the activity of which must be included in the Commonwealth's reporting entity.

The basic financial statements include the government-wide financial statements and fund financial statements. The fund financial statements present governmental, proprietary and fiduciary financial statements. Reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-level financial statements to the government-wide financial statements.

School districts, local governments, counties and numerous authorities are considered separate, stand-alone primary governments or organizations. Although these organizations may receive significant PG operating and/or capital subsidies, they have been excluded from the financial reporting entity because they are governed by popularly-elected officials or appointees and are not fiscally dependent on the PG. The PG provides significant subsidies and 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. 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.

**Primary Government**

For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government. 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.



**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Component Units**

CUs are legally separate organizations for which the Commonwealth is either financially accountable or the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. CUs are reported either discretely as an aggregated separate column in the government-wide financial statements or blended in both the government-wide and fund financial statements as if the funds were funds of the PG. The decision to include and how to report a CU in the Commonwealth's reporting entity is based on several criteria, including legal standing, debt responsibility, fiscal dependency, and financial accountability. The Commonwealth reports twenty CUs, sixteen of which are reported as DPCUs, two as CU fiduciary funds and two as blended CUs. The financial information for the DPCUs reported in the aggregate in the government-wide financial statements are presented separately in the Combining Financial Statements section of the CAFR. CUs classified as fiduciary funds are aggregated in the Pension (and Other Employee Benefit) Trust Funds column in the fund financial statements.

Effective July 1, 2012, the Commonwealth implemented Governmental Accounting Standards Board's (GASB's) Statement No. 61, "The Financial Reporting Entity: Omnibus." As a result of implementing Statement No. 61, the Commonwealth reviewed all the CUs and related organizations which resulted in a change to several entities' reporting category. Two entities, the Philadelphia Regional Port Authority and the **Commonwealth Financing Authority**, previously reported as DPCUs, are now being reported as blended CUs. Two entities, the Patient Safety Authority and the Insurance Fraud Prevention Authority, previously reported as DPCUs, are now being disclosed as related organizations. One fund, the Energy Development Fund, previously reported as a component of the **General Fund**, is now being reported with the Pennsylvania Energy Development Authority, a DPCU. Please see the individual disclosure for each entity for an explanation as to the aforementioned reporting changes.

Also, per the GASB Statement 61 review, two CUs, the Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association previously reported as Agency Funds are no longer reported in the Commonwealth's CAFR. Also, two entities, the Pennsylvania Municipal Retirement System and the Automotive Theft Prevention Authority previously disclosed as related organizations are no longer reported in the Commonwealth's CAFR. The four entities are no longer reported because they fall outside the definition of GASB's reporting entity.

More detailed information for the individual CUs is available from the CUs' separately issued financial statements available by writing to the Commonwealth's Chief Accounting Officer, 555 Walnut Street, Ninth Floor, Harrisburg, PA 17101-1921. The following paragraphs are a brief description of the Commonwealth's CUs. Note S and the Combining Financial Statements contain additional DPCU information.

**Blended Component Units**

A blended CU is an entity that functions as an integral part of the PG and as a result the entities financial data is blended with the financial data of the PG. As stated previously, with the implementation of GASB 61 for fiscal year ending June 30, 2013, the following two entities are now reported as blended CUs because the total debt of the CUs are expected to be repaid entirely or almost entirely with resources of the PG.

**Commonwealth Financing Authority (CFA)** - The **CFA** administers and funds economic stimulus programs. The programs offer financial assistance through loans, grants, guarantees, sales, leases, investments, lines and letters of credit, and other authorized financial arrangements. The **CFA** is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing. The PG appoints all seven voting members of the Board of Directors, four by appointment, whom may be removed at will, and three ex-officio board members, the Secretary of Community and Economic Development, Secretary of the Budget, and Secretary of Banking. A Service Agreement entered into by the **CFA** and the Department of Community and Economic Development (DCED), a PG agency, in 2005 states that the DCED shall request annual appropriations from the General Assembly in amounts necessary to pay the debt service requirements of the **CFA**. **CFA's** total debt outstanding is expected to be repaid entirely or almost entirely with resources of the PG.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Philadelphia Regional Port Authority (PRPA) - The PRPA operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains funding from the PG. The PRPA also issues revenue bonds to finance its activities. The Governor must approve the issuance of its debt. The PG appoints all eleven voting board members and can remove board members at will. The PG provides operating and capital subsidies and pays rent in amounts equal to PRPA debt service requirements. PRPA's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the PG.

**Fiduciary Fund Component Units**

A fiduciary fund CU is an entity that functions as an integral part of the PG but because the funds are held for the benefit of others and are not available to address activities or obligations of the PG, they are reported separately throughout this financial report.

State Employees' Retirement System (SERS) - The SERS is a public employee retirement system that provides pension benefits to Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. 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 substantially all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG. The SERS administers both a defined benefit plan and a defined contribution plan. The defined benefit plan is funded through a combination of employee contributions, employer contributions and investment earnings. The defined contribution plan is funded by voluntary employee contributions and investment earnings. The SERS is reported for its fiscal year ended December 31, 2012.

Public School Employees' Retirement System (PSERS) - 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 contribute. 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.

**Discretely Presented Component Units**

DPCUs are legally separate organizations for which the elected officials of the PG are financially accountable. In addition, DPCUs can be other organizations of which the nature and significance of their relationship with the PG is such that exclusion of these organizations from the PG's financial statements would be misleading. DPCUs do not function as an integral part of the PG and therefore are presented in separate (discrete) columns.

Pennsylvania Turnpike Commission (PTC) - 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 board members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation, which represents a financial benefit to the PG. The Governor must approve the issuance of all PTC debt, by which the PG can impose its will. The PG is not obligated for all PTC debt, but the PG could take certain actions to satisfy bondholders. As further disclosed in Note N to the Financial Statements, the Commonwealth is contingently liable for \$798,841 of PTC debt at fiscal year end. The PTC is reported for its fiscal year ended May 31, 2013.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit older adults, persons with disabilities, and low- and moderate-income individuals and families. The PG appoints all voting board members. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare, and the State Treasurer serve as ex-officio members. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

reserve account or if additional funds are needed to avoid a default on the PHFA debt. This moral obligation represents a financial burden to the PG. The PHFA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Through June 30, 2013, lending institutions and post-secondary schools were 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 and the Federal government. The PG appoints all twenty voting board members. A significant PG financial burden exists through subsidizing the PHEAA 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 Infrastructure Investment Authority (PENNVEST) - The PENNVEST makes grants and low-interest loans to local governments and authorities, businesses, and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the Federal government, and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. The PENNVEST operates closely with the Department of Environmental Protection. The PG appoints all voting board members. By issuing general obligation debt and providing the proceeds to PENNVEST as capital contributions a significant financial burden exists. 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.

State System of Higher Education (SSHE) - 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 twenty voting board members, which in turn appoint the university presidents and chancellor. Five of the appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE which creates a significant financial burden. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (PHEFA) - The SPSBA and the PHEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public/private colleges and universities. Neither the PG nor the Authorities are obligated for debt service payments, these bonds are repaid solely from lease/loan payments from the schools. All nine voting members of the SPSBA and the PHEFA governing boards are PG's high ranking officials being ex-officio board members by virtue of their position. The PG's Department of Education approves the SPSBA's projects, which indicates imposition of will.

Ben Franklin Technology Development Authority (BFTDA) - The BFTDA encourages and coordinates programs and investments which advance the competitiveness of Commonwealth companies in the global economy. The BFTDA, staffed by the Department of Community and Economic Development (DCED), provides vital seed capital, technology commercialization and entrepreneurial support services to the technology sector of the Commonwealth's economy. The PG appoints all twenty-one voting members of the governing board. The PG also provides funding on an annual basis, which is a financial burden to the PG.

Port of Pittsburgh Commission (PPC) - The PPC promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities. The PG appoints all fifteen voting members of the governing board and can impose its will by removing board members at will. The PG provides funding for the PPC but is not required to do so.

Philadelphia Shipyard Development Corporation (PSDC) - 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 PG appoints the majority of the governing board by appointing three of five voting board members. The PG also provides a significant portion of funding for the PSDC, which is a financial burden to the PG. The PSDC obtains funding from the PG and

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

a variety of other governmental sources to fund development, construction, and job recruitment and training costs. The PSDC is reported for its fiscal year ended December 31, 2012.

Pennsylvania Industrial Development Authority (PIDA) - The PIDA was created to provide employment opportunities throughout the Commonwealth by attracting businesses and investors to the Commonwealth and retaining existing businesses. The PIDA provides low interest rate loans to prospective and existing businesses focusing on areas of the Commonwealth where unemployment rates are the highest. 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 works closely with the Department of Community and Economic Development. The PG appoints all voting board members. The PG has provided capital contributions and "excess" PIDA funds are transferred to the **General Fund**, which represents a financial burden and benefit to the PG. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Thaddeus Stevens College of Technology (College) - The College is governed by a Board of Directors that is a body politic and corporate constituting a public corporation, making the College an entity legally separate from the PG. The Governor, with the advice of the Senate, appoints nine of the ten voting Board members, and the Secretary of Education serves as an ex-officio member. The PG has some ability to influence the structure and/or content of the College's budget through overview of the Department of Education. The College presents a financial burden to the PG, as the PG appropriates funds for College operations.

Pennsylvania Convention Center Authority (PCCA) - The PCCA was created to operate the Pennsylvania Convention Center located in the City of Philadelphia. The PG may impose its will because it has final approval authority over the PCCA operating and capital budget and the PCCA may not incur debt without the prior written approval of the PG. The PG financed a portion of the PCCA facility premises in prior fiscal years and during the fiscal year ended June 30, 2013 as well as paying other periodic amounts to the PCCA, thus there is a financial burden on the PG.

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 and repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDFA 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 eleven of the sixteen board members and 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. Although, the PEDFA issues only conduit debt and therefore there is no direct financial benefit or burden attributable to the PG, the ultimate purposes of the PEDFA is to benefit the PG by supporting and growing the tax base of the PG through economic development loans. Therefore because the PG is the ultimate beneficiary of the growing tax base, provides all management and administrative services to the PEDFA, as well as appoints the entire board, it would be misleading to exclude the PEDFA from the CAFR.

Pennsylvania Energy Development Authority (PEDA) - The PEDA was created to promote the development of energy sources within the Commonwealth. PEDA has two distinct functions: (1) the issuance of non-recourse debt and (2) the management of the Energy Development Fund. The Energy Development Fund, which was previously reported as a component of the **General Fund**, will now be reported as activity of the PEDA as of July 1, 2012. The non-recourse debt that was previously issued by PEDA has been satisfied. The PG appoints thirteen of the nineteen board members and six members are ex-officio. The Governor must approve the issuance of PEDA debt. By legislative authority, the PEDA is required to take action to deposit excess moneys into the Commonwealth's **General Fund** and that the PEDA may requisition moneys in the amounts necessary to pay administrative costs, which results in a financial benefit and burden to the PG.

Pennsylvania eHealth Partnership Authority (eHealth) - On July 5, 2012 the Governor signed Act No. 121 (Senate Bill 8, Printer's No. 2269) known as the Pennsylvania eHealth Information Technology Act, which establishes the Pennsylvania eHealth Partnership Fund. The fund will be administered by eHealth in accordance with the act to promote and maintain health information exchange that complies with Federal and State law. The PG appoints all fifteen members of the board and has a significant financial burden in funding eHealth.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Related Organizations**

Related organizations are legally separate, fiscally independent entities for which the Commonwealth appoints a voting majority of the board, but the Commonwealth is not financially accountable for the entity.

The Philadelphia Parking Authority (Authority) is financially reported as a DPCU unit in the City of Philadelphia's financial reporting entity. Act 22 of 2001 provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board.

The Philadelphia School District (School District) is financially reported as a DPCU in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 640 amending Act 46 of 1999, providing for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

Patient Safety Authority is charged with taking steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities, and birthing centers. The PG appoints all eleven members of the Board; the Pennsylvania Physician General, who serves as the Board chair, six members appointed by the Governor representing specific professional occupations, and four members appointed by the General Assembly. Although the Pennsylvania Department of Health approves the recommendations that will be adopted, the approval is not substantive.

Insurance Fraud Prevention Authority (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. Through a contract (exchange transaction) a significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General.

**Joint Venture**

A joint venture is a legal entity that results from a contractual arrangement owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. Joint control means no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. The purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services. The Pennsylvania Employees Benefit Trust Fund is the only joint venture in which the Commonwealth participates.

The Pennsylvania Employees Benefit Trust Fund (PEBTF) was created by the Commonwealth, through its Office of Administration, using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides active Commonwealth employee healthcare benefits and is the Commonwealth's third-party administrator for the Commonwealth's retiree healthcare programs. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control the governing board or the PEBTF; administration is jointly and equally shared. The Commonwealth and certain of its employees pay 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.

**Primary Government – Fund Structure**

**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. The purpose of a fund is for carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations,

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or, in certain rare cases, by administrative action.

The Commonwealth transactions are recorded in three fund types: Governmental, Proprietary and Fiduciary funds. In addition, within each fund type there are various categories of funds.

The Governmental funds include two funds that qualify as major funds (as defined by GASB Statement 34) and the Proprietary funds include five funds that qualify as major funds. Major funds are displayed in bold print in the Notes to the Financial Statements.

**Governmental Funds**

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, and capital project funds.

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

Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The **Motor License Fund**, one of several special revenue funds, is the only special revenue fund reported as a major fund.

The **Motor License Fund**, a major fund, receives revenues from liquid fuels taxes, licenses and fees on motor vehicle registrations and operating privileges, aviation fuel taxes, Federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects, and other miscellaneous highway revenues. The **Motor License Fund** makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

Debt Service Funds account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. There are no major debt service funds.

Capital Projects Funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. There are no major capital projects funds.

**Proprietary Funds**

The Proprietary funds are used to account for activities that receive significant support from fees and charges. They focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles, similar to those used by private sector businesses, are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and internal service funds.

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity;
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), be recovered with fees and charges; or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The **State Lottery Fund**, **State Workers' Insurance Fund**, **Unemployment Compensation Fund**, **Tuition Payment Fund**, and **Commonwealth Financing Authority** are enterprise funds reported as major funds.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies, and Federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, PACENET, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workers' Insurance Fund (SWIF)** was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. **SWIF** is subject to underwriting rules, classifications, and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from **SWIF**. **SWIF** is reported for its fiscal year ended December 31, 2012.

The **Unemployment Compensation (UC) Fund** is comprised of four basic components: the Employer Contribution Fund, the UC Benefit Payment Fund, the Special Administration Fund, and the UC Trust Fund. The purpose of these funds is to collect employer assessments for unemployment compensation and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants.

The **Tuition Payment Fund** offers a college savings program allowing participants to purchase college credits at the current year rates. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions, and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

The **Commonwealth Financing Authority (CFA)** is a blended CU. Please see the aforementioned description for **CFA**.

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.

The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the Purchasing Fund. The Purchasing Fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies provided. Also, the Purchasing Fund receives proceeds from the sale of vehicles and unserviceable property as well as from investment income. From time to time, the Purchasing Fund has borrowed from the **General Fund**; all such borrowings have been repaid.

The Manufacturing Fund uses inmate labor to produce items for the Department of Corrections and other Commonwealth agencies. The revenue source is the sale of items produced or services provided. Expenses include raw materials, inmate labor, and general and administrative costs.

**Fiduciary Funds**

Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party and that cannot be used to support that government's own programs.

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 Pension (and other employee benefit) Trust Funds, an Investment Trust Fund, a Private Purpose Trust Fund, and Agency Funds.

The State Employees' Retirement System (SERS), a Pension Trust Fund, is a CU and accounts for the payment of retirement, disability, and death benefits to members of the SERS and their beneficiaries. The Deferred Compensation Fund is a pension

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

trust fund that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457. The SERS and the Deferred Compensation Fund are reported for their fiscal years ended December 31, 2012.

The Public School Employees' Retirement System (PSERS), a Pension Trust Fund, is a CU and was created to administer and provide pension benefits to public school employees in Pennsylvania.

The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments, school districts, and not for profit entities. The INVEST Program for Local Governments is reported for its fiscal year ended December 31, 2012. Audited financial statements for that Program are available through the Chief Accounting Officer.

The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs. Audited financial statements for that Program are available through the Chief Accounting Officer.

The Statutory Liquidator Fund, the largest Agency Fund, converts the remaining assets of insolvent insurance companies to cash for remittance to policyholders, creditors, and stockholders. The order of distribution of the assets is established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a Commonwealth Court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders, and stockholders.

The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases.

The Medical Care Availability and Reduction of Error Fund (MCare), created by Act 13 of 2002, is used to pay claims against participating health care providers for losses or damages awarded in medical professional liability actions against them in excess of the basic insurance coverage required by the act.

The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

**Measurement Focus and Basis of Accounting – Government-Wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the Statement of Net Position reports all assets (including capital assets, such as heavy trucks, highways, and bridges), all deferred outflows, all liabilities regardless of when payment is due and all deferred inflows of resources. The Statement of Activities includes all revenues and expenses (regardless of when cash is respectively received or paid). The Statement of Activities reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function, which generates the revenue. Charges for goods or services, most investment income, grant revenues, and fines are reported as program revenues. Neither program revenues nor expenses are reported for donated works of art, historical treasures or similar assets received during the fiscal year because such donations are not material. All tax revenues, except for unemployment compensation tax revenues which are reported as charges for sales and services program revenues, are classified as general revenues in the Statement of Activities. The Statement of Activities also reports governmental activities expenses that include governmental fund expenditures (those which are not eliminated or reclassified) and current year depreciation on capital assets, which recognizes the cost of ordinary use of the assets over their estimated useful lives. The costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the Statement of Activities, regardless of when the benefits are used or the liabilities are paid.



## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement Focus and Basis of Accounting – Fund Financial Statements****Governmental Funds**

The **General Fund**, special revenue funds, debt service funds, and capital project funds (governmental funds) are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are presented 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. Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year that they become susceptible to accrual (both measurable and available to pay current fiscal year liabilities). The Commonwealth accrues the following major revenue sources that are both measurable and available (available is defined as being received within 60 days of fiscal year end for these revenues): sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, inheritance taxes, liquor taxes, investment income, institutional revenues, and sales of goods and services. Grant revenues, including Federal government grant revenues, are recognized when earned and available; accrued amounts due from the Federal government are treated as available in the period in which all applicable eligibility requirements have been met. Revenues from most 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 and other long-term liabilities are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures are reported for amounts accrued at fiscal year-end that normally would be liquidated with expendable available financial resources.

**Proprietary Funds and Fiduciary Funds**

The enterprise, internal service (proprietary funds), pension (and other employee benefit) trust funds, the investment trust funds and private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of these funds are included on the Statement of Net Position. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Proprietary Funds classify revenues and expenses as either operating or nonoperating, depending on the nature of the activities reported in the individual fund. The majority of transactions are reported as operating; however, investment income and grants are reported as nonoperating revenues by all Proprietary Funds. Fiduciary funds, except for agency funds, classify revenues and expenses as either additions or deductions to net position.

Assets and liabilities of agency funds are reported using the accrual basis of accounting. Agency funds have no measurement focus and do not report operating statements.

**Significant Accounting Policies**

**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 that 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 internal investment pools that seek to provide preservation of principal, liquidity, diversification, and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary or long term investments; the pools themselves are not financially reported. Periodic earnings are allocated to

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

specific participating funds. Several individual funds have statutory authority to own investments outside the Commonwealth Investment Program (CIP). The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements and is reported as an Investment Trust Fund.

**Temporary Investments:** The Treasury Department manages the temporary investment pools. Practically all individual funds that are part of PG are participants in the temporary investment pools. Temporary investments are reported at cost, except for the INVEST Program, which reports at amortized cost. Such investments, which are expected to be realized in cash within twelve months after fiscal year end or less, are reported as temporary investments. The Treasury Department accounts for each participating fund’s equity (considered “shares”) on a daily basis. “Share” balances of participating funds may fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund. These investments are considered internal investment pools. Periodic earnings are allocated to specific participating funds based on the weighted daily average share balance.

**Long-Term Investments:** Investments expected to be realized in cash after more than twelve months from fiscal year end are reported as long-term investments. Long-term investments are reported at fair value. 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 that are not actively traded. Certain pension trust fund investments, including real estate, venture capital, private equity, private placements, and alternative investments are valued based on the net asset value as reported by the fund manager. In addition to long-term investments held by funds with statutory authority to own investments outside the CIP, the Treasury Department manages a long-term investment pool in which a number of individual funds participate. Income is allocated periodically to specific participating funds based on the net asset value of a fund’s shares at redemption date. Income is also distributed periodically based on the net asset value of the pool and participant fund share balances on the income declaration date.

**Inventories and Prepaid Expenses:** Inventories of operating materials and supplies are reported by certain governmental activities. Operating and merchandise inventories are reported by Proprietary Funds and the SSHE, a DPCU. Operating materials and supplies inventories are valued at cost (first-in, first-out) and merchandise inventories are reported at the lower of cost or market. In the governmental fund financial statements, inventories are accounted for using the purchases method whereby expenditures are reported for current-year purchases of operating materials and supplies. Also, in governmental fund financial statements prepaid expenses are not reported.

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

**Capital Assets and Depreciation:** General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the Statement of Net Position. Donated capital assets are reported at fair market value at the time of donation. The cost of all land is reported; for other types of capital assets, the following minimum dollar reporting thresholds are used:

Land improvements, buildings and building improvements.....	\$ 25
Machinery and equipment.....	25
Highway and bridge infrastructure .....	100
All other infrastructure.....	25
Computer software .....	1,000
Trademarks, patents and copyrights.....	100

Commonwealth agencies maintain inventories of all their respective capital assets, including assets acquired for less than the above minimum amounts, which are not capitalized in the Basic Financial Statements.

The Pennsylvania Historical and Museum Commission (PHMC) owns diverse collections of historical, architectural, prehistoric and artistic artifacts, archives and manuscripts and scientific specimens. The Commonwealth does not capitalize these collections, as they meet the following criteria: PHMC’s mission in acquiring these collections is for the purpose of preservation, education, research, and exhibition; PHMC secures and preserves all collections in order to adequately preserve

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Commonwealth history; and all acquisitions and deaccessions must be approved by the PHMC Collections Committee and the PHMC Executive Director. All amounts received from the deaccessioning of artifacts/collections are placed in a restricted account that can only be used for the purchase of new artifacts/collections.

The Commonwealth does not capitalize expenditures to protect farmland under the Agricultural Area Security Law since participating counties within the Commonwealth play a much greater role in administering the Law than the Commonwealth. Capital assets (excluding land and construction in progress) are depreciated/amortized over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation/amortization expense is reported in the Statement of Activities as part of direct functional expenses; all depreciation/amortization is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation/amortization is reported on the straight-line basis over the capital assets' estimated useful lives. Depreciation expense associated with capital assets being procured under capital lease arrangements is reported as part of depreciation expense for other capital assets. The following useful lives are used for PG governmental activities:

Buildings and building improvements.....	40 years
Improvements other than buildings .....	30 years
Machinery and equipment.....	10 years
Highway heavy equipment.....	15 years
Highway infrastructure.....	25 years
Bridge infrastructure .....	50 years
Dams, dikes and pier infrastructure .....	50 years
Other infrastructure .....	20 years
Computer software .....	3 – 30 years
Trademarks, patents and copyrights.....	3 – 40 years

PG business-type activities report depreciation/amortization expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings, and improvements owned by the Commonwealth and used by the SSHE, a DPCU, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities general capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities general capital assets. This reporting treatment is based on the title for the SSHE-used real property remaining with the PG. Based on agreements between the PG, through its Department of General Services (DGS), and SSHE universities in 2002, DGS effectively transferred occupancy, custody, and control to the SSHE universities and the SSHE universities assumed financial responsibility and legal liability for the SSHE-used real property but the Commonwealth retained title.

**Capital Asset Impairments:** Through a variety of policies, Commonwealth management requires agencies to perform periodic assessments of general and other capital assets. Beyond initial reporting (upon acquisition), agencies must adhere to continuing policies regarding usability, function, and condition of reported capital assets. With few exceptions, Commonwealth agencies using capital assets must report impairments promptly.

**Deferred outflows of resources** are a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows have a natural debit balance and, therefore increase net position similar to assets.

**Deferred inflows of resources** are an acquisition of net position by the government that is applicable to a future reporting period. Deferred inflows have a natural credit balance and, therefore decrease net position similar to liabilities.

**Liabilities:** Governmental, business-type, and proprietary liabilities in the Statement of Net Position, are presented as either “current” or “noncurrent.” Liabilities are segregated into these categories by establishing an average maturity for the liability class and classifying the portion due within one year of the statement date as current and the portion due beyond one year of the statement date as noncurrent. For liabilities without specific maturity or due dates, estimates are made of maturities. Liabilities without specific due dates include those related to self-insurance and compensated absences.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Compensated Absences:** Employees earn annual leave, depending on length of credited service, from between 2.7 percent to 10 percent of regular hours paid. Generally, 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 an agreed upon percentage of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Most 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	11

Accumulated annual and sick leave liabilities payable with expendable available financial resources are reported by Governmental Funds; all compensated absences payable are reported by governmental and business-type activities and fiduciary funds.

**Pollution Remediation Obligations:** In the government-wide Statement of Net Position, pollution remediation obligations are reported at the current value of expected outlays to fund remediation costs using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible estimated amounts and uses all expectations about possible cash flows on a site-specific basis. Such ranges are weighted within ‘most likely’, ‘worst case’ and/or ‘best case’ scenarios and are based on actual remediation cost experience, remediation cost estimates and/or discrete cost remediation treatment possibilities. All reported obligation amounts are estimates and are subject to change resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In cases where remediation activities beyond site investigation/assessment or feasibility studies have not begun, remaining remediation costs are not reasonably estimable and liabilities for such cases are not reported.

**Interfund Transactions:** The Commonwealth has the following types of transactions between funds; between PG governmental activities and business-type activities; and between PG and DPCUs:

Statutory Transfers—Legally required transfers from specific funds that subsidize receiving fund programs, when paid are reported as “Transfers in” by the receiving fund and as “Transfers out” by the disbursing fund. Legally required payments from the PG to CU organizations are reported when paid as governmental activities program expenses and as either Operating Grants and Contributions or Capital Grants and Contributions by CU organizations. Interfund balances (amounts due from/to other funds) are reported for unremitted, due and payable, transfers at fiscal year end. In the Statement of Activities, only transfers between governmental activities and business-type activities are reported as transfers.

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.

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues and expenditures or expenses of the providing (reimbursed) fund are treated as reimbursements (above) and are eliminated. Expenditures or expenses of the using (reimbursing) fund are reported in fund financial statements and the Statement of Activities.

**Interfund balances:** Amounts due from/to other funds are reported for unremitted charges or collections at fiscal year end that arise in connection with routine, ordinary governmental fund and proprietary fund operations. The composition of the Commonwealth’s interfund receivables/payables at June 30, 2013 and transfers in/out during the fiscal year ended June 30,

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

2013 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Position.

**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. If the change in the fair value of investments decreases during any specific fiscal year, such decreases could cause reported overall investment income to be negative within specific funds. Similarly, realized losses could cause reported overall investment income to be negative within specific funds. Certain investment income from specific funds' investments is assigned to another fund and is reported by the receiving fund if the income is transferred for legal or contractual reasons; otherwise, the investment income is reported as a transfer by the receiving fund. Specific fund disclosures for assigned investment income are provided in Note H.

**Grant and Intergovernmental Revenues:** Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred and the revenue is available to pay expenditures. Intergovernmental Revenues represent revenues received principally from the Federal government and include revenues received from the PTC, a DPCU, based on Act 44 of 2007 and the related Lease and Funding Agreement between the PTC and the PG Department of Transportation.

**Pension Costs:** The Commonwealth's policy is to fund employer contributions to the SERS as required by the SERS board, through its statutory authority, or as required based on other applicable statutory requirements. Since 2005, established employer contributions have been completely funded but such contributions have been less than the 'annual required contributions of the employer' (ARC) calculated using 'parameters' defined by applicable accounting and financial reporting standards for 'sole' and 'agent' employer governments. Since the SERS is a cost-sharing, multiple-employer pension plan, the Commonwealth does not financially report a net pension obligation for the amount by which the calculated ARC exceeds actual contributions to the SERS. The Commonwealth is a nonemployer contributor in relation to the PSERS with a commitment to fund a minimum of 50 percent of the required contributions.

**Indirect Expenses:** In the Statement of Activities, the full-cost allocation treatment is used, whereby reported program expenses, by function, include any expenses which could be treated as indirect expenses of another function.

**Interest Expense:** In the Statement of Activities, no interest expense is reported by direct program costs. No interest expense was capitalized during the fiscal year ended June 30, 2013.

**Bonds Issued, Premium/Discount on Bonds Issued and Bond Issuance Costs:** In governmental fund financial statements, the face amount of bonds issued and related premium/discount are separately reported as other financing sources/uses. Bond issuance costs are reported as expenditures. In government-wide financial statements, the face amount of bonds issued is reported as a liability and related premium/discount is amortized over the life of the outstanding debt and is reported as interest expense as part of functional governmental activities expenses.

**Restricted Net Position:** These amounts were determined based on enabling legislation, externally restricted by creditors, grantors, contributions or laws that provide for restrictions on how the resources of special (non-General Fund) funds may be used. At June 30, 2013, a portion of governmental activities net position was restricted based on a Federal government purpose restriction.

**Governmental Funds Fund Balance Categories****Nonspendable:**

Nonspendable fund balances include amounts that cannot be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## Spendable Categories:

**Restricted:**

Amounts which may only be spent for 1) expenditures in accordance with grants received from external parties or 2) expenditures which authorize expenditures for limited, specific purposes authorized by enabling legislation (which also authorizes the Commonwealth to assess, levy, charge or otherwise mandate payment of resources from external sources) are reported as restricted fund balance.

**Unrestricted:**

**Committed:** Commonwealth law, enacted by the General Assembly (legislature) and approved by the Governor, is the Commonwealth's highest level of decision-making authority. Both legislative enactment and gubernatorial approval on or prior to fiscal year end are necessary to establish, modify and/or rescind amounts committed.

**Assigned:** Based on applicable Commonwealth laws, the Governor is responsible for accounting and financial reporting matters. Through a 1984 Executive Order, the Governor delegates this authority to the Secretary of the Budget. Through further delegation, amounts assigned are determined jointly, between the Governor's Budget Office and the Office of Comptroller Operations. Fund balances are reported as assigned when the Commonwealth intends for resources to be used for specific purposes, but the requirements for resources to be reported as restricted or committed have not been met.

**Unassigned:** This is a residual category. Only the **General Fund** can report a positive unassigned fund balance. The **General Fund** can also report a negative amount in the unassigned category. For other governmental funds where amounts restricted and/or committed exceed total fund balance, such funds report negative amounts in the unassigned category.

**Classification among fund balance categories:** Commonwealth laws, including annual enacted budgets, include legally enforceable expenditure restrictions on all funds. Commonwealth laws do not specifically recognize 'restricted' or 'unrestricted' (committed, assigned or unassigned) fund balance amounts. For financial reporting purposes, fund balance amounts for individual Commonwealth funds are reported in the first classification for which the amount 'qualifies', in this order: nonspendable, restricted, committed, assigned, and unassigned. Amounts are considered to have been spent from the fund balance classification from which specific expenditures are legally authorized. Within individual, specific Commonwealth funds, based on applicable law, individual expenditures may be disbursed from only one, specific appropriation at a time. Budgetary spending control occurs at the appropriation level. Since appropriations are not duplicated among the various GAAP-reported fund balance classifications and Commonwealth laws do not recognize the various classifications, accounting policies cannot establish that restricted amounts are spent before or after unrestricted amounts, or, within unrestricted amounts, that committed, assigned or unassigned amounts are spent in any specific order.

**Budget Stabilization Reserve Fund:** Act 91 of 2002 provided for this Fund, effective July 1, 2002, to gradually provide a budgetary reserve amounting to six percent of the revenues of the **General Fund**. The enacted **General Fund** budget for the fiscal year ended June 30, 2010 provided that nearly the entire balance in this Fund was transferred to the **General Fund**; a \$755,000 transfer occurred on October 15, 2009. Act 71 of 2013 continued the suspension of the transfer of surplus funds to the Budget Stabilization Reserve Fund during the fiscal year ended June 30, 2013.

**New Accounting Pronouncements – To Be Adopted:**

The GASB issued Statement No. 65 "Items Previously Reported as Assets and Liabilities" in March 2012. The major objective of this Statement is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and reclassify certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The GASB issued Statement No. 66 "Technical Corrections – 2012" in March 2012. This statement improves accounting and financial reporting by resolving conflicting guidance for GASB Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The GASB issued Statement No. 67 "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25" in June 2012. The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. It specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

The GASB issued Statement No. 68 "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27" in June 2012. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Commonwealth will be required to measure and record its proportionate share of the net pension assets or obligations for its participation in the SERS and the PSERS.

The GASB issued Statement No. 69 "Government Combinations and Disposals of Government Operations" in January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The GASB issued Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees" in April 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The new standards must be adopted as follows:

- GASB Statement No. 65 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.
- GASB Statement No. 66 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.
- GASB Statement No. 67 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.
- GASB Statement No. 68 Effective July 1, 2014 for financial statements for the fiscal year ending June 30, 2015.
- GASB Statement No. 69 Effective July 1, 2014 for financial statements for the fiscal year ending June 30, 2015.
- GASB Statement No. 70 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.

NOTE B – RESTATEMENTS

Restatement Due to Adoption of New Accounting Standard

Effective July 1, 2012, the Commonwealth implemented the Governmental Accounting Standards Board’s (GASB’s) Statement No. 61, “The Financial Reporting Entity: Omnibus”. Two entities, the Philadelphia Regional Port Authority and the **Commonwealth Financing Authority**, that were previously reported as discretely presented component units (DPCU) are now being reported as blended component units (CU) due to the new GASB 61 provision requiring blending presentation for a CU whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. Two entities, the Patient Safety Authority and the Insurance Fraud Prevention Authority, that were previously reported as DPCUs are now being disclosed as related organizations. One fund, the Energy Development Fund that was previously reported as a component of the **General Fund** is now being reported with the Pennsylvania Energy Development Authority, a DPCU.

Presented below are the changes to the Governmental Funds Balance Sheet, the Enterprise Funds Statement of Net Position and the Government-wide Statement of Net Position as a result of implementing GASB Statement No. 61. The fund balance and/or net position of the funds and CUs affected by the implementation did not change. Detail of the Component unit restatements are reported in Note S.

**Governmental Funds Balance Sheet**

	<u>General Fund</u>	<u>Motor License Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund balances, as previously reported, at June 30, 2012.....	\$ 1,259,295	\$ 1,192,998	\$ 3,454,626	\$ 5,906,919
Apply GASB 61:				
Energy Development Fund.....	(6,165)	-	-	(6,165)
<b>Fund balances, as restated, as of July 1, 2012.....</b>	<b>\$ 1,253,130</b>	<b>\$ 1,192,998</b>	<b>\$ 3,454,626</b>	<b>\$ 5,900,754</b>

**Enterprise Funds Statement of Net Position**

	<u>Unemployment Compensation Fund</u>	<u>State Workers' Insurance Fund (Dec. 31, 2011)</u>	<u>Commonwealth Financing Authority</u>	<u>State Lottery Fund</u>	<u>Tuition Payment Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Net assets, as previously reported, at June 30, 2012.....	\$ (1,710,505)	\$ (5,098)	-	\$ (68,858)	\$ (42,445)	\$ 669,250	\$ (1,157,656)
Apply GASB 61:							
Commonwealth Financing Authority.....	-	-	(643,387)	-	-	-	(643,387)
Philadelphia Regional Port Authority.....	-	-	-	-	-	369,792	369,792
<b>Total net position, as restated, as of July 1, 2012.....</b>	<b>\$ (1,710,505)</b>	<b>\$ (5,098)</b>	<b>\$ (643,387)</b>	<b>\$ (68,858)</b>	<b>\$ (42,445)</b>	<b>\$ 1,039,042</b>	<b>\$ (1,431,251)</b>

**Government-wide Statement of Net Position**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
Net assets, as previously reported, at June 30, 2012.....	\$ 23,682,468	\$ (1,157,656)	\$ 22,524,812	\$ 4,508,608
Apply GASB 61:				
Commonwealth Financing Authority.....	-	(643,387)	(643,387)	643,387
Philadelphia Regional Port Authority.....	-	369,792	369,792	(369,792)
Patient Safety Authority.....	-	-	-	(6,359)
Insurance Fraud Prevention Authority.....	-	-	-	(4,620)
Energy Development Fund.....	(6,165)	-	(6,165)	6,165
Other:				
Pennsylvania Turnpike Commission—Note S.....	-	-	-	(49,776)
Pennsylvania Industrial Development Authority—Note S.....	-	-	-	(4,454)
<b>Net position, as restated, as of July 1, 2012.....</b>	<b>\$ 23,676,303</b>	<b>\$ (1,431,251)</b>	<b>\$ 22,245,052</b>	<b>\$ 4,723,159</b>



**NOTE B – RESTATEMENTS (continued)**

At June 30, 2012, the Pennsylvania Life and Health Insurance Guaranty Association and the Pennsylvania Property and Casualty Insurance Guaranty Association were reported as Agency Funds and the Pennsylvania Municipal Retirement System and the Automotive Theft Prevention Authority were disclosed as related organizations. A re-evaluation of the entity determination for these four component units revealed that the PG is not financially accountable for these CUs, and these CUs are not fiscally dependent on the PG. For the fiscal year ended June 30, 2013, the Pennsylvania Life and Health Insurance Guaranty Association, the Pennsylvania Property and Casualty Insurance Guaranty Association, the Pennsylvania Municipal Retirement System and the Automotive Theft Prevention Authority are not reported in the Commonwealth's CAFR.

**NOTE C – NET POSITION AND FUND BALANCE**

**Governmental Activities and Business-Type Activities Net Position:** Total Net Position is the difference between total assets and total deferred outflows of resources less total liabilities and total deferred inflows of resources as reported on the Statement of Net Position. Total Net Position is reported in three distinct components: Net investment in capital assets; Restricted net position; and Unrestricted net position.

Net investment in capital assets represents total capital assets less accumulated depreciation and the outstanding liability (excluding unspent proceeds) for debt specifically related to the construction and acquisition of the capital assets. At June 30, 2013, governmental and business-type activities, respectively, reported net investment in capital assets of \$27,774,808 and \$465,161.

Restricted net position is reported based on constraints imposed by either: 1) creditors, grantors, contributors, or laws or regulations of the Federal or other governments; or 2) Commonwealth enabling legislation. At June 30, 2013, governmental and business-type activities, respectively, reported \$2,234,679 and \$747,701 of restricted net position. Net position restricted for other purposes of \$35,626 and \$105,929 for governmental activities and business-type activities, respectively, at June 30, 2013 include amounts for a range of dissimilar statutory purposes.

Unrestricted net position represents total net position less the amounts of net investment in capital assets and restricted net position. At June 30, 2013, governmental and business-type activities, respectively, reported net position deficits of \$5,685,524 and \$2,412,444.

**Governmental Funds Fund Balance:** Reported fund balance within individual governmental funds is categorized between nonspendable and spendable categories. At June 30, 2013 nonspendable fund balance is only reported for amounts which are not in spendable form; no nonspendable fund balance is reported based on either legal or contractual requirements to be maintained intact. Within the spendable category, fund balance is further categorized among: restricted, committed, assigned and, within the **General Fund** only, unassigned categories. At June 30, 2013, spendable governmental funds fund balance is categorized among all categories except that no assigned fund balance is reported among any governmental fund for which reporting assigned fund balance would cause reporting a deficit unassigned fund balance. The following chart provides detail about reported nonspendable fund balance and fund balance restrictions and commitments at June 30, 2013 :

NOTE C – NET POSITION AND FUND BALANCE (continued)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>Nonspendable:</b>				
<b>Not in spendable form:</b>				
Advances to other funds.....	\$ 4,775	\$ -	\$ -	\$ 4,775
Long-term loans receivable.....	6,270	-	-	6,270
Due from component unit.....	212,885	-	-	212,885
<b>Total nonspendable.....</b>	<b>223,930</b>	<b>-</b>	<b>-</b>	<b>223,930</b>
<b>Restricted for:</b>				
General government operations.....	76	-	-	76
Health-related programs.....	-	-	18,849	18,849
Transportation.....	-	1,063,322	181,987	1,245,309
Unemployment/worker's compensation.....	-	-	844,372	844,372
Environmental and conservation programs	-	-	627,625	627,625
Gaming licensing/regulation.....	-	-	725,929	725,929
Emergency support.....	-	-	52,374	52,374
Other purposes.....	-	-	42,658	42,658
<b>Total restricted.....</b>	<b>76</b>	<b>1,063,322</b>	<b>2,493,794</b>	<b>3,557,192</b>
<b>Committed for:</b>				
General government operations.....	914,020	-	-	914,020
Health-related programs.....	-	-	337,663	337,663
Transportation.....	-	-	30,198	30,198
Capital projects.....	-	-	251,896	251,896
Debt service.....	-	-	37,041	37,041
Elderly programs.....	137,159	-	-	137,159
Environmental and conservation programs	102,720	-	36,411	139,131
Economic development.....	2,739	-	-	2,739
Emergency support.....	342	-	-	342
Higher education.....	6,176	-	-	6,176
Other purposes.....	171,716	-	-	171,716
<b>Total committed.....</b>	<b>1,334,872</b>	<b>-</b>	<b>693,209</b>	<b>2,028,081</b>
<b>Assigned:</b>				
General government operations.....	7,132	-	-	7,132
<b>Unassigned:</b>				
Deficit.....	-	-	(3,167)	(3,167)
<b>Total fund balances.....</b>	<b>\$ 1,566,010</b>	<b>\$ 1,063,322</b>	<b>\$ 3,183,836</b>	<b>\$ 5,813,168</b>

A portion of the nonspendable fund balance reported by the **General Fund**, \$4,775, is applicable to advances to other funds at June 30, 2013, as follows; \$2,300 to the **State Workers' Insurance Fund**, an Enterprise Fund; \$2,175 to the **Motor License Fund** and \$300 to the State Racing Fund, both Special Revenue funds.

**Governmental Funds Fund Balance Deficit:** The State Racing Fund, and the Vocational Rehabilitation Fund, both Special Revenue Funds, reported fund balance deficits of \$2,318 and \$849, respectively, at June 30, 2013.

**Proprietary Funds Net Position:** Nonmajor Enterprise funds reported total restricted net position for "other purposes" of \$105,929 at June 30, 2013 for the following programs: mine subsidence insurance, \$96,534; vocational rehabilitation, \$2,032; and \$7,363 for other programs.

**NOTE C – NET POSITION AND FUND BALANCE (continued)**

**Proprietary Funds Net Position Deficits:** In addition to net position deficits reported in four of the five major Enterprise funds (**Unemployment Compensation Fund, State Workers' Insurance Fund, State Lottery Fund, and the Commonwealth Financing Authority**, a blended component unit), two nonmajor Enterprise funds have reported a net position deficit in the Proprietary Funds 'Statement of Net Position'. The State Stores Fund and the Philadelphia Regional Port Authority, a blended component unit, reported an unrestricted net position deficit of \$15,822 and \$2,039, respectively, at June 30, 2013.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK****Authority for Deposits and Investments****Treasury Department**

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 Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments. This authority is subject, however, to the exercise of that degree of judgment and care under the 'prudent person' standard prevailing at that time. The 'prudent person' standard is one of judgment and care as defined by a person of discretion and intelligence, who are familiar with such matters, in exercising such standard in the management of their own affairs. And it must not be 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. Treasury Department deposits and investments may include equity securities and mutual funds.

The Treasury Department manages the Commonwealth Investment Program (CIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the CIP. Treasury is required to exercise judgment and care in determining those investments that are appropriate for each Commonwealth fund based upon distinct investment criteria such as income needs, cash flow requirements, investment time horizons, and risk tolerance. All investments are made in accordance with the statutory authority described in the preceding paragraph. The CIP investment pools are invested in both equity securities and fixed income securities to achieve the investment objectives of the CIP funds. Asset allocation targets among cash, equity securities, fixed income securities and alternative investments are established in order to meet these overall objectives.

Treasury has created Pools 99 and 198 within the CIP, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and risk tolerance. A highly liquid vehicle, Pool 99, consists of short-term fixed income securities and cash which provides a high degree of liquidity and security but only modest returns. Shares in this pool are classified as temporary investments. A less liquid vehicle, Pool 198, allows for investment in assets that offer potentially higher returns with commensurate risk. Shares in this pool are classified as long-term investments.

**Other Investing Organizations**

Certain investing organizations have statutory authority, which is comparable to the Treasury Department 'prudent person' authority above. The investments of such organizations are accounted for in the following funds: Workers Compensation, Tobacco Settlement, Workers Compensation Security Trust, **State Workers Insurance Fund (SWIF)**, **Tuition Payment**, Tuition Account Investment Program, INVEST Program for Local Governments (INVEST), and Underground Storage Tank Indemnification (collectively, other investing organizations). Most of the other investing organizations establish contractual arrangements with investment managers, which identify investment objectives without providing strict limitations on 'allowable' investment purchases. Most of the other investing organizations prohibit investing in certain assets, such as commodities and futures contracts, private placements (except Section 144), limited partnerships, and corporations that are engaged in the tobacco industry. Several of the organizations also prohibit short selling and margin transactions. Exceptions include **Tuition Payment** and Tobacco Settlement; these organizations permit some or all of the previously mentioned prohibited assets and transactions as well as foreign investments. **SWIF** and **INVEST** amounts are reported as of December 31, 2012 unless otherwise noted.

**Pension Trust Funds**

The State Employees' Retirement System (SERS), the Deferred Compensation Program (DCP), the Public School Employees' Retirement System (PSERS) and the Other Post Employment Benefit Investment Pool constitute combined Pension (and Other Employee Benefit) Trust Funds reported in the basic financial statements. The Other Post Employment Benefits

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

Investment Pool is managed by the Treasury Department, whereas the other aforementioned trusts are managed outside the Treasury Department.

Pension Trust Funds avoid deposit risks as such deposits must be authorized by the Treasury Department. Several state laws govern investment authority for the SERS and the PSERS, such laws provide 'prudent person' investing authority. Allowable DCP investment options are established by the SERS under its applicable statutory authority. A material portion of total Pension Trust Fund investments consists of equity securities, real estate and fixed income investments. SERS and DCP are reported as of December 31, 2012 unless otherwise noted.

**Statutory Liquidator Fund**

The Statutory Liquidator Fund, an agency fund, investments are primarily managed by the affected insurance companies pursuant to Liquidation Orders issued by the PA Insurance Commissioner. Other investments are managed by the Insurance Department's Office of Liquidations, Rehabilitations and Special Funds. Also, a portion of Statutory Liquidator holdings is invested in the CIP.

**Deposit Risks**

At June 30, 2013, Commonwealth bank balances of \$10,302 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$39,034 of Statutory Liquidator Fund deposits were subject to custodial deposit risk because they were uninsured and uncollateralized. PSERS, through its third party administrator, maintains certain bank deposits for the operation of its voluntary Health Options Program. These deposits are not required to be collateralized by statute or policy. These deposits totaled \$87,258 at June 30, 2013 and are under the custody of its bank which has an A-rating by Standard and Poor's (S&P) and an A3 rating by Moody's Investor Services (Moody's).

**Cash with Fiscal Agent**

Within the Business-type Activities cash with fiscal agent the Unemployment Compensation Fund reported \$625,654 which is held with the Federal Unemployment Insurance Trust Fund.

**Restricted Cash**

Restricted cash consists of funds held for the payment of debt service interest and principal payments of the Unemployment Compensation Fund and debt service interest and principal payments and other purposes of the Philadelphia Regional Port Authority (PRPA). At June 30, 2013, the carrying amount of the Unemployment Compensation Fund and the PRPA restricted cash and cash equivalents were \$351,356 and \$5,490, respectively.

**Investment Risks**

**Risk Management Policies:** The Treasury Department, which is responsible for the CIP, **Tuition Payment** and INVEST Program, has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments address custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk. Most of the other investing organizations have adopted investment policies intended to reduce the various risks. Pension Trust Fund policies limit custodial credit risk to a minimum but are exposed to credit risk, interest rate, and foreign currency risk. Credit risk is mitigated by following policies to purchase only 'investment grade' securities (Baa/BBB/BBB or better). Interest rate risk policies have been adopted to limit the risk by establishing maximum maturities. The establishment of policies limiting investment purchases from a single issuer mitigates concentration risk. The individual risk policies and related disclosures are discussed in greater detail below.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

**Investments by Type**

At June 30, 2013, the Treasury and other investing organizations, excluding Statutory Liquidator, Tuition Account Investment Program, SERS, DCP and PSERS, reported a total of \$17,793,429 in investments. Cash equivalents and certificates of deposit, amounting to \$2,198,094, which are held in the CIP and other portfolios, are reported as investments but are not included as part of fixed income investment disclosures. Excluding cash equivalents and certificates of deposits, total investments disclosed amount to \$15,595,335; of this amount, excluding equities and alternative investments (\$2,053,716 and \$995,915 respectively), fixed income investments disclosed amount to \$12,545,704. The investment types and related amounts are as follows:

<b>INVESTMENT TYPE</b>	<b>Amount</b>
Alternative Investments.....	\$ 995,915
Asset backed securities.....	66,931
Commercial paper.....	5,753,955
Corporate obligations.....	1,421,074
Equity.....	2,053,716
Money market mutual funds.....	1,075,930
Mortgage-backed securities.....	402,267
Mutual funds.....	40,933
Preferred securities.....	2,234
Private placements.....	150,403
Repurchase agreements.....	255,608
Securities lending collateral pool.....	369,118
Sovereign debt obligations.....	34,811
State and municipal obligations.....	228,998
U.S. Government agencies.....	27,294
U.S. Government sponsored enterprises.....	1,869,547
U.S. Treasury obligations.....	<u>846,601</u>
<b>Total investments</b> .....	<b>15,595,335</b>
Cash equivalents and certificates of deposit.....	<u>2,198,094</u>
<b>Total investments, cash equivalents and certificates of deposit</b> .....	<b><u>\$ 17,793,429</u></b>

In addition, at June 30, 2013, all reported investments of the Tuition Account Investment Program, amounting to \$1,339,472 consist entirely of mutual funds \$(1,286,616) and money market mutual funds \$(52,856).

**Custodial Credit Risk:** Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with either the Treasury Department, the other investing organizations or the Pension Trust Funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. Similarly, investments of the other investing organizations and the Pension Trust Funds are almost always registered in the name of the Commonwealth, as the Treasury Department is the statutory custodian for such investments. The CFA reported at June 30, 2013 \$629,210 of deposits and disclosed that due to the nature of the cash and cash equivalents balances, there is no custodial credit risk. Also, at June 30, 2013, only the Statutory Liquidator Fund, an Agency Fund, owned investment securities subject to custodial credit risk, in the amount of \$2,573,685. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty's trust department or agent but not in the name of the Commonwealth. The investment types and related amounts are as follows:

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<u>Investment Type</u>	<u>Amount</u>
Asset backed securities.....	\$ 195,320
Commercial paper.....	32,540
Corporate obligations.....	1,182,578
Mortgage-backed securities.....	381,651
Preferred securities.....	1,507
Private placements.....	92,123
Repurchase agreements.....	28,698
Sovereign obligations.....	4,494
U.S. Government agencies.....	184,985
U.S. Treasury obligations.....	469,789
<b>Total.....</b>	<b><u>\$ 2,573,685</u></b>

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the government’s investment in a single issuer. The Treasury Department places a 10 percent limit on the concentration of investments in any one fixed income issuer within the CIP, **Tuition Payment** and INVEST. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Treasury Department also places a 5 percent limit on the concentration of investments in one equity issuer within the CIP. Similarly, to a degree, the five other investing organizations limit exposure to concentration of credit risk. Several of the other investing organizations have adopted policies, which allow greater than 5 percent of portfolios to consist of securities issued by the U.S. Treasury. Among Treasury and other investing organizations, based on total portfolio value of \$15,595,335, the following concentrations existed as of June 30, 2013:

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Goldman Sachs Financial Square Fund.....	\$ 864,985	5.5%
Federal Home Loan Bank.....	772,637	5.0%

The concentration of credit risk for the Statutory Liquidator Fund is as follows:

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Statutory Liquidators Portfolio</u>
JP Morgan Chase.....	\$ 217,602	6.7%
Fannie Mae.....	202,200	6.2%
Federated Prime.....	194,124	5.9%
Legg Mason.....	193,422	5.9%

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by Nationally Recognized Statistical Rating Agencies (NRSRA) such as Moody’s Investors Service (Moody’s), Standard & Poor’s (S&P), and Fitch Ratings (Fitch). The Treasury Department requires purchases of CIP assets to be investment grade (Baa/BBB/BBB or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to allow up to 10 percent of the portfolio to be in high yield investments. These investments, by definition, are not restricted to the investment grade requirements and include investments rated at Ba/BB/BB or below. Generally, the other investing organizations limit exposure to credit risk through policies, which prevents purchasing below investment grade (Baa/BBB/BBB).

At June 30, 2013, \$12,545,704 of total Treasury and other investing organization investments of \$17,793,429 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities \$2,053,716, alternative investments \$995,915, cash equivalents, certificates of deposit, and various deposit accounts of \$2,198,094. Of the amount susceptible to credit quality rating, \$10,718,022 is rated; ratings are not available for \$1,827,682 of fixed income investments:



**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<u>Moody's Investors Service</u>	<u>Amount</u>
P-1.....	\$ 1,057,390
Aaa.....	154,620
Aa.....	69,768
A.....	452,407
Baa.....	350,236
Ba.....	98,627
B.....	137,021
Caa.....	31,156
Ca.....	67
<b>Moody's Investors Service subtotal.....</b>	<b><u>2,351,292</u></b>
<u>Standard and Poor's</u>	
A-1.....	2,437,442
AAA.....	48,600
AA.....	2,939,541
A.....	157,583
BBB.....	77,586
BB.....	32,041
B.....	46,053
CCC.....	7,311
CC.....	36
D.....	137
<b>Standard and Poor's subtotal.....</b>	<b><u>5,746,330</u></b>
<u>Fitch Ratings</u>	
F1.....	2,214,785
AAA.....	25,439
AA.....	29,080
A.....	296,850
BBB.....	48,841
BB.....	1,803
B.....	1,747
CCC.....	696
CC.....	1,011
C.....	148
<b>Fitch Ratings subtotal.....</b>	<b><u>2,620,400</u></b>
<b>Rated subtotal.....</b>	<b>10,718,022</b>
<b>Unrated subtotal.....</b>	<b><u>1,827,682</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 12,545,704</u></b>

At June 30, 2013, 3 percent (\$357,854) of rated fixed income investments of \$10,718,022 are rated below investment grade. Approximately 15 percent (\$1,827,682) of the fixed income portfolio in Treasury and other investing organizations are not rated by the NRSRAs. Unrated Fixed Income Investments include securities that did not have a credit rating available from a NRSRA at June 30, 2013. These unrated items include U.S. Treasury Obligations (\$846,601). They are negotiable debt obligations of the U.S. Treasury secured by the full faith and credit of the U.S. Government and are treated as having no credit risk. Among the Tuition Account Investment Program’s mutual fund portfolios, certain mutual funds hold fixed income investments susceptible to credit quality ratings and all such investments are rated Baa or higher by Moody’s or BBB or higher by S&P.

The Pension Trust Funds may expose themselves to greater credit risk than the Treasury Department or other investing organizations to meet specific investment objectives. SERS and DCP fixed income securities (at December 31, 2012), which are exposed to credit risk, are rated as follows:

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<u>Moody's Investors Service<sup>a</sup></u>	<u>SERS</u>	<u>DCP</u>
AAA.....	\$ 283,575	\$ 73,177
AA.....	262,509	451,988
A.....	218,029	175,486
BAA.....	437,974	54,042
BA and below.....	416,388	1,042
Unrated <sup>b</sup> .....	27,591	621
Short-term investments.....	1,005,525	60,318
<b>Total.....</b>	<b><u>\$ 2,651,591</u></b>	<b><u>\$ 816,674</u></b>

- a. The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of Ba in this table.
- b. 'Unrated' represents securities that were either not rated or had a withdrawn rating.

PSERS fixed income securities, which are subject to credit risk rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody's, and/or S&P that indicates the greatest degree of risk at June 30, 2013:

<u>Standard and Poor's Equivalent<sup>a</sup></u>	<u>Amount</u>
AAA.....	\$ 462,587
AA.....	732,914
A.....	501,547
BBB.....	773,066
BB and below.....	901,324
Unrated <sup>b</sup> .....	10,777,373
U.S. Government guaranteed <sup>c</sup> .....	2,572,807
<b>Total.....</b>	<b><u>\$16,721,618</u></b>

- a. The S&P rating represents all the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.
- b. Unrated represents securities that were not rated by S&P; \$7,651,061 in collective trust funds and \$3,126,312 in other investments.
- c. Represents securities issued by the U.S. Government and agency obligations explicitly guaranteed by the U.S. Government and not considered to have credit risk.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

The Statutory Liquidator Fund fixed income securities at June 30, 2013, which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 335,145
Aa.....	107,136
A.....	505,770
Baa.....	358,321
Ba.....	2,565
P-1.....	11,168
P-2.....	24,015
<b>Moody's Investors Service subtotal.....</b>	<b><u>1,344,120</u></b>
<u>Standard and Poor's</u>	
AAA.....	69,578
AA.....	681,763
A.....	200,119
BBB.....	110,020
BB.....	2,171
<b>Standard and Poor's subtotal.....</b>	<b><u>1,063,651</u></b>
<b>Rated subtotal.....</b>	<b>2,407,771</b>
<b>Unrated subtotal.....</b>	<b><u>862,109</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 3,269,880</u></b>

**Interest Rate Risk:** Interest rate risk is the risk that an investment’s value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using duration. To limit Treasury’s exposure to fair value losses arising from rising interest rates, Treasury’s long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment’s sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. Treasury measures interest rate risk using option-adjusted duration, which takes into account embedded options affecting cash flows. Other investing organizations use less sophisticated measurements to manage interest rate risk; several limit the maximum term-to-maturity of investment purchases. Further, to avoid interest rate risk, the other organizations deliberately hold a given percentage of total investments in very short-term securities to avoid the potential need to sell such securities at a loss. At June 30, 2013, Treasury and the other investing organizations’ fixed income portfolio, excluding Statutory Liquidator Fund and Tuition Account Investment Program, had the following option-adjusted durations (in years) by investment type:

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<b>Investment Type</b>	<b>Amount of Securities with Duration</b>	<b>Option-Adjusted Duration</b>	<b>Amount of Securities with no Duration</b>	<b>Total</b>
Asset backed securities.....	\$ 44,045	0.786	\$ 22,886	\$ 66,931
Commercial paper.....	5,746,710	0.155	7,245	5,753,955
Corporate obligations.....	1,219,837	5.067	201,237	1,421,074
Money market.....	1,051,852	0.083	24,078	1,075,930
Mortgage-backed securities.....	393,477	3.697	8,790	402,267
Mutual funds.....	2,303	0.003	38,630	40,933
Preferred securities.....	1,322	6.100	912	2,234
Private placements.....	138,227	4.572	12,176	150,403
Repurchase agreements.....	255,608	0.006	-	255,608
Securities lending collateral pool.....	369,118	0.008	-	369,118
Sovereign debt obligations.....	21,511	5.807	13,300	34,811
State and municipal obligations.....	64,362	7.400	164,636	228,998
U.S. Government agencies.....	17,625	4.329	9,669	27,294
U.S. Government sponsored enterprises.....	1,819,552	0.866	49,995	1,869,547
U.S. Treasury obligations.....	846,601	7.817	-	846,601
<b>Total.....</b>	<b>\$ 11,992,150</b>		<b>\$ 553,554</b>	<b>\$ 12,545,704</b>

Neither the Statutory Liquidator Fund nor the Tuition Account Investment Program use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for the Statutory Liquidator Fund:

<b>Investment Type</b>	<b>No Maturity Date</b>	<b>Matures in less than 1 Year</b>	<b>Matures in 1 to 5 Years</b>	<b>Matures in 6 to 10 Years</b>	<b>Matures in 11 to 20 Years</b>	<b>Matures 21 to 30 Years</b>	<b>Matures 31 to 40 Years</b>	<b>Matures after 40 Years</b>	<b>Total</b>
Annuity.....	\$ 1,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,212
Asset backed securities.....	-	-	188,314	6,221	607	178	-	-	195,320
Commercial paper.....	-	32,540	-	-	-	-	-	-	32,540
Commonwealth investment program..	71,554	-	-	-	-	-	-	-	71,554
Corporate obligations.....	22,876	105,095	1,020,932	31,850	-	331	816	678	1,182,578
Money markets.....	515,758	-	-	-	-	-	-	-	515,758
Mortgage-backed securities.....	169,898	38	19,491	42,126	30,636	104,568	6,648	8,246	381,651
Preferred securities.....	-	-	1,507	-	-	-	-	-	1,507
Private placements.....	-	2,637	83,412	5,292	-	461	320	-	92,122
Repurchase agreements.....	-	28,698	-	-	-	-	-	-	28,698
Sovereign debts.....	-	-	4,120	374	-	-	-	-	4,494
State & municipal obligations.....	-	-	7,839	-	-	-	-	-	7,839
U.S. Government agencies.....	-	11,788	173,198	-	-	-	-	-	184,986
U.S. Treasury obligations.....	4,118	112,368	330,539	22,765	-	-	-	-	469,790
Cash & Equivalents.....	99,559	-	-	-	-	-	-	-	99,559
Certificates of Deposit.....	20	252	-	-	-	-	-	-	272
<b>Total.....</b>	<b>\$ 884,995</b>	<b>\$ 293,416</b>	<b>\$ 1,829,352</b>	<b>\$ 108,628</b>	<b>\$ 31,243</b>	<b>\$ 105,538</b>	<b>\$ 7,784</b>	<b>\$ 8,924</b>	<b>\$ 3,269,880</b>

Within the Tuition Account Investment Program, the following mutual funds are exposed to interest rate risk:

	<b>Amount</b>	<b>Average Duration</b>	<b>Average Effective Maturity</b>
Vanguard Total Bond Market II Index Fund Institutional Shares.....	\$ 433,071	5.4 years	7.4 years
Vanguard Inflation-Protected Securities Fund Institutional Shares.....	39,600	8.0 years	8.8 years
Vanguard Prime Money Market Fund Institutional Shares.....	68,082	N/A	59 days

Based on specific investment objectives, the Pension Trust Funds may expose themselves to greater interest rate risk than Treasury or other investing organizations. Several investment choices, which may be selected by the DCP participants, including the Short-Term Money Market Fund, the Stable Value Account and the Aggregate Bond Index Fund, include a variety of fixed income securities. Each Pension Trust Fund uses option-adjusted duration (in years) as a measure of interest rate risk, as follows:

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

Investment Type	SERS	DCP	SERS	DCP
	Amount	Amount	Option-Adjusted Duration	Option-Adjusted Duration
Asset backed securities.....	\$ 32,298	\$ 60,773	1.90	1.70
Corporate obligations.....	533,056	294,792	6.30	4.90
Mortgage-backed securities.....	357,365	368,460	2.70	2.80
Other Investments <sup>a</sup> .....	2,602	-	N/A	N/A
Sovereign debt obligations.....	313,102	12,454	8.20	5.20
Treasury investment pool.....	1,005,525	60,318	0.10	0.10
U.S. Treasury obligations.....	1,962,377	438,458	7.40	4.20
U.S. Government sponsored enterprises.....	80,937	114,245	7.40	3.50
U.S. private placements.....	344,629	3,269	5.10	2.20
<b>Total.....</b>	<b>\$ 4,631,891</b>	<b>\$ 1,352,769</b>		

a. Other Investments represents certain SERS securities and the value of swaps and futures agreements as of December 31, 2012, for which the duration is not available.

**PSERS:**

Investment Type	Amount	Option-Adjusted Duration
Domestic asset-backed and mortgage-backed securities....	\$ 1,871,421	1.8
U.S. Government and agency obligations.....	1,344,866	8.6
Domestic corporate and taxable municipal bonds.....	1,378,989	3.6
Collective trust funds.....	7,651,061	4.0
International fixed income.....	1,233,142	5.4
PSERS Short-Term Investment Fund.....	2,399,380	0.1
<b>Total.....</b>	<b>\$ 15,878,859</b>	

Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole. In total, futures contracts have adjusted PSERS' total fixed income and Short-Term Investment Fund portfolio duration upward by 0.1 at June 30, 2013.

**Foreign Currency Risk:** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Treasury Department's policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Among the other investing organizations, the Tobacco Settlement Fund and the **Tuition Payment Fund** are authorized to purchase securities denominated in a foreign currency. At June 30, 2013, the Tobacco Settlement Fund reported \$3,985 and the **Tuition Payment Fund** reported \$43,067 of foreign currency-denominated holdings. The foreign currency holdings make up nearly 2.8 percent of the **Tuition Payment Fund's** total investment portfolio and nearly 1.1 percent of the Tobacco Settlement Fund's total investment portfolio. The Treasury amounts invested, by currency, are as follows:

Foreign Currency	Equities	Private Equity	Total
Brazil real.....	\$ 445	\$ -	\$ 445
British pound sterling.....	8,514	-	8,514
Canadian dollar.....	2,165	-	2,165
Danish krone.....	1,345	-	1,345
Euro .....	9,330	3,624	12,954
Hong Kong dollar.....	5,272	-	5,272
Japanese yen.....	8,820	-	8,820
Mexican new peso.....	703	-	703
Swedish krona.....	1,843	-	1,843
Swiss franc.....	4,684	-	4,684
<b>Total.....</b>	<b>\$ 43,121</b>	<b>\$ 3,624</b>	<b>\$ 46,745</b>

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

Within the Tuition Account Investment Program, the Vanguard Total International Stock Index Fund (\$203,459) is exposed to foreign currency risk.

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2012 as follows:

<u>Foreign Currency</u>	<u>Short Term</u>				<u>Alternative</u>	
	<u>Investments<sup>a</sup></u>	<u>Fixed income</u>	<u>Equity</u>	<u>Real Estate</u>	<u>Investments</u>	<u>Total</u>
Euro.....	\$ 5,596	\$ 29,547	\$ 834,076	\$ 17,393	\$ 913,935	\$ 1,800,547
British pound sterling.....	4,696	48,388	654,578	16,638	26,475	750,775
Japanese yen.....	(731)	2,547	514,073	47,867	-	563,756
Swiss franc.....	3,961	-	282,313	1,865	-	288,139
Hong Kong dollar.....	1,621	-	166,642	32,523	-	200,786
Australian dollar.....	1,728	454	151,938	29,898	-	184,018
Canadian dollar.....	1,877	14,437	149,524	5,115	-	170,953
Singapore dollar.....	308	-	54,186	15,970	-	70,464
Swedish krona.....	3,424	(2,776)	54,697	2,437	7,819	65,601
Mexican peso.....	1,159	28,473	-	26,901	-	56,533
Norwegian Krone.....	69	-	38,331	-	-	38,400
Danish Krone.....	96	-	33,489	-	-	33,585
South Korean won.....	(147)	8,455	24,492	-	-	32,800
Polish zloty.....	319	12,194	-	-	-	12,513
Brazil real.....	2	11,012	599	313	-	11,926
Malaysian ringgit.....	110	9,355	553	-	-	10,018
Other currencies (5).....	1,896	49,462	19,718	-	-	71,076
<b>Total.....</b>	<b>\$ 25,984</b>	<b>\$ 211,548</b>	<b>\$ 2,979,209</b>	<b>\$ 196,920</b>	<b>\$ 948,229</b>	<b>\$ 4,361,890</b>

a. Includes receivables and payables as of December 31, 2012 for securities sold and purchased.

One of several investing choices that may be selected by the DCP participants is the European, Australian and Far East (EAFE) Equity Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the DCP seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim that are a part of the Morgan Stanley Capital International EAFE Index. At December 31, 2012, the DCP had the following currency exposures related to equity securities:

<u>Foreign Currency</u>	<u>Fair Value</u>
Euro.....	\$ 34,858
British pound sterling.....	27,136
Japanese yen.....	23,987
Australian dollar.....	10,594
Swiss franc.....	10,423
Swedish krona.....	3,726
Hong Kong dollar.....	3,281
Singapore dollar.....	2,196
Danish krone.....	1,388
Norwegian krone.....	883
Israeli new shekel.....	656
Bermudian dollar.....	472
Cayman Islands dollar.....	193
New Zealand dollar.....	146
<b>Total.....</b>	<b>\$ 119,939</b>

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

The PSERS is exposed to foreign currency risk for equity and other securities as follows:

Foreign Currency	Equity	Fixed income	Alternative Investments and Real Estate	Short-term <sup>a</sup>	Total
Euro.....	\$ 555,685	\$ 217,309	\$ 2,697,145	\$ (26,730)	\$ 3,443,409
British pound sterling.....	656,998	41,197	29,062	3,058	730,315
Japanese yen.....	641,692	64,537	-	(9,646)	696,583
Canadian dollar.....	246,348	21,888	47	7,641	275,924
Hong Kong dollar.....	244,622	-	-	77	244,699
South Korean won.....	100,066	44,102	-	33	144,201
Swiss franc.....	191,796	-	-	(48,258)	143,538
Brazil real.....	65,173	67,787	-	(291)	132,669
Swedish krona.....	100,390	170	-	8,657	109,217
South African rand.....	74,211	31,740	-	372	106,323
Taiwan new dollar.....	103,916	-	-	2,193	106,109
Mexican new peso.....	38,304	68,633	-	(2,625)	104,312
Other currencies.....	661,058	320,349	-	(161,824)	819,583
<b>Total.....</b>	<b>\$ 3,680,259</b>	<b>\$ 877,712</b>	<b>\$ 2,726,254</b>	<b>\$ (227,343)</b>	<b>\$ 7,056,882</b>

a. Includes investment receivables and payables.

**Securities Lending Program**

The Treasury Department provides a securities lending program in which the various investments under custody of the Treasury Department participate. A contract between the Treasury department and its custodian, acting as a lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers in exchange for collateral.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. Securities lent consist of both domestic and foreign equity and fixed income securities. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Practically all collateral received consists of cash. A small portion of collateral received consists of letters of credit, U.S. 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 obligation 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. At June 30, 2013, 100 percent of the collateral was invested in repurchase agreements. 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 do not match the maturities of the investments made with the 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, 2013 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.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

At June 30, 2013, the total fair value of the securities lent, along with the type of investments lent, were as follows:

Fund/Organization	Total Securities Lent	U.S.			Sovereign Debt Obligations	Exchange Traded
		U.S. Treasury Obligations	Government Sponsored Enterprises	Corporate Obligations		
Deferred Compensation Program.....	\$ 10,604	\$ -	\$ 10,604	\$ -	\$ -	\$ -
State Employees' Retirement System.....	343,653	149,543	1,631	17,769	162,588	12,122
Public School Employees' Retirement System.....	2,394,221	785,311	1,270	75,857	1,436,194	53,498
Tobacco Settlement Fund.....	3,605	3,306	299	-	-	-
Underground Storage Tank Indemnification Fund....	13,465	2,208	-	758	131	-
Workers' Compensation Security Trust Fund.....	57,545	8,493	219	2,876	917	-
<b>State Workers' Insurance Fund.....</b>	<b>79,839</b>	<b>60,096</b>	<b>3,097</b>	<b>11,588</b>	<b>5,058</b>	<b>-</b>
Other Postemployment Benefits Investment Pool..	59,513	-	-	-	-	-
Commonwealth Investment Program.....	72,375	6,517	7,226	5,876	1,572	-
<b>Tuition Payment Fund.....</b>	<b>58,156</b>	<b>12,048</b>	<b>1,464</b>	<b>387</b>	<b>16,049</b>	<b>-</b>

**Derivative and Other Similar Investments**

**Primary Government**

Treasury, through investment managers, enters into a variety of financial contracts, which include forward currency contracts. The Treasury is not a dealer, but an end user of these instruments. The contracts are used primarily to enhance performance and reduce volatility of the portfolio.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. To reduce the risk of counterparty non-performance, the investment manager generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported below include forwards. The table below shows pending foreign currency contracts outstanding at June 30, 2013 which consists of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies. Although these transactions have settlement dates, there is no expectation of holding these contracts until settlement.

Investment Derivatives	Changes in Fair Value		Fair Value at June 30, 2013		
	Classification	Amount	Classification	Amount	Notional
<b>Foreign Currency Forward Contracts</b>					
Governmental Activities.....	Investment income	\$ 318	Investments	\$ 318	\$ 33,042
Business-Type Activities.....		75		75	7,844
Fiduciary Funds.....		29		29	2,998
Component Units.....		139		139	14,423
<b>Total.....</b>		<b>\$ 561</b>		<b>\$ 561</b>	<b>\$ 58,307</b>

**State Employees' Retirement System (SERS)**

Within narrowly prescribed guidelines, SERS permits investment advisors to enter into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its portfolio. Typically, investment advisors enter into foreign exchange contracts to make payment for international investments, futures contracts to gain exposure to certain equity markets and to manage interest rate risk, and swaps to gain equity exposure.

SERS is exposed to counterparty credit risk on all open derivative positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of December 31, 2012, SERS' counterparty credit risk was not deemed significant. SERS mitigates its legal risk on investment holdings including derivatives by carefully reviewing and selecting investment advisors. It manages its exposure to market risk within risk limits set by management.

SERS advisors also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds and absolute return funds-of-hedge funds. These funds invest in instruments directly,



**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

and indirectly through a securities lending collateral pool, to gain foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The investment advisor uses these contracts primarily for its international investments to settle pending trades that occur more than two business days after trade date. The contracts are used by the investment advisor for the purpose of eliminating foreign exchange risk. As a matter of policy, the investment advisors enter into these contracts at their full discretion to protect currency fluctuations. To reduce the risk of counterparty nonperformance, the investment advisors generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the SERS net position and represents the fair value of the contracts on December 31. At December 31, 2012, SERS had contracts to purchase and sell, by major foreign currency, as follows:

Foreign Currency	Purchase Contracts	Unrealized Gain/(Loss)	Sell Contracts	Unrealized Gain/(Loss)
Japanese yen.....	\$ 13,014	\$ (304)	\$ 36,072	\$ 3,936
Brazilian real.....	10,717	276	1,450	(33)
South Korean won.....	8,602	382	-	-
Indian rupee.....	6,835	(38)	-	-
Chilean peso.....	5,901	44	-	-
Russian ruble.....	5,534	156	-	-
Euro.....	4,223	24	28,337	(376)
British pound sterling.....	971	10	12,484	(186)
New Romanian leu.....	421	5	-	-
Australian dollar.....	-	-	47,256	(1,615)
Swiss franc.....	-	-	19,293	(211)
Norwegian krone.....	-	-	8,522	(300)
New Zealand dollar.....	-	-	7,359	81
Other currencies (4).....	103	-	7,667	(87)
<b>Total.....</b>	<b>\$ 56,321</b>	<b>\$ 555</b>	<b>\$ 168,440</b>	<b>\$ 1,209</b>

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index to rebalance the total portfolio. The SERS exposure to futures contracts was not significant at December 31, 2012.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, and credit worthiness. During 2012, the SERS used contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS uses credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability or vice versa. The SERS used interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market. The SERS' exposure to swap agreements was not significant at December 31, 2012.

The SERS mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting investment advisors and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

**Deferred Compensation Program (DCP)**

The DCP, through the Mellon Capital Management (MCM) managed accounts, indirectly holds certain derivative financial instruments. The derivatives most commonly used by MCM include forwards, futures, options, and swaps. MCM may take long or short positions in derivative instruments for various purposes. The notional value of these instruments is not significant as of December 31, 2012.

Certain collective funds may utilize exchange-traded and over-the-counter (OTC) derivative instruments including but not limited to fixed income, equity, currency and commodity futures, exchange-traded and OTC options, swaps, and currency forwards. MCM has instituted policies and procedures designed to ensure that derivative transactions are in keeping with the overall strategy and that such transactions are properly reviewed and monitored. MCM has also established restrictions and processes to assist with minimizing the impact of liquidity risk and credit risk in the context of the collective fund's total portfolio. Counterparty risk is controlled through regular credit evaluations and approvals, along with guidelines and procedures designed to limit the impact of counterparty risk.

**Public School Employees' Retirement System (PSERS)**

The 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 obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; 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 investment performance and reduce the volatility of the investment portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The PSERS generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market condition may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of PSERS' involvement in the various types and uses of derivative financial instruments and do not measure the PSERS' 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' derivative financial instruments at June 30, 2013:

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts - long.....	\$ 2,577,594
Futures contracts - short.....	202,599
Foreign exchange forward and spot contracts, gross.....	1,834,065
Options - calls purchased.....	3,952
Options - puts purchased.....	23,684
Options - puts sold.....	27,792
Swaps - total return type.....	1,686,905

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. PSERS also enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. 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 and the amount of cash held at June 30, 2013 represent a restriction on the amount of assets available as of fiscal 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

**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

option purchaser chooses to exercise the option. The PSERS generally uses exchange listed currency, index, stock, and future options.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The \$1,834,065 of foreign currency contracts outstanding at June 30, 2013 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$718,075 and “sell” contracts, which represent the U.S. dollar equivalents of commitments to sell foreign currencies of \$1,115,990. The unrealized gain on contracts of \$1,920 at June 30, 2013 is included in the PSERS’ Statement of Plan Net Position and represents the fair value of the contracts.

During the fiscal year ended June 30, 2013, the PSERS entered into total return type swaps. Under the total return type swap arrangements, the PSERS receives the net return of certain equity securities or indices in exchange for a short-term rate minus a spread or a predetermined fixed charge. The payable on the total return type swap contracts of \$93,228 at June 30, 2013 is included in the Statement of Plan Net Position and represents the fair value of the contracts. The contracts have varying maturity dates which range from July 1, 2013 to June 13, 2014.

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forward contracts to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a decrease in interest rates. The MBS forward contracts are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2013 is \$1,318,695.

The PSERS invests in U.S. Treasury strips, which essentially act as zero coupon bonds and are subject to market volatility from an increase or decrease in interest rates.

Through certain collective trust funds, the PSERS also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs, to enhance the performance and reduce the volatility of their investment portfolios.

**NOTE E – CAPITAL ASSETS**

Changes in governmental activities capital assets for the fiscal year ended June 30, 2013 are as follows:

	<u>Balance June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 568,767	\$ 2,893	\$ 78	\$ 571,582
Highway right-of-way.....	2,043,856	69,972	-	2,113,828
General construction in progress.....	822,935	533,547	589,649	766,833
Transportation construction in progress.....	2,604,647	2,136,842	2,129,053	2,612,436
Subtotal.....	<u>6,040,205</u>	<u>2,743,254</u>	<u>2,718,780</u>	<u>6,064,679</u>
<b>Depreciable and Amortizable Capital Assets:</b>				
Buildings and building improvements.....	6,928,444	433,724	98,385	7,263,783
Improvements other than buildings.....	698,460	77,210	3,570	772,100
Machinery and equipment.....	1,128,285	150,617	56,154	1,222,748
Bridge infrastructure.....	11,180,587	945,060	769	12,124,878
Highway infrastructure.....	24,096,370	1,183,993	-	25,280,363
Waterway infrastructure.....	25,926	351	-	26,277
Other infrastructure.....	185,531	5,009	-	190,540
Software.....	148,760	30,270	-	179,030
Other intangibles.....	200	-	-	200
Subtotal.....	<u>44,392,563</u>	<u>2,826,234</u>	<u>158,878</u>	<u>47,059,919</u>
<b>Less accumulated depreciation and amortization for:</b>				
Buildings and building improvements.....	2,679,507	159,679	83,852	2,755,334
Improvements other than buildings.....	302,542	22,129	1,416	323,255
Machinery and equipment.....	618,271	87,403	30,516	675,158
Bridge infrastructure.....	2,623,904	277,389	329	2,900,964
Highway infrastructure.....	12,261,334	943,829	-	13,205,163
Waterway infrastructure.....	2,326	530	-	2,856
Other infrastructure.....	26,638	9,585	-	36,223
Software.....	46,481	17,356	-	63,837
Other intangibles.....	103	20	-	123
Subtotal.....	<u>18,561,106</u>	<u>1,517,920</u>	<u>116,113</u>	<u>19,962,913</u>
Total depreciable and amortizable capital assets, net.....	<u>25,831,457</u>	<u>1,308,314</u>	<u>42,765</u>	<u>27,097,006</u>
Total governmental activities capital assets, net.....	<u>\$ 31,871,662</u>	<u>\$ 4,051,568</u>	<u>\$ 2,761,545</u>	<u>\$33,161,685</u>

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2013 is as follows:

	<u>Governmental Activities Capital Assets</u>
Direction and supportive services.....	\$ 50,863
Protection of persons and property.....	111,873
Public education.....	30,883
Health and human services.....	14,952
Economic development.....	223
Transportation.....	1,289,154
Recreation and cultural enrichment.....	19,972
Total depreciation and amortization expense.....	<u>\$ 1,517,920</u>

NOTE E – CAPITAL ASSETS (continued)

Changes in business-type activities capital assets for the fiscal year ended June 30, 2013 are as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 116,219	\$ 13,350	\$ -	\$ 129,569
General construction in progress.....	25,455	20,821	18,575	27,701
Subtotal.....	<u>141,674</u>	<u>34,171</u>	<u>18,575</u>	<u>157,270</u>
<b>Depreciable and Amortizable Capital Assets:</b>				
Buildings and building improvements.....	343,604	24,811	997	367,418
Improvements other than buildings.....	40,577	2,313	-	42,890
Machinery and equipment.....	188,670	10,217	2,680	196,207
Software.....	14,034	5,100	-	19,134
Other intangibles.....	200	-	-	200
Subtotal.....	<u>587,085</u>	<u>42,441</u>	<u>3,677</u>	<u>625,849</u>
<b>Less accumulated depreciation and amortization for:</b>				
Buildings and building improvements.....	135,956	15,955	527	151,384
Improvements other than buildings.....	2,670	2,080	-	4,750
Machinery and equipment.....	123,976	15,477	2,508	136,945
Software.....	6,275	3,571	-	9,846
Other intangibles.....	56	66	-	122
Subtotal.....	<u>268,933</u>	<u>37,149</u>	<u>3,035</u>	<u>303,047</u>
Total depreciable and amortizable capital assets, net.....	<u>318,152</u>	<u>5,292</u>	<u>642</u>	<u>322,802</u>
Total business-type activities capital assets, net.....	<u>\$ 459,826</u>	<u>\$ 39,463</u>	<u>\$ 19,217</u>	<u>\$ 480,072</u>

On July 1, 2012, the Commonwealth implemented Governmental Standards Board Statement No. 61 *The Financial Reporting Entity: Omnibus*. As a result, beginning balances for the business-type activities capital assets include those owned by the Philadelphia Regional Port Authority (PRPA). The PRPA was reported as a discretely presented component unit in previous years but is now reported as a blended component unit.

Construction in progress included in governmental capital assets at June 30, 2013 includes project information as follows:

	Project Authorization	Amounts Expended at June 30, 2013	Authorization Available
<b>General Construction in Progress:</b>			
Capitol Complex.....	\$ 484,443	\$ 35,055	\$ 449,388
Department of Corrections Institutions.....	462,279	116,725	345,554
Educational Institutions.....	751,306	231,046	520,260
Environmental Protection.....	3,113	906	2,207
State Parks and Forests.....	184,625	36,177	148,448
Veterans Homes and Military Armories.....	51,650	21,045	30,605
Department of Public Welfare Institutions.....	48,992	28,196	20,796
Transportation Facilities.....	128,637	25,737	102,900
Historical and Museum Commission Facilities.....	40,970	12,093	28,877
State Police Facilities.....	18,531	5,236	13,295
Agriculture Facilities.....	9,872	537	9,335
Department of Labor and Industry Software.....	213,450	194,828	18,622
Other.....	449,674	59,252	390,422
Total general construction in progress.....	<u>2,847,542</u>	<u>766,833</u>	<u>2,080,709</u>
Highway and Bridge Construction in Progress.....	<u>3,791,706</u>	<u>2,612,436</u>	<u>1,179,270</u>
Total construction in progress.....	<u>\$ 6,639,248</u>	<u>\$ 3,379,269</u>	<u>\$ 3,259,979</u>

**NOTE E – CAPITAL ASSETS (continued)**

The Commonwealth's initial valuation of general capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, general capital asset acquisitions are reported at cost or, for donations or confiscations, at fair market value. At June 30, 2013 the remaining amount of general capital assets related to the initial June 30, 1986 valuation amounted to \$1,585,000. The initial June 30, 1986 valuation did not include highway, bridge or waterway infrastructure. Such infrastructure was first reported in the June 30, 2002 basic financial statements, retroactive to July 1, 1980.

**NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS**

**Tuition Benefits Payable**

The reported liability for tuition benefits payable of \$1,481,056 of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2013 is based on several actuarial assumptions, including those related to tuition cost increases, investment experience, income from account maintenance fees, and program expenses for the Pennsylvania 529 Guaranteed Savings Plan (GSP). The assumed rate of return on long-term investments is 7.68%.

Changes in tuition benefits payable are as follows:

Balance at July 1, 2012	Additions	Reductions	Balance at June 30, 2013	Current Due within One Year	Non Current Due after One Year
\$ 1,440,098	\$ 237,211	\$ 196,253	\$ 1,481,056	\$ 216,112	\$ 1,264,944

**Insurance Loss Liability**

The reported insurance loss liability of the **State Workers' 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 using a discount rate of 2.00 and 2.75 percent at December 31, 2012 and December 31, 2011, 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, 2012 and 2011, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability.

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2012	\$1,490,099	\$ 201,992	\$127,860	\$37,674	\$195,002	\$ 1,587,275
2011	1,509,814	185,750	53,695	37,358	221,802	1,490,099

The current portion of the total **SWIF** insurance loss liability is \$215,868 and the noncurrent portion is \$1,371,407. Additionally, nonmajor Enterprise funds reported a noncurrent insurance loss liability of \$265 at June 30, 2013. Total reported current insurance loss liability amounts to \$215,868 and total noncurrent insurance loss liability amounts to \$1,371,672 at June 30, 2013.

**Compensated Absences Liability**

The reported compensated absences liability for the Enterprise Funds totaled \$36,811 at June 30, 2013. Of that amount, the liability is primarily owed by the State Stores Fund (\$27,851), the **SWIF** (\$2,552), and the **State Lottery Fund** (\$3,026). The following summary provides aggregated information reported for June 30, 2013 compensated absences liabilities; additions and reductions during the fiscal year ended June 30, 2013 and reported compensated absences liabilities at June 30, 2012:

Liability at June 30, 2012	Additions	Reductions	Liability at June 30, 2013
\$ 35,493	\$ 26,064	\$ 24,746	\$ 36,811

The current portion of the total compensated absences liability for Enterprise Funds is \$6,973, the noncurrent portion is \$29,838.

NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS (continued)

Revenue Bonds Payable

Revenue bond obligations of the Enterprise Funds (including the Philadelphia Regional Port Authority and the Commonwealth Financing Authority, blended component units) at June 30, 2013 and changes during the fiscal year ended June 30, 2013 are as follows:

REVENUE BONDS PAYABLE	Issue	Interest	Maturity	Balance		Balance	
	Dates	Rates	Dates Through	July 1, 2012	Additions	Reductions	June 30, 2013
Philadelphia Regional Port Authority.....	2008	3.00-5.00%	2021	\$ 33,450	\$ -	\$ 3,055	\$ 30,395
Unemployment Compensation Fund.....	2012	1.00-5.00%	2024	-	2,527,405	-	2,527,405
Commonwealth Financing Authority.....	2005-13	0.55-6.40%	2042	1,387,990	330,000	50,210	1,667,780
Total principal obligations.....				1,421,440	2,857,405	53,265	4,225,580
Less: unamortized bond discount.....				(1,082)	-	(57)	(1,025)
Add: unamortized bond premium.....				9,363	456,861	53,130	413,094
Less: deferred net refunded loss.....				(2,152)	-	(263)	(1,889)
<b>TOTAL REVENUE BONDS PAYABLE.....</b>				<b>\$ 1,427,569</b>	<b>\$ 3,314,266</b>	<b>\$ 106,075</b>	<b>\$ 4,635,760</b>

The following table presents annual principal and interest payments for long-term debt outstanding for revenue bonds for the Enterprise funds:

	2014	2015	2016	2017	2018	2019-23	2024-28
Philadelphia Regional Port Authority..	\$ 4,604	\$ 4,608	\$ 4,607	\$ 4,607	\$ 4,609	\$ 13,819	\$ -
Unemployment Compensation Fund....	263,841	288,298	297,720	317,270	328,826	1,711,909	91,149
Commonwealth Financing Authority....	147,886	147,755	147,627	147,466	147,302	733,369	600,323
Total Principal and Interest.....	416,331	440,661	449,954	469,343	480,737	2,459,097	691,472
Less: Interest Payments.....	(234,981)	(199,221)	(188,809)	(176,228)	(161,982)	(545,292)	(205,727)
<b>TOTAL PRINCIPAL OBLIGATIONS.....</b>	<b>\$ 181,350</b>	<b>\$ 241,440</b>	<b>\$ 261,145</b>	<b>\$ 293,115</b>	<b>\$ 318,755</b>	<b>\$ 1,913,805</b>	<b>\$ 485,745</b>

	2029-33	2034-38	2039-43	Total
Philadelphia Regional Port Authority..	\$ -	\$ -	\$ -	\$ 36,854
Unemployment Compensation Fund....	-	-	-	3,299,013
Commonwealth Financing Authority....	372,597	246,784	97,621	2,788,730
Total Principal and Interest.....	372,597	246,784	97,621	6,124,597
Less: Interest Payments.....	(119,607)	(58,039)	(9,131)	(1,899,017)
<b>TOTAL PRINCIPAL OBLIGATIONS.....</b>	<b>\$ 252,990</b>	<b>\$ 188,745</b>	<b>\$ 88,490</b>	<b>\$ 4,225,580</b>

Demand bonds payable

On October 18, 2012 the Department of Labor & Industry (Department), through the authorization of the Pennsylvania Economic Development Financing Authority (PEDFA), issued Unemployment Compensation Variable Rate Demand Revenue Bonds, Series 2012C, in the amount of \$300,000. The Series 2012C bonds bear interest at a weekly interest rate which is set each week by the remarketing agent. Since the bonds were issued, the approximate average weekly rate has been 0.14%. The payment of the principal and Tender Price of and interest on the Series C Bonds will be secured by a direct-pay letter of credit (LOC) issued by the bank, and is set to expire on October 1, 2015, unless extended or earlier terminated. Related commitment fees relative to the letter of credit is 0.30% payable on each July 1 and January 1. There were no liquidity drawings as of the financial reporting date.



**NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS (continued)**

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Bonds payable:				
UC variable rate demand revenue bonds Series C due 2024 at weighted-average rates of 0.14 percent as of June 30, 2013	\$ -	\$ 300,000	\$ -	\$ 300,000

The demand bonds issuance contains a take-out agreement that allows the bondholders to demand early repayment. To mitigate the risk of raising revenue unexpectedly to meet these demands, the PEDFA has entered into a contract to cover the redemption of these obligations should the bondholders exercise the take-out agreement. The provisions of the arrangement are as follows: If after 180 days, the Department fails to reimburse any disbursements made in connection with any Liquidity Drawings a Term-Out period will commence. During this period, the pledged bonds will bear interest at the Term-Out Interest rate and will be redeemed in ten (10) equal, semi-annual installments. The Term-Out interest rate means 2% plus the higher of (1) the Prime Rate in effect or (2) Federal Fund Rate plus 3%; or (3) 7.5%.

The debt service requirements if the take-out agreement is exercised are as follows:

<u>Assumed Term-Out Commencement Date</u>				<u>7/1/2013</u>
<u>DATE</u>	<u>PRINCIPAL</u>	<u>RATE</u>	<u>INTEREST</u>	<u>SEMI-ANNUAL PAYMENT</u>
1/1/2014	\$ 30,000	9.5	\$ 14,250	\$ 44,250
7/1/2014	30,000	9.5	12,825	42,825
1/1/2015	30,000	9.5	11,400	41,400
7/1/2015	30,000	9.5	9,975	39,975
1/1/2016	30,000	9.5	8,550	38,550
7/1/2016	30,000	9.5	7,125	37,125
1/1/2017	30,000	9.5	5,700	35,700
7/1/2017	30,000	9.5	4,275	34,275
1/1/2018	30,000	9.5	2,850	32,850
7/1/2018	<u>30,000</u>	9.5	<u>1,425</u>	<u>31,425</u>
<b>TOTALS</b>	<u>\$ 300,000</u>		<u>\$ 78,375</u>	<u>\$ 378,375</u>

**NOTE G - TAXES, LOANS, AND GOVERNMENTAL FUNDS UNEARNED REVENUE**

**Taxes Receivable:** Taxes receivable, by tax type, reported on the Statement of Net Position at June 30, 2013 consisted of the following:

<b>Statement of Net Position</b>			
<b>Governmental Activities</b>			
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Sales and use.....	\$ 664,780	\$ 180,196	\$ 844,976
Personal income	446,485	381,646	828,131
Corporation.....	292,554	559,806	852,360
Liquid fuels.....	172,350	-	172,350
Inheritance.....	312,514	106,770	419,284
Cigarette.....	53,200	-	53,200
Other.....	22,200	-	22,200
<b>Total.....</b>	<b>\$ 1,964,083</b>	<b>\$ 1,228,418</b>	<b>\$ 3,192,501</b>

Taxes receivable reported on the Balance Sheet for Governmental Funds at June 30, 2013 consisted of the following:

<b>Fund Balance Sheets</b>							
<b>General Fund</b>							
Expected to be Collected:				<b>Motor</b>	<b>Nonmajor</b>		
From				<b>License</b>	<b>Governmental</b>	<b>Fiduciary</b>	
September 1, 2013				<b>Fund</b>	<b>Funds</b>	<b>Funds</b>	
By	through	After	<b>Total</b>	Collected by	Collected by	Collected by	
<u>August 31, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2014</u>	<u>Total</u>	<u>August 31, 2013</u>	<u>August 31, 2013</u>	<u>August 31, 2013</u>	
Sales and use....	\$ 561,327	\$ 103,453	\$ 180,196	\$ 844,976	\$ -	\$ -	\$ 25,961
Personal income	313,920	132,565	381,646	828,131	-	-	-
Corporation.....	127,428	165,126	559,806	852,360	-	-	-
Liquid fuels.....	-	-	-	-	172,350	-	-
Inheritance.....	130,301	182,213	106,770	419,284	-	-	-
Cigarette.....	53,200	-	-	53,200	-	-	-
Other.....	-	-	-	-	-	22,200	3,846
<b>Total.....</b>	<b>\$ 1,186,176</b>	<b>\$ 583,357</b>	<b>\$ 1,228,418</b>	<b>\$2,997,951</b>	<b>\$ 172,350</b>	<b>\$ 22,200</b>	<b>\$ 29,807</b>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$1,811,775 expected to be collected after August 31, 2013 is reported as an unearned revenue liability. The total amount of taxes receivable reported on the governmental funds balance sheet, \$1,964,083 (\$1,769,533 reported in the **General Fund**, \$172,350 reported in the **Motor License Fund**, and \$22,200 reported in nonmajor governmental funds), expected to be collected from July 1, 2013 through June 30, 2014 is also reported as current taxes receivable in governmental activities on the Statement of Net Position. The remaining **General Fund** taxes receivable of \$1,228,418 reported on the governmental funds balance sheet expected to be collected after June 30, 2014 is reported as noncurrent taxes receivable in governmental activities on the Statement of Net Position. All of the revenue associated with the taxes receivable reported in governmental activities on the Statement of Net Position is reported as tax revenue in governmental activities on the Statement of Activities.

**NOTE G - TAXES, LOANS, AND GOVERNMENTAL FUNDS UNEARNED REVENUE (continued)**

**Loans Receivable:** Loans receivable at June 30, 2013 consisted of the following:

	Governmental Activities		Business Type Activities	
	General Fund	Capital Projects Funds	Commonwealth Financing Authority	Nonmajor Enterprise Funds
Economic development loans.....	\$ 21,198	\$ -	\$ 334,123	\$ 182,346
Drinking water, storm water and sewer system loans.	-	59,927	-	-
Volunteer fire company loans.....	-	-	-	83,609
Environmental program loans.....	6,548	-	-	-
School district loans.....	10,000	-	-	-
Other notes and loans.....	110	-	-	-
	<u>37,856</u>	<u>59,927</u>	<u>334,123</u>	<u>265,955</u>
Less: allowance for uncollectible amounts.....	(12,359)	(1,789)	(11,475)	(25,091)
Loans receivable, net.....	<u>\$ 25,497</u>	<u>\$ 58,138</u>	<u>\$ 322,648</u>	<u>\$ 240,864</u>

The **General Fund** reported \$23,060 in loans due after June 30, 2014, Capital Projects funds reported \$54,903 in loans due after June 30, 2014, the **Commonwealth Financing Authority** (a blended component unit) reported \$305,606 in loans due after June 30, 2014, and nonmajor Enterprise funds reported \$196,618 in loans due after June 30, 2014.

**Governmental Funds Unearned Revenue:** The **General Fund**, Special Revenue Funds, and Debt Service Funds reported unearned revenue at June 30, 2013. The following chart provides the portion of total unearned revenue which was 1) unavailable or 2) not yet earned as of June 30, 2013:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Unavailable.....	\$ 2,103,609	\$ 79,096	\$ -
Unearned.....	<u>41,116</u>	<u>78,600</u>	<u>3,649</u>
Total unearned revenue.....	<u>\$ 2,144,725</u>	<u>\$ 157,696</u>	<u>\$ 3,649</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Position

Internal Balances

In the Statement of Net Position, reported internal balances of (\$1,937)/\$2,179 for governmental activities/business-type activities differ by \$242 because the **State Workers' Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2012.

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2013 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$71,237 and \$2,611; aggregate nonmajor enterprise funds receivables amount to \$9,759 and \$17; aggregate internal service funds receivables amount to \$22,318 and \$222:

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
<b>General Fund</b> .....	\$ 56,389	\$ 222,471	\$ 137,085	\$ 453
<u>Special Revenue:</u>				
<b>Motor License Fund</b> .....	25,527	5	49,017	8,126
Public Transportation Trust Fund.....	38,316	-	6	-
Gaming Fund.....	12	1,995	1,246	15,000
Vocational Rehabilitation Fund.....	4	-	3,502	8
Emergency Medical Services Operating Fund.....	2,463	-	-	-
Agricultural Conservation Easement Purchase Fund.....	10,509	-	-	-
Game Fund.....	263	-	3,918	8
Other Funds.....	3,429	-	4,491	4
Special Revenue subtotal.....	<u>80,523</u>	<u>2,000</u>	<u>62,180</u>	<u>23,146</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	2,354	616	11,581	-
Keystone Recreation, Park and Conservation Fund.....	5,891	-	95	-
Public Transportation Assistance Fund.....	7,996	-	895	-
Capital Projects subtotal.....	<u>16,241</u>	<u>616</u>	<u>12,571</u>	<u>-</u>
<u>Enterprise:</u>				
<b>Unemployment Compensation Fund</b> .....	3,957	505	1,348	3
<b>State Lottery Fund</b> .....	1,004	-	2,953	-
<b>Commonwealth Financing Authority</b> .....	-	-	415	-
State Stores Fund.....	47	-	8,241	-
Rehabilitation Center Fund.....	3,054	17	258	3
Philadelphia Regional Port Authority.....	6,642	-	53	-
Other Funds.....	16	-	30	49
Enterprise subtotal.....	<u>14,720</u>	<u>522</u>	<u>13,298</u>	<u>55</u>
<u>Internal Service:</u>				
Purchasing Fund.....	17,581	222	5,150	2
Manufacturing Fund.....	4,737	-	400	-
Internal Service subtotal.....	<u>22,318</u>	<u>222</u>	<u>5,550</u>	<u>2</u>
<u>Fiduciary - Pension Trust:</u>				
State Employees' Retirement System.....	6,242	11,140	-	-
Deferred Compensation Fund.....	-	-	127	-
Public School Employees' Retirement System.....	4,316	-	2,427	-
Fiduciary - Pension Trust subtotal.....	<u>10,558</u>	<u>11,140</u>	<u>2,554</u>	<u>-</u>
Total primary government.....	<u>\$ 200,749</u>	<u>\$ 236,971</u>	<u>\$ 233,238</u>	<u>\$ 23,656</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
Pennsylvania Turnpike Commission.....	\$ 6,624	\$ -	\$ -	\$ -
Pennsylvania Housing Finance Agency.....	4	41	37	150
Pennsylvania Higher Education Assistance Agency.....	3	-	223	-
Pennsylvania Infrastructure Investment Authority.....	15,001	150	222,314	41
State System of Higher Education.....	783	46	1,132	-
Pennsylvania Convention Center Authority.....	122,000	-	1,995	-
Other component units.....	-	-	141	46
Total component units.....	<u>\$ 144,415</u>	<u>\$ 237</u>	<u>\$ 225,842</u>	<u>\$ 237</u>

The amount of total reported interfund receivables of \$582,372 does not agree with total reported interfund payables of \$482,973 at June 30, 2013 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2013. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2013; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2012. The following presents a reconciliation of interfund balances reported at June 30, 2013 and those amounts that would have been reported if all Funds reported at the same fiscal year end:

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due from other funds.....	\$ 151,527	\$ 32,354	\$ 9,774	\$ -	\$ 193,655
Due from pension trust funds.....	1,626	4,684	784	-	7,094
Due from component units.....	225,087	744	11,140	237	237,208
Due from primary government.....	-	-	-	144,415	144,415
Total.....	<u>\$ 378,240</u>	<u>\$ 37,782</u>	<u>\$ 21,698</u>	<u>\$ 144,652</u>	<u>\$ 582,372</u>
<b>Reported Interfund Receivables.....</b>					\$ 582,372
State Employees' Retirement System decrease in receivables from January 1, 2013 through June 30, 2013.....					(6,929)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2013 through June 30, 2013.....					1,240
<b>State Workers' Insurance Fund increase in receivables from January 1, 2013 through June 30, 2013.....</b>					528
Interfund receivables reported as taxes receivable and accounts receivable by fiduciary funds.....					18,485
Payroll accrual at June 30, 2013 - receivables attributable to State Employees' Retirement System.....					18,320
<b>Reconciled Interfund Receivables.....</b>					<u>\$ 614,016</u>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 167,043	\$ 17,178	\$ 912	\$ -	\$ 185,133
Due to pension trust funds.....	44,793	1,670	1,642	-	48,105
Due to component units.....	23,599	57	-	237	23,893
Due to primary government.....	-	-	-	225,842	225,842
Total.....	<u>\$ 235,435</u>	<u>\$ 18,905</u>	<u>\$ 2,554</u>	<u>\$ 226,079</u>	<u>\$ 482,973</u>
<b>Reported Interfund Payables.....</b>					482,973
State Employees' Retirement System increase in payables from January 1, 2013 through June 30, 2013.....					680
Deferred Compensation Fund decrease in payables from January 1, 2013 through June 30, 2013.....					(9)
Pennsylvania Turnpike Commission increase in payables from June 1, 2013 through June 30, 2013.....					3,306
<b>State Workers' Insurance Fund increase in payables from January 1, 2013 through June 30, 2013.....</b>					193
Interfund payables reported as accounts payable by fiduciary funds.....					4,873
Capital Facilities Fund payable to Pennsylvania Convention Center Authority (full accrual).....					122,000
<b>Reconciled Interfund Payables.....</b>					<u>\$ 614,016</u>

Advances – Fund Financial Statements

At June 30, 2013 the **General Fund** reported Advances to Other Funds of \$4,775. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund (SWIF)**, an Enterprise Fund; and \$2,175 to the **Motor License Fund** and \$300 to the State Racing Fund, Special Revenue Funds. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **SWIF**, which reported an advance of \$2,202 at its fiscal year ended December 31, 2012. At June 30, 2013 the Workers' Compensation Security Fund and the Hazardous Sites Cleanup Fund, Special Revenue Funds, reported Advances to Other Funds of \$1,500 and \$3,000, respectively; these amounts were advanced to the **General Fund** and the Small Business First Fund, an Enterprise Fund. All amounts advanced, with exception to the \$300 repayment from the State Racing Fund to the **General Fund**, are expected to be repaid subsequent to June 30, 2014. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2013; no repayment is expected to occur during the fiscal year ending June 30, 2014.

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2013 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,426,860 during the fiscal year ended June 30, 2013; aggregate nonmajor governmental fund transfers to other funds amounted to \$603,373. Aggregate nonmajor proprietary fund transfers from other funds amounted to \$38,965, while aggregate nonmajor proprietary fund transfers to other funds amounted to \$82,567.

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	TRANSFERS	
	IN	OUT
<b>PRIMARY GOVERNMENT</b>		
General Fund.....	\$ 450,234	\$ 1,215,358
<b>Special Revenue:</b>		
Motor License Fund.....	37,327	69,442
Workers' Compensation Administration Fund.....	-	1,650
Tobacco Settlement Fund.....	-	25,282
Public Transportation Trust Fund.....	109,576	-
Gaming Fund.....	-	368,904
Environmental Stewardship Fund.....	14,427	45,883
Vocational Rehabilitation Fund.....	40,473	-
Agricultural Conservation Easement Purchase Fund.....	6,973	-
State Farm Products Show Fund.....	5,000	-
Self-Insurance Guaranty Fund.....	1,650	-
Recycling Fund.....	1,000	1,250
Oil and Gas Lease Fund.....	-	35,132
Hazardous Sites Cleanup Fund.....	-	5,000
Marcellus Shale Fund.....	-	66,246
Other Funds.....	1,540	478
Special Revenue subtotal.....	<u>217,966</u>	<u>619,267</u>
<b>Debt Service:</b>		
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	6,084	-
Capital Debt Fund.....	1,160,764	-
Pennsylvania Economic Revitalization Sinking Fund.....	505	-
Land and Water Development Sinking Fund.....	142	-
Water Facilities Loan Redemption Fund.....	1,846	-
Volunteer Company Loan Sinking Fund.....	82	-
Agricultural Conservation Easement Purchase Sinking Fund.....	670	-
Growing Greener Bond Sinking Fund.....	38,910	-
Water Supply and Wastewater Treatment Sinking Fund.....	13,165	-
Persian Gulf Veterans' Compensation Bond Sinking Fund.....	498	-
Water and Sewer Assistance Bond Sinking Fund.....	23,555	-
Debt service subtotal.....	<u>1,246,221</u>	<u>-</u>
<b>Capital Projects:</b>		
Capital Facilities Fund.....	-	36,224
Public Transportation Assistance Fund.....	-	17,324
Capital Projects subtotal.....	<u>-</u>	<u>53,548</u>
<b>Enterprise:</b>		
Unemployment Compensation Fund.....	-	1,200
State Lottery Fund.....	166,800	281,268
Commonwealth Financing Authority.....	147,022	14,000
State Stores Fund.....	-	82,567
Pennsylvania Infrastructure Bank Fund.....	15	-
Philadelphia Regional Port Authority.....	38,950	-
Enterprise subtotal.....	<u>352,787</u>	<u>379,035</u>
Total transfers, fund financial statements.....	2,267,208	2,267,208
Plus: Vocational Rehabilitation Fund capital asset transfer to Rehabilitation Center Fund .	8,973	8,973
Less: net elimination of governmental fund transfers.....	<u>(2,258,906)</u>	<u>(2,258,906)</u>
Total transfers, Statement of Activities.....	<u>\$ 17,275</u>	<u>\$ 17,275</u>

**NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)**

**Primary Government Transactions with Discretely Presented Component Units**

**Financial Support Provided to:**

**Major Discretely Presented Component Units**

During the fiscal year ended June 30, 2013 (May 31, 2013 for PA Turnpike Commission), the Commonwealth provided financial support to major discretely presented component units, reported by the component units as follows:

State System of Higher Education (appropriations, grants and contracts) .....	\$ 531,753
PA Higher Education Assistance Agency (grants).....	396,784
PA Turnpike Commission (capital contributions).....	88,285
PA Infrastructure Investment Authority (capital contributions and other state receipts).....	33,984
PA Housing Finance Agency (program income and fees; other liabilities).....	30,126

**Nonmajor Discretely Presented Component Units**

During the fiscal year ended June 30, 2013, the Commonwealth provided financial support to nonmajor component units by appropriations, as follows:

Ben Franklin Technology Development Authority.....	\$ 14,500
Thaddeus Stevens College of Technology .....	10,332
Port of Pittsburgh Commission.....	296

**Financial Support Provided to the Commonwealth**

During its fiscal year ended May 31, 2013, the PA Turnpike Commission incurred additional debt in order to provide \$200,000 to the **Motor License Fund** and \$250,000 to the Public Transportation Trust Fund under the statutory provisions of Act 44 of 2007 and the related Lease and Funding Agreement between the PA Turnpike Commission and the Commonwealth.



**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

**Pension Systems**

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employees. Generally, Commonwealth employees are members of the State Employees' Retirement System (SERS) and public school employees are members of the Public School Employees' Retirement System (PSERS). Both the SERS and the PSERS are reported as Pension Trust Funds classified as Fiduciary Funds. The SERS and the PSERS issue stand-alone, audited financial statements which are available at [www.sers.state.pa.us](http://www.sers.state.pa.us) and [www.psers.state.pa.us](http://www.psers.state.pa.us), respectively. Written requests for SERS or PSERS financial statements should be directed to the following addresses:

State Employees' Retirement System  
30 North Third Street, Suite 150  
Harrisburg, PA 17101-1716

Public School Employees' Retirement System  
Bureau of Communications  
P.O. Box 125  
Harrisburg, PA 17108-0125

**State Employees' Retirement System**

**Plan Description:** The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established to provide pension benefits for Commonwealth employees and certain other organizations. At December 31, 2012 there were 105 employer state agencies and other organizations participating in the SERS.

**Retirement Benefits:** Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend plan benefit provisions. The SERS provides retirement, death, and disability benefits. Prior to Act 2010-120 (Act 120), employees who retire at age 60 with 3 years of service, or with 35 years of service if under age 60, are entitled to a normal 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 3 years of service. Act 120 preserved all benefits in place for existing members but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2 percent of their final average salary instead of the previous 2.5 percent. The new vesting period changed from five to ten years of credited service, and the option to withdraw lump sum accumulated employee contributions was eliminated. The new normal retirement age is 65 for most employees and age 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

Most members of the SERS, and all covered employees hired after June 30, 2001 and prior to January 1, 2011 (except State Police officers and certain members of the judiciary and legislators), are Class AA members, pursuant to Act 2001-9 (Act 9), signed into law on May 17, 2001. Among other things, Act 9 provides for general annual retirement benefits of 2.5 percent of the member's highest three-year average salary (final 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. Legislators taking office before December 1, 2010 are Class D-4, which translates into an annual benefit of 3 percent of the final average salary for each year of service. The general annual benefit for full retirement for Class A members is 2 percent of the member's highest three-year salary multiplied by years of service. Act 120 of 2010 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011 and December 1, 2010 for legislators newly elected in November 2010. The general annual benefit for Class A-3 members is 2 percent of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5 percent.

**Funding Policy:** Commonwealth law establishes the funding policy for all members' contribution rates. The active plan member contribution rate is 6.25 percent of covered payroll for employees in Class AA; for Class A members, the contribution rate is 5 percent. The general membership contribution rate under Act 120 for A-3 and A-4 members is 6.25 percent and 9.3 percent of salary, respectively. Higher contributions are required for certain members of the General Assembly, judges and district justices who elect higher contribution rates. 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.

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Act 120 imposes rate increase collars on employer contributions that keep the employer contribution rate below the rates established in accordance with actuarial parameters suggested by the GASB standards. The collar for FY 12/13 is 3.5 percent, capping the employer contribution rate at 11.5 percent. The FY 13/14 collar is 4.5 percent and will remain at that rate until no longer needed. A variation of the entry-age normal actuarial cost method is used to determine the liabilities and costs related to all of the SERS benefits, including superannuation, withdrawal, death, and disability benefits, and to determine employer contribution rates. These rates are computed based upon actuarial valuations on the SERS' fiscal year-end December 31 and applied to the Commonwealth based on its fiscal year-end June 30.

During each of the three years ended December 31, the annual required employer contribution and the related percentage of that amount actually contributed are as follows:

<u>Year ended December 31</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2012	\$ 1,044,632	53.9%
2011	\$ 913,778	42.8%
2010	\$ 866,822	31.4%

**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, which is the amount that the SERS 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. The investments in short-term funds, including those managed by the State Treasurer, are reported at cost plus allocated interest, which approximates fair value. The securities lending collateral pool, which is a fund operated by the securities lending agent, also is reported at cost plus accrued interest, which approximates fair value. U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, and the underlying holdings in funds-of-hedge funds (reported as part of alternative investments) are generally valued based on published market prices and quotations from national security exchanges 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. Foreign exchange, futures and swap contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. Real estate investments, which are subject to annual independent audits, are primarily valued based on independent appraisals. Properties that have not been appraised are valued using the present value of the projected future net income stream. Alternative investments, which are subject to an annual independent audit, include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments, are valued based on estimated fair value established by valuation committees.

The collective trust funds (CTF) consist primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share net asset value of the respective fund. The CTF is subject to an annual independent audit.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers' fees and those expenses directly related to the SERS' investment operations.

Investments in venture capital, private equity and real estate are generally illiquid. Because of the inherent uncertainty in valuing privately held securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)****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 employee members. At June 30, 2013 there were 797 participating employers, generally school districts. In relation to the PSERS, the Commonwealth is a non-employer contributor organization.

**Benefits:** The PSERS provides retirement, disability retirement, death, and health care benefits. Under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.

Benefits are generally equal to 2 percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Pennsylvania Public School Employees' Retirement Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

**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. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the System. All school entity employers are reimbursed by the Commonwealth at least 50% of the total employer contributions based on the total contribution rate. The Commonwealth remits employer contributions for employers other than school entities directly to PSERS.

The contribution rates for active plan memberships started prior to July 1, 2011 are as follows:

- Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively;
- Membership Class T-C and T-D hired after July 21, 1983, the rates are 6.25 and 7.50 percent, respectively.

The contribution rates for active plan memberships started on or after July 1, 2011 are as follows:

- Membership Class T-E and T-F rates are 7.50 and 10.30 percent, respectively.

Act 120 suppressed the employer contribution rate by using rate caps through June 30, 2014 to keep the rate from rising too high, too fast for budgetary purposes. The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior years' rates as follows:

Fiscal year ending June 30, 2013 – not more than 3.5 percent plus the premium assistance contribution rate

Fiscal year ending June 30, 2014 – not more than 4.5 percent plus the premium assistance contribution rate

The rate cap remains at 4.5 percent until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time. Once the rate caps no longer apply, the employer normal cost becomes the contribution rate floor.

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

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

<u>Fiscal year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2013	\$ 3,110,429	46%
2012	\$ 2,629,244	38%
2011	\$ 2,436,602	27%

**Summary of Significant Accounting Policies:** The financial statements of PSERS are prepared on the accrual basis of accounting under which 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 their trade date. Member and employer contributions are recognized in the period for which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Investment Valuation:** PSERS's investments are reported at fair value. Fair value is the amount that 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 carried at cost, which approximates fair value, unless they have published market prices or quotations from national securities exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national securities exchanges or securities pricing services. Securities which are not traded on a national securities exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and, for properties not appraised, the present value of the projected future net income stream is used. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2013 \$132,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 9, 2015. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 75 basis points and is collateralized by certain fixed income investments of PSERS.

For alternative investments which include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily based on published market prices and quotations from national securities exchanges or securities pricing services. The changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds generally do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which regulatory agencies such as the Securities and Exchange Commission have regulatory oversight. Investments that are not subject to this oversight are subject to annual independent audits.

**Other Postemployment Benefits**

The Commonwealth established and sponsors two primary plans which provide postemployment benefits other than pensions (OPEB). These two plans are the Retired Employees Health Program (REHP) and the Retired Pennsylvania State Police Program (RPSPP). These two plans are administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which acts as a third-party administrator for the REHP and RPSPP under an administrative agreement with the Commonwealth. Both plans are single employer defined benefit OPEB plans. Nearly all Commonwealth agencies and several discretely presented component units participate in the REHP. The Pennsylvania Judiciary (Judiciary), Pennsylvania House of Representatives (House), and the Pennsylvania Senate (Senate) have established and sponsor their own OPEB plans. All OPEB plans and benefit provisions therein have been established under pertinent statutory authority. The REHP is provided, in

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

part, as a part of collective bargaining agreements with most Commonwealth labor unions. The RPSPP is provided as a part of collective bargaining agreements with certain Commonwealth labor unions.

Benefit provisions included in the REHP, RPSPP, Judiciary, House, and Senate plans are established and may be amended by the establishing sponsor of the given OPEB plan. Each OPEB plan provides postemployment healthcare benefits and, to varying degrees, some of the non-REHP OPEB plans provide specific dental, hearing, vision, life insurance, long term disability and long term care benefits. Among the different OPEB plans, the REHP is the largest of such plans and provides only postemployment healthcare benefits. None of the OPEB plans issues a stand-alone financial report or is included in the financial statements of a public employee retirement system.

REHP contribution requirements are established by the Office of Administration and the Governor’s Budget Office. All employing agencies and certain plan members must contribute specified amounts to the REHP. During the fiscal year ended June 30, 2013, almost all employing agencies contributed \$265 (whole dollars) for each current, active REHP eligible employee per biweekly pay period to fund the REHP. Several employing agencies contribute under comparable payment arrangements. For employees who retired after June 30, 2005 and before July 1, 2007 the retiree contribution is set at 1 percent of the employee’s final annual salary. Most Commonwealth employees who retired on or after July 1, 2007 but before July 1, 2011 are currently required to pay retiree contributions of 3 percent of either their final annual gross salary or final average salary, whichever is less. Most employees who retire on or after July 1, 2011 are currently required to pay retiree contributions of 3 percent of their final average salary. Upon enrollment in Medicare, Commonwealth employees who are currently paying 3 percent will pay retiree contributions of 1.5 percent of either their final annual gross salary or final average salary, whichever applies. In February 2008 a three tiered prescription REHP member copayment was introduced and in May 2008 a Medicare Private Fee-For-Service plan for REHP was started. In January 2011, the majority of REHP Medicare-eligible members were enrolled in Medicare HMO or Medicare PPO medical plans.

RPSPP contribution requirements are established within collective bargaining agreements. During the fiscal year ended June 30, 2013 employing agencies contributed \$675 (whole dollars) for each current RPSPP eligible active employee per biweekly pay period to fund the RPSPP. RPSPP plan members are not required to make contributions.

The REHP and RPSPP funding rates needed to fund current year annuitant health care costs are established as part of the Commonwealth’s annual budgeting process. During the fiscal year ended June 30, 2013, the Commonwealth funded \$613,660 and \$68,380 of annuitant health care claims and administrative costs for the REHP and RPSPP, respectively. Any additional contributions to advance fund annuitant health care liabilities are determined annually by the Commonwealth. During the fiscal year ended June 30, 2008, advance funding of \$60,000 for the REHP and \$50,800 for the RPSPP was contributed to the Other Postemployment Benefits Investment Pool, a Pension (and Other Employee Benefit) Trust Fund. Since then, neither the REHP nor the RPSPP Annual Required Contribution has been fully funded. Policy on advance funding is evaluated annually.

**Annual OPEB cost and actual contributions (amounts in millions):**

As of and for the fiscal year ended						
<u>June 30, 2013</u>	REHP	RPSPP	Judiciary	House	Senate	Total
Annual required contributions.....	\$ 864.83	\$ 207.14	\$ 35.50	\$ 43.20	\$ 17.40	<b>\$1,168.07</b>
Interest on net OPEB obligation.....	55.80	18.22	4.25	6.22	3.41	<b>87.90</b>
Adjustment to annual required contribution..	<u>(51.49)</u>	<u>(16.81)</u>	<u>(3.76)</u>	<u>(8.49)</u>	<u>(2.47)</u>	<b>(83.02)</b>
Total Annual OPEB cost (expense).....	869.14	208.55	35.99	40.93	18.34	<b>1,172.95</b>
Qualifying contributions.....	<u>(613.66)</u>	<u>(68.38)</u>	<u>(21.63)</u>	<u>(13.19)</u>	<u>(7.11)</u>	<b>(723.97)</b>
Increase in net OPEB obligation.....	255.48	140.17	14.36	27.74	11.23	<b>448.98</b>
Net OPEB obligation, July 1, 2012.....	1,174.79	383.59	86.51	138.23	75.75	<b>1,858.87</b>
<b>Net OPEB obligation, June 30, 2013.....</b>	<b><u>\$ 1,430.27</u></b>	<b><u>\$ 523.76</u></b>	<b><u>\$ 100.87</u></b>	<b><u>\$ 165.97</u></b>	<b><u>\$ 86.98</u></b>	<b><u>\$2,307.85</u></b>

The net OPEB obligation attributable to REHP at June 30, 2013 is allocated among all REHP-participating employers. Several REHP-participating employer organizations are not reported as part of the Commonwealth’s financial reporting entity or are

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

reported as discretely presented component units. Percentage of annual OPEB cost contributed during the fiscal years ended June 30, 2013, 2012 and 2011 is as follows (amounts in millions):

	REHP	RPSPP	Judiciary	House	Senate	Total
<b>For the fiscal year ended June 30, 2013</b>						
Annual OPEB cost.....	\$ 869.14	\$ 208.55	\$ 35.99	\$ 40.93	\$ 18.34	\$ 1,172.95
Percentage of annual OPEB cost contributed.....	71%	33%	60%	32%	39%	62%
Net OPEB obligation.....	\$1,430.27	\$ 523.76	\$ 100.87	\$ 165.97	\$ 86.98	\$ 2,307.85
<b>For the fiscal year ended June 30, 2012</b>						
Annual OPEB cost.....	\$ 870.20	\$ 175.24	\$ 34.48	\$ 39.50	\$ 17.46	\$ 1,136.88
Percentage of annual OPEB cost contributed.....	72%	39%	62%	33%	37%	65%
Net OPEB obligation.....	\$1,174.79	\$ 383.59	\$ 86.51	\$ 138.23	\$ 75.75	\$ 1,858.87
<b>For the fiscal year ended June 30, 2011</b>						
Annual OPEB cost.....	\$ 883.16	\$ 159.45	\$ 36.28	\$ 39.96	\$ 18.06	\$ 1,136.91
Percentage of annual OPEB cost contributed.....	68%	42%	54%	30%	34%	62%
Net OPEB obligation.....	\$ 932.78	\$ 277.13	\$ 73.50	\$ 111.68	\$ 64.67	\$ 1,459.75

Funded status of the OPEB plans as of the most recent valuation is as follows (amounts in millions):

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (assets as % of AAL)	Estimated Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
REHP.....	July 1, 2013	\$ 82.06	\$ 13,234.04	\$ 13,151.98	0.62%	\$ 4,264.00	308%
RPSPP.....	July 1, 2013	69.48	3,188.19	3,118.71	2.18%	391.00	798%
Judiciary.....	July 1, 2012	-	440.70	440.70	-	198.00	223%
House.....	July 1, 2012	-	386.30	386.30	-	95.32	405%
Senate.....	July 1, 2013	-	241.13	241.13	-	48.92	493%
<b>Total.....</b>		<u>\$ 151.54</u>	<u>\$ 17,490.36</u>	<u>\$ 17,338.82</u>		<u>\$ 4,997.24</u>	<u>347%</u>

The REHP and RPSPP data in the preceding charts was obtained from an actuarial valuation, prepared by an independent actuary, as of June 30, 2013 using census data collected as of December 2012 and health care claims costs for calendar year 2012. The valuation measurements result, in part, from estimates of the value of reported amounts and assumptions about the probability of events far into the future and such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of cost sharing between the Commonwealth and its employing agencies and the plan members through June 30, 2013. Inherently, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial measurements were made using a long-term perspective and, consistent with that perspective, the different actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in both actuarial accrued liabilities and the actuarial value of assets.

**Specific actuarial assumptions for the REHP and RPSPP:**

Actuarial cost method:	Projected Unit Credit
Method used to determine actuarial value of assets:	Fair Value
Investment returns:	4.75 percent
Inflation rate assumption:	2.75 percent

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Healthcare cost trend increases:	<u>Initial Rate</u>		<u>Ultimate Rate</u>	
	REHP	RPSPP	REHP	RPSPP
<b><u>Medicare-Retiree</u></b>				
Medical Benefits (REHP)	5.7	--	3.8	--
<b><u>Non-Medicare Retiree</u></b>				
Medical Benefits (REHP)	6.2	--	3.8	--
Medical Benefits (RPSPP)	--	6.2	--	3.8
Pharmacy Benefits	6.2	6.2	3.8	3.8
Dental Benefits (RPSPP)	--	6.2	--	3.8
Part B Premiums	--	6.0	--	4.0

Amortization method:	Level percent of payroll
Amortization period:	30 year open amortization (fresh start each year)

Schedules of Funding Progress and Employer Contributions for primary government OPEB plans are included in Required Supplementary Information, immediately following the Notes to the Financial Statements, and include three fiscal years of information about whether the actuarial value of plan assets is increasing or decreasing in relation to the actuarial accrued liability for benefits.

**NOTE J - SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS**

**Short-Term Debt**

On November 28, 2012, the Commonwealth initiated a temporary interfund advance of \$500,000 from the PA Treasury Department's Short Term Investment Pool to the Capital Facilities Fund. This advance was made to remedy cash flow imbalances and to allow work to continue on state-supported construction and improvement projects. The advance was repaid on April 12, 2013 with the issuance of general obligation bonds. Disclosures related to general obligation bonds payable are provided in Note K to the basic financial statements. Details on the advances follow:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Advance	\$ -	\$ 500,000	\$ 500,000	\$ -

**Notes Payable**

On July 25, 2012 the Commonwealth issued a Bond Anticipation Note (BAN) for \$3,185,000 to repay the Federal Government amounts outstanding on a loan from the Unemployment Compensation Trust Fund. The BAN was repaid on October 17, 2012 and through the Pennsylvania Economic Development Financing Authority the Unemployment Compensation Revenue Bonds, Series 2012A – C were issued in the aggregate amount of \$3,269,000.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
BAN	\$ -	\$ 3,185,000	\$ 3,185,000	\$ -

**Other Financing Obligations**

Pursuant to applicable Commonwealth laws, the Underground Storage Tank Indemnification Fund (USTIF), an Agency Fund, advanced \$67,500 to the **General Fund**. There were no borrowings from, or repayments to, the USTIF during the fiscal year ended June 30, 2013, as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Principal	\$ 67,500	\$ -	\$ -	\$ 67,500

Based on several contractual agreements between the Commonwealth, the City of Philadelphia (City), and the Pennsylvania Convention Center Authority (PCCA), a discretely presented component unit, the Commonwealth is financially obligated for debt service principal and interest payments for certain bonds issued by a public financing authority in connection with the PCCA premises in Philadelphia, Pennsylvania. Total debt service requirements for the bonds at June 30, 2013 are as follows:



**NOTE J – SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)**

<u>Fiscal Year Ending June 30</u>	<u>Total Other Financing Obligations</u>
2014.....	\$ 25,108
2015.....	24,136
2016.....	19,985
2017.....	20,004
2018.....	19,946
2019-23.....	96,637
2024-28.....	70,243
2029-33.....	118,378
2034-38.....	129,610
2039.....	<u>25,227</u>
Total principal and interest.....	549,274
Less: interest .....	<u>(291,914)</u>
<b>Total Principal .....</b>	<b><u>\$ 257,360</u></b>

Total bond principal and interest payments made during the fiscal year ended June 30, 2013 amounted to \$25,479 and were financed by \$15,000 from the City (in the form of an annual service fee), \$5,324 from the U.S. Treasury (in the form of a Build America Bonds interest subsidy for Series B of the bonds), and \$5,155 from the Gaming Fund of the Commonwealth (paid under the provisions of Act 53 of 2007).

Through June 30, 2039, the Commonwealth anticipates that the City will remit \$15,000 each fiscal year to the bond trustee, to be applied first to bond principal and interest payments due during each fiscal year amounting to a total of \$375,000; a total of \$107,026 of Build America Bonds Series B interest subsidy that will be paid to the bond trustee; the bond trustee will apply Debt Service Reserve fund income of \$22,304; and the Commonwealth will appropriate a maximum amount of \$44,944 to be financed by the Gaming Fund under the provisions of Act 53 of 2007 to finance total bond principal and interest payments of \$549,274 at June 30, 2013. Amounts to be financed by the Gaming Fund under the provisions of Act 53 of 2007 are established each fiscal year and will vary based on bond trustee investment income and other amounts due under the bond trust indenture and other contractual agreements.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES**

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2013 and changes therein during the fiscal year ended June 30, 2013 are as follows:

	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
<b>GENERAL LONG-TERM OBLIGATIONS</b>								
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities.....	2003-13	1.00-5.85%	2033	\$84,262,560	\$ 6,802,595	\$ 800,000	\$ 786,885	\$ 6,815,710
Disaster Relief.....	-	-	-	105,908	-	-	-	-
Land and Water Development.....	1992	6.25%	2012	300	245	-	245	-
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	1992	6.25%	2012	50,000	80	-	80	-
Vietnam Conflict Veterans Compensation.....								
	-	-	-	3,000	-	-	-	-
Water Facilities Loan.....	1992	6.25%	2012	11,500	1,790	-	1,790	-
Pennsylvania Economic Revitalization.....	1992	6.25%	2012	14,000	490	-	490	-
Pennsylvania Infrastructure Investment Authority.....								
	2005-13	1.00-5.85%	2033	51,600	465,720	110,000	15,170	560,550
Agricultural Conservation Easement Purchase.....								
	1992	6.25%	2012	-	650	-	650	-
Local Criminal Justice.....	2004-08	4.00-5.25%	2028	3,000	3,415	-	1,500	1,915
Water Supply and Wastewater Treatment.....								
	2005-10	3.00-5.85%	2030	38,725	165,690	-	8,120	157,570
Growing Greener.....	2005-13	1.00-5.85%	2033	56,000	419,940	40,000	19,230	440,710
Persian Gulf Conflict Veterans Compensation.....								
	2008	4.00-5.00%	2028	13,000	5,360	-	240	5,120
Refunding Bonds.....	2002-12	2.00-5.50%	2023	-	2,894,040	362,060	340,510	2,915,590
Total principal.....				84,640,593	10,760,015	1,312,060	1,174,910	10,897,165
Unamortized premium on bonds issued..					958,172	216,416	69,941	1,104,647
Unamortized deferred net refunded loss..					(179,388)	(29,474)	(28,672)	(180,190)
Total general obligation bonds payable..				<u>\$84,640,593</u>	<u>11,538,799</u>	<u>1,499,002</u>	<u>1,216,179</u>	<u>\$ 11,821,622</u>
Other General Long-Term Obligations Payable From Tax and Other Revenues:								
Installment Purchase Obligations.....					3,463	914	1,196	3,181
Capital Lease Obligations.....					126,294	1,377	5,832	121,839
Self-Insurance—Note M*.....					843,336	677,406	695,270	825,472
Compensated Absences*.....					754,740	463,035	476,388	741,387
Pollution Remediation Obligations*.....					220,200	25,776	8,520	237,456
Other*.....					1,470,756	270,444	388,362	1,352,838
Subtotal.....					<u>3,418,789</u>	<u>1,438,952</u>	<u>1,575,568</u>	<u>3,282,173</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>					<u>\$14,957,588</u>	<u>\$2,937,954</u>	<u>\$2,791,747</u>	<u>\$ 15,103,795</u>

\*The reported current liability portion of: Self-Insurance is \$157,200; Compensated Absences is \$144,803; Pollution Remediation Obligation is \$19,546 and Other liabilities is \$195,432.

Total principal ‘Additions’ above, amounting to \$1,312,060, are equal to Bonds Issued of \$950,300 and refunding bonds issued of \$361,760 reported in the Governmental Funds ‘Statement of Revenues, Expenditures, and Changes in Fund Balances’ for the fiscal year ended June 30, 2013.

The total “Additions” of \$1,499,002 for General Obligation Bonds Payable at June 30, 2013 consists of total bond and refunding bond proceeds of \$1,083,811 and \$444,665, respectively, for Governmental Funds (including premium of \$216,416) less deferred net refunded losses of \$29,474 during the fiscal year ended June 30, 2013.

The total “Reductions” of \$1,216,179 for General Obligation Bonds Payable at June 30, 2013 consists of total principal repayments of \$1,174,910, plus \$69,94 of bond premium that was amortized and credited to bond interest expense in the Statement of Activities (unamortized premium in the Statement of Net Position at June 30, 2013 is \$1,104,647), less \$28,672 of deferred net refunded loss which was amortized and charged to bond interest expense in the Statement of Activities (unamortized deferred net refunded loss in the Statement of Net Position at June 30, 2013 is \$180,190).

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. The **General Fund**, the **Motor License Fund** and the PA Gaming Economic Development and Tourism Fund transferred amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2013, these three funds transferred \$1,046,854, \$66,887 and \$47,023 respectively, to the Capital Debt Fund. The Capital Debt Fund reported \$1,181,047 (nearly 93 percent) of total Debt Service funds principal and interest expenditures of \$1,275,475. Typically, except for Catastrophic Loss Benefits Claims, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are mostly funded by the **General Fund** and/or the **Motor License Fund**. In specific, limited instances, a variety of individual funds will fund some obligations; such instances include capital assets being procured using long-term vendor or other financing; Commonwealth employees earning compensated absences; or self-insurance claims originating.

Pollution remediation obligations generally involve groundwater, surface water and/or soil at or adjacent to former manufacturing/industrial locations. Also, affected landfills have either received specific contaminants and/or are the source of leachate, either on-site or affecting adjacent properties. Typical contaminants include petroleum, chlorinated and/or polycyclic aromatic hydrocarbons; also, priority pollutant and/or target analyte list metals or lead. Financial responsibility is often coordinated between the Commonwealth, the Federal Environmental Protection Agency and, from time to time, either private responsible or potentially responsible parties. Reported obligation amounts do not include instances, or portions of instances, where specific components of a potential remediation effort are not reasonably estimable as of June 30, 2013. The nature of the remediation activities in such instances is often site assessment, investigation or feasibility studies. Remediation efforts are typically funded through the Hazardous Sites Cleanup Fund or the **Motor License Fund**, both special revenue funds.

Included in "Other" for Other General Long-Term Obligations payable from workers' compensation insurance carrier assessments, **General Fund**, **Motor License Fund**, and/or other governmental fund tax revenues, investment income and/or escheated property are the following at June 30, 2013:

Workers' Compensation Security Trust claims.....	\$ 327,299
Catastrophic Loss Benefits claims.....	78,845
Public Utility Realty Tax Act (PURTA) liability.....	29,873
Litigation liability - Note N.....	48,900
State Insurance Fund claims.....	8,565
Foster Care litigation liability - Note N.....	93,600
Restricted receipts liability.....	4,777
Escheated property liability.....	<u>760,979</u>
<b>Total.....</b>	<b><u>\$ 1,352,838</u></b>

The Workers' Compensation Security Trust Fund provides for payment of valid claims under the Workers' Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Continuation Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The Public Utility Realty Tax Act (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. Escheated property is held in perpetuity for the rightful owner. The liability represents the estimated property that will ultimately be claimed. This property may be claimed without the appropriation process. None of the 'Other' amounts included in General Long-Term Obligations at June 30, 2013 are payable with currently expendable available financial resources.

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 \$59,804,100 as of August 31, 2013, with net debt outstanding after credit for refunded debt of \$9,331,000.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

The following tables present annual principal and interest payments for long-term debt outstanding at June 30, 2013:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019-23</u>	<u>2024-28</u>
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities.....	\$ 711,962	\$ 656,267	\$ 625,365	\$ 603,805	\$ 576,471	\$ 2,733,812	\$ 2,932,963
Disaster Relief.....	-	-	-	-	-	-	-
Land and Water Development.....	-	-	-	-	-	-	-
Nursing Home Loan Development.....	-	-	-	-	-	-	-
Volunteer Companies Loan.....	-	-	-	-	-	-	-
Vietnam Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Water Facilities Loan.....	-	-	-	-	-	-	-
Pennsylvania Economic Revitalization.....	-	-	-	-	-	-	-
Pennsylvania Infrastructure Investment Authority.....	42,983	43,471	43,267	43,059	40,272	230,075	266,472
Agricultural Conservation Easement Purchase.....	-	-	-	-	-	-	-
Local Criminal Justice.....	307	181	176	181	185	711	937
Water Supply and Wastewater Treatment.....	14,815	15,281	15,294	15,296	14,282	64,894	77,602
Growing Greener.....	42,736	42,669	42,552	42,420	39,695	184,273	199,360
Persian Gulf Conflict Veterans Compensation.....	507	504	499	507	502	1,973	2,873
Refunding Bonds.....	456,774	431,899	409,508	375,647	380,790	1,465,899	72,660
<b>Total Principal and Interest.....</b>	<b>1,270,084</b>	<b>1,190,272</b>	<b>1,136,661</b>	<b>1,080,915</b>	<b>1,052,197</b>	<b>4,681,637</b>	<b>3,552,867</b>
Less: Interest Payments.....	(672,250)	(747,692)	(441,554)	(388,058)	(377,615)	(1,386,459)	(458,546)
<b>Total General Obligation Bonds.....</b>	<b>597,834</b>	<b>442,580</b>	<b>695,107</b>	<b>692,857</b>	<b>674,582</b>	<b>3,295,178</b>	<b>3,094,321</b>
Other General Long-Term Obligations.....	516,981	206,546	213,531	209,474	201,026	900,283	516,560
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS</b>	<b>\$ 1,114,815</b>	<b>\$ 649,126</b>	<b>\$ 908,638</b>	<b>\$ 902,331</b>	<b>\$ 875,608</b>	<b>\$ 4,195,461</b>	<b>\$ 3,610,881</b>

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

	<u>2029-33</u>	<u>Total</u>
<b>GENERAL OBLIGATION BONDS:</b>		
Capital Facilities.....	\$ 1,208,607	\$ 10,049,252
Disaster Relief.....	-	-
Land and Water Development.....	-	-
Nursing Home Loan Development.....	-	-
Volunteer Companies Loan.....	-	-
Vietnam Conflict Veterans Compensation.....	-	-
Water Facilities Loan.....	-	-
Pennsylvania Economic Revitalization.....	-	-
Pennsylvania Infrastructure Investment Authority.....	153,813	863,412
Agricultural Conservation Easement Purchase.....	-	-
Local Criminal Justice.....	-	2,678
Water Supply and Wastewater Treatment.....	5,490	222,954
Growing Greener.....	48,221	641,926
Persian Gulf Conflict Veterans Compensation.....	-	7,365
Refunding Bonds.....	-	<u>3,593,177</u>
 Total Principal and Interest.....	 1,416,131	 15,380,764
Less: Interest Payments.....	<u>(11,425)</u>	<u>(4,483,599)</u>
Total General Obligation Bonds.....	1,404,706	10,897,165
Other General Long-Term Obligations.....	<u>517,772</u>	<u>3,282,173</u>
 <b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>	 <b><u>\$ 1,922,478</u></b>	 <b><u>\$ 14,179,338</u></b>

The Commonwealth routinely leases various facilities and equipment on an ongoing basis. Some of these lease agreements constitute in-substance purchases (capital leases) whereby the assets being leased are reported as capital assets and the related liabilities are reported as Capital Lease Obligations. In addition, the Commonwealth routinely acquires certain capital assets using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments due for capital leases and installment purchases, together with the present value of the net minimum lease payments as of June 30, 2013.

**NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES (continued)**

	<b>Capital Lease Obligations</b>	<b>Installment Purchase Obligations</b>
Fiscal Year Ending June 30		
2014.....	\$ 13,111	\$ 1,407
2015.....	13,278	941
2016.....	13,434	694
2017.....	7,355	410
2018.....	7,400	-
2019-23.....	39,234	-
2024-28.....	41,756	-
2029-33.....	44,290	-
2034-38.....	<u>18,123</u>	<u>-</u>
Total minimum lease payments.....	197,981	3,452
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>2,430</u>	<u>-</u>
Net minimum lease payments and installment purchases.....	195,551	3,452
Less: amount representing interest.....	<u>(73,712)</u>	<u>(271)</u>
<b>Total Capital Lease and Installment Purchase Obligations.....</b>	<b><u>\$ 121,839</u></b>	<b><u>\$ 3,181</u></b>

At June 30, 2013, general capital assets included \$197,000 of buildings and \$8,800 of equipment being procured by capital leases. A total of \$20,900 in general capital assets is being procured by vendor-financed installment purchase arrangements.

**NOTE L - REFUNDED DEBT**

During the fiscal year ended June 30, 2013, the Commonwealth issued \$362,060 in general obligation bonds, First Refunding Series of 2012 with an average interest cost of 1.6 percent to advance refund \$414,890 of previously issued general obligation bonds with average interest rates of 4.6 percent. The net refunding bond proceeds of \$444,364 (including bond premium of \$82,605), after payment of underwriting fees and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by \$73,401 and to obtain an economic gain of \$64,535.

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, 2013, \$1,094,840 of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements were defeased through advance refunding.

**NOTE M – SELF-INSURANCE LIABILITIES**

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 a \$1,000 retention with excess commercial insurance coverage up to \$500,000 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. Accrued liabilities for statutory workers’ compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth’s claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses. 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, 2013. No accrued liability has been reported for property losses under self-insurance.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2013. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

At June 30, 2013, none of the \$825,472 of accrued self-insurance liabilities for governmental activities were payable from current expendable available financial resources. The governmental activities liabilities are primarily owed by the **General Fund** (\$615,621) and the **Motor License Fund** (\$175,497). Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$2,316), the **State Workers’ Insurance Fund** (\$2,073), and the State Stores Fund (\$32,609), all Enterprise Funds. All accrued self-insurance liabilities at June 30, 2013 are summarized as follows:

	Governmental Activities		Business-Type Activities		Fiduciary Fund Types	
	Current	Non-Current	Current	Non-Current	Current	Non-Current
Employee disability.....	\$ 102,392	\$ 531,027	\$ 6,388	\$ 33,132	\$ 65	\$ 336
Annuitant medical/hospital.	35,308	-	-	-	-	-
Automobile tort.....	3,250	5,719	-	-	-	-
Employee tort.....	5,750	49,429	-	-	-	-
General tort.....	500	12,531	-	-	-	-
Transportation.....	10,000	69,566	-	-	-	-
Totals.....	<u>\$ 157,200</u>	<u>\$ 668,272</u>	<u>\$ 6,388</u>	<u>\$ 33,132</u>	<u>\$ 65</u>	<u>\$ 336</u>

The following summary provides aggregated information on June 30, 2012 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2013 and reported self-insurance liabilities at June 30, 2013:

	June 30,	Incurred				June 30,
	2012	Claims		Payments		2013
	Liability	Current	Prior	Current	Prior	Liability
Employee disability.....	\$ 673,639	\$ 84,082	\$ 16,480	\$ 12,479	\$ 88,382	\$ 673,340
Annuitant medical/hospital.	49,967	562,058	-	526,750	49,967	35,308
Automobile tort.....	11,000	2,789	(1,329)	984	2,507	8,969
Employee tort.....	43,189	11,489	5,389	163	4,725	55,179
General tort.....	13,072	683	151	35	840	13,031
Transportation.....	91,445	7,189	(11,575)	411	7,082	79,566
Totals.....	<u>\$ 882,312</u>	<u>\$ 668,290</u>	<u>\$ 9,116</u>	<u>\$ 540,822</u>	<u>\$ 153,503</u>	<u>\$ 865,393</u>



**NOTE M – SELF-INSURANCE LIABILITIES (continued)**

The following summary provides aggregated information on June 30, 2011 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2012; and reported self-insurance liabilities at June 30, 2012:

	June 30, 2011	Incurred Claims		Payments		June 30, 2012
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 723,370	\$ 61,024	\$ (33,669)	\$ 8,888	\$ 68,198	\$ 673,639
Annuitant medical/hospital.	37,404	583,878	-	533,911	37,404	49,967
Automobile tort.....	16,044	2,817	(4,958)	1,332	1,571	11,000
Employee tort.....	61,086	7,519	(20,996)	73	4,347	43,189
General tort.....	38,894	977	(26,463)	29	307	13,072
Transportation.....	135,792	10,719	(47,764)	455	6,847	91,445
Totals.....	<u>\$ 1,012,590</u>	<u>\$ 666,934</u>	<u>\$ (133,850)</u>	<u>\$ 544,688</u>	<u>\$ 118,674</u>	<u>\$ 882,312</u>

**NOTE N – COMMITMENTS AND CONTINGENCIES**

**Construction and Other Commitments:** At June 30, 2013 the Department of Transportation (DOT) had contractual commitments of approximately \$979,978 for various DOT 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 \$5,696,179 at June 30, 2013. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

**Encumbrances:** The Commonwealth utilizes encumbrances to account for outstanding commitments for open purchase orders and unfulfilled contracts. Amounts related to encumbrances based on outstanding purchase orders or other contracts are as follows:

General Fund.....	\$ 612,333
Motor License Fund.....	238,789
Capital Facilities Fund.....	2,019,866
Other nonmajor funds.....	207,818
Total.....	<u>\$ 3,078,806</u>

**Investment Commitments:** At June 30, 2013, the Treasury Commonwealth Investment Program had capital commitments of \$65,000 to fund alternative investments, of which \$11,476 was unfunded. At June 30, 2013, the **Tuition Payment Fund** had capital commitments of \$152,000 to fund alternative investments, of which \$67,934 was unfunded. At June 30, 2013, the Tobacco Settlement Fund had capital commitments of \$291,000 to fund private equity investments, of which \$47,863 was unfunded.

**Loan and Grant Commitments:** At June 30, 2013 primary government funds had approved \$73,551 in loans that had not been disbursed. Also at June 30, 2013 the **Commonwealth Financing Authority (CFA)**, a blended component unit, had approved loans and grants that had not been disbursed of \$312,649.

**Operating Lease Commitments:** As of June 30, 2013, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2013 were as follows:

Fiscal year ending June 30:	
2014.....	\$ 203,771
2015.....	159,031
2016.....	129,015
2017.....	95,425
2018.....	71,861
2019-23.....	257,768
2024-28.....	100,015
Total Minimum Lease Payments.....	<u>\$ 1,016,886</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2013 amounted to \$260,002.

**Child Support Payments:** At June 30, 2013, the Commonwealth was contingently liable for approximately \$19,519 in payments received by a contractor to be used for child support payments.

**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 reported accrued liabilities at June 30, 2013 with respect to torts as described in Note M for probable losses, and, separately, other General Long-Term Obligations with respect to litigation cases in the amount of \$142,500 or which the likelihood of an unfavorable outcome is probable. It is possible that an additional \$48,900 may be paid out with respect to this litigation.

**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible, for which liabilities have not been recorded as of June 30, 2013. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$203,250 to \$1,870,250 for the **General Fund**; \$1,000 to \$181,497 for the **Motor License Fund**, a Special Revenue Fund; and \$100 to \$1,069,000 of possible additional liabilities for the State Employees’ Retirement System, a fiduciary fund. The range of potential liability for governmental activities is from \$204,250 to \$2,051,747.

**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 basic 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 \$18,250 to \$978,747 at June 30, 2013. The Commonwealth’s management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

**Loan Guarantees:** The **CFA**, through various economic development programs, provided loan guarantees as of June 30, 2013 as follows:

First Industries loan guarantees	\$ 48,736
Tax Increment financing guarantees	43,500
Second stage loan guarantees	3,360
Venture capital guarantees	<u>197,500</u>
Total loan guarantees	<u>\$ 293,096</u>

Through June 30, 2013 the **CFA** has been required, from time to time with respect to loan guarantees, to make principal or interest payments on behalf of the ultimate borrowers. Accordingly, expenses totaling \$2,735 have been reported in the **CFA’s** financial statements during its fiscal year ended June 30, 2013. The **CFA** projects loan defaults for the fiscal year ending June 30, 2014 could amount to \$5,450.

**Lottery Prizes:** The **State Lottery Fund**, an Enterprise 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, 2013, the amount of future payments owed to prizewinners was \$758,000. 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, 2013, prizewinners had voluntarily assigned future payments of \$538,000.

**Primary Government Contingent Liability for Certain Pennsylvania Turnpike Commission (PTC) Revenue Bonds Payable:** Act 44 of 2007 provides that, in the event the PTC does not make a required payment for debt service on its Special Revenue Bonds with its bond Trustee, the Commonwealth, through its **Motor License Fund**, is liable for annual debt service payments. During the PTC’s fiscal year ending May 31, 2014, total interest and principal due on the \$798,841 of Special Revenue Bonds outstanding at May 31, 2013 will amount to \$29,100 and \$500, respectively. Disclosures related to the PTC’s Special Revenue Bonds payable as of May 31, 2013 are provided in Note S to the basic financial statements.

**Primary Government Commitment for the Pennsylvania Convention Center Authority (PCCA):** According to a contractual arrangement (Operating Agreement) among the Commonwealth, the City of Philadelphia, and the PCCA, a discretely presented component unit, the Commonwealth is required to make payments to the PCCA to finance operating deficits. Such

**NOTE N – COMMITMENTS AND CONTINGENCIES (continued)**

payments are to be primarily financed using the Gaming Fund. The Gaming Fund is used to finance a variety of programs and/or projects and the Gaming Fund itself may be unable to finance all of the PCCA operating deficits during the term of the Operating Agreement, which expires in 2039. In that event, primary government payments to the PCCA based on the Operating Agreement must be financed using funds separate from the Gaming Fund; such amounts are subject to annual appropriation by the General Assembly.

**Commitment for the CFA:** According to a contractual arrangement (Service Agreement) among the Department of Community and Economic Development, the Office of the Budget and the **CFA**, the primary government is required to request sufficient annual appropriations from the General Assembly (to be funded by the **General Fund** and the Gaming Fund) to finance the Service Fee established in the Service Agreement. The service fee is the only significant source of funds the **CFA** has to pay its debt service obligations. The amount of such Service Fee is to be requested by October 1, each year, for the succeeding fiscal year budget effective July 1 of the following year. During the term of the Service Agreement, there can be no assurance that 1) the General Assembly will annually appropriate sufficient amounts to fund the annual Service Fee, or 2) funds will be available to finance such annual appropriations. During the fiscal year ended June 30, 2013 the primary government paid a Service Fee in the amount of \$119,534; also, during the fiscal year the **CFA** used \$20,000 of proceeds from bonds it issued during previous fiscal years to pay the Department of Environmental Protection (\$14,000) and the Ben Franklin Technology Development Authority (\$6,000), a discretely presented component unit, as prescribed by applicable legislation. Disclosures related to the **CFA's** \$1,713,927 of revenue bonds payable are provided in Note F to the basic financial statements.

**Primary Government Commitment for the Pittsburgh Penguins Arena:** A lease agreement between the Commonwealth and the Sports and Exhibition Authority of Pittsburgh and Allegheny County (SEA), created a 'subject to appropriation' obligation of the Commonwealth. In October 2007, the SEA issued \$313,300 of Commonwealth Lease Revenue Bonds (the Arena Bonds) to finance a multi-purpose arena to serve as home of the Pittsburgh Penguins (the Penguins), a hockey team in the National Hockey League. The Arena Bonds are not debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged. These Special Revenues include annually (1) \$4,100 from a lease with the Penguins, (2) not less than \$7,500 from the operator of a casino located in the City of Pittsburgh, and (3) \$7,500 from the Commonwealth's Gaming and Economic Development and Tourism Fund. While the Special Revenues currently are projected to be adequate to pay all debt service on the Arena Bonds, to the extent such revenues are in any year inadequate to cover debt service, the Commonwealth is obligated under the Arena Lease to fund such deficiency, subject in all cases to appropriation by the General Assembly. The maximum annual amount payable by the Commonwealth under the Arena Lease is \$19,100.

In April 2010, the SEA issued \$17,360 in additional Commonwealth Lease Revenue Bonds (the Supplemental Arena Bonds). The Supplemental Arena Bonds do not constitute debt of the Commonwealth but are limited obligations of the SEA payable solely from the Special Revenues pledged therefor. The Commonwealth is obligated under the Arena Lease to fund any deficiency in Special Revenues necessary to pay debt service; subject in all cases to appropriation by the General Assembly. For fiscal year ended June 30, 2013 the actual amount appropriated to support the SEA debt service was \$96.

**NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES**

The Pennsylvania Medical Care Availability and Reduction of Error Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims to claimants which exceed basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund collects statutory healthcare provider surcharges, as a percentage of insurance premiums for basic liability coverage; in turn, the Fund pays claimants on behalf of healthcare providers. The Fund has assets of \$219,814 at June 30, 2013. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$1,250,000 at June 30, 2013. The claims will be funded exclusively through statutory surcharge assessments in future years as claims are settled and paid.

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 underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The estimated actuarial liability for existing and potential future claims total \$434,585 and \$1,445,312 respectively, at June 30, 2013. 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, 2013. The fund has assets of \$259,851 at June 30, 2013. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

**NOTE P - DEFERRED COMPENSATION PLAN**

The Commonwealth sponsors a deferred compensation plan (the Deferred Compensation Program) for its employees, which is a defined contribution benefit 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. The Commonwealth makes no contributions to the plan; contributions are limited to voluntary, participating employee salary deferrals, and/or employee transfers from other plans. Contributions for the calendar year 2012 were \$122,251.

**NOTE Q - JOINT VENTURE**

The Commonwealth and various labor unions representing Commonwealth collective bargaining employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF was established in 1988 through an Agreement and Declaration of Trust (Agreement). The PEBTF establishes and provides healthcare benefits for active Commonwealth employees and is the Commonwealth's third party administrator for paying retiree healthcare benefits for the Commonwealth Retired Employee Health Program and the Retired Pennsylvania State Police Program. The Commonwealth has, in its collective bargaining agreements with unions participating in the Agreement, obligated itself to provide certain contributions on behalf of nearly all active collective bargaining employees. The Commonwealth also remits contractually established contributions on behalf of active non-union employees and other active employees covered by contracts between the Commonwealth and other unions. Nearly all active employees contribute established percentages of their salaries and wages received, constituting an 'employee share,' to finance active employee benefits. During the fiscal year ended June 30, 2013, total employer contributions for active employees amounted to approximately \$820,302; active employee contributions amounted to approximately \$88,980. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2013, for the active employees benefit program, the PEBTF reported total assets of \$397,372, total liabilities of \$8,894, total benefit obligations of \$107,148, and an excess of net assets over benefit obligations of \$281,330. During the fiscal year ended June 30, 2013 the PEBTF reported a decrease in net assets over benefit obligations of \$35,197 for the active employees benefit program.

Due to timing differences in the implementation and payment of the new Employer Contribution effective July 1, 2011 the PEBTF recorded \$3,224 in contribution overpayments for the fiscal year ended June 30, 2013. It is expected that these overpayments will be offset by reductions in contribution payments as the eight collective bargaining agreements are adopted. This is expected to be resolved during the fiscal year ending June 30, 2014.

Audited financial statements for the active employee healthcare plans are available, by request, from:

Pennsylvania Employees Benefit Trust Fund  
150 South 43rd Street  
Harrisburg, Pennsylvania 17111-5700

**NOTE R – SUBSEQUENT EVENTS****Debt Issuances**

On August 30, 2013 the Commonwealth initiated a temporary interfund advance of \$250,000 from the PA Treasury Department's Short Term Investment Pool to the Capital Facilities Fund. Repayment was made with the November 7, 2013 General Obligation Bond issuance.

On November 7, 2013 the Commonwealth issued \$750,000 of General Obligation Bonds, Second Series of 2013. The proceeds of the issuance will be used for the construction, acquisition and major rehabilitation of various capital facilities projects.



**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS**

Discretely Presented Component Units (DPCUs) as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, paragraph 20, and amended by GASB 61, paragraph 4b, are legally separate organizations for which the elected officials of the primary government (PG) are financially accountable. In addition, DPCUs can be other organizations of which the nature and significance of their relationship with the PG is such that exclusion of these organizations from the PG’s financial statements would be misleading. DPCUs are established for the benefit of the Commonwealth’s citizenry for a variety of purposes such as economic development, financing and public transportation. The following DPCU disclosures include only information that is deemed essential to the fair presentation of the Commonwealth’s financial statements.

**Restatements**

The Pennsylvania Turnpike Commission (PTC) adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, for its fiscal year ended May 31, 2013. In accordance with GASB Statement No. 60, the applicable PTC May 31, 2012 balances were restated. As of May 31, 2012, the PTC had capitalized \$55,100 in service plaza capital assets. Deferred inflows of resources in the amount of \$49,800 were recognized related to these assets. The present value of future guaranteed minimum rent payments scheduled to begin upon completion of all construction was recorded as a receivable and also as deferred inflows of resources in the amount of \$25,500. These amounts increased total other assets by \$25,500 to \$125,800 and increased the deferred inflows of resources by \$75,300 to \$108,500. Capital contributions were decreased by \$13,400 to \$102,400 due to deferring the previously recognized contributions. The result of these transactions decreased net investment in capital assets by \$49,776 to \$967,800 and decreased beginning net position by \$49,776 to (\$1,977,972).

The Pennsylvania Industrial Development Authority’s (PIDA) financial statements for the fiscal year ending June 30, 2012 have been restated due to an overstatement of accrued interest.

	<u>Beginning Net Position</u>	<u>Interest Receivable</u>
Amount as Previously Reported, at June 30, 2012.....	\$ 264,878	\$ 5,580
Overstatement of Accrued Interest.....	(4,454)	(4,454)
<b>Amount as Restated, at July 1, 2012.....</b>	<b><u>\$ 260,424</u></b>	<b><u>\$ 1,126</u></b>

**Deposits, Investments and Financial Instruments with Off-Balance Sheet Risk**

DPCU organizations typically control receipt and disbursement of their own deposits, often through a trustee. Enabling legislation provides varying authority for investments; several DPCU organizations participate in the Commonwealth Investment Program (CIP).

**Deposit Risks**

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the DPCU would not be able to recover the value of the deposits.

All cash deposits held in various financial institutions for the PTC were either insured or collateralized by a pledge of direct obligations of the United States Government or the Commonwealth or otherwise in accordance with the laws of the Commonwealth governing trust funds of public bodies.

The Pennsylvania Housing Finance Agency (PHFA) held \$66,878 of cash deposits that were uninsured and collateralized with securities held by the pledging financial institution, its trust department or agent, but not in the PHFA’s name.

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The Pennsylvania Higher Education Assistance Authority (PHEAA) held \$62,800 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured and collateralized following an agreement to pledge assets on a pooled basis to secure public deposits in Pennsylvania. All collateral on deposits are held by the participating financial institution's trust department and is not held in the PHEAA's name.

The Pennsylvania Infrastructure Investment Authority's (PENNVEST) deposits are held in the CIP. Deposits of the CIP must be held in insured depositories and must be fully collateralized.

The State System of Higher Education (SSHE) held \$30,372 of uninsured and uncollateralized deposits of which \$28,825 is covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended.

**Investment Risks**

**Risk Management Policies:** DPCU policies for certain risks are established by governing boards and bond indentures. Credit quality risk is addressed by establishing minimum nationally recognized statistical rating organization (NRSRO) ratings for allowable investment purchases. Concentration of credit risk is also avoided by limiting the concentration of investments in any one issuer. Some organizations have policies in place that prohibit a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is typically avoided through registration.

The PTC investment policies established by its bond indentures and the PTC management define guidelines and operational factors governing the investment of financial assets. Management's policy generally has the same restrictions regarding permitted investments as the indentures. Allowable investments include obligations of, or obligations guaranteed by, the United States of America, its agencies, and its instrumentalities; certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of AA-; investments in long-term debt obligations of any state or political subdivision but only to the extent that the applicable rating agency has assigned a rating to such obligations, which at the time of purchase is not lower than the highest underlying rating assigned to any series of PTC bonds then outstanding; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America. All investment ratings shall be based on security ratings at the time of purchase. The portfolio's average credit quality should be rated Aa3/AA- or better by Moody's/S&P.

Commonwealth statutes and contractual provisions contained in the bond trust indentures govern the investment policies of the PHFA. The Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 and bond indentures provide the authority to invest all PHFA funds. In compliance with the Act and bond indentures, it is the policy of the PHFA to invest in securities that provide suitable returns, preserve principal, meet liquidity needs and to further the purposes of the PHFA. The PHFA mitigates its credit risk by limiting investments to those permitted in its deposit and investment policies, diversifying the investment portfolio and prequalifying firms with which PHFA administers its investment activities.

The PHEAA Board of Directors authorizes the investment guidelines and PHEAA management governs the investments by using the "prudent person" rule. Generally, the PHEAA's investments are limited to U.S. Government securities, U.S. Government agency securities, federal instrumentalities sponsored by U.S. agencies, high-grade commercial paper, repurchase agreements collateralized by U.S. Treasury obligations, certificates of deposit, bankers acceptances eligible for purchase by the Federal Reserve System, and other investments approved by the Board of Directors.

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The trust indenture and the Commonwealth Fiscal Code, as amended, authorizes PENNVEST to invest in obligations of the U.S. government and government-sponsored agencies and instrumentalities; certificates of deposits, fully insured or collateralized; certain commercial paper and repurchase agreements, highly rated bank promissory notes or investment of funds or trusts; and “prudent man” investments as determined by PENNVEST’s depository.

The SSHE investment policy is established by Board Policy and authorizes SSHE to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, bankers acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations, asset-backed securities, and internal loan funds.

**Investments by Type**

The investment types and related amounts for certain DPCUs at June 30, 2013 (May 31, 2013 for the PTC) are as follows:

<b>Investment Type</b>	<b>PTC</b>	<b>PHFA</b>	<b>PHEAA</b>	<b>PENNVEST</b>	<b>SSHE</b>
Asset-backed securities.....	\$ -	\$ -	\$ -	\$ -	\$ 175,475
Bond mutual funds.....	-	8,393	-	-	5,266
Commercial paper.....	-	-	67,717	-	138,604
Common stock.....	-	-	-	-	2,924
Corporate obligations.....	306,667	3,640	-	-	256,605
Debt securities.....	-	-	-	-	54
Derivatives.....	36,525	-	-	-	-
Domestic common equities.....	-	-	-	-	-
Fixed income mutual funds.....	-	-	-	-	29,798
GNMA mortgages.....	12,327	-	-	-	-
Money market mutual funds.....	-	-	256,776	-	-
Mortgage backed securities.....	-	193,987	-	-	228,091
Municipal bonds.....	373,181	-	-	-	-
Mutual funds.....	-	-	-	-	-
Repurchase agreement.....	-	-	-	6,549	14,260
Securities lending collateral.....	-	-	-	15,254	-
Short-term funds.....	-	-	147	-	-
Commonwealth Investment Program.....	-	-	437,079	963,899	-
U.S. Government and agency obligations.....	183,474	49,307	-	-	475,804
U.S. Treasury obligations.....	105,795	10,838	-	-	-
<b>Total investments.....</b>	<b>1,017,969</b>	<b>266,165</b>	<b>761,719</b>	<b>985,702</b>	<b>1,326,881</b>
Certificates of deposit.....	-	-	-	-	23
<b>Total investments and certificates of deposits...</b>	<b>\$ 1,017,969</b>	<b>\$ 266,165</b>	<b>\$ 761,719</b>	<b>\$ 985,702</b>	<b>\$ 1,326,904</b>

Note: Total investments by type does not include \$515,932 of investments reported by component units of the SSHE.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the organizations’ investment in a single issuer.

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The PTC’s investment policy defines permitted investments along with the following concentration limitations. Investments in any single Federal agency are limited to 35 percent of the portfolio. Investments in certificates of deposit and investment agreements are limited to 30 percent of the portfolio and combined exposure to commercial paper, corporate bonds, and asset-backed securities, in aggregate, is limited to 35 percent of the total portfolio. Investments in any single issuer, excluding U.S. Treasury and Federal Agencies, are limited to 5 percent of the portfolio.

PHFA policy indicates that the proportion of investments in government securities shall not exceed 70 percent of the portfolio and the proration of investments in certificates of deposit shall not exceed 30 percent of the portfolio. Departure from the policy requires written approval from the Executive Director, as permitted by PHFA Investment Policy and Guidelines. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

The PHEAA investment policy does not contain requirements that limit the amount that can be invested in any one issuer. As of June 30, 2013, the PHEAA did not have investments in any one issuer that represented 5 percent or more of their total investments.

The PENNVEST participates in the CIP managed by the Commonwealth. The Commonwealth places a 10 percent limit on the concentration of investments in any one fixed income issuer within the CIP. This limitation excludes government-sponsored enterprises, direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Commonwealth also places a 5 percent limit on the concentration of investments in one equity issuer within the CIP.

The SSHE investment policy contains the following limitations: US Government securities together with repurchase agreements must comprise at least 20 percent of market value of the fund. Commercial paper investments must not exceed 20 percent of the market value of the fund. Municipal bonds must carry a long-term debt rating of A or better and may not exceed 20 percent of the market value of the fund. Corporate bonds may not exceed 20 percent of the market value of the fund; 15 percent must carry a long-term debt rating of A or better while 5 percent may be rated Baa2 or better. Collateralized mortgage obligations must be rated Aaa and guaranteed by the U.S. Government and may not exceed 20 percent of the market value of the fund. Asset-backed securities must be Aaa rated and the total may not exceed 20 percent of the market value of the fund, with no more than 5 percent invested in any single issuer. Investment fund loans may not exceed 20 percent of the market value of the fund and the loan terms may not exceed 5 years.

The following concentration existed as of June 30, 2013:

<u>Issuer Name</u>	<u>PHFA</u>
Tennessee Valley Authority.....	\$ 48,785

NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)

**Credit Risk:** The following table discloses aggregate fair value, by Moody’s or Standard and Poor’s credit quality rating category, at June 30, 2013 (May 31, 2013 for the PTC):

Moody's	PTC	PHFA	PHEAA	PENNVEST	SSHE
Aaa.....	\$ -	\$ 11,996	\$ 92	\$ -	\$ 812,798
Aa.....	17,080	-	10	-	69,589
A.....	12,335	-	24	-	101,682
B.....	-	-	-	-	-
Ba.....	-	3,640	-	-	-
Baa.....	7,110	-	15	-	56,292
P1.....	-	-	-	-	233,804
<b>Moody's Investor Service subtotal.....</b>	<b>36,525</b>	<b>15,636</b>	<b>141</b>	<b>-</b>	<b>1,274,165</b>
<b>Standard and Poor's</b>					
AAA.....	269,607	-	256,776	-	-
AA.....	420,531	-	-	-	-
A.....	171,146	-	67,717	-	-
Below A.....	2,038	-	-	-	-
<b>Standard and Poor's subtotal.....</b>	<b>863,322</b>	<b>-</b>	<b>324,493</b>	<b>-</b>	<b>-</b>
<b>Rated Subtotal.....</b>	<b>899,847</b>	<b>15,636</b>	<b>324,634</b>	<b>-</b>	<b>1,274,165</b>
<b>Unrated</b>					
Bond mutual funds.....	-	8,393	6	-	5,266
Corporate obligations.....	-	-	-	-	-
Debt securities.....	-	-	-	-	54
Mortgage backed securities.....	-	181,991	-	-	-
Commonwealth Investment Program.....	-	-	437,079	963,899	-
Money market mutual funds.....	-	-	-	-	-
U.S. Treasury obligations.....	105,795	10,838	-	-	-
U.S. Government agency obligations.....	-	49,307	-	-	414
Repurchase agreements.....	-	-	-	6,549	14,260
Certificates of deposit.....	-	-	-	-	-
Derivatives.....	-	-	-	-	-
GNMA obligations.....	12,327	-	-	-	-
Fixed income mutual funds.....	-	-	-	-	-
<b>Unrated subtotal.....</b>	<b>118,122</b>	<b>250,529</b>	<b>437,085</b>	<b>970,448</b>	<b>19,994</b>
<b>Total Fixed income investments.....</b>	<b>1,017,969</b>	<b>266,165</b>	<b>761,719</b>	<b>970,448</b>	<b>1,294,159</b>
<b>Variable income investments</b>					
Equity/balanced mutual funds.....	-	-	-	-	29,798
Common stock.....	-	-	-	-	2,924
Domestic common equities.....	-	-	-	-	-
<b>Variable income investments subtotal.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,722</b>
<b>Total investments.....</b>	<b>\$ 1,017,969</b>	<b>\$ 266,165</b>	<b>\$ 761,719</b>	<b>\$ 970,448</b>	<b>\$ 1,326,881</b>

Note: Total investments by type does not include \$515,932 reported by component units of the SSHE.

U.S. Government agency obligations include all securities issued by the U.S. Treasury, U.S. Government agencies, and U.S. Government Sponsored Enterprises. These include securities that are both explicitly and implicitly guaranteed by the full faith and credit of the U.S. Government. Many of these securities are not usually rated by a NRSRO and have an implied rating of Aaa/AAA.

**Interest Rate Risk:** Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the PTC at May 31, 2013 and the SSHE at June 30, 2013:

NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)

Investment Type	PTC		SSHE		
	Amount	Option-Adjusted Duration	Amount	Option-Adjusted Duration	Securities with no Duration
Asset backed securities.....	\$ -	-	\$ 175,475	0.56	\$ -
Bond mutual funds.....	-	-	5,266	5.45	-
Certificates of deposit.....	-	-	-	-	23
Commercial paper.....	-	-	138,604	0.06	-
Corporate obligations.....	306,667	1.40	256,605	1.96	-
Debt Securtrities.....	-	-	54	4.77	-
GMNA mortgages.....	12,327	3.05	-	-	-
Mortgage-backed securities.....	-	-	228,091	2.16	-
Municipal bonds.....	373,181	1.24	-	-	-
U.S. Government agency obligations.....	183,474	1.90	475,804	2.94	-
U.S. Treasury obligations.....	105,795	2.64	-	-	-
<b>Total.....</b>	<b>\$ 981,444</b>		<b>\$ 1,279,899</b>		<b>\$ 23</b>

The PHFA, PHEAA and PENNVEST do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2013:

Investment Type	PHFA			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Bond mutual funds.....	\$ -	\$ -	\$ 8,393	\$ 8,393
Corporate obligations.....	3,640	-	-	3,640
Mortgage-backed securities.....	6,009	13,970	174,008	193,987
U.S. Government agency obligations...	204	311	48,792	49,307
U.S. Treasury obligations.....	-	10,838	-	10,838
<b>Total.....</b>	<b>\$ 9,853</b>	<b>\$ 25,119</b>	<b>\$ 231,193</b>	<b>\$ 266,165</b>

Investment Type	PHEAA			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Commercial paper.....	\$ 67,717	\$ -	\$ -	\$ 67,717
Money market mutual funds.....	256,775	-	-	256,775
Ultra short-term bond fund.....	-	147	-	147
<b>Total.....</b>	<b>\$ 324,492</b>	<b>\$ 147</b>	<b>\$ -</b>	<b>\$ 324,639</b>

Investment Type	PENNVEST			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Repurchase agreements.....	\$ 6,549	\$ -	\$ -	\$ 6,549

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**Derivatives**

As of May 31, 2013, the PTC in its separately-issued financial statements reported noncurrent hedging derivative instrument liabilities of \$117,369 which were offset by reported deferred outflow of resources of \$117,369. Also, the PTC reported noncurrent hedging derivative instrument liabilities of \$(26,317) which were offset by reported deferred inflow of resources of \$26,317. Changes in the fair value of the hedging derivative instruments during the fiscal year ended May 31, 2013 \$(88,193) were deferred.

As of June 30, 2013, the PHFA, in its separately-issued financial statements, reported a noncurrent hedging derivative instrument liability of \$69,959. Changes in the fair value of the hedging derivatives of \$33,051 were deferred.

Further information regarding the nature and notional value of the hedging and investment derivative instruments of the PTC (as of May 31, 2013) and the PHFA (as of June 30, 2013) are available within their separately audited and issued financial statements.

**Loans Receivable**

Loans receivable at June 30, 2013 consisted of the following:

	<u>PHFA</u>	<u>PHEAA</u>	<u>PENNVEST</u>
Mortgage loans.....	\$ 4,376,527	\$ -	\$ -
Student loans.....	-	7,661,785	-
Drinking water, storm water and sewer system loans.....	-	-	2,415,279
<b>Subtotal.....</b>	<u>4,376,527</u>	<u>7,661,785</u>	<u>2,415,279</u>
Less: allowance for uncollectible amounts.....	214,885	17,084	36,235
<b>Loans receivable, net.....</b>	<u><u>\$ 4,161,642</u></u>	<u><u>\$ 7,644,701</u></u>	<u><u>\$ 2,379,044</u></u>

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**Capital Assets**

A summary of capital assets by category at May 31, 2013 for PTC and June 30, 2013 for SSHE is as follows:

PTC	Balance			Balance May 31, 2013
	May 31, 2012	Increases	Decreases	
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 256,175	\$ 15,287	\$ 152	\$ 271,310
Construction in progress.....	864,474	399,036	601,897	661,613
<b>Subtotal.....</b>	<b>1,120,649</b>	<b>414,323</b>	<b>602,049</b>	<b>932,923</b>
<b>Depreciable capital assets:</b>				
Buildings.....	832,592	66,078	4,965	893,705
Improvements other than buildings.....	95,198	17,434	-	112,632
Equipment.....	531,210	25,241	6,873	549,578
Infrastructure.....	6,704,803	506,917	38,842	7,172,878
<b>Subtotal.....</b>	<b>8,163,803</b>	<b>615,670</b>	<b>50,680</b>	<b>8,728,793</b>
<b>Accumulated depreciation:</b>				
Buildings.....	294,378	22,746	4,965	312,159
Improvements other than buildings.....	61,774	4,478	-	66,252
Equipment.....	369,478	29,244	6,609	392,113
Infrastructure.....	3,842,865	255,267	38,842	4,059,290
<b>Total accumulated depreciation.....</b>	<b>4,568,495</b>	<b>311,735</b>	<b>50,416</b>	<b>4,829,814</b>
<b>Total capital assets being depreciated, net....</b>	<b>3,595,308</b>	<b>303,935</b>	<b>264</b>	<b>3,898,979</b>
<b>Total capital assets.....</b>	<b>\$ 4,715,957</b>	<b>\$ 718,258</b>	<b>\$ 602,313</b>	<b>\$ 4,831,902</b>

SSHE	Balance			Balance June 30, 2013
	June 30, 2012	Increases	Decreases	
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 27,606	\$ 1,657	\$ -	\$ 29,263
Construction in progress.....	92,627	65,413	54,258	103,782
<b>Subtotal.....</b>	<b>120,233</b>	<b>67,070</b>	<b>54,258</b>	<b>133,045</b>
<b>Depreciable capital assets:</b>				
Buildings.....	1,888,922	64,345	-	1,953,267
Improvements other than buildings.....	232,226	10,236	-	242,462
Equipment.....	425,040	24,688	4,297	445,431
Library books.....	83,960	1,331	1,380	83,911
<b>Subtotal.....</b>	<b>2,630,148</b>	<b>100,600</b>	<b>5,677</b>	<b>2,725,071</b>
<b>Accumulated depreciation:</b>				
Buildings.....	637,152	76,504	10,046	703,610
Improvements other than buildings.....	103,520	9,194	435	112,279
Equipment.....	313,735	31,589	6,238	339,086
Library books.....	72,587	2,249	1,270	73,566
<b>Total accumulated depreciation.....</b>	<b>1,126,994</b>	<b>119,536</b>	<b>17,989</b>	<b>1,228,541</b>
<b>Total capital assets being depreciated, net....</b>	<b>1,503,154</b>	<b>(18,936)</b>	<b>(12,312)</b>	<b>1,496,530</b>
<b>Total capital assets.....</b>	<b>\$ 1,623,387</b>	<b>\$ 48,134</b>	<b>\$ 41,946</b>	<b>\$ 1,629,575</b>

Note: Capital assets do not include \$947,213 and \$1,026,416 reported by the component units of the SSHE as of June 30, 2012 and 2013, respectively.



**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**Student loan auction rate security bonds payable, notes payable and other financing obligations**

In December 2010, the PENNVEST issued the first series of short term obligations to finance the issuance of loans to program participants. In October 2011 the first amendment was issued. These obligations were in the form of bonds, and bear interest, which is due upon maturity. During the fiscal year ended June 30, 2013, the PENNVEST issued eighty-five such obligations in the aggregate principal amount of \$1,973,800 and repaid eighty-seven of these in the aggregate principal amount of \$2,010,000. Interest rates on these bonds ranged from .06 percent to .33 percent with no maturity being greater than 120 days. As of June 30, 2013, \$10,000 of these obligations remained outstanding. PENNVEST used a letter of credit to finance the \$2,010,000 repayment and repaid all balances owed for the letter of credit during the fiscal year ended June 30, 2013. A schedule of changes in the short-term obligations and the letter of credit follows:

	Balance July 1, 2012	Additions	Reductions	Balance July 30, 2013
Notes Payable.....	\$ 46,200	1,973,800	2,010,000	\$ 10,000
Letter of Credit.....	\$ -	2,010,000	2,010,000	\$ -

The PHEAA, has reported \$2,516,700 of auction rate security bonds payable, \$5,158,824 of notes payable (consisting of student loan financings of \$161,300, student loan financing warehouse facility of \$966,769, student loan floating rate notes of \$3,712,675, and student loan variable rate notes of \$318,080), and \$52,706 of other obligations (consisting of capital acquisition refunding bonds of \$41,599 and term financings of \$11,107) at June 30, 2013 as follows:

NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
<b>Bonds payable:</b>				
Student loan auction rate security bonds, due 2037-2047, at weighted-average rates of 1.07 percent as of June 30, 2013 and 0.44 percent as of June 30, 2012.....	\$ 3,550,275	\$ -	\$ 1,033,575	\$ 2,516,700
<b>Notes payable:</b>				
Student loan variable rate funding notes, due 2013 at an estimated weighted-average rate of 0.74 percent as of June 30, 2013 and 0.78 percent as of June 30, 2012.....	\$ 935,776	\$ -	\$ 616,770	\$ 319,006
Less: deferred loss on bond refundings of student loan variable floating rate notes.....	(2,511)	-	(1,585)	(926)
<b>Subtotal.....</b>	<b>933,265</b>	<b>-</b>	<b>615,185</b>	<b>318,080</b>
Student loan floating rate notes, due 2018-2038 at weighted average rates of 0.92 percent as of June 30, 2013 and 0.38 percent as of June 30, 2012.....	2,889,748	1,120,350	502,860	3,507,238
Plus: deferred gain on bond refundings of student loan floating rate notes.....	195,944	31,170	21,677	205,437
<b>Subtotal.....</b>	<b>3,085,692</b>	<b>1,151,520</b>	<b>524,537</b>	<b>3,712,675</b>
Student loan financings, due on demand at weighted-average rates of 0.94 percent as of June 30, 2013 and 0.97 percent as of June 30, 2012 .....	120,000	49,800	8,500	161,300
Student loan financing warehouse facility, due 2014, at an interest rate of 0.21 percent as of June 30, 2013.....	-	1,530,845	564,076	966,769
Plus: deferred gain on bond refunding of student loan financing warehouse facility.....	-	31,170	31,170	-
<b>Subtotal.....</b>	<b>-</b>	<b>1,562,015</b>	<b>595,246</b>	<b>966,769</b>
<b>Total notes payable.....</b>	<b>\$ 4,138,957</b>	<b>\$ 2,763,335</b>	<b>\$ 1,743,468</b>	<b>\$ 5,158,824</b>
Capital acquisition refunding bonds, Series of 2012, due 2013-2022, at weighted-average rates of 3.68 percent as of June 30, 2013.....	\$ -	\$ 37,235	\$ -	\$ 37,235
Capital acquisition refunding bonds, Series 2001, due 2012-2030.....	45,645	-	45,645	-
Term financing, due 2029, at zero percent interest as of June 30, 2013 and 2012.....	59,334	-	48,227	11,107
<b>Subtotal.....</b>	<b>104,979</b>	<b>37,235</b>	<b>93,872</b>	<b>48,342</b>
<b>Plus: unamortized premium.....</b>	<b>-</b>	<b>4,714</b>	<b>350</b>	<b>4,364</b>
<b>Less: unamortized discount.....</b>	<b>(230)</b>	<b>-</b>	<b>(230)</b>	<b>-</b>
<b>Total capital and other financing obligations</b>	<b>\$ 104,749</b>	<b>\$ 41,949</b>	<b>\$ 93,992</b>	<b>\$ 52,706</b>

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan auction rate notes, floating and variable rate notes, and financings. As of June 30, 2013, \$7,700,000 of student loan principal and related interest receivable and \$229,600 of cash equivalents collateralized the \$7,700,000 of student loan financings and notes and bonds payable.

The student loan auction rate security bonds, floating rate notes, variable rate funding notes and other term financings are non-recourse obligations to the PHEAA’s unrestricted net position and to the Commonwealth, except for the \$161,300 of student loan financings and \$37,200 of capital acquisition refunding bonds, Series of 2012, which are borrowings from the Commonwealth’s Treasury Department.

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

PHEAA reported debt service requirements subsequent to June 30, 2013, based upon stated maturities for student loan bonds and estimated interest payments for variable-rate debt after considering terms renegotiated after June 30, 2013 are as follows:

<u>Year of maturity</u>	<u>Student Loan Bonds and Notes</u>		<u>Other Financing Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014.....	\$ 165,963	\$ 63,383	\$ 3,635	\$ 1,801
2015.....	966,769	61,482	3,660	1,164
2016.....	-	61,257	3,745	1,028
2017.....	-	61,257	3,895	887
2018.....	59,150	61,167	4,055	740
2019-23.....	127,970	302,958	18,245	1,369
2024-28.....	648,419	296,375	-	-
2029-33.....	416,945	264,216	11,107	-
2034-38.....	2,663,196	246,136	-	-
2039-43.....	434,600	124,654	-	-
2044-48.....	1,988,001	40,931	-	-
<b>Total.....</b>	<b>\$ 7,471,013</b>	<b>\$ 1,583,816</b>	<b>\$ 48,342</b>	<b>\$ 6,989</b>

**Reported as:**

Total principal owed on student loan

auction rate security bonds payable.....	\$ 2,516,700	\$ -
Notes payable - current.....	165,963	-
Notes payable - non-current.....	4,992,861	-
Deferred amount on current refundings.....	(204,511)	-
Other financing obligations, current.....	-	3,635
Other financing obligations, non-current.....	-	49,071
Unamortized premium.....	-	(4,364)
<b>Total principal .....</b>	<b>\$ 7,471,013</b>	<b>\$ 48,342</b>

The PHEAA reported \$7,500,000 of its total \$7,700,000 of student loan bonds, notes, and financings as variable-rate debt, of which \$13,800 reset based upon auctions every 7 days, \$2,400,000 reset based upon auctions every 28 days, \$127,900 reset based upon auctions every 35 days, \$3,700,000 is indexed to the one-month or three-month LIBOR (London interbank offered rate), \$966,800 is indexed to the commercial paper rate and \$319,100 is conduit financing. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA, payable only from related pledged assets.

In addition to the PHEAA’s reported current notes payable of \$165,963 at June 30, 2013, PENNVEST reported current notes payable of \$10,000. Also, in addition to the PHEAA’s reported non-current notes payable of \$4,992,861 at June 30, 2013, CU organizations of the SSHE reported non-current notes payable of \$225,431.

**Service Concession Arrangement and Deferred Inflow of Resources**

The PTC entered into a long-term service plaza redevelopment agreement with HMSHost Restaurants, LLC and Sunoco, Inc. to design, reconstruct, finance, operate and maintain all 17 of the service plazas along the Turnpike System. As of May 31, 2013, PTC had capitalized \$97,200 in assets representing twelve service plazas that had fully

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

completed construction and recognized deferred inflows of resources of \$88,400 related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2013 and in accordance with GASB Statement No. 60, the PTC recognized a receivable and deferred inflow of resources in the amount of \$26,700 for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

**Long-Term Obligations**

Significant revenue bond obligations of DPCUs at June 30, 2013 (May 31, 2013 for the PTC) and changes during the fiscal year then ended are as follows:

REVENUE BONDS PAYABLE	Issue	Interest	Maturity	Balance	Additions	Reductions	Balance
	Dates	Rates	Dates Through	July 1, 2012			June 30, 2013
PTC.....	2001-13	various	2049	\$ 7,952,371	\$ 873,214	\$ 127,275	\$ 8,698,310
PHFA.....	1993-11	various	2041	4,122,883	435,400	851,574	3,706,709
PENNVEST.....	1998-05	4.00-5.00	2014	7,510	-	3,640	3,870
<b>Total principal obligations.....</b>				<b>12,082,764</b>	<b>1,308,614</b>	<b>982,489</b>	<b>12,408,889</b>
Add: unamortized bond premium.....				128,344	72,081	12,800	187,625
Less: deferred net refunded loss.....				(181,643)	38	(16,796)	(164,809)
<b>TOTAL .....</b>				<b>\$ 12,029,465</b>	<b>\$ 1,380,733</b>	<b>\$ 978,493</b>	<b>\$ 12,431,705</b>

The following tables present annual principal and interest payments for long-term debt outstanding for certain DPCUs at June 30, 2013 (May 31, 2013 for the PTC):

	2014	2015	2016	2017	2018	2019-23	2024-28
PTC.....	\$ 538,293	\$ 528,059	\$ 460,378	\$ 555,604	\$ 586,991	\$ 2,758,514	\$ 2,796,804
PHFA.....	185,311	214,387	234,167	227,828	225,883	1,162,658	1,051,903
PENNVEST.....	2,419	1,608	-	-	-	-	-
<b>Total Principal and Interest.....</b>	<b>726,023</b>	<b>744,054</b>	<b>694,545</b>	<b>783,432</b>	<b>812,874</b>	<b>3,921,172</b>	<b>3,848,707</b>
Less: Interest Payments.....	443,146	438,677	431,227	454,702	449,961	2,199,553	1,861,571
<b>TOTAL PRINCIPAL OBLIGATIONS...</b>	<b>\$ 282,877</b>	<b>\$ 305,377</b>	<b>\$ 263,318</b>	<b>\$ 328,730</b>	<b>\$ 362,913</b>	<b>\$ 1,721,619</b>	<b>\$ 1,987,136</b>

	2029-33	2034-38	2039-43	2044-48	2049-53	Total
PTC.....	\$ 2,865,525	\$ 2,974,700	\$ 1,739,726	\$ 408,493	\$ 149,445	\$ 16,362,532
PHFA.....	910,184	779,453	252,148	-	-	5,243,922
PENNVEST.....	-	-	-	-	-	4,027
<b>Total Principal and Interest.....</b>	<b>3,775,709</b>	<b>3,754,153</b>	<b>1,991,874</b>	<b>408,493</b>	<b>149,445</b>	<b>21,610,481</b>
Less: Interest Payments.....	1,477,345	967,152	375,895	90,793	11,570	9,201,592
<b>TOTAL PRINCIPAL OBLIGATIONS...</b>	<b>\$ 2,298,364</b>	<b>\$ 2,787,001</b>	<b>\$ 1,615,979</b>	<b>\$ 317,700</b>	<b>\$ 137,875</b>	<b>\$ 12,408,889</b>

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The tables below present significant bond obligations of SSHE at June 30, 2013 and changes during the fiscal year then ended, followed by principal and interest payments for long-term debt outstanding.

BONDS PAYABLE	Issue Dates	Interest Rates	Maturity Dates Through	Balance			Balance June 30, 2013
				July 1, 2012	Additions	Reductions	
SSHE.....	2002-12	various	2039	\$ 941,715	\$ -	\$ 41,910	\$ 899,805

Year of Maturity	Principal	Interest	Total
2014.....	\$ 46,970	\$ 42,801	\$ 89,771
2015.....	54,970	40,689	95,659
2016.....	60,825	38,069	98,894
2017.....	61,910	35,105	97,015
2018.....	61,030	32,072	93,102
2019-23.....	301,650	115,299	416,949
2024-28.....	186,265	52,970	239,235
2029-33.....	92,385	20,154	112,539
2034-38.....	33,520	3,663	37,183
2039-43.....	280	14	294
<b>Total.....</b>	<b>\$ 899,805</b>	<b>\$ 380,836</b>	<b>\$ 1,280,641</b>

Note: The total principal obligations outstanding does not include \$1,106,805 reported by component units of the SSHE.

**Conduit Debt**

The PHFA is financing a portion of housing projects through the issuance of limited obligation or special limited obligation bonds to provide more affordable housing in the Commonwealth. These bonds are secured solely by the specific housing properties and related revenues or by appropriations to be paid by the U.S. Department of Housing and Urban Development. At June 30, 2013, the PHFA had \$84,129 of such bonds outstanding. Neither the PHFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds payable are reported in the accompanying financial statements.

The State Public School Building Authority (SPSBA) finances construction and improvement projects for public schools through the issuance of tax-exempt instruments (bonds, notes or other obligations) for the purpose of making lower cost tax-exempt financing available to school districts and community colleges. The debt instruments issued by SPSBA represent limited obligations payable solely from lease/loan payments made by the borrowing institutions and related assets held by trustees. At June 30, 2013, the SPSBA had \$3,307,884 of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA) finances projects through the issuance of tax-exempt instruments (bonds, notes or other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2013, the PHEFA had \$6,676,969 of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from PEDFA financed project

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

revenues. At June 30, 2013, the PEDFA had \$5,621,045 of debt outstanding of which \$2,430,505 represented conduit debt. Neither the PEDFA nor the Commonwealth has any obligation for this conduit debt. Therefore, neither the financed assets nor the bonds are reported in the accompanying financial statements.

**Refunded Debt**

In November 2012, the PTC issued \$70,060 2012 Series B Senior Bonds at a variable rate with a maturity date of December 1, 2016. The 2012 Series B Senior Bonds were issued primarily to current refund the \$52,070 December 1, 2012 maturity of the PTC’s 2009 Series C Variable Rate Turnpike Revenue Bonds and the \$17,455 December 1, 2012 maturity of the PTC’s 2011 Series D Variable Rate Turnpike Revenue Bonds.

At June 30, 2012, \$10,500 of bonds that were previously reported by the PENNVEST have been defeased through refundings. At June 30, 2013 the amount of defeased debt was \$5,910.

During the year ended June 30, 2013, PHFA current refunded a total of \$257,615 bonds related to the Rental Housing and Single Family Mortgage programs.

**Other Post Employment Benefits (OPEB)**

Each DPCU with employees participates in the Commonwealth’s Retired Employees Health Program (REHP) except for the PTC and the PHFA, which have both established and sponsor their own, separate OPEB plans. The SSHE participates in the REHP, for certain employees, as well as its own, separate SSHE OPEB plan. All separate, non-REHP plans, have been established under pertinent statutory authority. All benefit provisions and contributions are established by the plan sponsors. Net OPEB stand-alone plan obligations (assets) for PTC are reported at May 31, 2013 and the PHFA and SSHE at June 30, 2013 as follows:

As of and for the fiscal year ended June 30, 2013	PTC (May 31, 2013)	PHFA	SSHE
Annual required contributions.....	\$ 23,423	\$ 5,042	\$ 120,129
Interest on net OPEB obligation.....	(2,021)	783	36,737
Adjustment to annual required contribution.	4,110	(1,042)	(44,596)
Annual OPEB cost (expense).....	25,512	4,783	112,270
Qualifying contributions.....	(54,768)	(717)	(42,975)
Increase in net OPEB obligation/(asset).....	(29,256)	4,066	69,295
Net OPEB obligation/(asset), July 1, 2012.....	(28,871)	17,501	864,395
Net OPEB obligation/(asset), June 30, 2013....	<u>\$ (58,127)</u>	<u>\$ 21,567</u>	<u>\$ 933,690</u>

As of and for the fiscal year ended June 30, 2013	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued	Funded Ratio (assets as % of AAL)	Estimated Covered Payroll	UAAL as a Percentage of Covered
PTC (May 31, 2013).....	\$ 152,341	\$ 250,750	\$ 98,409	60.8%	\$ 124,241	79.2%
PHFA.....	\$ 53,212	\$ 72,630	\$ 19,418	73.3%	\$ 16,588	117.1%
SSHE.....	\$ -	\$ 1,420,502	\$ 1,420,502	0.0%	\$ 566,753	250.6%

Note: The PTC and the PHFA report their OPEB as other liabilities on the Statement of Net Position.

**Commitments and Contingencies**

**PTC**

PTC Commitment to the PG: In July 2007, Act 44 was signed into law and, among other things, provides funding for roads, bridges and transit throughout the Commonwealth. Under Act 44, the PTC and the Pennsylvania Department of Transportation (PennDOT) established a 50 year Lease and Funding Agreement (Agreement). Act 44 and the Agreement require the PTC to make scheduled quarterly payments to the PennDOT. Through June 30,

**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

2013 the PTC has paid the PennDOT \$3,850,000; the Motor License Fund received \$2,050,000 and the Public Transportation Trust Fund received \$1,800,000.

Due to the significance of the quarterly payments under Act 44, the PTC currently does not have excess cash from operations to finance these required payments due to PennDOT. Therefore, the PTC plans to continue to increase toll rates annually and to issue debt for the foreseeable future to finance the majority of these payments. Act 44 authorizes the PTC to issue Special Revenue Bonds up to an aggregate principal amount of \$5,000,000 (not to exceed \$600,000 per fiscal year). Through its fiscal year ended May 31, 2013, the PTC issued \$775,000 of Special Revenue Bonds with an accreted value of \$798,841. Please see the subsequent events later in this Note concerning HB 1060.

**Deferred Outflows and Inflows**

The following table discloses the deferred outflows of resources and deferred inflows of resources at June 30, 2013 (May 31, 2013 for the PTC):

<b>Deferred Outflows</b>	<u>PTC</u>	<u>PHFA</u>
Hedge derivatives.....	<u>\$ 117,369</u>	<u>\$ 56,515</u>
<b>Deferred Inflows</b>		
Hedge derivatives.....	\$ 26,317	\$ -
Service concession arrangements.....	<u>115,123</u>	<u>-</u>
Total.....	<u>\$ 141,440</u>	<u>\$ -</u>

**Special Item**

For the fiscal year ended May 31, 2013, the PTC recorded an expense of \$51,009 for the write-down of assets under construction related to design costs for the west leg of the PA Route 51 to Interstate Route 376 project. Due to the magnitude of the estimated costs of construction, the PTC believes it is unlikely to be economically feasible to complete this leg of the project.

**Subsequent Events**

On June 27, 2013, the PTC entered into two novation agreements for three swaps with UBS AG and The Bank of New York Mellon. The prior counterparty to the PTC for both novation agreements was UBS AG; the subsequent counterparty to the PTC for both novation agreements is The Bank of New York Mellon. The total notional amount of the three swaps was \$221,253 at May 31, 2013.

On July 23, 2013, the PTC issued 2013 Series B Senior Bonds in the principal amount of \$265,155 at a variable rate maturing on December 1, 2020. The 2013 B bonds were issued for the purpose of financing the costs of: (a) the current refunding of the PTC’s outstanding (1) Variable Rate Turnpike Revenue Bonds, Series C of 2009, maturing on December 1, 2013, in the aggregate principal amount of \$52,070; (2) Turnpike Multi-Modal Revenue Refunding Bonds Series A-1 of 2010, maturing on December 1, 2035, currently outstanding in the aggregate principal amount of \$97,230; (3) Turnpike Multi-Modal Revenue Refunding Bonds, Series A-2 of 2010, maturing on December 1, 2035, currently outstanding in the aggregate principal amount of \$97,140; and (4) Variable Rate Turnpike Revenue Bonds, Series D of 2011, maturing on December 1, 2013, currently outstanding in the aggregate principal amount of \$17,455; and (b) issuing the 2013 B Bonds.

**NOTE 5 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

On August 20, 2013, the PTC issued 2013 Series C Senior Bonds in the principal amount of \$222,935 at a fixed interest rate maturing on December 1, 2043. The 2013 Series C Senior Bonds were issued for the purpose of financing the costs of: (a) various capital expenditures set forth in the PTC's current ten-year capital plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges; and (b) issuing the 2013 Series C Senior Bonds.

On October 1, 2013 the PTC issued \$27,785 Oil Franchise Tax Senior Revenue Refunding Bonds Series A of 2013 at a fixed rate, with a final maturity date of December 1, 2024. The 2013 Series A Bonds were issued primarily to finance the costs of refunding a portion of the PTC's outstanding Oil Franchise Tax Senior Revenue Bonds, Series A of 2003.

On October 1, 2013 the PTC issued \$32,035 Oil Franchise Tax Subordinate Revenue Refunding Bonds Series B of 2013 at a fixed rate, with a final maturity date of December 1, 2025. The 2013 Series B Bonds were issued primarily to finance the cost of refunding a portion of the PTC's outstanding Oil Franchise Tax Subordinated Revenue Bonds Series B of 2003.

On October 29, 2013 the PTC issued \$108,708 Subordinate Revenue Bonds Series B of 2013 consisting of Sub-Series B-1, B-2 and B-3. The Sub-Series B-1 bonds were issued in the amount of \$40,425 at a fixed rate with a final maturity date of December 1, 2043. The Sub-Series B-2 were issued in the amount of \$27,688 as convertible capital appreciation bonds with a final maturity date of December 1, 2041. The Sub-Series B-3 were issued in the amount of \$40,595 with a final maturity date of December 1, 2032. The Subordinate Revenue Bonds Series B were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

On October 29, 2013 the PTC issued \$101,731 Motor License Fund-Enhanced Subordinate Special Revenue Bonds Series B of 2013 consisting of Sub-Series B-1, B-2 and B-3. The Sub-Series B-1 bonds were issued in the amount of \$54,580 at a fixed rate with a final maturity date of December 1, 2043. The Sub-Series B-2 bonds were issued in the amount of \$23,651 as convertible capital appreciation bonds with a final maturity date of December 1, 2040. The Sub-Series B-3 bonds were issued in the amount of \$23,500 at a fixed rate with a final maturity date of December 1, 2031. The Motor License Fund-Enhanced Subordinate Special Revenue Bonds Series B of 2013 were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

PTC scheduled payments to PennDOT in the amount of \$450,000 annually through 2057 has been modified by HB 1060 2013 legislation. The payment schedule will be reduced by the year 2023 to \$50,000 per year until the lease expires in 2057.

On April 8, 2013, the PHEAA Student Loan Foundation (Foundation) entered into a trust agreement creating the PHEAA Warehouse Facility Trust 2013-1 as a statutory trust under the Delaware Statutory Trust Act, 12 *Del. C.* Section 3801. The principal purpose of the PHEAA Warehouse Facility Trust 2013-1 is to securitize student loans and student loan related assets and to acquire student loans from the Foundation and issue a note secured by a pledge of assets. On July 12, 2013, the PHEAA Warehouse Facility Trust 2013-1 executed a borrowing request with a financial institution for \$36,800. On July 12, 2013, PHEAA sold \$38,700 of student loans to the Foundation for subsequent sale to the PHEAA Warehouse Facility Trust 2013-1. The proceeds from the sale of student loans to the Foundation were used to purchase and cancel \$40,600 of par value bonds from the 1997 Master Trust for \$39,240.

On March 18, 2013, the Foundation entered into a trust agreement creating the PHEAA Student Loan Trust 2013-2 as a statutory trust under the Delaware Statutory Trust Act, 12 *Del. C.* Section 3801. The principal purpose of the PHEAA Student Loan Trust 2013-2 is to securitize student loans and student loan related assets and to acquire student loans from the Foundation and issue one or more classes of securities secured by a pledge of assets. On July 30, 2013, the PHEAA Student Loan Trust 2013-2 issued \$331,300 of student loan asset-backed notes with an interest rate of 1-month LIBOR plus 0.55 percent with a final maturity date of April 25, 2030. The proceeds from the sale of these notes, together with a \$10,900 of a capital contribution received indirectly through the



**NOTE 5 –DISCRETELY PRESENTED COMPONENT UNITS (continued)**

Foundation from PHEAA, were used to purchase \$341,000 (principal and interest) of student loans, pay related costs of issuance and to fund an initial deposit to a reserve account created under the indenture.

On July 30, 2013, the PHEAA SLC II transferred \$217,100 of proceeds and the PHEAA SLC III transferred \$97,800 of proceeds from the above loan sale to repay our outstanding debt obligation under the Straight-A Funding Short-Term Note Facility (Straight-A Program). PHEAA classified this debt as student loan variable rate funding notes. Following the release of the related liens under the Straight-A Program, PHEAA sold \$317,400 (principal and interest) of student loans to the Foundation for subsequent sale to the PHEAA Student Loan Trust 2013-2.

On July 30, 2013, in a separate transaction, PHEAA extinguished \$4,800 note purchase agreements with financial institutions for \$1,500, which resulted in a \$3,300 gain on the early extinguishment of debt. PHEAA classified this debt as Term Financings.

On September 6, 2013, the PHEAA Warehouse Facility Trust 2013-1 executed a second borrowing request with a financial institution for \$343,900. On that same day, a portion of the proceeds from the second executed borrowing request were used to purchase and cancel \$127,900 of par value bonds from the 1997 Master Trust for \$125,890. On September 10, 2013, the remaining proceeds from the second executed borrowing request were used to purchase and cancel \$234,400 of par value bonds from the 1997 Master Trust for \$230,890.

On October 3, 2013, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2013-3. On November 20, 2013, the PHEAA Student Loan Trust 2013-3 issued \$503,000 of student loan asset-backed notes, Class A, at a discount for \$497,500 (price to public of 98.91577 percent), with an interest rate of 1-month LIBOR plus 0.75 percent. On the same day, the PHEAA Student Loan Trust 2013-3 issued \$14,900 of student loan asset-backed notes, Class B, at a discount for \$11,700 (price to public of 78.73948 percent), with an interest rate of 1-month LIBOR plus 1.50 percent.

The proceeds from the above bond issuance along with a \$19,500 capital contribution received indirectly through the Foundation from PHEAA were used to pay down a portion of a warehouse line of credit, pay related costs of issuance and fund an initial deposit into various funds created under an indenture of trust. This pay down released \$509,600 (principal and interest) of student loans held as collateral under the warehouse line of credit.

The above student loans were purchased by the Foundation from PHEAA, and then sold to the PHEAA Student Loan Trust 2013-3 free and clear of any liens. The student loans were deposited under the indenture of trust and subject to the pledge of the indenture as part of the trust estate of the PHEAA Student Loan Trust 2013-3.

In July 2013, PHEFA issued Series AO revenue bonds, comprising \$12,340 in tax-exempt revenue bonds and \$18,575 in taxable revenue bonds. The net proceeds from the Series AO revenue bonds were used to finance capital projects at several universities. In connection with the bond issuance, SSHE entered into a loan agreement with PHEFA under which SSHE pledged its full faith and credit for repayment of bonds.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Required Supplementary Information

**Commonwealth of Pennsylvania**  
**Schedules of Funding Progress and Employer Contributions**  
Retired Employees Health Plan (REHP)  
Retired Pennsylvania State Police Program (RPSPP)  
PA Judiciary  
PA House of Representatives  
PA Senate  
For the Fiscal Year Ended June 30, 2013  
(\$ amounts in millions)

<b>Funding Progress:</b>	<b>REHP</b>	<b>RPSPP</b>	<b>PA Judiciary</b>	<b>PA House of Representatives</b>	<b>PA Senate</b>	<b>Total Primary Government</b>
<b>As of and for the fiscal year ended June 30, 2013</b>						
Actuarial Valuation Date.....	July 1, 2013	July 1, 2013	July 1, 2012	July 1, 2012	July 1, 2013	
Actuarial Value of Assets.....	\$ 82.06	\$ 69.48	\$ -	\$ -	\$ -	\$ 151.54
Actuarial Accrued Liability (AAL).....	\$ 13,234.04	\$ 3,188.19	\$ 440.70	\$ 386.30	\$ 241.13	\$ 17,490.36
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,151.98	\$ 3,118.71	\$ 440.70	\$ 386.30	\$ 241.13	\$ 17,338.82
Funded Ratio (assets as % of AAL).....	0.6%	2.2%	0.0%	0.0%	0.0%	0.9%
Estimated Annual Covered Payroll.....	\$ 4,264.00	\$ 391.00	\$ 198.00	\$ 95.32	\$ 48.92	\$ 4,997.24
UAAL as a Percentage of Covered Payroll.....	308.4%	797.6%	222.6%	405.3%	492.9%	347.0%

<b>As of and for the fiscal year ended June 30, 2012</b>						
Actuarial Valuation Date.....	July 1, 2011	July 1, 2011	July 1, 2012	July 1, 2010	July 1, 2011	
Actuarial Value of Assets.....	\$ 70.74	\$ 59.90	\$ -	\$ -	\$ -	\$ 130.64
Actuarial Accrued Liability (AAL).....	\$ 12,907.79	\$ 2,492.28	\$ 425.50	\$ 352.27	\$ 217.75	\$ 16,395.59
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 12,837.05	\$ 2,432.38	\$ 425.50	\$ 352.27	\$ 217.75	\$ 16,264.95
Funded Ratio (assets as % of AAL).....	0.5%	2.4%	0.0%	0.0%	0.0%	0.8%
Estimated Annual Covered Payroll.....	\$ 3,839.00	\$ 447.00	\$ 194.50	\$ 96.16	\$ 48.45	\$ 4,625.11
UAAL as a Percentage of Covered Payroll.....	334.4%	544.2%	218.7%	366.3%	449.5%	351.7%

<b>As of and for the fiscal year ended June 30, 2011</b>						
Actuarial Valuation Date.....	July 1, 2011	July 1, 2011	July 1, 2010	July 1, 2010	July 1, 2010	
Actuarial Value of Assets.....	\$ 70.74	\$ 59.90	\$ -	\$ -	\$ -	\$ 130.64
Actuarial Accrued Liability (AAL).....	\$ 12,907.79	\$ 2,492.28	\$ 442.30	\$ 352.27	\$ 222.17	\$ 16,416.81
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 12,837.05	\$ 2,432.38	\$ 442.30	\$ 352.27	\$ 222.17	\$ 16,286.17
Funded Ratio (assets as % of AAL).....	0.5%	2.4%	0.0%	0.0%	0.0%	0.8%
Estimated Annual Covered Payroll.....	\$ 3,839.00	\$ 447.00	\$ 196.30	\$ 96.16	\$ 48.45	\$ 4,626.91
UAAL as a Percentage of Covered Payroll.....	334.4%	544.2%	225.3%	366.3%	458.6%	352.0%

<b>Employer Contributions:</b>	<b>REHP</b>	<b>RPSPP</b>	<b>PA Judiciary</b>	<b>PA House of Representatives</b>	<b>PA Senate</b>	<b>Total Primary Government</b>
<b>For the fiscal year ended June 30, 2013</b>						
Annual required contribution.....	\$ 864.83	\$ 207.14	\$ 35.50	\$ 43.20	\$ 17.40	\$ 1,168.07
Percentage contributed.....	71.0%	33.0%	60.8%	30.5%	40.9%	62.0%
<b>For the fiscal year ended June 30, 2012</b>						
Annual required contribution.....	\$ 866.77	\$ 174.23	\$ 34.07	\$ 41.33	\$ 17.02	\$ 1,133.42
Percentage contributed.....	72.5%	39.5%	63.0%	31.3%	37.5%	65.1%
<b>For the fiscal year ended June 30, 2011</b>						
Annual required contribution.....	\$ 879.21	\$ 158.33	\$ 35.96	\$ 41.33	\$ 17.70	\$ 1,132.52
Percentage contributed.....	68.1%	41.9%	58.9%	29.1%	34.9%	62.2%

- The notes to required supplementary information are an integral part of this schedule. -

Following is a list of assumptions used in the August 2013 valuation for the REHP and RPSPP plans.

**Economic Assumptions** - The discount rate used is 4.75 percent, there was no change from the September 2011 valuation.

**Healthcare Assumptions** - The healthcare trend rates were modified to reflect the SOA Long-Run Medical Cost Trend Getzen Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures.

**Demographic assumptions** - The demographic assumptions used for valuing the liabilities of the post-retirement medical plan are those used for the actuarial valuation of the State Employees' Retirement System. The demographic assumptions include the rate or mortality, the rate of withdrawal, the rate of retirement, and the rate of disability. Ancillary demographic assumptions include the age of female spouses, coverage rates and participation rates.

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Major Funds  
 General Fund  
 For the Fiscal Year Ended June 30, 2013  
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Corporation taxes.....	\$ 4,915,200	\$ 309,400	\$ 5,224,600	\$ (34,882)	\$ 5,189,718
Consumption taxes.....	10,627,100	(281,300)	10,345,800	(91,604)	10,254,196
Other taxes.....	12,538,300	171,200	12,709,500	(86,251)	12,623,249
<b>TOTAL TAX REVENUE.....</b>	<b>28,080,600</b>	<b>199,300</b>	<b>28,279,900</b>	<b>(212,737)</b>	<b>28,067,163</b>
Nontax revenue.....	509,400	32,700	542,100	37,683	579,783
<b>TOTAL REVENUE STATE.....</b>	<b>28,590,000</b>	<b>232,000</b>	<b>28,822,000</b>	<b>(175,054)</b>	<b>28,646,946</b>
less: Refunds.....	(1,300,000)	-	(1,300,000)	50,000	(1,250,000)
plus: Departmental services.....	2,762,583	-	2,762,583	460,963	3,223,546
<b>TOTAL STATE PROGRAMS.....</b>	<b>30,052,583</b>	<b>232,000</b>	<b>30,284,583</b>	<b>335,909</b>	<b>30,620,492</b>
Federal programs.....	20,423,465	72,279	20,495,744	58,928	20,554,672
<b>TOTAL REVENUES.....</b>	<b>50,476,048</b>	<b>304,279</b>	<b>50,780,327</b>	<b>394,837</b>	<b>51,175,164</b>
<b>EXPENDITURES:</b>					
State programs.....	30,427,694	95,855	30,523,549	417,290	30,940,839
Federal programs.....	20,423,465	72,279	20,495,744	58,928	20,554,672
<b>TOTAL EXPENDITURES.....</b>	<b>50,851,159</b>	<b>168,134</b>	<b>51,019,293</b>	<b>476,218</b>	<b>51,495,511</b>
<b>REVENUES UNDER EXPENDITURES.....</b>	<b>(375,111)</b>	<b>136,145</b>	<b>(238,966)</b>	<b>(81,381)</b>	<b>(320,347)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Current year lapses.....	-	10,000	10,000	(10,000)	-
Prior year lapses.....	-	100,000	100,000	88,684	188,684
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>110,000</b>	<b>110,000</b>	<b>78,684</b>	<b>188,684</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>(375,111)</b>	<b>246,145</b>	<b>(128,966)</b>	<b>(2,697)</b>	<b>(131,663)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2012, REVISED.....</b>					
	659,051	13,530	672,581	-	672,581
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2013, REVISED.....</b>					
	<b>\$ 283,940</b>	<b>\$ 259,675</b>	<b>\$ 543,615</b>	<b>\$ (2,697)</b>	<b>\$ 540,918</b>

\* Current year lapse amount in the Actual (Budgetary Basis column) is already netted out of the state expenditure amount.

For Supporting Documentation, please go to [www.budget.state.pa.us](http://www.budget.state.pa.us)

- The notes to required supplementary information are an integral part of this schedule. -

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Major Funds  
 Special Revenue Fund-Motor License  
 For the Fiscal Year Ended June 30, 2013  
 (Amounts in thousands)

	<u>Original Budget</u>	<u>Difference</u>	<u>Final Budget</u>	<u>Difference</u>	<u>Actual (Budgetary Basis)</u>
<b>REVENUES:</b>					
State Programs:					
Liquid fuels taxes.....	\$ 1,219,530	\$ (3,730)	\$ 1,215,800	\$ 7,341	\$ 1,223,141
Motor licenses and fees.....	892,480	10,920	903,400	(10,883)	892,517
Other Motor License Fund revenues *.....	284,980	4,820	289,800	10,781	300,581
<b>TOTAL REVENUE STATE</b> .....	<b>2,396,990</b>	<b>12,010</b>	<b>2,409,000</b>	<b>7,239</b>	<b>2,416,239</b>
plus: Departmental services *.....	225,794	-	225,794	(165,556)	60,238
<b>TOTAL STATE PROGRAMS</b> .....	<b>2,622,784</b>	<b>12,010</b>	<b>2,634,794</b>	<b>(158,317)</b>	<b>2,476,477</b>
Federal programs.....	1,514,626	-	1,514,626	(65,752)	1,448,874
<b>TOTAL REVENUES</b> .....	<b>4,137,410</b>	<b>12,010</b>	<b>4,149,420</b>	<b>(224,069)</b>	<b>3,925,351</b>
<b>EXPENDITURES:</b>					
State programs.....	2,733,615	-	2,733,615	(170,291)	2,563,324
Federal programs.....	1,514,626	-	1,514,626	(65,752)	1,448,874
<b>TOTAL EXPENDITURES</b> .....	<b>4,248,241</b>	<b>-</b>	<b>4,248,241</b>	<b>(236,043)</b>	<b>4,012,198</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>(110,831)</b>	<b>12,010</b>	<b>(98,821)</b>	<b>11,974</b>	<b>(86,847)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Current year lapses **.....	-	4,735	4,735	(4,735)	-
Prior year lapses.....	-	25,000	25,000	16,400	41,400
<b>TOTAL OTHER FINANCING SOURCES</b> .....	<b>-</b>	<b>29,735</b>	<b>29,735</b>	<b>11,665</b>	<b>41,400</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<b>(110,831)</b>	<b>41,745</b>	<b>(69,086)</b>	<b>23,639</b>	<b>(45,447)</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2012</b> .....	<b>153,031</b>	<b>-</b>	<b>153,031</b>	<b>-</b>	<b>153,031</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2013</b> .....	<b>\$ 42,200</b>	<b>\$ 41,745</b>	<b>\$ 83,945</b>	<b>\$ 23,639</b>	<b>\$ 107,584</b>

\* Act 44 receipts are included in Other Motor License Fund Revenues.

\*\* Current year lapse amount in the Actual (Budgetary Basis column) is already netted out of the state expenditure amount.

For Supporting Documentation, please go to [www.budget.state.pa.us](http://www.budget.state.pa.us)

- The notes to required supplementary information are an integral part of this schedule. -

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION** (amounts in thousands)

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### **Note 1 - Budget Preparation Process**

The process of preparing the General Fund Budget for the Commonwealth of Pennsylvania begins nearly one year before the new budget is enacted and takes effect on July 1 each year. The budget process begins in August of the year previous to the budget year with the distribution of both the Budget Instructions and Program Policy Guidelines by the Office of the Budget and the Governor's Office, respectively. These provide detailed guidelines and define major policy issues to be considered when agencies complete their budget requests. As required by statute, agencies must prepare budgets that indicate the cost of supporting activities at the level expected in the immediate budget year and the ensuing four budget years. The five-year horizon does not include future program changes but considers the requirements and demands of current law, regulation, policy and program decisions.

Agencies submit budget requests to the Secretary of the Budget beginning in early October. From October through January, the Office of the Budget reviews these requests for accuracy and adherence to policy guidelines and prepares funding recommendations for the Secretary of the Budget and the Governor.

During December, the Governor meets with leaders of the General Assembly to inform them of anticipated spending and revenue levels and to discuss related budgetary issues. The Governor then conducts reviews to make the final budget decisions. The Governor's Executive Budget is finalized in January and is submitted to the General Assembly in early February.

After receiving the budget document, the appropriations committees of both houses of the legislature hold hearings to review agency funding requests. The General Assembly passes the budget in the form of a General Appropriations Bill and individual appropriations bills. At the time of passage of these bills and their presentation to the Governor, the official revised revenue estimates for the budget year are issued. If the combined appropriations bills passed by the legislature exceed the revenue estimates, the Governor is required and has the authority to either veto entire appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance. The Governor also has the power to reduce or veto any specific appropriation even if the total appropriations do not exceed estimated revenues. The Governor's signing of the appropriations bills and any revenue bills is the last step in the approval stage of the budget.

Additional information regarding Pennsylvania's budgeting process may be located at: <http://www.budget.state.pa.us> and click on Current and Proposed Commonwealth Budgets.

### **Note 2 – Basis of Budgeting**

On the budgetary basis, 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**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year end. Actual budgetary federal program revenues are recorded in amounts equal to federal expenditures. Also, estimated encumbrances and unspent appropriation balances are available 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 paid in the subsequent year. Over-estimates of prior year encumbrances and available appropriation balances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

Budgeted revenues in the Budgetary Comparison Schedules represent official estimates while expenditures represent amounts originally adopted or legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis differs from the modified accrual basis of accounting for governmental funds, a reconciliation of the differences between budgetary basis and the modified accrual basis of reporting is presented.

### **Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, a Special Revenue Fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION** (amounts in thousands)

Nonmajor Funds present comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting for the major budgeted funds:

	General Fund			
	General Fund <u>(Budgeted)</u>	General Fund Components <u>(Nonbudgeted)</u>	<u>Total</u>	Motor License Fund
<b>Budgetary basis</b> – revenues and other sources under expenditures and other uses.....	\$ (131,663)	\$ -	\$ (131,663)	\$ (45,447)
<b>Adjustments:</b>				
<b><u>Basis differences</u></b>				
To adjust revenues, other financing sources and related receivables and unearned revenue.....	(1,277,126)	-	(1,277,126)	1,170,070
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	1,608,932	-	1,608,932	(1,254,459)
<b>Basis difference adjustments.....</b>	<u>331,806</u>	<u>-</u>	<u>331,806</u>	<u>(84,389)</u>
<b><u>Perspective differences</u></b>				
Nonbudgeted statutory funds which are financially reported as part of this fund:				
Revenues.....	-	538,580	538,580	347
Expenditures.....	-	(425,843)	(425,843)	(187)
<b>Perspective difference adjustments...</b>	<u>-</u>	<u>112,737</u>	<u>112,737</u>	<u>160</u>
<b>Net adjustments.....</b>	<u>331,806</u>	<u>112,737</u>	<u>444,543</u>	<u>(84,229)</u>
<b>Modified accrual basis</b> – net change in governmental fund balance.....	<u>\$ 200,143</u>	<u>\$ 112,737</u>	<u>\$ 312,880</u>	<u>\$ (129,676)</u>

The above revenue adjustments include net revenue accruals and unearned revenue, 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.

**Note 4 – Budgetary Compliance – Legal Level of Budgetary Control**

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



## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION** (amounts in thousands)

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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 \$65,463 in appropriation increases approved during the fiscal year ended June 30, 2013.

A separately available report, the "*Status of Appropriations*" (*General Fund*), demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2013. 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 four budgeted Special Revenue funds: **Motor License**, Workers' Compensation Administration, Banking Department and Milk Marketing. Both "*Status*" reports are available online at the Office of the Budget internet site: <http://www.budget.state.pa.us> and click on Financial Reports. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

To assist the user of the Budgetary Comparison Schedule, additional supporting documentation is available at <http://www.budget.state.pa.us>. This documentation provides a step by step guide to verifying the amounts reported in the Budgetary Comparison Schedule - Actual (Budgetary Basis) column for both the **General Fund** and the **Motor License Fund**.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Combining Financial Statements

Including  
Nonmajor Budgetary Comparison Schedules

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**  
 June 30, 2013

(Amounts in thousands)

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Cash.....	\$ 28,223	\$ 176,808	\$ 42	\$ 205,073
Temporary investments.....	1,881,283	2,309	342,098	2,225,690
Long-term investments.....	1,373,724	-	85,997	1,459,721
Receivables, net:				
Taxes.....	-	-	22,200	22,200
Accounts.....	85,565	3,221	89	88,875
Investment income.....	5,051	-	56	5,107
Loans.....	-	-	58,138	58,138
Lease rentals.....	-	427	-	427
Investment sale proceeds.....	4,441	-	-	4,441
Other.....	23,727	-	-	23,727
Due from other funds.....	53,864	-	16,241	70,105
Due from pension trust funds.....	1,132	-	-	1,132
Due from component units.....	1,995	-	616	2,611
Due from Federal government.....	62,767	-	-	62,767
Due from political subdivisions.....	33	-	1,752	1,785
Advances to other funds.....	4,500	-	-	4,500
<b>TOTAL ASSETS.....</b>	<u>\$ 3,526,305</u>	<u>\$ 182,765</u>	<u>\$ 527,229</u>	<u>\$ 4,236,299</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 333,020	\$ 142,075	\$ 188,423	\$ 663,518
Investment purchases payable.....	27,559	-	-	27,559
Securities lending obligations.....	76,755	-	2,340	79,095
Due to other funds.....	12,118	-	12,567	24,685
Due to component units.....	15,020	-	-	15,020
Due to pension trust funds.....	1,045	-	4	1,049
Due to political subdivisions.....	38,890	-	41,799	80,689
Due to other governments.....	600	-	2	602
Unearned revenue.....	156,297	3,649	-	159,946
Advances from other funds.....	300	-	-	300
<b>TOTAL LIABILITIES.....</b>	<u>661,604</u>	<u>145,724</u>	<u>245,135</u>	<u>1,052,463</u>
<b>Fund balances:</b>				
Restricted.....	2,493,794	-	-	2,493,794
Committed.....	374,074	37,041	282,094	693,209
Unassigned deficit.....	(3,167)	-	-	(3,167)
<b>TOTAL FUND BALANCES.....</b>	<u>2,864,701</u>	<u>37,041</u>	<u>282,094</u>	<u>3,183,836</u>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<u>\$ 3,526,305</u>	<u>\$ 182,765</u>	<u>\$ 527,229</u>	<u>\$ 4,236,299</u>

*Commonwealth of Pennsylvania*

**Combining Statement of Revenues, Expenditures, and Changes in Fund**

**Balances-Nonmajor Governmental Funds**

For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Total</b>
<b>REVENUES:</b>				
Taxes.....	\$ 1,844,538	\$ -	\$ 245,736	\$ 2,090,274
Licenses and fees.....	641,146	-	-	641,146
Intergovernmental.....	570,818	25,403	-	596,221
Charges for sales and services.....	279,152	-	-	279,152
Investment income.....	62,552	954	6,937	70,443
Interest on notes and loans.....	-	-	1,240	1,240
Other.....	350,473	8,182	7,927	366,582
<b>TOTAL REVENUES .....</b>	<b><u>3,748,679</u></b>	<b><u>34,539</u></b>	<b><u>261,840</u></b>	<b><u>4,045,058</u></b>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	383,724	16,644	236,753	637,121
Protection of persons and property.....	571,837	-	9,117	580,954
Health and human services.....	604,567	-	-	604,567
Public education.....	615,725	-	15,149	630,874
Recreation and cultural enrichment.....	194,456	-	44,810	239,266
Economic development.....	246,400	-	309,369	555,769
Transportation.....	784,469	-	506,828	1,291,297
Capital outlay.....	10,222	-	397,902	408,124
Debt service:				
Principal retirement.....	-	760,020	-	760,020
Interest and fiscal charges.....	-	515,455	-	515,455
<b>TOTAL EXPENDITURES .....</b>	<b><u>3,411,400</u></b>	<b><u>1,292,119</u></b>	<b><u>1,519,928</u></b>	<b><u>6,223,447</u></b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES .....</b>	<b><u>337,279</u></b>	<b><u>(1,257,580)</u></b>	<b><u>(1,258,088)</u></b>	<b><u>(2,178,389)</u></b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	950,300	950,300
Refunding bonds issued.....	-	361,760	-	361,760
Premium on bonds/refunding bonds.....	-	82,604	133,812	216,416
Transfers in.....	180,639	1,246,221	-	1,426,860
Transfers out.....	(549,825)	-	(53,548)	(603,373)
Payment to refunded bond escrow agent.....	-	(444,364)	-	(444,364)
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b><u>(369,186)</u></b>	<b><u>1,246,221</u></b>	<b><u>1,030,564</u></b>	<b><u>1,907,599</u></b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(31,907)</b>	<b>(11,359)</b>	<b>(227,524)</b>	<b>(270,790)</b>
<b>FUND BALANCES JULY 1, 2012.....</b>	<b><u>2,896,608</u></b>	<b><u>48,400</u></b>	<b><u>509,618</u></b>	<b><u>3,454,626</u></b>
<b>FUND BALANCES JUNE 30, 2013.....</b>	<b><u><u>\$ 2,864,701</u></u></b>	<b><u><u>\$ 37,041</u></u></b>	<b><u><u>\$ 282,094</u></u></b>	<b><u><u>\$ 3,183,836</u></u></b>

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Special Revenue Funds

Including  
Nonmajor Budgetary Comparison Schedules

**SPECIAL REVENUE FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**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 amounts due to dairy farmers from underpayments by dealers. Revenue is received from license fees, fines, penalties, and permits relating to the milk industry.

**Workers' Compensation Administration Fund** — to account for the administration of the Pennsylvania Workers' 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.

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

**Tobacco Settlement Fund** — established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the Master Settlement Agreement, strategic contribution payments from the Master Settlement Agreement, and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program.

**Public Transportation Trust Fund** — to provide dedicated funding for public transportation in the Commonwealth. Revenues come from scheduled payments by the Pennsylvania Turnpike Commission, a portion of the Sales and Use Tax, and transfers from the Public Transportation Assistance Fund and the Lottery Fund. Monies in this fund are disbursed as grants to public transit agencies for operating costs (including Shared Ride and Free Transit for Older Pennsylvanians), capital and asset improvements, and programs of statewide significance.

**Gaming Fund** — to account for the administration of the Race Horse Development and Gaming Act. Revenue is received from license fees and a percentage of the gross terminal revenue generated by licensed gaming facilities.

**Other** — to account for programs related to restoration, conservation, protection, and management of natural resources; the payment of prescription drugs for eligible citizens 65 years or older; the preservation of historical landmarks; vocational rehabilitation services; administrative and regulatory activities of various departmental programs; and miscellaneous Commonwealth activities. This "Other" category is an aggregation of thirty-seven individual special revenue funds.

There are a total of forty-five individual special revenue funds; the **Motor License** fund is reported as a Major Fund in the basic financial statements.



**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**  
Special Revenue Funds  
June 30, 2013

(Amounts in thousands)

	Budgeted Funds								Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming	Other	
<b>ASSETS</b>									
Cash.....	\$ 19	\$ 195	\$ -	\$ 445	\$ -	\$ -	\$ 4,354	\$ 23,210	\$ 28,223
Temporary investments.....	4,569	3,913	112,648	98,463	186,028	71,049	821,072	583,541	1,881,283
Long-term investments.....	11,466	-	-	671,314	184,740	85,997	-	420,207	1,373,724
Receivables, net:									
Accounts.....	6,229	-	13	-	79,096	-	3	224	85,565
Investment income.....	1	1	-	4,657	166	18	121	87	5,051
Investment sale proceeds.....	-	-	-	3,540	901	-	-	-	4,441
Other.....	-	-	-	-	-	-	-	23,727	23,727
Due from other funds.....	17	1	6	-	-	38,316	12	15,512	53,864
Due from pension trust funds.....	-	-	-	-	-	-	-	1,132	1,132
Due from component units.....	-	-	-	-	-	-	1,995	-	1,995
Due from Federal government.....	-	-	-	-	34,558	-	-	28,209	62,767
Due from political subdivisions.....	33	-	-	-	-	-	-	-	33
Advances to other funds.....	-	-	-	1,500	-	-	-	3,000	4,500
<b>TOTAL ASSETS.....</b>	<b>\$ 22,334</b>	<b>\$ 4,110</b>	<b>\$ 112,667</b>	<b>\$ 779,919</b>	<b>\$ 485,489</b>	<b>\$ 195,380</b>	<b>\$ 827,557</b>	<b>\$ 1,098,849</b>	<b>\$ 3,526,305</b>
<b>LIABILITIES AND FUND BALANCES</b>									
Accounts payable and accrued liabilities.....	\$ 712	\$ 120	\$ 7,827	\$ 1,662	\$ 62,389	\$ 6,805	\$ 30,465	\$ 223,040	\$ 333,020
Investment purchases payable.....	-	-	-	26,544	1,015	-	-	-	27,559
Securities lending obligations.....	312	-	-	58,983	3,678	2,340	-	11,442	76,755
Due to other funds.....	60	20	137	278	663	2	1,059	9,899	12,118
Due to component units.....	-	-	-	-	-	-	15,000	20	15,020
Due to pension trust funds.....	56	3	139	1	1	4	187	654	1,045
Due to political subdivisions.....	-	-	-	-	983	4,239	25,268	8,400	38,890
Due to other governments.....	79	2	120	-	1	3	65	330	600
Unearned revenue.....	-	1,434	-	-	79,096	-	29,584	46,183	156,297
Advances from other funds.....	-	-	-	-	-	-	-	300	300
<b>TOTAL LIABILITIES.....</b>	<b>1,219</b>	<b>1,579</b>	<b>8,223</b>	<b>87,468</b>	<b>147,826</b>	<b>13,393</b>	<b>101,628</b>	<b>300,268</b>	<b>661,604</b>
<b>Fund balances:</b>									
Restricted.....	21,115	2,531	104,444	692,451	-	181,987	725,929	765,337	2,493,794
Committed.....	-	-	-	-	337,663	-	-	36,411	374,074
Unassigned deficit.....	-	-	-	-	-	-	-	(3,167)	(3,167)
<b>TOTAL FUND BALANCES.....</b>	<b>21,115</b>	<b>2,531</b>	<b>104,444</b>	<b>692,451</b>	<b>337,663</b>	<b>181,987</b>	<b>725,929</b>	<b>798,581</b>	<b>2,864,701</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 22,334</b>	<b>\$ 4,110</b>	<b>\$ 112,667</b>	<b>\$ 779,919</b>	<b>\$ 485,489</b>	<b>\$ 195,380</b>	<b>\$ 827,557</b>	<b>\$ 1,098,849</b>	<b>\$ 3,526,305</b>

Commonwealth of Pennsylvania

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds

Special Revenue Funds

For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Budgeted Funds							Gaming	Other	Total
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust				
<b>REVENUES:</b>										
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 413,513	\$ 1,359,117	\$ 71,908	\$ 1,844,538	
Licenses and fees.....	5,143	2,387	10	23,256	-	-	68,723	541,627	641,146	
Intergovernmental.....	-	-	-	-	141,025	250,000	9,657	170,136	570,818	
Charges for sales and services.....	13,216	-	74,853	-	13,491	-	-	177,592	279,152	
Investment income (loss).....	822	8	279	46,343	(22,447)	6,358	1,194	29,995	62,552	
Other.....	6	-	117	1,005	337,192	-	-	12,153	350,473	
<b>TOTAL REVENUES</b>	<b>19,187</b>	<b>2,395</b>	<b>75,259</b>	<b>70,604</b>	<b>469,261</b>	<b>669,871</b>	<b>1,438,691</b>	<b>1,003,411</b>	<b>3,748,679</b>	
<b>EXPENDITURES:</b>										
Current:										
Direction and supportive services.....	21	-	5	1	-	-	383,089	608	383,724	
Protection of persons and property.....	18,675	2,340	-	25,794	-	-	6,670	518,358	571,837	
Health and human services.....	-	-	73,214	-	476,519	-	9,587	45,247	604,567	
Public education.....	-	-	-	-	-	-	615,597	128	615,725	
Recreation and cultural enrichment.....	-	-	-	-	-	-	4,894	189,562	194,456	
Economic development.....	-	-	123	-	3,197	-	60,230	182,850	246,400	
Transportation.....	-	-	-	-	-	784,469	-	-	784,469	
Capital outlay.....	-	-	-	-	-	-	-	10,222	10,222	
<b>TOTAL EXPENDITURES</b>	<b>18,696</b>	<b>2,340</b>	<b>73,342</b>	<b>25,795</b>	<b>479,716</b>	<b>784,469</b>	<b>1,080,067</b>	<b>946,975</b>	<b>3,411,400</b>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>491</b>	<b>55</b>	<b>1,917</b>	<b>44,809</b>	<b>(10,455)</b>	<b>(114,598)</b>	<b>358,624</b>	<b>56,436</b>	<b>337,279</b>	
<b>OTHER FINANCING SOURCES (USES):</b>										
Transfers in.....	-	-	-	-	-	109,576	-	71,063	180,639	
Transfers out.....	-	-	(1,650)	-	(25,282)	-	(368,904)	(153,989)	(549,825)	
<b>NET OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>(1,650)</b>	<b>-</b>	<b>(25,282)</b>	<b>109,576</b>	<b>(368,904)</b>	<b>(82,926)</b>	<b>(369,186)</b>	
<b>NET CHANGE IN FUND BALANCES</b>	<b>491</b>	<b>55</b>	<b>267</b>	<b>44,809</b>	<b>(35,737)</b>	<b>(5,022)</b>	<b>(10,280)</b>	<b>(26,490)</b>	<b>(31,907)</b>	
<b>FUND BALANCES, JULY 1, 2012</b>	<b>20,624</b>	<b>2,476</b>	<b>104,177</b>	<b>647,642</b>	<b>373,400</b>	<b>187,009</b>	<b>736,209</b>	<b>825,071</b>	<b>2,896,608</b>	
<b>FUND BALANCES, JUNE 30, 2013</b>	<b>\$ 21,115</b>	<b>\$ 2,531</b>	<b>\$ 104,444</b>	<b>\$ 692,451</b>	<b>\$ 337,663</b>	<b>\$ 181,987</b>	<b>\$ 725,929</b>	<b>\$ 798,581</b>	<b>\$ 2,864,701</b>	

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Banking Department  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 16,248	\$ 841	\$ 17,089	\$ 899	\$ 17,988
Fines, penalties and interest.....	1,300	(450)	850	(472)	378
Investment income.....	285	65	350	(110)	240
<b>TOTAL REVENUES.....</b>	<b>17,833</b>	<b>456</b>	<b>18,289</b>	<b>317</b>	<b>18,606</b>
<b>EXPENDITURES:</b>					
State Programs.....	21,349	-	21,349	-	21,349
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(3,516)</b>	<b>456</b>	<b>(3,060)</b>	<b>317</b>	<b>(2,743)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	3,119	3,119	5	3,124
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(3,516)</b>	<b>3,575</b>	<b>59</b>	<b>322</b>	<b>381</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2012.....</b>	<b>10,990</b>	<b>-</b>	<b>10,990</b>	<b>-</b>	<b>10,990</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2013.....</b>	<b>\$ 7,474</b>	<b>\$ 3,575</b>	<b>\$ 11,049</b>	<b>\$ 322</b>	<b>\$ 11,371</b>

**Budgetary Compliance**

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Banking Department for the fiscal year ended June 30, 2013 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&PageID=473560&mode=2> (At the website, click on June 2013.)

Total Actual (Budgetary Basis) Expenditures of \$21,349 are traceable from page 219 Column A 'Appropriations' in the June 30, 2013 "Status of Appropriations" (Special Funds).

**Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts a formal annual budget for the Banking Department Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

<b>Budgetary basis</b> — revenues and other sources under expenditures (from Actual column above).....	\$ 381
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(2,543)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	2,653
Net adjustments.....	110
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ 491</b>

The above revenue adjustments include net revenue accruals/deferrals, 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.

- The notes on pages 157 to 159 are an integral part of this schedule. -

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Milk Marketing  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 2,537	\$ -	\$ 2,537	\$ (163)	\$ 2,374
Fines, penalties and interest.....	8	-	8	4	12
Investment income.....	7	(13)	(6)	14	8
<b>TOTAL REVENUES.....</b>	<b>2,552</b>	<b>(13)</b>	<b>2,539</b>	<b>(145)</b>	<b>2,394</b>
<b>EXPENDITURES:</b>					
State programs.....	2,802	-	2,802	-	2,802
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(250)</b>	<b>(13)</b>	<b>(263)</b>	<b>(145)</b>	<b>(408)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	550	550	-	550
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(250)</b>	<b>537</b>	<b>287</b>	<b>(145)</b>	<b>142</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2012.....</b>	<b>1,927</b>	<b>-</b>	<b>1,927</b>	<b>-</b>	<b>1,927</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2013.....</b>	<b>\$ 1,677</b>	<b>\$ 537</b>	<b>\$ 2,214</b>	<b>\$ (145)</b>	<b>\$ 2,069</b>

A separately available report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Milk Marketing Fund for the fiscal year ended June 30, 2013 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2013.)

Total Actual (Budgetary Basis) Expenditures of \$2,802 are traceable from page 222, Column A 'Appropriations' in the June 30, 2013 "Status of Appropriations" (Special Funds).

**Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts a formal annual budget for the Milk Marketing Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

<b>Budgetary basis</b> — revenues and other sources over expenditures (from Actual column above).....	\$ 142
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(549)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	462
Net adjustments.....	(87)
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ 55</b>

The above revenue adjustments include net revenue accruals/deferrals, 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.

- The notes on pages 157 to 159 are an integral part of this schedule. -

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Workers' Compensation Administration  
 For the Fiscal Year Ended June 30, 2013  
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 72,615	\$ 7,362	\$ 79,977	\$ 12	\$ 79,989
Fines, penalties and interest.....	20	-	20	(16)	4
Investment income.....	338	62	400	(122)	278
Departmental services.....	194	-	194	-	194
Miscellaneous.....	50	298	348	(230)	118
<b>TOTAL REVENUES.....</b>	<b>73,217</b>	<b>7,722</b>	<b>80,939</b>	<b>(356)</b>	<b>80,583</b>
<b>EXPENDITURES:</b>					
State programs.....	81,896	454	82,350	1	82,351
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(8,679)</b>	<b>7,268</b>	<b>(1,411)</b>	<b>(357)</b>	<b>(1,768)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	7,347	7,347	-	7,347
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(8,679)</b>	<b>14,615</b>	<b>5,936</b>	<b>(357)</b>	<b>5,579</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2012.....</b>	<b>85,526</b>	<b>-</b>	<b>85,526</b>	<b>-</b>	<b>85,526</b>
<b>UNRESERVED/UNDESIGNATED FUND BALANCES</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2013.....</b>	<b>\$ 76,847</b>	<b>\$ 14,615</b>	<b>\$ 91,462</b>	<b>\$ (357)</b>	<b>\$ 91,105</b>

**Budgetary Compliance**

A separately available budgetary report, the "Status of Appropriations" (Special Funds), demonstrates budgetary expenditure compliance for the Workers' Compensation Administration Fund for the fiscal year ended June 30, 2013 and is available at the following web address:  
<http://www.portal.state.pa.us/portal/server.pt?open=512&objID=4574&&PageID=473560&mode=2> (At the website, click on June 2013)

<b>Traceability to the " Status of Appropriations " Column Totals</b>	<i>Special Funds</i> <i>"Status of</i> <i>Appropriations"</i>	
<b><u>Total State Programs-Actual (Budgetary Basis) Expenditures</u></b>	<b>Report Page</b>	<b>Reference</b>
Appropriations (Column A).....	318	\$ 81,896
plus Actual Augmentations (Column B).....	318	455
less Lapses (Column C).....	318	-
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<b>\$ 82,351</b>

**Reconciliation of Budgetary to GAAP Basis Amounts**

The Commonwealth adopts a formal annual budget for the Workers' Compensation Administration Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

<b>Budgetary basis</b> — revenues and other sources under expenditures (from Actual column above).....	<b>\$ 5,579</b>
<b>Adjustments:</b>	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(12,671)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	7,359
Net adjustments.....	(5,312)
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ 267</b>

The above revenue adjustments include net revenue accruals/deferrals, 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.

- The notes on pages 157 to 159 are an integral part of this schedule. -

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Debt Service Funds

**DEBT SERVICE FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

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.

***Pennsylvania Infrastructure Investment Authority 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, 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, compensation to Vietnam conflict veterans, finance of various environmental initiatives, and for water and wastewater infrastructure projects related to economic development. Funding consists of transfers from the General Fund, Environmental Stewardship Fund, and investment income. This other category is an aggregation of fourteen individual debt service funds.

There are a total of nineteen individual debt service funds; all are reported as nonmajor funds.



**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**  
 Debt Service Funds  
 June 30, 2013

(Amounts in thousands)

	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
<b>ASSETS</b>							
Cash.....	\$ -	\$ 176,808	\$ -	\$ -	\$ -	\$ -	\$ 176,808
Temporary Investments.....	1,482	23	-	-	9	795	2,309
Receivables, net:							
Accounts.....	-	3,221	-	-	-	-	3,221
Lease rentals.....	-	427	-	-	-	-	427
<b>TOTAL ASSETS.....</b>	<b>\$ 1,482</b>	<b>\$ 180,479</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9</b>	<b>\$ 795</b>	<b>\$ 182,765</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Accounts payable and accrued liabilities.....	\$ -	\$ 142,075	\$ -	\$ -	\$ -	\$ -	\$ 142,075
Unearned revenue.....	-	3,649	-	-	-	-	3,649
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>145,724</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>145,724</b>
<b>Fund balances:</b>							
Committed.....	1,482	34,755	-	-	9	795	37,041
<b>TOTAL FUND BALANCES.....</b>	<b>1,482</b>	<b>34,755</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>795</b>	<b>37,041</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 1,482</b>	<b>\$ 180,479</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9</b>	<b>\$ 795</b>	<b>\$ 182,765</b>

*Commonwealth of Pennsylvania*  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
 Debt Service Funds  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<b>Pennsylvania Infrastructure Investment Authority Redemption</b>	<b>Capital Debt</b>	<b>Pennsylvania Economic Revitalization Sinking</b>	<b>Water Facilities Loan Redemption</b>	<b>Land and Water Development Sinking</b>	<b>Other</b>	<b>Total</b>
<b>REVENUES:</b>							
Intergovernmental.....	\$ -	\$ 24,473	\$ -	\$ -	\$ -	\$ 930	\$ 25,403
Investment income.....	2	941	-	-	9	2	954
Other.....	8,182	-	-	-	-	-	8,182
<b>TOTAL REVENUES</b> .....	<b>8,184</b>	<b>25,414</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>932</b>	<b>34,539</b>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	-	16,644	-	-	-	-	16,644
Principal retirement.....	7,865	716,870	490	1,790	245	32,760	760,020
Interest and fiscal charges.....	5,810	464,176	15	56	8	45,390	515,455
<b>TOTAL EXPENDITURES</b> .....	<b>13,675</b>	<b>1,197,690</b>	<b>505</b>	<b>1,846</b>	<b>253</b>	<b>78,150</b>	<b>1,292,119</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b> .....	<b>(5,491)</b>	<b>(1,172,276)</b>	<b>(505)</b>	<b>(1,846)</b>	<b>(244)</b>	<b>(77,218)</b>	<b>(1,257,580)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Refunding bonds issued.....	-	361,760	-	-	-	-	361,760
Premium on refunding bonds.....	-	82,604	-	-	-	-	82,604
Transfers in.....	6,084	1,160,764	505	1,846	142	76,880	1,246,221
Payment to refunded bond escrow agent.....	-	(444,364)	-	-	-	-	(444,364)
<b>NET OTHER FINANCING SOURCES</b> .....	<b>6,084</b>	<b>1,160,764</b>	<b>505</b>	<b>1,846</b>	<b>142</b>	<b>76,880</b>	<b>1,246,221</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>593</b>	<b>(11,512)</b>	<b>-</b>	<b>-</b>	<b>(102)</b>	<b>(338)</b>	<b>(11,359)</b>
<b>FUND BALANCES, JULY 1, 2012</b> .....	<b>889</b>	<b>46,267</b>	<b>-</b>	<b>-</b>	<b>111</b>	<b>1,133</b>	<b>48,400</b>
<b>FUND BALANCES, JUNE 30, 2013</b> .....	<b>\$ 1,482</b>	<b>\$ 34,755</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9</b>	<b>\$ 795</b>	<b>\$ 37,041</b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Capital Projects Funds



**CAPITAL PROJECTS FUNDS  
DESCRIPTION  
NONMAJOR FUNDS**

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. Projects fall within six broad categories: public improvements, public improvement-original furniture and equipment, transportation assistance, redevelopment assistance, flood control and highway projects. Such projects include those of the primary government and also grants to non-primary government recipients.

**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.

**Growing Greener Bond Fund** — to account for the proceeds of bonds issued. The money will be used to finance various environmental projects such as watershed protection, mine drainage remediation, advanced energy, flood protection and various capital improvement projects including county environmental initiatives.

**Water Supply and Wastewater Treatment Fund** — funding for this program is generated from the \$250 million bond issue approved by the electorate in April of 2004. Funds are allocated to the Commonwealth Financing Authority and the Pennsylvania Infrastructure Investment Authority (PENNVEST) to be used for grants and loans for new and existing water supply and wastewater system projects in the Commonwealth.

**Land and Water Development Fund** — to account for the proceeds of bonds issued for pollution remediation; grants to local governments for sewage treatment facilities; the development of public outdoor recreation areas; and, acquisition and development of park and recreation lands and related studies to determine such needs.

**Public Transportation Assistance Fund** — This fund was established to help provide for the capital asset maintenance and certain other transportation needs of the Commonwealth's transit entities. Act 44 of 2007 revised the purpose of this fund by transferring programs to the new Public Transportation Trust Fund.

There are a total of six individual capital projects funds; all are reported as nonmajor funds.

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**  
 Capital Project Funds  
 June 30, 2013

(Amounts in thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Growing Greener Bond	Water Supply and Wastewater Treatment	Land and Water Development	Public Transportation Assistance	Total
<b>ASSETS</b>							
Cash.....	\$ -	\$ -	\$ -	\$ 41	\$ -	\$ 1	\$ 42
Temporary investments.....	244,482	17,503	43,242	28,900	333	7,638	342,098
Long-term investments.....	-	85,997	-	-	-	-	85,997
Receivables, net:							
Taxes.....	-	-	-	-	-	22,200	22,200
Accounts.....	89	-	-	-	-	-	89
Investment income.....	42	2	7	3	-	2	56
Notes and loans.....	-	-	-	58,138	-	-	58,138
Due from other funds.....	2,354	5,891	-	-	-	7,996	16,241
Due from component units.....	616	-	-	-	-	-	616
Due from political subdivisions.....	1,752	-	-	-	-	-	1,752
<b>TOTAL ASSETS.....</b>	<b>\$ 249,335</b>	<b>\$ 109,393</b>	<b>\$43,249</b>	<b>\$ 87,082</b>	<b>\$ 333</b>	<b>\$ 37,837</b>	<b>\$ 527,229</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Accounts payable and accrued liabilities.....	\$ 179,167	\$ 6,635	\$ 2,189	\$ 323	\$ 109	\$ -	\$ 188,423
Securities lending obligations.....	-	2,340	-	-	-	-	2,340
Due to other funds.....	11,581	91	-	-	-	895	12,567
Due to pension trust funds.....	-	4	-	-	-	-	4
Due to political subdivisions.....	33,871	451	481	252	-	6,744	41,799
Due to other governments.....	-	2	-	-	-	-	2
<b>TOTAL LIABILITIES.....</b>	<b>224,619</b>	<b>9,523</b>	<b>2,670</b>	<b>575</b>	<b>109</b>	<b>7,639</b>	<b>245,135</b>
<b>Fund balances:</b>							
Committed.....	24,716	99,870	40,579	86,507	224	30,198	282,094
<b>TOTAL FUND BALANCES.....</b>	<b>24,716</b>	<b>99,870</b>	<b>40,579</b>	<b>86,507</b>	<b>224</b>	<b>30,198</b>	<b>282,094</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 249,335</b>	<b>\$ 109,393</b>	<b>\$43,249</b>	<b>\$ 87,082</b>	<b>\$ 333</b>	<b>\$ 37,837</b>	<b>\$ 527,229</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**

Capital Projects Funds  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	<b>Capital Facilities</b>	<b>Keystone Recreation, Park and Conservation</b>	<b>Growing Greener Bond</b>	<b>Water Supply and Wastewater Treatment</b>	<b>Land and Water Development</b>	<b>Public Transportation Assistance</b>	<b>Total</b>
<b>REVENUES:</b>							
Taxes.....	\$ -	\$ 59,158	\$ -	\$ -	\$ -	\$ 186,578	\$ 245,736
Investment income.....	722	6,090	30	60	-	35	6,937
Interest on notes and loans.....	-	-	-	1,240	-	-	1,240
Other.....	-	-	-	7,927	-	-	7,927
<b>TOTAL REVENUES .....</b>	<b>722</b>	<b>65,248</b>	<b>30</b>	<b>9,227</b>	<b>-</b>	<b>186,613</b>	<b>261,840</b>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	236,731	-	22	-	-	-	236,753
Protection of persons and property.....	-	-	9,085	-	32	-	9,117
Public education.....	-	11,690	3,459	-	-	-	15,149
Recreation and cultural enrichment.....	3,991	36,405	4,414	-	-	-	44,810
Economic development.....	303,899	-	3,419	2,051	-	-	309,369
Transportation.....	341,180	-	-	-	-	165,648	506,828
Capital outlay.....	389,159	8,013	563	-	167	-	397,902
<b>TOTAL EXPENDITURES .....</b>	<b>1,274,960</b>	<b>56,108</b>	<b>20,962</b>	<b>2,051</b>	<b>199</b>	<b>165,648</b>	<b>1,519,928</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES .....</b>	<b>(1,274,238)</b>	<b>9,140</b>	<b>(20,932)</b>	<b>7,176</b>	<b>(199)</b>	<b>20,965</b>	<b>(1,258,088)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Bonds issued.....	910,300	-	40,000	-	-	-	950,300
Premium on bonds issued.....	128,178	-	5,634	-	-	-	133,812
Transfers out.....	(36,224)	-	-	-	-	(17,324)	(53,548)
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>1,002,254</b>	<b>-</b>	<b>45,634</b>	<b>-</b>	<b>-</b>	<b>(17,324)</b>	<b>1,030,564</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(271,984)</b>	<b>9,140</b>	<b>24,702</b>	<b>7,176</b>	<b>(199)</b>	<b>3,641</b>	<b>(227,524)</b>
<b>FUND BALANCES JULY 1, 2012.....</b>	<b>296,700</b>	<b>90,730</b>	<b>15,877</b>	<b>79,331</b>	<b>423</b>	<b>26,557</b>	<b>509,618</b>
<b>FUND BALANCES JUNE 30, 2013.....</b>	<b>\$ 24,716</b>	<b>\$ 99,870</b>	<b>\$ 40,579</b>	<b>\$ 86,507</b>	<b>\$ 224</b>	<b>\$ 30,198</b>	<b>\$ 282,094</b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Enterprise Funds

**ENTERPRISE FUNDS  
DESCRIPTION  
NONMAJOR 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.

**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.

**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 which will enhance business development in Pennsylvania. Sources of revenue and financing include loan principal and interest payments, transfers from the General Fund, Federal funds, and investment income.

**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.

**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 and financing include loan principal and interest payments, transfers from the General Fund, and investment income.

**Coal and Clay Mine Subsidence Insurance Fund** — to account for and provide insurance coverage to homeowners in mining areas against damages resulting from mine subsidence.

**Pennsylvania Infrastructure Bank Fund (PIB)** — to account for and provide low-interest loans to, or enter into leases with, qualified borrowers to finance the costs of construction and capital transportation projects within Pennsylvania. Acts 165 and 7A of 2004 expanded this program to include financing of rail freight infrastructure. Eligible borrowers include local governments, transportation authorities, economic development agencies, not-for-profit organizations, and private corporations. The interest rate on PIB loans is fixed at one-half the prime lending rate with terms up to 10 years.

**Rehabilitation Center Fund** — to account for the activities of the Hiram G. Andrews Rehabilitation Center which offers rehabilitative, educational, vocational, life management, and counseling services, resulting in employment and independence for persons with disabilities. The Center is funded from fees for services rendered.

**Other** — to account for enterprise operations including activities associated with low interest loans to manufacturers, financial and technical assistance to minority business enterprises, and loans and grants provided to attract industrial, manufacturing or research and development enterprises to the Commonwealth. This other category is an aggregation of six individual enterprise funds.

There are a total of eighteen individual enterprise funds. The following funds are reported as Major Funds in the basic financial statements: **Unemployment Compensation, State Workers' Insurance, State Lottery, Tuition Payment** and the **Commonwealth Financing Authority (a blended component unit)**.



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**Commonwealth of Pennsylvania**  
**Combining Statement of Net Position-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 June 30, 2013

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>ASSETS</b>									
Current assets:									
Cash .....	\$ 18,407	\$ 185	\$ -	\$ 187	\$ 88	\$ 325	\$ 102	\$ 1,481	\$ 20,775
Cash with fiscal agents.....	-	-	-	-	-	-	1	-	1
Temporary investments.....	160,552	41,691	35,240	63,049	22,064	6,691	8,778	14,358	352,423
Accounts .....	1,012	-	104	-	-	-	101	5	1,222
Investment income.....	-	6	5	10	3	1	1	2	28
Interest on loans.....	-	-	235	-	-	498	-	-	733
Loans.....	-	8,664	14,443	10,395	-	9,761	-	983	44,246
Lease rental.....	-	-	-	-	-	-	-	1,115	1,115
Other .....	-	-	-	-	-	-	-	11	11
Due from other funds .....	47	-	-	-	-	-	3,054	6,658	9,759
Due from component units.....	-	-	-	-	-	-	17	-	17
Due from Federal government.....	-	-	-	-	-	-	37	175	212
Due from other governments .....	-	-	-	-	-	-	-	27	27
Inventory.....	198,626	-	-	-	-	-	-	4	198,630
Prepaid expenses.....	2,782	-	-	-	-	-	-	625	3,407
Total current assets .....	<u>381,426</u>	<u>50,546</u>	<u>50,027</u>	<u>73,641</u>	<u>22,155</u>	<u>17,276</u>	<u>12,091</u>	<u>25,444</u>	<u>632,606</u>
Noncurrent assets:									
Restricted cash.....	-	-	-	-	-	-	-	5,490	5,490
Long-term investments .....	-	61,318	34,399	67,450	80,264	57,332	-	-	300,763
Receivables:									
Loans.....	-	39,189	68,800	32,764	-	53,947	-	1,918	196,618
Non-depreciable capital assets:									
Land.....	323	-	-	-	-	-	-	129,246	129,569
Construction in progress.....	-	-	-	-	-	-	-	27,701	27,701
Depreciable or amortizable capital assets:									
Land improvements.....	-	-	-	-	-	-	-	42,890	42,890
Buildings and building improvements.....	22,532	-	-	-	-	-	34,135	310,751	367,418
Machinery and equipment.....	81,201	-	-	-	156	-	2,582	40,981	124,920
Intangible assets.....	19,134	-	-	-	-	-	-	200	19,334
Less: accumulated depreciation and amortization...	(77,738)	-	-	-	(43)	-	(21,932)	(151,849)	(251,562)
Net depreciable or amortizable capital assets.....	<u>45,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113</u>	<u>-</u>	<u>14,785</u>	<u>242,973</u>	<u>303,000</u>
Other assets .....	-	-	-	-	-	-	-	15,195	15,195
Total noncurrent assets .....	<u>45,452</u>	<u>100,507</u>	<u>103,199</u>	<u>100,214</u>	<u>80,377</u>	<u>111,279</u>	<u>14,785</u>	<u>422,523</u>	<u>978,336</u>
<b>TOTAL ASSETS.....</b>	<u>426,878</u>	<u>151,053</u>	<u>153,226</u>	<u>173,855</u>	<u>102,532</u>	<u>128,555</u>	<u>26,876</u>	<u>447,967</u>	<u>1,610,942</u>

Commonwealth of Pennsylvania  
 Combining Statement of Net Position-Nonmajor Proprietary Funds  
 Enterprise Funds  
 June 30, 2013

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>LIABILITIES</b>									
Current liabilities:									
Accounts payable and accrued liabilities.....	269,305	18	403	22	145	-	1,038	8,005	278,936
Securities lending obligations.....	-	1,560	936	1,716	2,184	1,560	-	-	7,956
Due to other funds.....	6,809	-	-	1	6	-	207	26	7,049
Due to pension trust funds.....	1,432	1	-	1	5	-	51	43	1,533
Due to component units.....	-	-	-	-	49	-	3	-	52
Due to political subdivisions.....	-	-	-	-	-	-	38	3	41
Due to other governments.....	765	1	-	1	3	-	27	2	799
Interest payable.....	-	-	-	-	-	-	-	496	496
Unearned revenue.....	-	-	34	-	2,258	9	-	1,027	3,328
Notes payable.....	-	-	-	-	-	-	-	199	199
Revenue bonds payable.....	-	-	-	-	-	-	-	3,180	3,180
Self insurance liabilities.....	5,271	6	-	7	29	-	205	161	5,679
Compensated absences.....	5,292	-	-	-	70	-	289	262	5,913
Advances from other funds.....	-	3,000	-	-	-	-	-	-	3,000
Other liabilities.....	-	-	-	-	-	-	-	28	28
Total current liabilities.....	288,874	4,586	1,373	1,748	4,749	1,569	1,858	13,432	318,189
Non-current liabilities:									
Insurance loss liability.....	-	-	-	-	265	-	-	-	265
Revenue bond payable.....	-	-	-	-	-	-	-	26,727	26,727
Compensated absences.....	22,559	-	-	-	300	-	1,233	1,116	25,208
Self insurance liabilities.....	27,338	30	-	37	149	-	1,067	834	29,455
Other postemployment benefit obligations.....	58,477	89	-	103	422	-	3,477	2,078	64,646
Other liabilities.....	-	-	-	-	-	-	-	262	262
Total non-current liabilities.....	108,374	119	-	140	1,136	-	5,777	31,017	146,563
<b>TOTAL LIABILITIES.....</b>	<b>397,248</b>	<b>4,705</b>	<b>1,373</b>	<b>1,888</b>	<b>5,885</b>	<b>1,569</b>	<b>7,635</b>	<b>44,449</b>	<b>464,752</b>
<b>NET POSITION</b>									
Net investment in capital assets.....	45,452	-	-	-	113	-	14,785	385,009	445,359
Restricted for:									
Health-related programs.....	-	-	-	-	-	-	4,456	-	4,456
Transportation.....	-	-	-	-	-	126,986	-	-	126,986
Debt service.....	-	-	-	-	-	-	-	4,199	4,199
Economic development.....	-	146,348	-	171,967	-	-	-	6,954	325,269
Emergency support.....	-	-	151,853	-	-	-	-	-	151,853
Other purposes.....	-	-	-	-	96,534	-	-	9,395	105,929
Deficit.....	(15,822)	-	-	-	-	-	-	(2,039)	(17,861)
<b>TOTAL NET POSITION.....</b>	<b>\$ 29,630</b>	<b>\$ 146,348</b>	<b>\$ 151,853</b>	<b>\$ 171,967</b>	<b>\$ 96,647</b>	<b>\$ 126,986</b>	<b>\$ 19,241</b>	<b>\$ 403,518</b>	<b>\$ 1,146,190</b>

Commonwealth of Pennsylvania

Combining Statement of Revenues, Expenses, and Changes in Net Position-Nonmajor Proprietary Funds

Enterprise Funds

For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>OPERATING REVENUES:</b>									
Sales and services.....	\$ 1,747,060	\$ -	\$ -	\$ 38	\$ 5,255	\$ -	\$ 369	\$ 11,031	\$ 1,763,753
Interest on loans.....	-	2,130	1,770	1,688	-	1,153	-	124	6,865
Other.....	-	6	-	11	-	-	-	73	90
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>1,747,060</b>	<b>2,136</b>	<b>1,770</b>	<b>1,737</b>	<b>5,255</b>	<b>1,153</b>	<b>369</b>	<b>11,228</b>	<b>1,770,708</b>
Provision for uncollectible accounts.....	-	1,417	96	(1,709)	-	-	-	207	11
<b>NET OPERATING REVENUES.....</b>	<b>1,747,060</b>	<b>3,553</b>	<b>1,866</b>	<b>28</b>	<b>5,255</b>	<b>1,153</b>	<b>369</b>	<b>11,435</b>	<b>1,770,719</b>
<b>OPERATING EXPENSES:</b>									
Cost of sales and services.....	1,602,366	813	251	705	3,236	-	-	10,270	1,617,641
Depreciation.....	15,696	-	-	-	29	-	1,787	16,865	34,377
Other.....	-	-	-	-	-	-	-	4,946	4,946
<b>TOTAL OPERATING EXPENSES.....</b>	<b>1,618,062</b>	<b>813</b>	<b>251</b>	<b>705</b>	<b>3,265</b>	<b>-</b>	<b>1,787</b>	<b>32,081</b>	<b>1,656,964</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>128,998</b>	<b>2,740</b>	<b>1,615</b>	<b>(677)</b>	<b>1,990</b>	<b>1,153</b>	<b>(1,418)</b>	<b>(20,646)</b>	<b>113,755</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income.....	503	6,672	2,491	6,763	5,702	4,058	13	29	26,231
Grants and other revenues.....	-	3	-	-	-	-	2,958	13	2,974
Other expenses.....	(3)	-	-	-	-	-	(13)	(2,295)	(2,311)
<b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>	<b>500</b>	<b>6,675</b>	<b>2,491</b>	<b>6,763</b>	<b>5,702</b>	<b>4,058</b>	<b>2,958</b>	<b>(2,253)</b>	<b>26,894</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS.....</b>	<b>129,498</b>	<b>9,415</b>	<b>4,106</b>	<b>6,086</b>	<b>7,692</b>	<b>5,211</b>	<b>1,540</b>	<b>(22,899)</b>	<b>140,649</b>
<b>TRANSFERS AND CONTRIBUTIONS:</b>									
Capital contributions.....	-	-	-	-	-	-	8,973	1,128	10,101
Transfers in.....	-	-	-	-	-	15	-	38,950	38,965
Transfers out.....	(82,567)	-	-	-	-	-	-	-	(82,567)
<b>TRANSFERS AND CONTRIBUTIONS, NET.....</b>	<b>(82,567)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>8,973</b>	<b>40,078</b>	<b>(33,501)</b>
<b>CHANGE IN NET POSITION.....</b>	<b>46,931</b>	<b>9,415</b>	<b>4,106</b>	<b>6,086</b>	<b>7,692</b>	<b>5,226</b>	<b>10,513</b>	<b>17,179</b>	<b>107,148</b>
<b>TOTAL NET POSITION, JULY 1, 2012 (Restated).....</b>	<b>(17,301)</b>	<b>136,933</b>	<b>147,747</b>	<b>165,881</b>	<b>88,955</b>	<b>121,760</b>	<b>8,728</b>	<b>386,339</b>	<b>1,039,042</b>
<b>TOTAL NET POSITION, JUNE 30, 2013.....</b>	<b>\$ 29,630</b>	<b>\$ 146,348</b>	<b>\$ 151,853</b>	<b>\$ 171,967</b>	<b>\$ 96,647</b>	<b>\$ 126,986</b>	<b>\$ 19,241</b>	<b>\$ 403,518</b>	<b>\$ 1,146,190</b>

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**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>									
Receipts from customers.....	\$ 1,763,803	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,971	\$ 10,684	\$ 1,776,458
Receipts from borrowers for fees and loan repayments.....	-	17,020	15,458	14,973	-	14,627	-	1,387	63,465
Receipt of premiums.....	-	-	-	-	4,906	-	-	-	4,906
Payments to claimants.....	-	-	-	-	(1,078)	-	-	-	(1,078)
Payments to borrowers.....	-	(5,989)	(7,422)	(7,579)	-	(20,065)	-	(141)	(41,196)
Payments for vendors, employees and other costs.....	(1,581,002)	(792)	(250)	(708)	(2,200)	-	-	(7,661)	(1,592,613)
Other receipts.....	-	6	-	11	-	-	-	35	52
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>182,801</b>	<b>10,245</b>	<b>7,786</b>	<b>6,697</b>	<b>1,628</b>	<b>(5,438)</b>	<b>1,971</b>	<b>4,304</b>	<b>209,994</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>									
Net repayments under advances from other funds .....	(110,000)	-	-	-	-	-	-	-	(110,000)
Net repayments under advances to other funds .....	-	-	-	-	-	1,400	-	-	1,400
Transfers in.....	-	-	-	-	-	220	-	2,393	2,613
Transfers out.....	(82,070)	-	-	-	-	-	-	-	(82,070)
Grants and other revenues.....	-	3	-	-	-	-	2,115	13	2,131
Other payments.....	-	-	-	-	-	-	-	(712)	(712)
<b>NET CASH PROVIDED BY (USED FOR)</b>									
<b>NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(192,070)</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,620</b>	<b>2,115</b>	<b>1,694</b>	<b>(186,638)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>									
<b>FINANCING ACTIVITIES:</b>									
Acquisition and construction of capital assets.....	(7,839)	-	-	-	(28)	-	(224)	(32,225)	(40,316)
Principal payments on other capital debt.....	-	-	-	-	-	-	-	(3,249)	(3,249)
Interest payments on other capital debt.....	-	-	-	-	-	-	-	(1,585)	(1,585)
Transfers in.....	-	-	-	-	-	-	-	33,682	33,682
Capital contributions.....	-	-	-	-	-	-	-	1,111	1,111
Other receipts.....	-	-	-	-	-	-	-	119	119
Other payments.....	-	-	-	-	-	-	-	(3,305)	(3,305)
<b>NET CASH USED FOR CAPITAL AND</b>									
<b>RELATED FINANCING ACTIVITIES.....</b>	<b>(7,839)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28)</b>	<b>-</b>	<b>(224)</b>	<b>(5,452)</b>	<b>(13,543)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>									
Purchase of investments.....	(1,381,078)	(16,010)	(16,089)	(15,327)	(5,949)	(16,542)	(20,672)	(4,238)	(1,475,905)
Sales and maturities of investments.....	1,384,065	4,613	6,501	7,393	2,729	19,539	16,781	3,073	1,444,694
Investment income.....	503	1,204	740	1,368	1,616	1,140	13	30	6,614
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>3,490</b>	<b>(10,193)</b>	<b>(8,848)</b>	<b>(6,566)</b>	<b>(1,604)</b>	<b>4,137</b>	<b>(3,878)</b>	<b>(1,135)</b>	<b>(24,597)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>(13,618)</b>	<b>55</b>	<b>(1,062)</b>	<b>131</b>	<b>(4)</b>	<b>319</b>	<b>(16)</b>	<b>(589)</b>	<b>(14,784)</b>
<b>CASH AT JULY 1, 2012.....</b>	<b>32,025</b>	<b>130</b>	<b>1,062</b>	<b>56</b>	<b>92</b>	<b>6</b>	<b>119</b>	<b>7,560</b>	<b>41,050</b>
<b>CASH AT JUNE 30, 2013 (including \$5,490 included in restricted assets).....</b>	<b>\$ 18,407</b>	<b>\$ 185</b>	<b>\$ -</b>	<b>\$ 187</b>	<b>\$ 88</b>	<b>\$ 325</b>	<b>\$ 103</b>	<b>\$ 6,971</b>	<b>\$ 26,266</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	State Stores	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Other	Total
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>									
Operating income (loss).....	\$ 128,998	\$ 2,740	\$ 1,615	\$ (677)	\$ 1,990	\$ 1,153	\$ (1,418)	\$ (20,646)	\$ 113,755
Depreciation and amortization.....	15,696	-	-	-	29	-	1,787	16,865	34,377
Provision for uncollectible accounts.....	-	(1,417)	(96)	1,709	-	-	-	(207)	(11)
Other adjustments.....	-	-	-	-	-	-	-	4,946	4,946
Change in assets and liabilities:									
Accounts receivable.....	16,743	-	(104)	-	-	-	140	(5)	16,774
Interest on loans receivable.....	-	-	5	-	-	(21)	-	-	(16)
Loans receivable.....	-	8,904	6,010	5,887	-	(6,579)	-	1,113	15,335
Lease rental receivable.....	-	-	-	-	-	-	-	(421)	(421)
Due from other funds.....	(16)	-	-	-	-	-	848	(9)	823
Due from component units.....	-	-	-	-	-	-	(3)	-	(3)
Due from other governments.....	-	-	-	-	-	-	-	5	5
Inventory.....	(22,030)	-	-	-	-	-	-	-	(22,030)
Prepaid expenses.....	(330)	-	-	-	-	-	-	(23)	(353)
Accounts payable and accrued liabilities.....	31,982	-	403	5	(133)	-	(117)	1,239	33,379
Due to other funds.....	(279)	(3)	(12)	(257)	2	-	152	5	(392)
Due to pension trust funds.....	483	-	-	-	-	-	15	40	538
Due to component units.....	-	-	-	-	45	-	3	-	48
Due to primary government.....	-	-	-	-	-	-	-	(33)	(33)
Due to political subdivisions.....	-	-	-	-	-	-	16	3	19
Due to other governments.....	162	1	-	1	-	-	1	(1)	164
Unearned revenue.....	-	-	(35)	-	(359)	9	-	-	(385)
Self insurance liabilities.....	403	2	-	8	26	-	(31)	894	1,302
Compensated absences.....	150	-	-	-	(2)	-	(17)	186	317
Insurance loss liability.....	-	-	-	-	(38)	-	-	-	(38)
Other postemployment benefit obligations.....	10,839	18	-	21	68	-	595	386	11,927
Other current and noncurrent liabilities.....	-	-	-	-	-	-	-	(33)	(33)
<b>Total Adjustments.....</b>	<b>53,803</b>	<b>7,505</b>	<b>6,171</b>	<b>7,374</b>	<b>(362)</b>	<b>(6,591)</b>	<b>3,389</b>	<b>24,950</b>	<b>96,239</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 182,801</b>	<b>\$ 10,245</b>	<b>\$ 7,786</b>	<b>\$ 6,697</b>	<b>\$ 1,628</b>	<b>\$ (5,438)</b>	<b>\$ 1,971</b>	<b>\$ 4,304</b>	<b>\$ 209,994</b>
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 5,468	\$ 1,751	\$ 5,396	\$ 4,086	\$ 2,919	\$ -	\$ -	\$ 19,620
Increase in investments from changes in securities lending obligations.....	-	482	289	530	675	482	-	-	2,458
Capital asset transfers from governmental fund and related organization.....	-	-	-	-	-	-	8,973	17	8,990
Capital asset disposals by scrapping.....	-	-	-	-	-	-	(13)	-	(13)

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

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Internal Service Funds

## 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. This fund is also used to account for all Commonwealth telecommunication activities, which are accounted for by the Governor's Executive Offices. Revenue is derived from reimbursements from Commonwealth agencies that use Fund services or products.

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

There are a total of two individual internal service funds.

**Commonwealth of Pennsylvania**

**Combining Statement of Net Position-Nonmajor Proprietary Funds**

Internal Service Funds

June 30, 2013

(Amounts in thousands)

	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash.....	\$ 10,908	\$ 3,875	\$ 14,783
Temporary investments.....	21,986	4,286	26,272
Receivables:			
Accounts.....	3	2,041	2,044
Investment income.....	4	1	5
Due from other funds.....	16,148	1,493	17,641
Due from pension trust funds.....	1,433	3,244	4,677
Due from component units.....	222	-	222
Due from political subdivisions.....	67	-	67
Due from other governments.....	-	16	16
Inventory.....	50	17,541	17,591
Other assets.....	-	16	16
Total current assets.....	<u>50,821</u>	<u>32,513</u>	<u>83,334</u>
Noncurrent assets:			
Long-term investments .....	-	17,199	17,199
Depreciable capital assets:			
Land improvements.....	192	-	192
Buildings and building improvements.....	-	5,615	5,615
Machinery and equipment.....	68,728	28,677	97,405
Less: accumulated depreciation.....	<u>(45,349)</u>	<u>(16,188)</u>	<u>(61,537)</u>
Net depreciable capital assets.....	<u>23,571</u>	<u>18,104</u>	<u>41,675</u>
Total noncurrent assets.....	<u>23,571</u>	<u>35,303</u>	<u>58,874</u>
<b>TOTAL ASSETS.....</b>	<b><u>74,392</u></b>	<b><u>67,816</u></b>	<b><u>142,208</u></b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities.....	25,124	6,138	31,262
Securities lending obligations.....	-	468	468
Due to other funds.....	5,129	359	5,488
Due to pension trust funds.....	21	41	62
Due to component units.....	2	-	2
Due to other governments.....	7	19	26
Self insurance liabilities.....	107	333	440
Compensated absences.....	127	359	486
Total current liabilities.....	<u>30,517</u>	<u>7,717</u>	<u>38,234</u>
Non-current liabilities:			
Installment purchase.....	615	-	615
Compensated absences.....	540	1,528	2,068
Self insurance liabilities.....	554	1,727	2,281
Other postemployment benefit obligations.....	1,723	3,940	5,663
Total non-current liabilities.....	<u>3,432</u>	<u>7,195</u>	<u>10,627</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>33,949</u></b>	<b><u>14,912</u></b>	<b><u>48,861</u></b>
<b>NET POSITION</b>			
Net investment in capital assets.....	22,956	18,104	41,060
Restricted for:			
Correctional industries and procurement.....	17,487	34,800	52,287
<b>TOTAL NET POSITION.....</b>	<b><u>\$ 40,443</u></b>	<b><u>\$ 52,904</u></b>	<b><u>\$ 93,347</u></b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Revenues, Expenses, and Changes in**  
**Net Position-Nonmajor Proprietary Funds**  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services.....	\$ 18,139	\$ 66,197	\$ 84,336
Other.....	2	11	13
<b>NET OPERATING REVENUES.....</b>	<u>18,141</u>	<u>66,208</u>	<u>84,349</u>
<b>OPERATING EXPENSES:</b>			
Cost of sales and services.....	16,657	64,820	81,477
Depreciation.....	4,853	1,639	6,492
<b>TOTAL OPERATING EXPENSES .....</b>	<u>21,510</u>	<u>66,459</u>	<u>87,969</u>
<b>OPERATING LOSS.....</b>	<u>(3,369)</u>	<u>(251)</u>	<u>(3,620)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	75	1,237	1,312
Other expenses.....	(2,028)	-	(2,028)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<u>(1,953)</u>	<u>1,237</u>	<u>(716)</u>
<b>CHANGE IN NET POSITION.....</b>	(5,322)	986	(4,336)
<b>TOTAL NET POSITION, JULY 1, 2012.....</b>	<u>45,765</u>	<u>51,918</u>	<u>97,683</u>
<b>TOTAL NET POSITION, JUNE 30, 2013.....</b>	<u>\$ 40,443</u>	<u>\$ 52,904</u>	<u>\$ 93,347</u>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers.....	\$ 23,297	\$ 63,984	\$ 87,281
Payments for vendors, employees and other costs.....	(19,855)	(66,573)	(86,428)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>3,442</b>	<b>(2,589)</b>	<b>853</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets.....	(18,216)	(4,956)	(23,172)
Capital lease/installment purchase payments.....	(175)	-	(175)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES..</b>	<b>(18,391)</b>	<b>(4,956)</b>	<b>(23,347)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments.....	(343,998)	(46,493)	(390,491)
Sales and maturities of investments.....	366,205	57,064	423,269
Investment income.....	80	363	443
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES.....</b>	<b>22,287</b>	<b>10,934</b>	<b>33,221</b>
<b>NET INCREASE IN CASH.....</b>	<b>7,338</b>	<b>3,389</b>	<b>10,727</b>
<b>CASH AT JULY 1, 2012.....</b>	<b>3,570</b>	<b>486</b>	<b>4,056</b>
<b>CASH AT JUNE 30, 2013.....</b>	<b>\$ 10,908</b>	<b>\$ 3,875</b>	<b>\$ 14,783</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>			
<b>CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>			
Operating loss.....	\$ (3,369)	\$ (251)	\$ (3,620)
Depreciation and amortization.....	4,853	1,639	6,492
Other adjustments.....	(341)	-	(341)
Change in assets and liabilities:			
Accounts receivable.....	713	(1,253)	(540)
Due from other funds.....	(2,232)	(749)	(2,981)
Due from pension trust funds.....	(713)	(189)	(902)
Due from component units.....	87	3	90
Due from political subdivisions.....	(27)	-	(27)
Due from other governments.....	-	(4)	(4)
Inventory.....	169	(2,729)	(2,560)
Other current assets.....	-	(8)	(8)
Accounts payable and accrued liabilities.....	1,608	(176)	1,432
Due to other funds.....	2,450	212	2,662
Due to pension trust funds.....	(6)	13	7
Due to component units.....	1	-	1
Due to other governments.....	-	1	1
Self insurance liabilities.....	(35)	(64)	(99)
Compensated absences.....	(10)	92	82
Other postemployment benefit obligations.....	294	874	1,168
<b>Total Adjustments.....</b>	<b>6,811</b>	<b>(2,338)</b>	<b>4,473</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 3,442</b>	<b>\$ (2,589)</b>	<b>\$ 853</b>
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 875	\$ 875
Increase in investments from changes in securities lending obligations.....	-	145	145
Capital asset disposals by scrapping.....	(2,028)	-	(2,028)

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

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Pension (and Other Employee Benefit) Trust Funds

## PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS DESCRIPTION

Pension (and other employee benefit) trust funds account for assets that are required to be held in trust for the members and beneficiaries of defined benefit pension plans and other post employment benefit plans and are held by the Commonwealth in a trustee capacity.

### PENSION TRUST FUNDS

***State Employees' Retirement System (SERS)*** — a component unit organization reported as a Pension Trust Fund that administers and provides retirement, disability, and death benefits to members of the SERS and their beneficiaries.

***Deferred Compensation Fund*** — a pension trust fund administered by the SERS that collects and administers amounts contributed by Commonwealth employees who defer a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

***Public School Employees' Retirement System*** — a component unit organization that administers and provides pension benefits to public school employees in Pennsylvania.

### OTHER EMPLOYEE BENEFIT TRUST FUNDS

***Public School Employees' Retirement System-Postemployment Healthcare*** — a component unit organization reported as an employee benefit trust fund that administers and provides retirement, disability, and death benefits to members and their beneficiaries.

***Other Postemployment Benefits Investment Pool*** — an employee benefit trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing post retirement healthcare benefits to retired employees and retired Pennsylvania State Police.



Commonwealth of Pennsylvania  
**Combining Statement of Fiduciary Net Position**  
Pension (and Other Employee Benefit) Trust Funds  
June 30, 2013

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System (December 31, 2012)	Deferred Compensation (December 31, 2012)	Public School Employees' Retirement System		Other Postemployment Benefits Investment Pool	Total
			Pension	Postemployment Healthcare		
<b>ASSETS</b>						
Cash.....	\$ -	\$ 5,527	\$ 212,731	\$ -	\$ 83	\$ 218,341
Temporary investments.....	-	10,949	-	-	61,227	72,176
Long-term investments.....	-	59,382	-	-	147,980	207,362
Short-term funds.....	1,008,127	49,369	2,267,953	151,009	-	3,476,458
Corporate obligations.....	533,056	294,792	1,378,991	-	-	2,206,839
Collective trust funds.....	1,955,956	-	11,280,497	-	-	13,236,453
Real estate.....	2,870,536	-	6,797,535	-	-	9,668,071
Alternative.....	8,251,453	-	12,623,291	-	-	20,874,744
Securities lending collateral.....	202,880	10,825	615,159	-	-	828,864
Asset-backed securities.....	32,298	60,773	1,423,517	-	-	1,516,588
Commercial paper.....	-	-	34,867	-	-	34,867
Derivatives.....	-	-	50	-	-	50
Domestic equities.....	4,288,094	890,217	5,634,776	-	-	10,813,087
International equities.....	3,577,501	119,940	4,127,751	-	-	7,825,192
International private debt securities.....	-	-	416,786	-	-	416,786
International public debt securities.....	313,102	12,454	828,948	-	-	1,154,504
Mortgage-backed securities.....	357,365	368,461	447,904	-	-	1,173,730
Private placements.....	344,629	3,269	-	-	-	347,898
Repurchase agreements.....	-	-	-	87,258	-	87,258
State and municipal obligations.....	-	1,690	-	-	-	1,690
U.S. Treasury obligations.....	1,962,377	436,768	1,559,683	-	-	3,958,828
U.S. government agency debt securities.....	80,937	114,245	260,860	-	-	456,042
Receivables, net:						
Investment income.....	53,202	12	155,306	-	-	208,520
Interest on notes and loans.....	-	-	-	-	484	484
Pension contributions.....	-	5,099	723,594	35,908	-	764,601
Investment sale proceeds.....	216,182	-	228,612	-	-	444,794
Other.....	4,870	102	521	13,462	-	18,955
Due from other funds.....	5,601	-	4,173	-	-	9,774
Due from pension trust funds.....	641	-	143	-	-	784
Due from component units.....	11,140	-	-	-	-	11,140
Due from political subdivisions.....	11,553	-	-	-	-	11,553
Due from other governments.....	-	-	-	11,883	-	11,883
Depreciable or amortizable capital assets:						
Machinery and equipment.....	-	-	12,547	-	-	12,547
Intangible assets.....	-	-	31,983	-	-	31,983
Less: accumulated depreciation and amortization.....	-	-	(22,127)	-	-	(22,127)
Net depreciable or amortizable capital assets.....	-	-	22,403	-	-	22,403
<b>TOTAL ASSETS.....</b>	<b>26,081,500</b>	<b>2,443,874</b>	<b>51,046,051</b>	<b>299,520</b>	<b>209,774</b>	<b>80,080,719</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities.....	45,582	1,209	145,837	1,802	53	194,483
Investment purchases payable.....	433,277	-	519,492	-	-	952,769
Securities lending obligations.....	213,306	10,825	615,159	-	61,151	900,441
Due to other funds.....	-	4	908	-	-	912
Due to pension trust funds.....	-	123	1,519	-	-	1,642
Other liabilities.....	-	-	747,575	37,582	-	785,157
<b>TOTAL LIABILITIES.....</b>	<b>692,165</b>	<b>12,161</b>	<b>2,030,490</b>	<b>39,384</b>	<b>61,204</b>	<b>2,835,404</b>
<b>NET POSITION</b>						
Held in trust for:						
Pension benefits.....	25,389,335	-	49,015,561	-	-	74,404,896
Postemployment healthcare benefits.....	-	-	-	260,136	148,570	408,706
Employee salary deferrals.....	-	2,431,713	-	-	-	2,431,713
<b>TOTAL NET POSITION.....</b>	<b>\$ 25,389,335</b>	<b>\$ 2,431,713</b>	<b>\$ 49,015,561</b>	<b>\$ 260,136</b>	<b>\$ 148,570</b>	<b>\$77,245,315</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Net Position**  
Pension (and Other Employee Benefit) Trust Funds  
For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System	Deferred Compensation	Public School Employees' Retirement System		Other Postemployment Benefits Investment Pool	Total
	(December 31, 2012)	(December 31, 2012)	Pension	Postemployment Healthcare		
<b>ADDITIONS:</b>						
Pension contributions:						
Employer.....	\$ 565,621	\$ -	\$ 1,446,402	\$ 149,374	\$ 661,100	\$ 2,822,497
Employee.....	347,937	122,251	991,087	234,516	-	1,695,791
Transfer in from other plans.....	-	48,890	-	-	-	48,890
Total contributions.....	<u>913,558</u>	<u>171,141</u>	<u>2,437,489</u>	<u>383,890</u>	<u>661,100</u>	<u>4,567,178</u>
Investment income:						
Net appreciation/(depreciation) in fair value of investments.....	2,543,833	164,263	3,428,449	(1,140)	12,670	6,148,075
Interest income.....	144,431	31,944	254,267	1,532	7	432,181
Dividend income.....	190,733	-	255,248	-	3,897	449,878
Rental and other income.....	102,224	-	737,364	-	84	839,672
Total investment activity income.....	<u>2,981,221</u>	<u>196,207</u>	<u>4,675,328</u>	<u>392</u>	<u>16,658</u>	<u>7,869,806</u>
Less: investment expenses						
Investment activity expense.....	(189,722)	(3,252)	(557,533)	(56)	-	(750,563)
Net investment earnings.....	<u>2,791,499</u>	<u>192,955</u>	<u>4,117,795</u>	<u>336</u>	<u>16,658</u>	<u>7,119,243</u>
Securities lending activities:						
Income.....	3,953	11	9,541	-	-	13,505
Expenses.....	(512)	(1)	(1,334)	-	-	(1,847)
Total securities lending income.....	<u>3,441</u>	<u>10</u>	<u>8,207</u>	<u>-</u>	<u>-</u>	<u>11,658</u>
Total net investment income.....	<u>2,794,940</u>	<u>192,965</u>	<u>4,126,002</u>	<u>336</u>	<u>16,658</u>	<u>7,130,901</u>
<b>TOTAL ADDITIONS.....</b>	<b><u>3,708,498</u></b>	<b><u>364,106</u></b>	<b><u>6,563,491</u></b>	<b><u>384,226</u></b>	<b><u>677,758</u></b>	<b><u>11,698,079</u></b>
<b>DEDUCTIONS:</b>						
Benefit payments.....	2,664,242	61,872	6,016,892	329,117	661,100	9,733,223
Refunds of contributions.....	9,891	-	24,461	-	-	34,352
Transfers to other plans.....	-	73,677	2,893	-	-	76,570
Administrative expenses.....	22,209	237	37,480	24,756	6	84,688
Other expenses.....	-	2,661	-	-	400	3,061
<b>TOTAL DEDUCTIONS.....</b>	<b><u>2,696,342</u></b>	<b><u>138,447</u></b>	<b><u>6,081,726</u></b>	<b><u>353,873</u></b>	<b><u>661,506</u></b>	<b><u>9,931,894</u></b>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>						
Pension benefits.....	1,012,156	-	481,765	-	-	1,493,921
Postemployment healthcare benefits.....	-	-	-	30,353	16,252	46,605
Employee salary deferrals.....	-	225,659	-	-	-	225,659
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST</b>	<b><u>1,012,156</u></b>	<b><u>225,659</u></b>	<b><u>481,765</u></b>	<b><u>30,353</u></b>	<b><u>16,252</u></b>	<b><u>1,766,185</u></b>
<b>Net position, July 1, 2012.....</b>	<b><u>24,377,179</u></b>	<b><u>2,206,054</u></b>	<b><u>48,533,796</u></b>	<b><u>229,783</u></b>	<b><u>132,318</u></b>	<b><u>75,479,130</u></b>
<b>Net position, June 30, 2013.....</b>	<b><u>\$ 25,389,335</u></b>	<b><u>\$ 2,431,713</u></b>	<b><u>\$ 49,015,561</u></b>	<b><u>\$ 260,136</u></b>	<b><u>\$ 148,570</u></b>	<b><u>\$ 77,245,315</u></b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Agency Funds

## AGENCY FUNDS DESCRIPTION

Agency funds account for assets held by the Commonwealth as an agent for individuals, private organizations, or other governmental units.

### AGENCY FUNDS

**Statutory Liquidator Fund** — to convert the remaining assets of insolvent insurance companies to cash for remittance to creditors, policyholders, and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders, and stockholders.

**Medical Care Availability and Reduction of Error Fund** — to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies.

**Allegheny Regional Asset District Sales and Use Tax Fund** — to collect an additional 1% sales tax remitted by Allegheny County business entities to the Department of Revenue, as established per Act 1993-77. On a monthly basis, the Treasury Department distributes the fund balance to qualified County entities in accordance with the requirements of the Act.

**Underground Storage Tank Indemnification Fund** — to collect assessments and remit 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.

**Municipal Pension Aid Fund** — to collect a two percent premium tax received from foreign (out-of-state) casualty insurance companies conducting business in the Commonwealth, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

**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, which are remitted to local governments. The municipalities must pay these monies to the relief, pension, or retirement fund of their recognized fire fighting organization.

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

**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 thirteen individual agency funds.

Commonwealth of Pennsylvania  
Combining Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2013

(Amounts in thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodial Accounts	Other	Total Agency Funds
<b>ASSETS</b>									
Cash.....	\$ -	\$ 1,160	\$ 93	\$ -	\$ 34	\$ 34	\$ 12,528	\$ 256	\$ 14,105
Cash with fiscal agents.....	39,330	-	-	-	-	-	-	-	39,330
Temporary investments.....	205,216	161,299	15,085	33,524	264,455	88,064	20,769	38,122	826,534
Long-term investments.....	2,961,196	57,332	-	143,442	-	-	-	-	3,161,970
Receivables, net:									
Taxes.....	-	-	10,464	-	1,853	844	-	16,646	29,807
Accounts.....	23,801	-	-	14,118	-	-	6,753	1	44,673
Investment income.....	12,551	23	1	745	40	-	-	3	13,363
Investment sale proceeds.....	16,806	-	-	522	-	-	-	-	17,328
Advances to other funds.....	-	-	-	67,500	-	-	-	-	67,500
Other assets.....	4,249,696	-	-	-	-	-	966	-	4,250,662
<b>TOTAL ASSETS.....</b>	<b>\$ 7,508,596</b>	<b>\$ 219,814</b>	<b>\$ 25,643</b>	<b>\$ 259,851</b>	<b>\$ 266,382</b>	<b>\$ 88,942</b>	<b>\$ 41,016</b>	<b>\$ 55,028</b>	<b>\$ 8,465,272</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities....	\$ -	\$ 155,463	\$ 170	\$ 13,078	\$ -	\$ -	\$ 11,201	\$ 285	\$ 180,197
Investment purchases payable.....	4,811	-	-	445	-	-	-	-	5,256
Securities lending obligations.....	1,718	1,562	-	14,368	-	-	-	-	17,648
Due to political subdivisions.....	-	-	25,473	3	266,382	88,942	-	50,731	431,531
Due to other governments.....	-	4	-	1	-	-	-	-	5
Compensated absence liability.....	-	373	-	46	-	-	-	-	419
Self insurance liabilities.....	-	327	-	74	-	-	-	-	401
Other postemployment benefit obligations	-	1,058	-	171	-	-	-	-	1,229
Other liabilities.....	7,502,067	61,027	-	231,665	-	-	29,815	4,012	7,828,586
<b>TOTAL LIABILITIES.....</b>	<b>\$ 7,508,596</b>	<b>\$ 219,814</b>	<b>\$ 25,643</b>	<b>\$ 259,851</b>	<b>\$ 266,382</b>	<b>\$ 88,942</b>	<b>\$ 41,016</b>	<b>\$ 55,028</b>	<b>\$ 8,465,272</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>STATUTORY LIQUIDATOR FUND</b>				
<b>ASSETS</b>				
Cash with fiscal agents.....	\$ 19,709	\$ 1,599,648	\$ 1,580,027	\$ 39,330
Temporary investments.....	233,444	269,268	297,496	205,216
Long-term investments.....	3,014,745	1,788,543	1,842,092	2,961,196
Receivables, net:				
Accounts.....	35,100	1,708	13,007	23,801
Investment income.....	13,166	60,293	60,908	12,551
Investment sale proceeds.....	46,488	53,166	82,848	16,806
Other assets.....	3,950,849	309,747	10,900	4,249,696
<b>TOTAL ASSETS .....</b>	<b>\$ 7,313,501</b>	<b>\$ 4,082,373</b>	<b>\$ 3,887,278</b>	<b>\$ 7,508,596</b>
<b>LIABILITIES</b>				
Investment purchases payable.....	\$ 64,506	\$ 75,611	\$ 135,306	\$ 4,811
Securities lending obligations.....	1,188	1,718	1,188	1,718
Other liabilities.....	7,247,807	7,502,067	7,247,807	7,502,067
<b>TOTAL LIABILITIES .....</b>	<b>\$ 7,313,501</b>	<b>\$ 7,579,396</b>	<b>\$ 7,384,301</b>	<b>\$ 7,508,596</b>
<b>MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 1,214	\$ 1,334,336	\$ 1,334,390	\$ 1,160
Temporary investments.....	151,043	265,424	255,168	161,299
Long-term investments.....	53,288	57,336	53,292	57,332
Receivables, net:				
Accounts.....	1	4	5	-
Investment income.....	28	24	29	23
<b>TOTAL ASSETS .....</b>	<b>\$ 205,574</b>	<b>\$ 1,657,124</b>	<b>\$ 1,642,884</b>	<b>\$ 219,814</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 159,663	\$ 778,593	\$ 782,793	\$ 155,463
Securities lending obligations.....	1,080	1,562	1,080	1,562
Due to other funds.....	-	702	702	-
Due to political subdivisions.....	-	23	23	-
Due to other governments.....	4	17	17	4
Compensated absence liability.....	374	373	374	373
Self insurance liabilities.....	387	654	714	327
Other postemployment benefit obligations.....	899	1,073	914	1,058
Other liabilities.....	43,167	17,860	-	61,027
<b>TOTAL LIABILITIES .....</b>	<b>\$ 205,574</b>	<b>\$ 800,857</b>	<b>\$ 786,617</b>	<b>\$ 219,814</b>

(continued)

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>ALLEGHENY REGIONAL ASSET DISTRICT</b>				
<b>SALES AND USE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 82	\$ 902,134	\$ 902,123	\$ 93
Temporary investments.....	14,192	173,458	172,565	15,085
Receivables, net:				
Taxes.....	12,117	10,463	12,116	10,464
Investment income.....	1	1	1	1
<b>TOTAL ASSETS</b> .....	<u>\$ 26,392</u>	<u>\$ 1,086,056</u>	<u>\$ 1,086,805</u>	<u>\$ 25,643</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 210	\$ 170	\$ 210	\$ 170
Due to political subdivisions.....	26,182	11,327	12,036	25,473
<b>TOTAL LIABILITIES</b> .....	<u>\$ 26,392</u>	<u>\$ 11,497</u>	<u>\$ 12,246</u>	<u>\$ 25,643</u>
<b>UNDERGROUND STORAGE TANK</b>				
<b>INDEMNIFICATION FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 847,297	\$ 847,297	\$ -
Cash with fiscal agents.....	-	-	-	-
Temporary investments.....	28,180	152,003	146,659	33,524
Long-term investments.....	119,242	258,191	233,991	143,442
Receivables, net:				
Accounts.....	13,972	42,200	42,054	14,118
Investment income.....	837	745	837	745
Interest on notes and loans.....	-	1,578	1,578	-
Loans.....	-	1,239	1,239	-
Investment sale proceeds.....	869	522	869	522
Advances to other funds.....	67,500	135,000	135,000	67,500
<b>TOTAL ASSETS</b> .....	<u>\$ 230,600</u>	<u>\$ 1,438,775</u>	<u>\$ 1,409,524</u>	<u>\$ 259,851</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 13,355	\$ 174,955	\$ 175,232	\$ 13,078
Investment purchases payable.....	1,805	445	1,805	445
Securities lending obligations.....	6,509	14,368	6,509	14,368
Due to other funds.....	-	362	362	-
Due to political subdivisions.....	16	287	300	3
Due to other governments.....	1	22	22	1
Compensated absence liability.....	43	46	43	46
Self insurance liabilities.....	72	74	72	74
Other postemployment benefit obligations.....	138	175	142	171
Other liabilities.....	208,661	106,458	83,454	231,665
<b>TOTAL LIABILITIES</b> .....	<u>\$ 230,600</u>	<u>\$ 297,192</u>	<u>\$ 267,941</u>	<u>\$ 259,851</u>

(continued)

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>MUNICIPAL PENSION AID FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 159	\$ 1,360,007	\$ 1,360,132	\$ 34
Temporary investments.....	249,340	267,620	252,505	264,455
Receivables, net:				
Taxes.....	-	7,184	5,331	1,853
Investment income.....	48	40	48	40
Due from other funds.....	-	7,184	7,184	-
<b>TOTAL ASSETS .....</b>	<u>\$ 249,547</u>	<u>\$ 1,642,035</u>	<u>\$ 1,625,200</u>	<u>\$ 266,382</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 2,585	\$ 2,585	\$ -
Due to political subdivisions.....	249,547	269,093	252,258	266,382
<b>TOTAL LIABILITIES .....</b>	<u>\$ 249,547</u>	<u>\$ 271,678</u>	<u>\$ 254,843</u>	<u>\$ 266,382</u>
<b>FIRE INSURANCE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 5	\$ 417,484	\$ 417,455	\$ 34
Temporary investments.....	78,739	88,333	79,008	88,064
Receivables, net:				
Taxes.....	-	3,272	2,428	844
Accounts.....	-	3,272	3,272	-
Due from other funds.....	-	844	844	-
<b>TOTAL ASSETS .....</b>	<u>\$ 78,744</u>	<u>\$ 513,205</u>	<u>\$ 503,007</u>	<u>\$ 88,942</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 56	\$ 56	\$ -
Due to political subdivisions.....	78,744	11,042	844	88,942
<b>TOTAL LIABILITIES .....</b>	<u>\$ 78,744</u>	<u>\$ 11,098</u>	<u>\$ 900</u>	<u>\$ 88,942</u>
<b>AGENCY CUSTODIAL ACCOUNTS</b>				
<b>ASSETS</b>				
Cash.....	\$ 14,334	\$ 358	\$ 2,164	\$ 12,528
Temporary investments.....	18,145	3,065	441	20,769
Receivables, net:				
Accounts.....	6,287	467	1	6,753
Other assets.....	853	126	13	966
<b>TOTAL ASSETS .....</b>	<u>\$ 39,619</u>	<u>\$ 4,016</u>	<u>\$ 2,619</u>	<u>\$ 41,016</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 10,279	\$ 947	\$ 25	\$ 11,201
Other liabilities.....	29,340	1,883	1,408	29,815
<b>TOTAL LIABILITIES .....</b>	<u>\$ 39,619</u>	<u>\$ 2,830</u>	<u>\$ 1,433</u>	<u>\$ 41,016</u>

(continued)



**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
 Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 13,982	\$ 4,069,185	\$ 4,082,911	\$ 256
Temporary investments.....	36,868	693,910	692,656	38,122
Receivables, net:				
Taxes.....	18,638	16,646	18,638	16,646
Accounts.....	1	1	1	1
Investment income.....	4	4	5	3
<b>TOTAL ASSETS .....</b>	<u>\$ 69,493</u>	<u>\$ 4,779,746</u>	<u>\$ 4,794,211</u>	<u>\$ 55,028</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 13,982	\$ 70,175	\$ 83,872	\$ 285
Due to other funds.....	-	170	170	-
Due to political subdivisions.....	52,321	53,850	55,440	50,731
Other liabilities.....	3,190	822	-	4,012
<b>TOTAL LIABILITIES .....</b>	<u>\$ 69,493</u>	<u>\$ 125,017</u>	<u>\$ 139,482</u>	<u>\$ 55,028</u>

(continued)

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>TOTAL — AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 29,776	\$ 8,930,801	\$ 8,946,472	\$ 14,105
Cash with fiscal agents.....	19,709	1,599,648	1,580,027	39,330
Temporary investments.....	809,951	1,913,081	1,896,498	826,534
Long-term investments.....	3,187,275	2,104,070	2,129,375	3,161,970
Receivables, net:				
Taxes.....	30,755	37,565	38,513	29,807
Accounts.....	55,361	47,652	58,340	44,673
Investment income.....	14,084	61,107	61,828	13,363
Interest on notes and loans.....	-	1,578	1,578	-
Loans.....	-	1,239	1,239	-
Investment sale proceeds.....	47,357	53,688	83,717	17,328
Due from other funds.....	-	8,028	8,028	-
Advances to other funds.....	67,500	135,000	135,000	67,500
Other assets.....	3,951,702	309,873	10,913	4,250,662
<b>TOTAL ASSETS</b> .....	<u>\$ 8,213,470</u>	<u>\$ 15,203,330</u>	<u>\$ 14,951,528</u>	<u>\$ 8,465,272</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 197,489	\$ 1,027,481	\$ 1,044,773	\$ 180,197
Investment purchases payable.....	66,311	76,056	137,111	5,256
Securities lending obligations.....	8,777	17,648	8,777	17,648
Due to other funds.....	-	1,234	1,234	-
Due to political subdivisions.....	406,810	345,622	320,901	431,531
Due to other governments.....	5	39	39	5
Compensated absence liability.....	417	419	417	419
Self insurance liabilities.....	459	728	786	401
Other postemployment benefit obligations.....	1,037	1,248	1,056	1,229
Other liabilities.....	7,532,165	7,629,090	7,332,669	7,828,586
<b>TOTAL LIABILITIES</b> .....	<u>\$ 8,213,470</u>	<u>\$ 9,099,565</u>	<u>\$ 8,847,763</u>	<u>\$ 8,465,272</u>

(concluded)



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Discretely Presented Component Units

## NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS DESCRIPTION

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

**State Public School Building Authority** — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts. These bonds are repaid solely from lease/loan payments from the schools.

**Philadelphia Shipyard Development Corporation** — assists the primary government (PG) and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The Philadelphia Shipyard Development Corporation has a December 31, 2012 fiscal year end.

**Ben Franklin Technology Development Authority** — promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the Ben Franklin Technology Development Authority increase Pennsylvania business competitiveness.

**Pennsylvania Higher Educational Facilities Authority** — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

**Port of Pittsburgh Commission** — promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

**Pennsylvania Industrial Development Authority** — collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas, or assist specific companies.

**Pennsylvania Convention Center Authority** — operates the Pennsylvania Convention Center located in the City of Philadelphia.

**Thaddeus Stevens College of Technology (College)** — Is a two year technical college that prepares students for skilled employment in a diverse, ever-changing workforce. The College offers a 2 year degree or 9 month certificate, in twenty two different programs of study. The Commonwealth appropriates monies for College operations.

**Pennsylvania Energy Development Authority** — finances clean, advanced energy projects in Pennsylvania. Pennsylvania projects that could potentially qualify for funding from the Authority include solar energy, wind, low-impact hydropower, geothermal, biomass, landfill gas, fuel cells, IGCC, waste coal, coal-mine methane, and demand management measures. The Authority presently can award grants, loans, and loan guarantees.

**Pennsylvania eHealth Partnership Authority** — promotes and maintains a health information exchange that complies with Federal and State law.

There are a total of sixteen discretely presented component units (DPCU). The **Pennsylvania Turnpike Commission, Pennsylvania Housing Finance Agency, Pennsylvania Higher Education Assistance Agency, Pennsylvania Infrastructure Investment Authority,** and **State System of Higher Education** are reported as major DPCU's. The Pennsylvania Economic Development Financing Authority is not reported because the only activities for this component unit involve conduit debt.

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**Commonwealth of Pennsylvania**  
**Combining Statement of Net Position**  
 Nonmajor Discretely Presented Component Units  
 June 30, 2013

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2012)	Ben Franklin Technology Development Authority	Pennsylvania Higher Educational Facilities Authority	Port of Pittsburgh Commission
<b>ASSETS</b>					
Current assets:					
Cash.....	\$ -	\$ 2,017	\$ -	\$ -	\$ -
Temporary investments.....	4,177	-	13,727	-	3,661
Receivables:					
Accounts.....	15	-	-	8	1
Investment income.....	121	-	2	-	-
Interest on notes and loans.....	33	-	-	-	-
Loans.....	3,738	-	-	-	-
Other.....	-	-	-	-	-
Due from Federal government.....	-	-	-	-	1,027
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	20	-	-	-
<b>Total current assets</b> .....	<b>8,084</b>	<b>2,037</b>	<b>13,729</b>	<b>8</b>	<b>4,689</b>
Noncurrent assets:					
Restricted cash.....	-	-	-	-	-
Long-term investments.....	20,500	-	-	-	-
Receivables (net):					
Loans.....	2,667	-	21,061	-	-
Due from primary government.....	-	-	-	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable or amortizable capital assets:					
Land improvements.....	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	327	3	-	-	2,114
Library books.....	-	-	-	-	-
Intangible assets.....	-	-	-	-	33
Less: accumulated depreciation and amortization.....	(313)	-	-	-	(1,112)
Net depreciable or amortizable capital assets.....	14	3	-	-	1,035
Other assets.....	-	16,605	-	-	-
<b>Total noncurrent assets</b> .....	<b>23,181</b>	<b>16,769</b>	<b>21,061</b>	<b>-</b>	<b>1,035</b>
<b>TOTAL ASSETS</b> .....	<b>31,265</b>	<b>18,806</b>	<b>34,790</b>	<b>8</b>	<b>5,724</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities.....	110	3	2,172	8	273
Due to primary government.....	-	-	1	-	5
Due to component units—Note H.....	-	-	46	-	-
Due to political subdivisions.....	-	-	-	-	8
Due to other governments.....	-	-	-	-	700
Interest payable.....	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Compensated absences.....	29	-	-	-	-
Other postemployment benefit obligations.....	-	-	-	-	-
Other liabilities.....	58	-	-	-	-
<b>Total current liabilities</b> .....	<b>197</b>	<b>3</b>	<b>2,219</b>	<b>8</b>	<b>986</b>
Non-current liabilities:					
Revenue bond payable.....	-	-	-	-	2,000
Compensated absences.....	57	-	-	-	99
Other postemployment benefit obligations.....	270	-	61	-	108
Other liabilities.....	344	16,605	-	-	-
<b>Total non-current liabilities</b> .....	<b>671</b>	<b>16,605</b>	<b>61</b>	<b>-</b>	<b>2,207</b>
<b>TOTAL LIABILITIES</b> .....	<b>868</b>	<b>16,608</b>	<b>2,280</b>	<b>8</b>	<b>3,193</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	14	164	-	-	(983)
Restricted for:					
Health-related programs.....	-	-	-	-	-
Debt service.....	-	-	-	-	-
Economic development.....	-	2,034	32,510	-	3,514
Higher Education.....	-	-	-	-	-
Other purposes.....	30,383	-	-	-	-
Unrestricted/(Deficit).....	-	-	-	-	-
<b>TOTAL NET POSITION</b> .....	<b>\$ 30,397</b>	<b>\$ 2,198</b>	<b>\$ 32,510</b>	<b>\$ -</b>	<b>\$ 2,531</b>

Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Pennsylvania eHealth Partnership Authority	Total
\$ 371	\$ 21,758	\$ 7,854	\$ -	\$ 224	\$ 32,224
214,255	-	-	281	1,637	237,738
-	3,586	109	-	-	3,719
-	-	-	-	-	123
990	-	-	-	-	1,023
38,777	-	-	109	-	42,624
-	-	571	-	-	571
-	-	-	-	102	1,129
-	-	406	-	-	406
-	1,141	57	-	-	1,218
<u>254,393</u>	<u>26,485</u>	<u>8,997</u>	<u>390</u>	<u>1,963</u>	<u>320,775</u>
-	-	202	-	-	202
-	-	1,835	4,422	-	26,757
287,318	-	-	191	-	311,237
-	122,000	-	-	-	122,000
-	994	-	-	-	1,155
-	3,533	-	-	-	3,533
-	-	1,141	-	-	1,141
-	759,334	735	-	-	760,069
-	159,896	4,345	-	-	166,685
-	-	528	-	-	528
-	-	-	-	-	33
-	(224,568)	(4,540)	-	-	(230,533)
-	694,662	2,209	-	-	697,923
2,420	2,327	1,254	-	-	22,606
<u>289,738</u>	<u>823,516</u>	<u>5,500</u>	<u>4,613</u>	<u>-</u>	<u>1,185,413</u>
<u>544,131</u>	<u>850,001</u>	<u>14,497</u>	<u>5,003</u>	<u>1,963</u>	<u>1,506,188</u>
261	8,226	1,471	1	-	12,525
-	1,995	-	-	135	2,136
-	-	-	-	-	46
-	-	-	-	-	8
-	-	-	-	-	700
6,446	-	-	-	-	6,446
-	1,483	132	-	-	1,615
20,725	-	-	-	-	20,725
-	-	302	-	5	336
-	176	-	-	-	176
-	148	-	-	-	206
<u>27,432</u>	<u>12,028</u>	<u>1,905</u>	<u>1</u>	<u>140</u>	<u>44,919</u>
254,866	-	-	-	-	256,866
-	-	1,531	-	23	1,710
-	3,593	2,258	1	-	6,291
1,627	123,198	72	-	-	141,846
<u>256,493</u>	<u>126,791</u>	<u>3,861</u>	<u>1</u>	<u>23</u>	<u>406,713</u>
<u>283,925</u>	<u>138,819</u>	<u>5,766</u>	<u>2</u>	<u>163</u>	<u>451,632</u>
-	574,849	2,546	-	-	576,590
-	-	-	-	1,800	1,800
58,169	-	-	-	-	58,169
-	136,333	-	5,001	-	179,392
-	-	6,185	-	-	6,185
-	-	-	-	-	30,383
202,037	-	-	-	-	202,037
<u>\$ 260,206</u>	<u>\$ 711,182</u>	<u>\$ 8,731</u>	<u>\$ 5,001</u>	<u>\$ 1,800</u>	<u>\$ 1,054,556</u>

**Commonwealth of Pennsylvania**  
**Combining Statement of Activities**  
 Nonmajor Discretely Presented Component Units  
 For the Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	<b>State Public School Building Authority</b>	<b>Philadelphia Shipyards Development Corporation (December 31, 2012)</b>	<b>Ben Franklin Technology Development Authority</b>	<b>Pennsylvania Higher Educational Facilities Authority</b>
Expenses.....	\$ 1,493	\$ 704	\$ 37,422	\$ 1,358
Program revenues:				
Charges for goods and services.....	1,521	-	1,509	1,358
Operating grants and contributions.....	405	305	20,545	-
Capital grants and contributions.....	-	-	-	-
<b>Total program revenues.....</b>	<b>1,926</b>	<b>305</b>	<b>22,054</b>	<b>1,358</b>
<b>Net (expense) revenue.....</b>	<b>433</b>	<b>(399)</b>	<b>(15,368)</b>	<b>-</b>
<b>Change in net position.....</b>	<b>433</b>	<b>(399)</b>	<b>(15,368)</b>	<b>-</b>
<b>Net position, July 1, 2012 (restated).....</b>	<b>29,964</b>	<b>2,597</b>	<b>47,878</b>	<b>-</b>
<b>Net position, June 30, 2013.....</b>	<b>\$ 30,397</b>	<b>\$ 2,198</b>	<b>\$ 32,510</b>	<b>\$ -</b>



Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Pennsylvania eHealth Partnership Authority	Total
\$ 6,990	\$ 12,777	\$ 75,836	\$ 16,718	\$ 1,475	\$ 164	\$ 154,937
4	12,478	15,968	6,492	12	1,861	41,203
6,331	81	29,165	13,190	301	103	70,426
-	-	2,243	-	-	-	2,243
<u>6,335</u>	<u>12,559</u>	<u>47,376</u>	<u>19,682</u>	<u>313</u>	<u>1,964</u>	<u>113,872</u>
(655)	(218)	(28,460)	2,964	(1,162)	1,800	(41,065)
(655)	(218)	(28,460)	2,964	(1,162)	1,800	(41,065)
3,186	260,424	739,642	5,767	6,163	-	1,095,621
<u>\$ 2,531</u>	<u>\$ 260,206</u>	<u>\$ 711,182</u>	<u>\$ 8,731</u>	<u>\$ 5,001</u>	<u>\$ 1,800</u>	<u>\$ 1,054,556</u>

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013

# Statistical Section



Statistical Section Table of Contents

**Financial Trends**

*These tables illustrate how the Commonwealth's financial position has changed over time by providing information on the Commonwealth's net position, changes in net position, fund balance, and changes in fund balance.*

Table 1-Net Position by Component..... 220  
 Table 2-Changes in Net Position ..... 222  
 Table 3-Governmental Fund Type Fund Balances ..... 224  
 Table 4-Revenues by Source and Expenditures by Function-All Governmental Fund Types ..... 226

**Revenue Capacity**

*These tables contain information on the factors that affect the Commonwealth's ability to generate its own-source revenues. The Commonwealth's largest source of revenues is taxes. Information for the three largest tax types is contained within these tables. Personal income, sales, and corporation taxes account for 78% of all general revenues for the June 30, 2013 fiscal year (as reported in the Statement of Activities).*

Table 5-Personal Income Tax-Personal Income by Industry..... 227  
 Table 6-Personal Income Tax-Personal Income Tax Filers and Liability by Income Level ..... 228  
 Table 7-Sales Tax-Estimated Taxable Sales by Industry Classification of the Vendor ..... 229  
 Table 8-Sales Tax-Sales Tax Remittances by Major Industry Classification ..... 230  
 Table 9-Corporate Tax-Corporate Net Income Tax..... 231  
 Table 10-Corporate Tax-Capital Stock/Foreign Franchise Tax..... 232

**Debt Capacity**

*These tables contain information on the Commonwealth's debt burden as well as information about the Commonwealth's ability to issue additional debt.*

Table 11-Outstanding Debt and Outstanding Debt Ratios ..... 233  
 Table 12-Ratios of General Obligation Bonded Debt Outstanding..... 234  
 Table 13-Computation of Legal Debt Margin ..... 235

**Demographic and Economic Information**

*These tables contain information on the socioeconomic environment in which the Commonwealth operates.*

Table 14-Employment by Nonfarm Related Industry ..... 236  
 Table 15-Population and Per Capita Personal Income ..... 237  
 Table 16-Employment Information..... 237

**Operating Information**

*These tables provide information about the Commonwealth's operations and resources and assist in relating financial statement information to the Commonwealth's economic condition.*

Table 17-Commonwealth Employees by Function and Agency..... 238  
 Table 18-Operating Indicators by Function and Agency..... 240  
 Table 19-Capital Asset Information by Function and Agency..... 242

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**Commonwealth of Pennsylvania  
Financial Trends**

Table 1  
Net Position by Component  
Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)

	2004	2005	2006	2007	2008 (4)	2009 (4)	2010	2011	2012 (5)	2013 (5)
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
Net investment in capital assets.....	\$ 16,944,913	\$ 18,258,125	\$ 19,068,573	\$ 20,015,677	\$ 21,482,118	\$ 22,821,832	\$ 24,102,905	\$ 25,352,588	\$ 26,580,581	\$ 27,774,808
Restricted for:										
General government operations (2)(6).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	672,834	-	1,739
Health-related programs (3).....	N/A	1,215,291	1,320,703	1,454,502	1,410,932	1,291,318	1,048,684	61,785	18,977	18,830
Transportation.....	775,900	990,743	1,578,753	1,266,928	1,520,801	1,342,189	1,318,358	1,000,129	670,168	352,317
Capital projects.....	245,926	173,790	196,301	213,556	-	-	11	-	-	-
Debt service.....	61,029	83,885	8,118	20,474	27,458	16,834	46,853	-	-	-
Unemployment/worker's compensation.....	-	-	29,754	104,579	120,181	125,515	301,372	367,006	427,934	499,547
Elderly programs.....	90,713	92,531	32,327	10,808	38,264	62,183	50,213	-	-	-
Environmental and conservation programs.....	430,071	420,600	435,976	473,210	457,726	529,274	592,672	331,102	565,891	512,807
Economic development (3).....	N/A	N/A	18,171	16,217	22,530	23,576	25,312	-	-	-
Gaming licensing/regulation (3).....	N/A	N/A	2,128	299,396	947,145	917,466	771,616	720,578	725,468	709,348
Correctional industries and procurement (3).....	N/A	N/A	133,934	30,348	46,541	37,701	49,467	62,868	71,095	52,287
Emergency support (3).....	N/A	N/A	56,543	60,917	58,063	57,324	58,209	51,926	46,793	52,178
Higher education (3).....	N/A	N/A	N/A	N/A	7,023	8,985	7,715	-	-	-
Other purposes (3).....	1,366,072	303,409	82,770	87,077	88,580	58,842	55,616	40,078	35,614	35,626
Unrestricted (deficit).....	(228,981)	(739,160)	(372,089)	343,162	(648,689)	(4,053,146)	(4,881,426)	(4,407,594)	(5,460,053)	(5,685,524)
<b>TOTAL GOVERNMENTAL ACTIVITIES NET POSITION.....</b>	<b>19,685,643</b>	<b>20,799,214</b>	<b>22,591,962</b>	<b>24,396,851</b>	<b>25,578,673</b>	<b>23,239,893</b>	<b>23,547,577</b>	<b>24,253,300</b>	<b>23,682,468</b>	<b>24,323,963</b>
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
Net investment in capital assets.....	45,927	46,567	82,694	56,010	72,668	78,561	74,392	84,065	77,259	465,161
Restricted for:										
Health-related programs (3).....	N/A	-	4,814	2,413	1,942	1,059	2,837	2,323	1,340	4,456
Transportation.....	33,227	50,433	52,960	58,085	103,274	103,652	110,987	118,938	121,760	126,986
Debt service.....	-	-	-	-	-	-	-	-	-	4,199
Unemployment/worker's compensation.....	1,506,877	1,808,170	2,397,720	2,547,726	2,378,092	342,098	-	-	-	-
Elderly programs.....	158,343	291,329	325,925	340,836	124,351	-	-	-	-	-
Economic development (3).....	N/A	N/A	212,792	288,246	299,924	283,012	295,502	304,767	309,636	325,269
Emergency support (3).....	N/A	N/A	126,505	129,546	132,837	134,685	138,884	144,834	147,747	151,853
Higher Education.....	N/A	N/A	N/A	N/A	-	-	-	-	-	29,009
Other purposes (3).....	403,527	450,961	152,629	165,168	126,799	76,573	85,177	94,985	98,203	105,929
Unrestricted (deficit).....	(47,849)	(43,812)	-	-	(73,973)	(403,122)	(1,916,364)	(2,314,339)	(1,913,601)	(2,412,444)
<b>TOTAL BUSINESS-TYPE ACTIVITIES NET POSITION.....</b>	<b>2,100,052</b>	<b>2,603,648</b>	<b>3,356,039</b>	<b>3,588,030</b>	<b>3,165,914</b>	<b>616,518</b>	<b>(1,208,585)</b>	<b>(1,564,427)</b>	<b>(1,157,656)</b>	<b>(1,199,582)</b>

Commonwealth of Pennsylvania

Financial Trends

Table 1  
Net Position by Component  
Last Ten Fiscal Years as of June 30

(Accrual basis of accounting-amounts in thousands)

	2004	2005	2006	2007	2008 (4)	2009 (4)	2010	2011	2012 (5)	2013 (5)
<b>PRIMARY GOVERNMENT (1)</b>										
Net investment in capital assets.....	16,990,840	18,304,692	19,151,267	20,071,687	21,554,786	22,900,393	24,177,297	25,436,653	26,657,840	28,239,969
Restricted for:										
General government operations (2)(6).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	672,834	-	1,739
Health-related programs (3).....	N/A	1,215,291	1,325,517	1,456,915	1,412,874	1,292,377	1,051,521	64,108	20,317	23,286
Transportation.....	809,127	1,041,176	1,631,713	1,325,013	1,624,075	1,445,841	1,429,345	1,119,067	791,928	479,303
Capital projects.....	245,926	173,790	196,301	213,556	-	-	11	-	-	-
Debt service.....	61,029	83,885	8,118	20,474	27,458	16,834	46,853	-	-	4,199
Unemployment/worker's compensation.....	1,506,877	1,808,170	2,427,474	2,652,305	2,498,273	467,613	301,372	367,006	427,934	499,547
Elderly programs.....	249,056	383,860	358,252	351,644	162,615	62,183	50,213	-	-	-
Environmental and conservation programs.....	430,071	420,600	435,976	473,210	457,726	529,274	592,672	331,102	565,891	512,807
Economic development (3).....	N/A	N/A	230,963	304,463	322,454	306,588	320,814	304,767	309,636	325,269
Gaming licensing/regulation (3).....	N/A	N/A	2,128	299,396	947,145	917,466	771,616	720,578	725,468	709,348
Correctional industries and procurement (3).....	N/A	N/A	133,934	30,348	46,541	37,701	49,467	62,868	71,095	52,287
Emergency support (3).....	N/A	N/A	183,048	190,463	190,900	192,009	197,093	196,760	194,540	204,031
Higher education (3).....	N/A	N/A	N/A	N/A	7,023	8,985	7,715	-	-	29,009
Other purposes (3).....	1,769,599	754,370	235,399	252,245	215,379	135,415	140,793	135,063	133,817	141,555
Unrestricted (deficit).....	(276,830)	(782,972)	(372,089)	343,162	(722,662)	(4,456,268)	(6,797,790)	(6,721,933)	(7,373,654)	(8,097,968)
<b>TOTAL PRIMARY GOVERNMENT</b>										
<b>NET POSITION (1).....</b>	<b>\$ 21,785,695</b>	<b>\$ 23,402,862</b>	<b>\$ 25,948,001</b>	<b>\$ 27,984,881</b>	<b>\$ 28,744,587</b>	<b>\$ 23,856,411</b>	<b>\$ 22,338,992</b>	<b>\$ 22,688,873</b>	<b>\$ 22,524,812</b>	<b>\$ 23,124,381</b>

**Source:** The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2004-2012, the information can be found in the Statement of Net Assets. Beginning with the 2013 fiscal year, the information can be found in the Statement of Net Position.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented two new GASB standards which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. Therefore, their net position is reported within the Business-Type Activities caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Activities caption. The implementation of GASB 63 resulted in the Commonwealth reporting a Statement of Net Position for the 2013 fiscal year, replacing the Statement of Net Assets which had been reported in previous fiscal years. For purposes of this table, the implementation of GASB 63 had no effect other than changing the title of this table and the net investment in capital assets caption title. The purpose of each reported caption did not change with the implementation. These two standards were not retroactively applied to the previous fiscal years; therefore the amounts shown for the 2004-2012 fiscal years were those reported within the Statement of Net Assets for the applicable fiscal year. For ease of reading this table and the additional notes shown below, net position is interchanged with net assets which were in effect for fiscal years 2004-2012.

(2)-For the 2011 fiscal year, the caption "General government operations" was created specifically for any net position restrictions reported within that portion of the General Fund not associated with the 38 former Special Revenue funds which were reclassified as components of the General Fund. In past fiscal years, this portion, if not reported as a deficit, was reported within various net position restriction categories. These changes have not been retroactively applied to prior fiscal years.

(3)-Since the 2005 fiscal year, additional restricted net position categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the fiscal years prior to the newer creation of the restricted net position category. These categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for the Gaming Fund, a governmental fund type, which was established in the 2006 fiscal year. The most significant fund where net position was previously reported in the "Other purposes" category that is now reported in a different category is the Tobacco Settlement Fund, a governmental fund type, which beginning with the 2005 fiscal year is reported in the "Health-related programs" category. Other notable funds being reported in different categories are the Internal Service funds-reported in the "Correctional industries and procurement" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic development" category; the Volunteer Companies Loan Fund (a Proprietary fund type)-reported in the "Emergency support" category; and the Educational Assistance Program Fund (a component of the General Fund)-reported in the "Higher education" category.

(4)-In the June 30, 2009 CAFR, the beginning net position balance for Governmental Activities was restated and decreased by \$273,654 as of July 1, 2008. Therefore, the ending net position balance (for both Governmental Activities and Total Primary Government Net position) shown in this table as of June 30, 2008 plus the change in net position shown in Table 2 for the June 30, 2009 fiscal year will differ from the ending net position balance (for both Governmental and Total Primary Government Net position) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.

(5)-As a result of the implementation of GASB 61 described in Note 1 above, the beginning net position balance for Governmental Activities and Business-Type Activities was decreased by \$6,165 and \$273,595, respectively, as of July 1, 2012. Therefore, the ending net position balance (for Governmental Activities, Business-Type Activities, and Total Primary Government) shown in this table as of June 30, 2012 plus the change in net position shown in Table 2 for the June 30, 2013 fiscal year will differ from the ending net position balance (for Governmental Activities, Business Type Activities and Total Primary Government) shown in this table as of June 30, 2013. Note B in the Notes to the Financial Statements provides additional details on this restatement.

(6)-For the 2011 fiscal year, balances in the amount of \$672,834 related to the grant ledgers were reported as restricted. For the 2012 fiscal year, those balances were reported as unrestricted/(deficit).

Commonwealth of Pennsylvania

Financial Trends

Table 2  
Changes in Net Position  
For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting-amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
<b>Expenses:</b>										
Direction and supportive services.....	\$ 2,034,883	\$ 2,229,850	\$ 2,162,552	\$ 1,208,409	\$ 1,479,962	\$ 1,492,541	\$ 1,950,908	\$ 2,052,743	\$ 2,243,649	\$ 1,528,057
Protection of persons and property .....	3,873,972	4,244,332	4,439,794	4,487,633	4,922,684	5,480,770	5,682,950	5,384,710	5,541,681	6,010,950
Public education.....	10,571,307	11,428,452	11,816,608	12,464,663	13,107,648	14,045,890	14,520,733	14,864,360	13,394,225	13,885,466
Health and human services.....	21,750,153	24,166,791	24,139,762	24,264,933	25,215,388	26,615,566	28,321,389	30,388,529	30,680,717	30,495,970
Economic development.....	1,340,015	1,314,636	1,409,506	1,738,172	1,720,992	1,614,214	1,580,654	1,598,596	1,537,068	1,032,887
Transportation.....	3,164,086	3,261,642	3,229,351	3,922,517	4,182,916	4,278,022	4,951,010	4,465,639	4,382,503	4,764,139
Recreation and cultural enrichment.....	394,273	448,585	520,330	569,510	571,009	602,365	559,311	491,082	514,309	519,242
Interest.....	341,455	296,267	337,142	344,557	371,249	382,065	395,305	440,428	475,545	489,401
<b>Total expenses.....</b>	<b>43,470,144</b>	<b>47,390,555</b>	<b>48,055,045</b>	<b>49,000,394</b>	<b>51,571,848</b>	<b>54,511,433</b>	<b>57,962,260</b>	<b>59,686,087</b>	<b>58,769,697</b>	<b>58,726,112</b>
<b>Program revenues:</b>										
Charges for sales and services:										
Direction and supportive services.....	1,097,730	1,377,293	991,541	143,290	143,933	74,320	216,188	252,572	277,492	363,296
Protection of persons and property .....	925,502	831,785	1,080,708	1,309,256	1,214,038	1,083,889	1,331,281	1,034,481	1,302,020	1,380,582
Public education.....	3,514	1,702	13,161	14,793	17,641	15,756	18,201	14,928	4,776	5,926
Health and human services.....	1,297,338	2,871,487	1,913,377	1,730,965	1,800,212	1,559,638	1,134,144	1,597,599	1,658,657	1,641,534
Economic development.....	1,011	11,028	16,373	12,277	11,379	15,553	12,317	11,812	8,205	13,910
Transportation.....	1,008,886	1,029,406	949,533	952,866	945,536	944,486	910,721	976,705	970,026	972,417
Recreation and cultural enrichment.....	138,750	153,641	166,750	162,168	162,013	312,287	416,053	181,373	245,405	304,903
Operating grants and contributions.....	16,556,717	16,773,012	16,532,924	17,229,000	17,936,693	20,370,216	25,620,597	26,071,112	22,816,711	22,792,032
Capital grants and contributions.....	30,473	14,944	55,761	23,495	4,610	47,320	57,628	221,195	67,866	91,603
<b>Total program revenues.....</b>	<b>21,059,921</b>	<b>23,064,298</b>	<b>21,720,128</b>	<b>21,578,110</b>	<b>22,236,055</b>	<b>24,423,465</b>	<b>29,717,130</b>	<b>30,361,777</b>	<b>27,351,158</b>	<b>27,566,203</b>
<b>Total governmental activities net program revenues/(expenses).....</b>	<b>(22,410,223)</b>	<b>(24,326,257)</b>	<b>(26,334,917)</b>	<b>(27,422,284)</b>	<b>(29,335,793)</b>	<b>(30,087,968)</b>	<b>(28,245,130)</b>	<b>(29,324,310)</b>	<b>(31,418,539)</b>	<b>(31,159,909)</b>
<b>General revenues and other changes in net position:</b>										
<b>General revenues:</b>										
Taxes:										
Personal income.....	7,352,877	8,312,440	9,093,338	9,951,585	10,438,976	9,553,538	9,414,864	9,771,269	10,022,285	10,798,328
Sales and use.....	7,654,405	7,917,396	8,381,262	8,629,815	8,779,768	8,417,292	8,309,905	8,610,603	8,977,379	9,106,779
Corporation.....	4,004,112	4,400,995	5,074,730	4,985,031	5,157,589	4,209,705	4,146,477	4,469,094	4,504,105	4,781,555
Liquid fuels and motor carriers.....	1,723,816	1,863,223	2,033,227	2,072,442	2,024,045	1,975,678	2,045,505	2,092,645	2,096,222	2,058,226
Gaming (2).....	N/A	N/A	N/A	251,059	769,064	999,247	1,232,829	1,409,388	1,487,729	1,447,796
Inheritance.....	726,605	668,992	793,279	716,788	802,865	733,405	698,980	783,824	803,573	796,007
Cigarette (3).....	933,973	811,578	1,033,099	983,580	1,026,125	1,000,987	1,088,405	1,104,355	1,081,587	1,038,605
Realty transfer (3).....	N/A	N/A	646,870	583,991	500,786	348,003	346,094	328,997	343,015	396,552
Other (3).....	893,589	992,343	418,110	475,197	592,744	492,420	1,035,935	1,167,804	1,306,395	1,353,566
<b>Total taxes.....</b>	<b>23,289,377</b>	<b>24,966,967</b>	<b>27,473,915</b>	<b>28,649,488</b>	<b>30,091,962</b>	<b>27,730,275</b>	<b>28,318,994</b>	<b>29,737,979</b>	<b>30,622,290</b>	<b>31,777,414</b>
Investment income.....	199,151	131,629	188,750	320,342	128,722	(137,831)	15,099	52,129	14,979	12,876
<b>Total general revenues.....</b>	<b>23,488,528</b>	<b>25,098,596</b>	<b>27,662,665</b>	<b>28,969,830</b>	<b>30,220,684</b>	<b>27,592,444</b>	<b>28,334,093</b>	<b>29,790,108</b>	<b>30,637,269</b>	<b>31,790,290</b>
Transfers from business-type activities.....	422,786	341,232	465,000	257,343	296,931	430,398	218,721	239,925	210,438	17,275
<b>Net general revenues and transfers.....</b>	<b>23,911,314</b>	<b>25,439,828</b>	<b>28,127,665</b>	<b>29,227,173</b>	<b>30,517,615</b>	<b>28,022,842</b>	<b>28,552,814</b>	<b>30,030,033</b>	<b>30,847,707</b>	<b>31,807,565</b>
<b>Total governmental activities change in net position.....</b>	<b>\$ 1,501,091</b>	<b>\$ 1,113,571</b>	<b>\$ 1,792,748</b>	<b>\$ 1,804,889</b>	<b>\$ 1,181,822</b>	<b>\$ (2,065,126)</b>	<b>\$ 307,684</b>	<b>\$ 705,723</b>	<b>\$ (570,832)</b>	<b>\$ 647,656</b>



Commonwealth of Pennsylvania

Financial Trends

Table 2  
Changes in Net Position  
For the Last Ten Fiscal Years Ended June 30

(Accrual basis of accounting-amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
<b>Expenses</b>										
State lottery.....	\$ 2,051,646	\$ 2,298,417	\$ 2,704,265	\$ 3,100,523	\$ 3,157,593	\$ 3,173,322	\$ 3,079,381	\$ 3,155,903	\$ 3,429,773	\$ 3,732,233
State workers' insurance.....	435,429	449,880	412,104	553,512	616,256	388,424	338,229	306,318	268,388	365,900
Tuition payment.....	293,737	192,802	138,275	267,941	224,791	100,028	235,876	259,069	236,342	248,592
Unemployment compensation (4).....	2,563,318	1,774,676	1,998,613	2,074,382	2,289,977	6,250,213	8,741,990	7,460,707	6,031,968	4,498,001
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	261,428
Liquor control.....	1,024,365	1,088,875	1,178,434	1,277,871	1,318,503	1,437,168	1,478,971	1,504,517	1,569,868	1,618,065
Economic development and other (1).....	13,980	16,456	18,433	14,470	3,148	14,171	13,706	23,635	16,997	41,199
<b>Total expenses.....</b>	<b>6,382,475</b>	<b>5,821,106</b>	<b>6,450,124</b>	<b>7,288,699</b>	<b>7,610,268</b>	<b>11,363,326</b>	<b>13,888,153</b>	<b>12,710,149</b>	<b>11,553,336</b>	<b>10,765,418</b>
<b>Program revenues</b>										
Charges for sales and services:										
State lottery.....	2,349,644	2,644,407	3,047,978	3,076,013	3,100,962	3,088,231	3,052,097	3,206,933	3,476,953	3,671,780
State workers' insurance.....	266,551	355,883	427,970	374,088	384,301	291,677	223,458	173,571	157,579	178,058
Tuition payment.....	206,739	141,817	113,831	151,121	138,361	153,892	157,336	165,157	185,947	182,555
Unemployment compensation (4).....	1,628,215	1,961,085	2,373,163	2,172,900	2,061,780	2,423,125	2,328,099	2,579,252	3,447,659	3,031,318
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10,172
Liquor control.....	1,121,853	1,183,667	1,272,101	1,364,524	1,428,638	1,507,512	1,527,998	1,586,394	1,673,027	1,747,060
Economic development and other (1).....	21,467	17,201	17,585	20,068	20,149	19,067	22,254	24,449	17,478	25,816
Operating grants and contributions.....	840,763	361,874	414,887	619,319	350,892	1,760,824	4,970,529	4,858,476	3,211,902	2,166,475
Capital grants and contributions.....	1,121	-	-	-	-	-	-	-	-	1,128
<b>Total program revenues.....</b>	<b>6,436,353</b>	<b>6,665,934</b>	<b>7,667,515</b>	<b>7,778,033</b>	<b>7,485,083</b>	<b>9,244,328</b>	<b>12,281,771</b>	<b>12,594,232</b>	<b>12,170,545</b>	<b>11,014,362</b>
<b>Total business-type activities net program revenues/(expenses).....</b>	<b>53,878</b>	<b>844,828</b>	<b>1,217,391</b>	<b>489,334</b>	<b>(125,185)</b>	<b>(2,118,998)</b>	<b>(1,606,382)</b>	<b>(115,917)</b>	<b>617,209</b>	<b>248,944</b>
<b>Other changes in net position</b>										
Transfers to governmental activities.....	(422,786)	(341,232)	(465,000)	(257,343)	(296,931)	(430,398)	(218,721)	(239,925)	(210,438)	(17,275)
<b>Total business-type activities change in net position.....</b>	<b>(368,908)</b>	<b>503,596</b>	<b>752,391</b>	<b>231,991</b>	<b>(422,116)</b>	<b>(2,549,396)</b>	<b>(1,825,103)</b>	<b>(355,842)</b>	<b>406,771</b>	<b>231,669</b>
<b>Total primary government change in net position.....</b>	<b>\$ 1,132,183</b>	<b>\$ 1,617,167</b>	<b>\$ 2,545,139</b>	<b>\$ 2,036,880</b>	<b>\$ 759,706</b>	<b>\$ (4,614,522)</b>	<b>\$ (1,517,419)</b>	<b>\$ 349,881</b>	<b>\$ (164,061)</b>	<b>\$ 879,325</b>

Source: Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

Notes:

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented two new GASB standards which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. The Commonwealth Financing Authority is reported as a major enterprise fund, and is reported under the Commonwealth Financing Authority caption. The Philadelphia Regional Port Authority is reported as a nonmajor enterprise fund, and is reported within the "Economic development and other" caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Activities caption. The implementation of GASB 63 resulted in the Commonwealth reporting a Statement of Net Position for the 2013 fiscal year, replacing the Statement of Net Assets which had been reported in previous fiscal years. For purposes of this table, the implementation of GASB 63 had no effect other than changing the reference to changes in net position rather than changes in net assets. These two standards were not retroactively applied to the previous fiscal years. For ease of reading this table, change in net position is interchanged with change in net assets which were in effect for fiscal years 2004-2012.

(2)-During the 2007 fiscal year, the first licensed gaming facilities opened and the resulting taxes from their activities were reported in the Gaming Fund, a special revenue fund.

(3)-Beginning with the 2006 fiscal year, realty transfer taxes were reported separately in the Statement of Activities. These taxes had previously been reported within the "Other" taxes category. This caption is marked with N/A prior to the 2006 fiscal year.

(4)-In the Unemployment Compensation Fund, the June 30, 2010 fiscal year amounts for expenses and program revenues were reduced by \$3,008,615 in order to present a reclassification made in the June 30, 2011 fiscal year. The June 30, 2010 CAFR was not restated to reflect these amounts.

**Commonwealth of Pennsylvania**  
**Financial Trends**

Table 3  
 Governmental Fund Type Fund Balances  
 Last Ten Fiscal Years as of June 30

(Modified accrual basis of accounting-amounts in thousands)

	2004	2005	2006	2007	2008 (6)	2009 (6)	2010	2011	2012 (7)	2013 (7)
<b>GENERAL FUND (1)(2)(3)(4)</b>										
Reserved for:										
Encumbrances.....	\$ 259,178	\$ 617,861	\$ 709,115	\$ 570,027	\$ 568,678	\$ 785,864	\$ 806,181	N/A	N/A	N/A
Advances.....	114,108	114,108	114,108	114,108	114,108	139,108	139,108	N/A	N/A	N/A
Loans receivable.....	6,283	4,496	10,953	11,113	8,358	9,924	9,989	N/A	N/A	N/A
Budget Stabilization Reserve.....	-	70,303	171,362	538,764	745,949	745,949	-	N/A	N/A	N/A
Other.....	501,901	621,004	454,639	844,229	1,148,218	1,375,432	764,206	N/A	N/A	N/A
Unreserved:										
Designated for:										
Budget Stabilization Reserve Fund.....	70,303	-	-	-	-	-	-	N/A	N/A	N/A
Other.....	421,415	514,174	719,414	923,966	379,169	-	-	N/A	N/A	N/A
Undesignated.....	1,633,326	927,163	789,958	368,659	9,621	(2,541,099)	(1,434,681)	N/A	N/A	N/A
Nonspendable.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	123,156	240,975	223,930
Restricted (5).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	756,141	-	76
Committed.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,063,613	1,276,671	1,334,872
Assigned.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	-	7,132
Unassigned/(deficit) (5).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(321,475)	(258,351)	-
<b>TOTAL GENERAL FUND.....</b>	<b>3,006,514</b>	<b>2,869,109</b>	<b>2,969,549</b>	<b>3,370,866</b>	<b>2,974,101</b>	<b>515,178</b>	<b>284,803</b>	<b>1,621,435</b>	<b>1,259,295</b>	<b>1,566,010</b>
<b>ALL OTHER GOVERNMENTAL FUNDS (1)(2)(3)(4)</b>										
Reserved for:										
Encumbrances.....	1,444,875	1,454,129	1,630,382	1,927,151	2,057,615	2,085,395	2,329,299	N/A	N/A	N/A
Advances.....	223,000	210,000	3,000	3,000	3,000	3,000	3,000	N/A	N/A	N/A
Loans receivable.....	39,804	32,065	32,684	39,859	73,628	83,100	79,315	N/A	N/A	N/A
Other.....	560,284	817,668	857,253	1,329,707	940,263	916,713	907,005	N/A	N/A	N/A
Unreserved:										
Designated for, reported in:										
Highways.....	209,647	218,885	203,118	235,730	689,288	700,018	768,710	N/A	N/A	N/A
Special Revenue funds.....	-	4,355	4,528	11,268	9,341	8,666	2,218	N/A	N/A	N/A
Debt Service funds.....	61,029	83,885	8,118	20,474	27,458	16,834	46,853	N/A	N/A	N/A
Capital Projects funds.....	96,787	133,024	131,026	65,455	54,631	33,527	32,879	N/A	N/A	N/A
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	1,520,236	1,631,980	2,412,047	1,971,829	2,630,277	2,448,383	2,421,257	N/A	N/A	N/A
Capital Projects funds (deficit).....	(368,295)	(473,110)	(601,823)	(449,622)	(629,686)	(721,365)	(524,465)	N/A	N/A	N/A
Restricted reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,711,994	3,690,354	3,557,116
Committed reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	426,391	402,207	374,074
Debt Service funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	17,040	48,400	37,041
Capital Projects funds.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	239,180	509,618	282,094
Unassigned reported in:										
Special Revenue funds (deficit).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,837)	(2,955)	(3,167)
Capital Projects funds (deficit).....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(20,711)	-	-
<b>TOTAL ALL OTHER GOVERNMENTAL FUNDS.....</b>	<b>\$ 3,787,367</b>	<b>\$ 4,112,881</b>	<b>\$ 4,680,333</b>	<b>\$ 5,154,851</b>	<b>\$ 5,855,815</b>	<b>\$ 5,574,271</b>	<b>\$ 6,066,071</b>	<b>\$ 4,371,057</b>	<b>\$ 4,647,624</b>	<b>\$ 4,247,158</b>

**Commonwealth of Pennsylvania**  
**Financial Trends**

**Table 3**  
**Governmental Fund Type Fund Balances**  
**Last Ten Fiscal Years as of June 30**

(Modified accrual basis of accounting-amounts in thousands)

**Source:** The Balance Sheet-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

**Notes:**

- (1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Fund caption.
- (2)-The Commonwealth implemented GASB Statement 54 for the 2011 fiscal year. To implement GASB Statement 54, it was necessary to reclass 41 Special Revenue funds. 38 of these were reclassified as components of the General Fund, and the remaining three were reclassified as Capital Project funds. This reclassification required the restatement of the General Fund fund balance from the \$284,803 shown in this schedule at the end of the 2010 fiscal year to \$565,223 which was reported at July 1, 2010. Likewise, the fund balance for All Other Governmental Funds was restated from the \$6,066,071 shown at the end of the 2010 fiscal year to \$5,785,651 at July 1, 2010.
- (3)-In addition to the restatement described in note (2), existing categories were changed from Reserved and Unreserved fund balances to Nonspendable and Spendable (Restricted, Committed, Assigned and Unassigned) fund balances. Details of the Commonwealth's implementation of GASB Statement 54, including the restatement described in Note (2), are described in Notes A and B of the Commonwealth's June 30, 2011 CAFR.
- (4)-The changes described in Notes (2) and (3) above were not retroactively applied. Therefore, governmental fund balances through the 2010 fiscal year are reported as reserved and unreserved, with the 38 funds described above included in the fund balances for All Other Governmental Funds, rather than the General Fund.
- (5)-For the 2011 fiscal year, balances in the amount of \$756,141 related to the grant ledgers were reported as restricted. For the 2012 fiscal year, those balances were reported as unassigned/(deficit).
- (6)-In the June 30, 2009 CAFR, the beginning fund balance for the Motor License fund (a governmental fund type) was restated and increased by \$30,059 as of July 1, 2008. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2008 plus the change in fund balances shown in Table 4 for the June 30, 2009 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2009. Note B in the Notes to the Financial Statements in the June 30, 2009 CAFR provides additional details on this restatement.
- (7)-As a result of the implementation of GASB 61 described in Note (1) above, the beginning fund balance for the General Fund was restated and decreased by \$6,165 as of July 1, 2012. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2012 plus the change in fund balances shown in Table 4 for the June 30, 2013 fiscal year will differ from the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2013. Note B in the Notes to the Financial Statements provides additional details on this restatement.

**Commonwealth of Pennsylvania**  
**Financial Trends**

Table 4  
 Revenues by Source and Expenditures by Function-All Governmental Fund Types  
 For the Last Ten Fiscal Years Ended June 30

(Modified accrual basis of accounting-amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 (1)
<b>REVENUES BY SOURCE</b>										
Taxes, net of refunds.....	\$ 23,237,117	\$ 24,973,125	\$ 27,117,823	\$ 28,548,280	\$ 29,909,880	\$ 27,773,110	\$ 28,229,235	\$ 30,007,455	\$ 30,775,017	\$ 31,722,661
Licenses and fees.....	1,475,948	1,568,659	1,611,868	1,954,788	1,913,154	1,674,804	1,951,683	1,806,751	2,070,914	2,149,402
Intergovernmental.....	16,379,096	16,585,336	16,347,975	16,891,212	17,911,839	20,619,848	25,256,164	26,029,290	22,804,215	22,683,124
Charges for sales and services.....	2,068,019	4,027,745	2,970,585	1,598,564	1,641,937	1,597,751	1,501,109	1,688,449	1,763,586	1,839,507
Investment income.....	402,132	322,199	425,356	769,820	166,522	(306,524)	344,936	326,021	116,945	155,845
Other (2).....	957,494	552,422	576,180	607,201	752,308	715,425	686,069	632,670	709,810	767,463
<b>TOTAL REVENUES</b> .....	<b>44,519,806</b>	<b>48,029,486</b>	<b>49,049,787</b>	<b>50,369,865</b>	<b>52,295,640</b>	<b>52,074,414</b>	<b>57,969,196</b>	<b>60,490,636</b>	<b>58,240,487</b>	<b>59,318,002</b>
<b>EXPENDITURES BY FUNCTION</b>										
Direction and supportive services .....	1,538,729	2,134,421	2,337,112	1,104,793	1,385,760	1,375,399	1,779,748	1,622,374	1,578,240	1,557,306
Protection of persons and property.....	3,886,666	3,892,572	4,410,969	4,621,119	4,861,363	5,169,377	5,359,792	5,307,198	5,089,854	5,668,261
Health and human services.....	21,689,392	24,118,288	24,103,077	24,293,011	25,141,836	26,549,790	28,340,751	30,435,510	30,662,493	30,371,117
Public education.....	10,529,504	11,400,985	11,731,884	12,439,920	13,076,308	14,019,470	14,492,845	14,836,658	13,363,316	13,858,078
Recreation and cultural enrichment.....	382,179	442,783	447,264	544,117	557,387	570,177	506,737	463,501	482,065	474,966
Economic development.....	1,334,071	1,310,093	1,413,995	1,736,388	1,721,634	1,605,513	1,582,097	1,596,548	1,405,895	1,028,828
Transportation.....	2,310,434	2,607,793	2,448,165	3,089,544	3,292,279	3,321,647	3,833,745	3,129,306	3,264,969	3,342,421
Capital outlay.....	2,008,141	1,805,913	2,082,644	2,121,632	2,273,290	2,812,788	3,144,349	3,248,174	3,389,801	2,915,982
Debt service:										
Principal retirement.....	455,890	478,112	492,355	521,773	555,337	598,850	626,090	697,510	711,875	769,390
Interest and fiscal charges.....	311,686	320,887	348,418	361,088	388,722	402,653	406,414	477,751	510,783	531,564
<b>TOTAL EXPENDITURES</b> .....	<b>44,446,692</b>	<b>48,511,847</b>	<b>49,815,883</b>	<b>50,833,385</b>	<b>53,253,916</b>	<b>56,425,664</b>	<b>60,072,568</b>	<b>61,814,530</b>	<b>60,459,291</b>	<b>60,517,913</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>										
<b>OVER (UNDER) EXPENDITURES</b> .....	73,114	(482,361)	(766,096)	(463,520)	(958,276)	(4,351,250)	(2,103,372)	(1,323,894)	(2,218,804)	(1,199,911)
<b>OTHER FINANCING SOURCES/(USES)</b>										
Bonds issued.....	625,247	401,816	914,000	1,008,104	913,119	1,064,103	1,900,401	650,000	1,600,303	950,300
Refunding bonds issued.....	459,223	1,468,439	-	250,557	194,471	155,642	695,945	-	161,272	361,760
Premium on bonds/refunding bonds issued.....	88,006	197,291	54,420	58,166	61,277	88,921	203,601	37,739	259,314	216,416
Discount on bonds issued.....	-	-	-	(157)	-	-	(2,924)	(4,724)	-	-
Transfers in.....	1,337,090	1,276,443	1,408,351	1,463,620	1,614,938	1,693,343	2,251,986	2,344,796	1,777,033	1,914,421
Transfers out.....	(914,304)	(1,035,211)	(943,351)	(1,188,779)	(1,318,226)	(1,257,945)	(1,888,368)	(2,062,410)	(1,580,564)	(1,888,173)
Payment to refunded bond escrow agent.....	(511,884)	(1,639,510)	-	(253,892)	(203,633)	(166,978)	(795,844)	-	(192,390)	(444,364)
Capital lease and installment purchase obligations.....	1,535	1,202	568	1,736	529	3,638	-	111	108,263	1,965
<b>TOTAL OTHER FINANCING SOURCES/(USES)</b> .....	<b>1,084,913</b>	<b>670,470</b>	<b>1,433,988</b>	<b>1,339,355</b>	<b>1,262,475</b>	<b>1,580,724</b>	<b>2,364,797</b>	<b>965,512</b>	<b>2,133,231</b>	<b>1,112,325</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>\$ 1,158,027</b>	<b>\$ 188,109</b>	<b>\$ 667,892</b>	<b>\$ 875,835</b>	<b>\$ 304,199</b>	<b>\$ (2,770,526)</b>	<b>\$ 261,425</b>	<b>\$ (358,382)</b>	<b>\$ (85,573)</b>	<b>\$ (87,586)</b>
Debt Service as a Percentage of Noncapital Expenditures (3).....	1.81%	1.71%	1.76%	1.81%	1.85%	1.87%	1.81%	2.01%	2.14%	2.26%

**Source:** The Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement, as presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the applicable fiscal year.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within this table. This change was not retroactively applied to the previous fiscal years.

(2)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.

(3)-Ratio is calculated as Principal Retirement plus Interest and Fiscal Charges expenditures divided by Total Expenditures less Capital Outlay expenditures. There are no expenditures for capitalized assets contained within the functional expenditure categories.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Personal Income Tax**

Table 5  
 Personal Income by Industry  
 For the Last Ten Calendar Years

(Amounts in millions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>TOTAL PERSONAL INCOME BY INDUSTRY (1)(2)</b>										
<b>Workplace Earnings:</b>										
<b>Farm Earnings.....</b>	\$ 1,240	\$ 1,536	\$ 1,389	\$ 1,108	\$ 1,284	\$ 1,186	\$ 873	\$ 1,135	\$ 1,552	\$ 1,539
<b>Nonfarm Earnings:</b>										
<b>Private earnings:</b>										
Forestry, fishing/hunting, agriculture.....	393	423	429	477	440	426	410	498	459	499
Mining.....	1,498	1,751	2,178	2,506	2,269	3,332	2,247	3,062	4,539	5,201
Utilities.....	3,001	2,854	2,726	2,846	2,929	3,136	2,875	3,027	3,323	3,221
Construction.....	19,465	20,632	21,767	23,670	23,322	22,342	20,109	20,151	21,340	22,504
Manufacturing.....	41,448	41,740	41,971	43,168	43,221	43,656	39,088	39,830	41,591	42,516
Wholesale trade.....	14,593	15,750	16,771	18,039	19,080	19,216	18,186	18,547	19,805	20,397
Retail trade.....	21,023	21,102	21,570	22,128	22,315	21,515	21,362	21,868	22,658	23,040
Transportation and warehousing.....	11,236	11,915	12,069	12,378	12,836	12,704	12,412	12,739	13,773	14,151
Broadcasting/publishing/internet technology.....	9,550	10,751	11,314	11,286	12,247	14,835	14,878	14,933	14,924	14,149
Finance and insurance.....	20,809	22,099	22,943	24,490	24,898	24,647	25,070	25,866	26,426	27,309
Real estate and rental and leasing.....	5,675	5,641	5,549	5,349	4,495	4,851	4,322	4,806	5,847	6,169
Professional and technical services.....	25,013	26,850	28,733	31,067	33,142	36,037	34,631	34,276	36,235	38,263
Management of companies and enterprises.....	7,208	8,296	9,492	10,660	13,108	13,037	13,409	14,056	15,539	17,231
Administrative services.....	9,153	9,888	10,294	10,884	11,425	11,691	11,016	11,708	12,667	12,933
Educational services.....	7,949	8,552	8,895	9,504	9,935	10,569	11,419	11,871	12,207	12,636
Health care and social assistance.....	36,681	39,430	40,973	43,820	45,721	48,948	50,869	52,653	54,416	56,317
Arts, entertainment, and recreation.....	3,065	3,231	3,272	3,447	3,506	3,578	3,622	3,861	4,256	4,358
Accommodation and food services.....	7,425	7,786	8,011	8,296	8,781	8,738	8,524	8,803	9,345	9,952
Other services, except public administration.....	11,797	12,518	13,210	13,777	13,496	13,209	13,176	13,411	13,602	14,124
<b>Total private earnings.....</b>	<b>256,982</b>	<b>271,209</b>	<b>282,167</b>	<b>297,792</b>	<b>307,166</b>	<b>316,467</b>	<b>307,625</b>	<b>315,966</b>	<b>332,952</b>	<b>344,970</b>
<b>Government:</b>										
Federal, civilian.....	7,625	8,021	8,399	8,646	8,915	9,142	9,483	9,919	9,912	9,761
Military.....	1,382	1,426	1,574	1,528	1,493	1,577	1,693	1,676	1,549	1,514
State government.....	9,911	10,548	10,673	11,255	11,957	12,279	12,587	13,080	13,095	13,118
Local government.....	25,237	27,064	27,673	28,991	29,981	31,176	32,016	33,308	32,933	32,652
<b>Total government earnings.....</b>	<b>44,155</b>	<b>47,059</b>	<b>48,319</b>	<b>50,420</b>	<b>52,346</b>	<b>54,174</b>	<b>55,779</b>	<b>57,983</b>	<b>57,489</b>	<b>57,045</b>
<b>Total nonfarm earnings.....</b>	<b>301,137</b>	<b>318,268</b>	<b>330,486</b>	<b>348,212</b>	<b>359,512</b>	<b>370,641</b>	<b>363,404</b>	<b>373,949</b>	<b>390,441</b>	<b>402,015</b>
<b>Total workplace earnings.....</b>	<b>302,377</b>	<b>319,804</b>	<b>331,875</b>	<b>349,320</b>	<b>360,796</b>	<b>371,827</b>	<b>364,277</b>	<b>375,084</b>	<b>391,993</b>	<b>403,554</b>
<b>Other earnings/deductions (3).....</b>	<b>107,047</b>	<b>110,606</b>	<b>115,399</b>	<b>127,505</b>	<b>140,795</b>	<b>147,716</b>	<b>150,402</b>	<b>154,724</b>	<b>166,352</b>	<b>171,871</b>
<b>Total personal income.....</b>	<b>\$ 409,424</b>	<b>\$ 430,410</b>	<b>\$ 447,274</b>	<b>\$ 476,825</b>	<b>\$ 501,591</b>	<b>\$ 519,543</b>	<b>\$ 514,679</b>	<b>\$ 529,808</b>	<b>\$ 558,345</b>	<b>\$ 575,425</b>
<b>Total personal income subject to the direct personal income tax rate (4)(5).....</b>	<b>\$ 237,961</b>	<b>\$ 250,921</b>	<b>\$ 266,800</b>	<b>\$ 288,043</b>	<b>\$ 317,393</b>	<b>\$ 314,872</b>	<b>\$ 294,893</b>	<b>\$ 310,368</b>	<b>N/A</b>	<b>N/A</b>
<b>Direct personal income tax rate.....</b>	<b>2.80%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>	<b>3.07%</b>

**Sources:**  
 Personal income by industry is provided by the Bureau of Economic Analysis, US Department of Commerce ([www.bea.gov/index.htm](http://www.bea.gov/index.htm)) through estimates released September 2013. Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2010 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2011-12). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**  
 (1)-Various calendar years differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2012. The amounts shown in the prior year were based on estimates released by the Bureau of Economic Analysis, U.S. Department of Commerce in September 2012. These estimates have subsequently been revised (as provided in the September 2013 release).  
 (2)-Personal income by industry is reported under the North American Industry Classification System.  
 (3)-Other earnings/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.  
 (4)-Total personal income subject to the direct personal income tax rate consists of taxable compensation, interest, dividends, net profits and other income, prior to the application of various tax credits. This amount is self-assessed by the taxpayer on their tax returns for the tax year. Due to the complexity and length of the tax return filing and review process, the total compilation is not yet available for release by the Pennsylvania Department of Revenue for the 2011 and 2012 tax years.  
 (5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). The information presented is based on those returns of the filers whose tax year ended during the applicable calendar year.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Personal Income Tax**

Table 6

Personal Income Tax Filers and Liability by Income Level  
 2001 and 2010 Tax Years

Liability amounts in thousands					Liability amounts in thousands				
2001 Tax Year (1)(2)(3)					2010 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability(4)	Percentage of Total
\$0	65,637	1.15%	\$ -	0.00%	\$0	177,785	2.95%	\$ -	0.00%
\$1-999	382,277	6.71%	4,499	0.07%	\$1-999	433,098	7.19%	4,824	0.05%
\$1,000-2,999	442,879	7.77%	24,497	0.38%	\$1,000-2,999	399,464	6.64%	23,764	0.25%
\$3,000-4,999	338,372	5.94%	38,055	0.59%	\$3,000-4,999	304,818	5.06%	37,053	0.39%
\$5,000-6,999	273,535	4.80%	46,331	0.72%	\$5,000-6,999	253,268	4.21%	46,380	0.49%
\$7,000-8,999	223,821	3.93%	50,693	0.78%	\$7,000-8,999	212,544	3.53%	51,989	0.55%
\$9,000-10,999	195,132	3.42%	55,368	0.86%	\$9,000-10,999	189,246	3.14%	57,983	0.61%
\$11,000-12,999	176,942	3.10%	60,236	0.93%	\$11,000-12,999	171,263	2.84%	63,021	0.66%
\$13,000-14,999	166,699	2.92%	66,164	1.02%	\$13,000-14,999	161,176	2.68%	69,174	0.73%
\$15,000-16,999	160,796	2.82%	72,853	1.13%	\$15,000-16,999	150,928	2.51%	74,046	0.78%
\$17,000-18,999	156,046	2.74%	79,541	1.23%	\$17,000-18,999	139,499	2.32%	77,045	0.81%
\$19,000-21,999	224,847	3.94%	130,287	2.01%	\$19,000-21,999	201,663	3.35%	126,836	1.33%
\$22,000-24,999	211,603	3.71%	140,325	2.17%	\$22,000-24,999	192,967	3.21%	139,180	1.46%
\$25,000-29,999	320,256	5.62%	247,713	3.83%	\$25,000-29,999	296,158	4.92%	249,557	2.62%
\$30,000-34,999	278,835	4.89%	254,601	3.94%	\$30,000-34,999	267,762	4.45%	266,712	2.80%
\$35,000-39,999	244,546	4.29%	257,597	3.98%	\$35,000-39,999	235,989	3.92%	271,304	2.85%
\$40,000-49,999	410,785	7.21%	517,171	8.00%	\$40,000-49,999	395,823	6.57%	544,361	5.71%
\$50,000-74,999	683,437	11.99%	1,173,689	18.15%	\$50,000-74,999	693,176	11.51%	1,307,937	13.73%
\$75,000-99,999	337,049	5.91%	812,250	12.56%	\$75,000-99,999	424,292	7.05%	1,126,108	11.82%
\$100,000-149,999	238,879	4.19%	800,250	12.38%	\$100,000-149,999	395,757	6.57%	1,464,911	15.37%
\$150,000 or more	167,899	2.95%	1,633,813	25.27%	(5) \$150,000-249,999	204,597	3.40%	1,172,514	12.31%
				(5)	\$250,000 or more	119,221	1.98%	2,353,614	24.70%
Total (6)	<u>5,700,272</u>	100.00%	<u>\$ 6,465,933</u>	100.00%	Total	<u>6,020,494</u>	100.00%	<u>\$ 9,528,311</u>	100.00%

**Sources:**

For the 2001 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2010 tax year, the number of filers per taxable income level and the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) were obtained from the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2011-12). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest personal income tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's personal income tax revenue.
- (2)-An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year ended during the the 2001 or 2010 calendar years.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of personal income subject to the direct tax rate per income level was not yet available for release by the Pennsylvania Department of Revenue for the 2011 and 2012 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 2001 and 2010 tax years are presented as an alternative comparison.
- (4)-The estimated total personal income tax liability is calculated by multiplying the total personal income (as self-assessed by the individual tax filer) for the income level by the tax rate applicable during the tax year. The estimated liability is presented before any applicable tax credits were applied. For the 2001 tax year, the direct tax rate in effect was 2.80% for all income levels. Beginning with the 2004 tax year, the rate increased to 3.07%. This rate has been in effect for all subsequent tax years.
- (5)-Beginning with the 2009 tax year, the caption "\$150,000 or more" has been split into two captions: "\$150,000-249,999" and "\$250,000 or more". The amounts for the 2001 tax year are reported within the original caption; whereas the amounts reported in the 2010 tax year are reported within the two new captions.
- (6)-Totals may not foot due to rounding.

**Commonwealth of Pennsylvania  
Revenue Capacity-Sales Tax**

Table 7  
Estimated Taxable Sales by Industry Classification of the Vendor  
For the Last Ten Fiscal Years Ended June 30

(Amounts in thousands)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(3)
<b>Estimated Taxable Sales by Industry (1)(2)</b>										
Manufacturing.....	\$ 6,222,633	\$ 6,386,100	\$ 6,858,033	\$ 7,107,483	\$ 7,083,150	\$ 7,199,717	\$ 6,952,853	\$ 6,310,433	\$ 7,182,245	\$ 7,426,068
Public utilities.....	3,981,383	4,229,717	4,473,817	4,667,117	4,816,533	4,763,633	4,832,233	4,750,250	5,002,202	4,680,907
Wholesale trade.....	7,625,950	7,987,583	9,112,350	11,407,750	12,320,033	12,239,917	10,215,170	10,492,100	11,590,333	12,419,575
Building materials.....	7,216,967	8,209,967	8,719,850	9,607,267	9,263,467	8,908,483	8,422,183	8,140,533	8,714,365	8,878,250
General merchandise.....	17,595,700	18,383,833	18,243,083	18,766,300	19,275,267	18,959,267	19,171,045	18,601,350	19,740,610	19,354,965
Food and beverage stores.....	5,602,267	5,770,967	5,764,533	5,859,017	6,090,033	6,023,083	6,197,422	6,416,383	6,437,433	6,440,322
Automotive dealers.....	3,329,383	3,487,217	3,691,150	3,761,500	3,865,533	3,834,950	3,709,158	3,753,567	3,997,238	4,157,458
Furniture and appliances.....	5,553,117	5,844,450	6,338,250	6,148,383	6,334,000	6,018,133	5,572,460	4,931,917	5,336,590	5,376,648
Other retail stores.....	5,022,117	5,212,517	5,376,183	5,529,683	5,802,417	5,764,733	5,598,740	5,580,450	6,095,245	6,408,673
Agriculture and mining.....	484,717	559,400	644,983	717,950	726,367	666,967	685,577	773,133	838,863	930,587
Construction.....	2,171,750	2,342,833	2,742,150	3,010,383	3,077,033	3,050,933	2,880,480	2,595,217	2,953,357	3,203,795
Service.....	35,405,917	35,164,650	37,378,583	39,336,950	41,230,817	41,914,783	40,875,482	40,899,250	43,579,387	43,694,423
Transportation, delivery, and warehousing..	275,150	312,250	330,783	420,617	363,450	374,133	356,542	365,150	371,315	420,053
Government.....	280,250	278,833	296,717	294,600	289,767	211,100	285,217	383,150	411,452	362,387
Unclassified.....	2,538,850	2,228,010	1,472,017	1,442,950	1,532,250	1,627,583	2,036,060	1,363,333	1,254,633	1,042,267
Motor vehicle.....	20,764,773	21,144,925	20,506,470	19,484,594	19,481,964	18,346,914	15,992,425	16,595,200	17,714,378	19,343,573
Liquor sales.....	1,254,926	1,265,798	1,383,587	1,341,449	1,627,333	1,704,846	1,808,735	1,868,083	1,950,641	2,064,488
<b>Total sales tax estimated base (4).....</b>	<b>\$ 125,325,849</b>	<b>\$ 128,809,049</b>	<b>\$ 133,332,540</b>	<b>\$ 138,903,993</b>	<b>\$ 143,179,414</b>	<b>\$ 141,609,177</b>	<b>\$ 135,591,782</b>	<b>\$ 133,819,500</b>	<b>\$ 143,170,287</b>	<b>\$ 146,204,439</b>
<b>Total direct sales tax rate.....</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>

**Sources:**

Sales tax remittances by industry and total direct sales tax rate (both used in the calculation of estimated taxable sales by industry) are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2012 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2011-12). The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Estimated taxable sales are calculated based on sales tax remittances (made by vendors with their tax returns processed during the fiscal year) divided by the direct sales tax rate of 6%.
- (2)-Estimated taxable sales are organized by major industrial activity of the vendor and do not represent sales by product type. These are presented based on the North American Industry Classification System.
- (3)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2013 fiscal year. Therefore, fiscal years 2003 through 2012 are presented as an alternative comparison.
- (4)-Totals may not foot due to rounding.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Sales Tax**

Table 8

Sales Tax Remittances by Major Industry Classification  
 Fiscal Years Ended June 30, 2003 and June 30, 2012

(Amounts in thousands)

June 30, 2003 (1)(2)			June 30, 2012 (1)(2)		
Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total	Industry (4)	Sales(3) Tax Remittances Liability	Percentage of Total
Manufacturing.....	\$ 373,358	4.97%	Manufacturing.....	\$ 445,564	5.08%
Public utilities.....	238,883	3.18%	Public utilities.....	280,854	3.20%
Wholesale trade.....	457,557	6.08%	Wholesale trade.....	745,175	8.49%
Building materials.....	433,018	5.76%	Building materials.....	532,695	6.07%
General merchandise.....	1,055,742	14.04%	General merchandise.....	1,161,298	13.24%
Food and beverage stores.....	336,136	4.47%	Food and beverage stores.....	386,419	4.41%
Automotive dealers.....	199,763	2.66%	Automotive dealers.....	249,448	2.84%
Furniture and appliances.....	333,187	4.43%	Furniture and appliances.....	322,599	3.68%
Other retail stores.....	301,327	4.01%	Other retail stores.....	384,520	4.38%
Agriculture and mining.....	29,083	0.39%	Agriculture and mining.....	55,835	0.64%
Construction.....	130,305	1.73%	Construction.....	192,228	2.19%
Service.....	2,124,355	28.25%	Service.....	2,621,665	29.89%
Transportation, delivery, and warehousing.....	16,509	0.22%	Transportation, delivery, and warehousing.....	25,203	0.29%
Government.....	16,815	0.22%	Government.....	21,743	0.25%
Unclassified.....	152,331	2.03%	Unclassified.....	62,536	0.71%
Motor vehicle.....	1,245,886	16.57%	Motor vehicle.....	1,160,614	13.23%
Liquor sales.....	75,296	1.00%	Liquor sales.....	123,869	1.41%
Total (5).....	<u>\$ 7,519,551</u>	100.00%	Total (5).....	<u>\$ 8,772,266</u>	100.00%
Sales Tax Licenses (6).....	248,832		Sales Tax Licenses (6).....	234,709	

**Sources:**

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue. Sales tax remittances by industry for the 2012 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2011-12). This publication was obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**

- (1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest sales tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's sales tax revenue.
- (2)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2013 fiscal year. Therefore, fiscal years 2003 and 2012 are presented as an alternative comparison.
- (3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.
- (4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. Both years are presented using the North American Industry Classification System (N.A.I.C.S.) Group.
- (5)-Totals may not foot due to rounding.
- (6)-The Commonwealth does not maintain a list of sales tax filers by the N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the ten largest sales tax filers. Therefore, the number of sales tax licenses is presented to indicate the potential number of filers during the applicable fiscal year.



**Commonwealth of Pennsylvania**  
**Revenue Capacity-Corporate Tax**

Table 9  
 Corporate Net Income Tax  
 For the Last Ten Tax Years

	2001	2002	2003	2004	2005	2006	2007	2008 (6)	2009 (6)	2010 (6)
<b>ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)</b>										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 12,367,911	\$ 13,280,711	\$ 13,446,684	\$ 17,648,755	\$ 20,312,660	\$ 23,247,419	\$ 20,787,641	\$ 19,652,968	\$ 18,101,988	\$ 17,875,200
<b>NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)</b>										
\$0.....	96,637	102,333	97,391	95,306	94,827	94,119	97,811	79,113	76,818	74,048
\$1-300.....	11,128	10,832	10,625	10,096	9,830	8,668	8,152	7,492	6,913	6,460
\$301-500.....	2,900	2,875	2,694	2,660	2,662	2,319	2,235	2,035	1,910	1,849
\$501-1,000.....	4,768	4,345	4,279	4,119	3,981	3,417	3,375	3,119	2,836	2,847
\$1,001-5,000.....	11,060	10,665	10,173	10,355	10,277	8,577	8,367	7,742	6,996	6,895
\$5,001-10,000.....	3,741	3,456	3,301	3,596	3,600	3,334	3,168	2,803	2,455	2,444
\$10,001-25,000.....	2,751	2,760	2,695	2,863	3,022	2,884	2,894	2,594	2,308	2,311
\$25,001-50,000.....	1,413	1,319	1,384	1,489	1,550	1,582	1,519	1,424	1,281	1,379
\$50,001-100,000.....	903	945	943	1,086	1,208	1,244	1,190	1,157	1,007	1,048
\$100,001-250,000.....	756	763	797	954	1,005	1,082	1,050	992	866	943
\$250,001-500,000.....	313	309	395	443	475	520	499	471	443	442
\$500,001-1,000,000.....	162	178	177	264	294	344	311	278	279	286
>\$1,000,000.....	184	192	220	262	307	341	326	304	257	282
<b>Total corporate net income tax filers (4)(5).....</b>	<b>136,716</b>	<b>140,972</b>	<b>135,074</b>	<b>133,493</b>	<b>133,038</b>	<b>128,431</b>	<b>130,897</b>	<b>109,524</b>	<b>104,369</b>	<b>101,234</b>
<b>Total direct corporate net income tax rate.....</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>	<b>9.99%</b>

**Sources:**  
 Information provided by the Pennsylvania Department of Revenue. The number of filers by corporate net income tax liability range for the 2008-2010 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2011-12). The direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**  
 (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2016 tax year. This table presents the positive corporate net income tax base, as well as the number of filers associated with this tax by liability range. It also presents the statutory corporate net income tax rate.  
 (2)-The CNIT is based on separate company Federal taxable income and includes a number of additions to/subtractions from that base. This table shows the compilation of all reported taxable income (Federal income adjusted to the PA base and then apportioned). Many corporations report negative federal taxable income. In addition, the net operating loss deductions that Pennsylvania allows reduce otherwise profitable corporations' incomes below \$0.  
 (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest corporate net income tax filers. Therefore, the schedule of the number of filers by corporate net income tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's corporate net income tax revenue. Those filers that report negative state taxable income are reported in the tax liability range of \$0, which accounts for the large number of filers within that range.  
 (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of corporate net income subject to the direct corporate tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2010 and 2011 tax years. Therefore, tax years 2001 through 2010 are presented as an alternative comparison.  
 (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the associated calendar years.  
 (6)-For tax years 2001 through 2008, the amounts presented are actual. The amounts presented for the 2008 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2012 fiscal year, since that amount was an estimate. For the 2009 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2012 CAFR. And for the 2010 tax year, the amounts presented are an estimate.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Corporate Tax**

Table 10  
 Capital Stock/Foreign Franchise Tax  
 For the Last Ten Tax Years

	2001	2002	2003	2004	2005	2006	2007	2008 (6)	2009 (6)	2010 (6)
<b>CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)</b>										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$ 128,540,000	\$ 137,650,000	\$ 147,450,000	\$ 157,310,000	\$ 167,566,590	\$ 189,755,093	\$ 207,628,892	\$ 230,292,556	\$ 236,280,415	\$ 253,608,528
<b>NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)</b>										
\$0-300.....	212,381	224,961	237,922	250,253	262,888	278,843	301,231	309,482	312,569	318,504
\$301-500.....	7,234	7,282	7,482	7,973	8,853	10,198	10,497	11,397	11,369	11,115
\$501-1,000.....	12,523	12,580	12,911	13,730	14,778	15,754	15,688	15,935	16,078	15,571
\$1,001-5,000.....	26,440	28,484	29,532	30,487	30,883	30,246	28,604	25,974	25,761	25,781
\$5,001-10,000.....	6,883	7,139	7,440	7,519	7,435	7,293	6,617	5,694	5,774	5,873
\$10,001-25,000.....	5,219	5,348	5,603	5,876	5,708	5,401	5,015	4,165	4,195	4,295
\$25,001-50,000.....	2,112	2,171	2,244	2,402	2,284	2,196	2,020	1,691	1,711	1,752
\$50,001-100,000.....	1,103	1,140	1,205	1,305	1,264	1,213	1,113	887	937	1,006
\$100,001-250,000.....	686	711	793	838	816	769	675	515	541	596
\$250,001-500,000.....	253	274	263	312	282	278	225	176	199	193
\$500,001-1,000,000.....	100	112	147	144	142	126	113	81	84	101
>\$1,000,000.....	103	97	98	106	101	93	81	73	79	87
<b>Total capital stock and franchise tax filers (4)(5).....</b>	<b>275,037</b>	<b>290,299</b>	<b>305,640</b>	<b>320,945</b>	<b>335,434</b>	<b>352,410</b>	<b>371,879</b>	<b>376,070</b>	<b>379,297</b>	<b>384,874</b>
<b>Total direct capital stock and franchise tax rate.....</b>	<b>7.49 mills</b>	<b>7.24 mills</b>	<b>7.24 mills</b>	<b>6.99 mills</b>	<b>5.99 mills</b>	<b>4.89 mills</b>	<b>3.89 mills</b>	<b>2.89 mills</b>	<b>2.89 mills</b>	<b>2.89 mills</b>

**Sources:**  
 Information provided by the Pennsylvania Department of Revenue. The number of filers by capital stock/foreign franchise tax liability range for the 2008-2010 tax years can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2012 (Fiscal Year 2011-12). The direct capital stock/foreign franchise tax rate was obtained from the Pennsylvania Tax Compendium for October 2012. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Notes:**  
 (1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). The capital stock tax is being phased out so that the last year for which a tax will apply will be the 2016 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.  
 (2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.  
 (3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue.  
 (4)-Due to the complexity and length of the tax return filing and review process, the total compilation of all reported taxable capital stock value subject to the statutory capital stock/foreign franchise tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2011 and 2012 tax years. Therefore, tax years 2001 through 2010 are presented as an alternative comparison.  
 (5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (e.g. March 31st). This table presents information based on all filers whose tax year began during the the associated calendar years.  
 (6)-For tax years 2001 through 2008, the amounts presented are actual. The amounts presented for the 2008 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2012 fiscal year, since that amount was an estimate. For the 2009 tax year, the amounts presented are revised estimates from the amounts presented in the June 30, 2012 CAFR. And for the 2010 tax year, the amounts presented are an estimate.

**Commonwealth of Pennsylvania**

**Debt Capacity**

Table 11  
Outstanding Debt and Outstanding Debt Ratios  
For the Last Ten Fiscal Years Ended June 30  
(Expressed in Thousands, Except Debt per Capita)

<b>PRIMARY GOVERNMENT (1)(2)(3)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Governmental activities:</b>										
General obligation bonds.....	\$ 7,225,165	\$ 7,150,667	\$ 7,657,674	\$ 8,245,673	\$ 8,632,609	\$ 9,150,362	\$ 10,498,794	\$ 10,443,190	\$ 11,538,799	\$ 11,821,622
Capital leases/installment purchase obligations.....	53,951	47,276	42,059	40,649	37,646	36,730	31,958	26,907	129,757	125,020
Other financing obligations.....	100,000	90,000	82,500	76,500	70,500	67,500	67,500	67,500	334,230	324,860
<b>Total governmental .....</b>	<b>7,379,116</b>	<b>7,287,943</b>	<b>7,782,233</b>	<b>8,362,822</b>	<b>8,740,755</b>	<b>9,254,592</b>	<b>10,598,252</b>	<b>10,537,597</b>	<b>12,002,786</b>	<b>12,271,502</b>
<b>Business-type activities:</b>										
Demand revenue bonds payable.....	-	-	-	-	-	-	-	-	-	300,000
Notes payable.....	-	-	-	-	-	-	-	-	-	199
Revenue bonds payable.....	-	-	-	-	-	-	-	-	-	4,635,760
Capital leases/installment purchase obligations.....	-	-	28,259	17,375	5,939	-	-	-	-	-
Total business-type .....	-	-	28,259	17,375	5,939	-	-	-	-	4,935,959
<b>TOTAL PRIMARY GOVERNMENT.....</b>	<b>\$ 7,379,116</b>	<b>\$ 7,287,943</b>	<b>\$ 7,810,492</b>	<b>\$ 8,380,197</b>	<b>\$ 8,746,694</b>	<b>\$ 9,254,592</b>	<b>\$ 10,598,252</b>	<b>\$ 10,537,597</b>	<b>\$ 12,002,786</b>	<b>\$ 17,207,461</b>
<b>Debt as a Percentage of Personal Income (4)(5).....</b>	<b>1.80%</b>	<b>1.69%</b>	<b>1.75%</b>	<b>1.76%</b>	<b>1.74%</b>	<b>1.78%</b>	<b>2.06%</b>	<b>1.99%</b>	<b>2.15%</b>	<b>2.99%</b>
<b>Amount of Debt per Capita (4)(5).....</b>	<b>\$ 596</b>	<b>\$ 587</b>	<b>\$ 627</b>	<b>\$ 670</b>	<b>\$ 696</b>	<b>\$ 734</b>	<b>\$ 837</b>	<b>\$ 829</b>	<b>\$ 942</b>	<b>\$ 1,348</b>

**Source:** Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

**Notes:**

(1)-Beginning with the 2013 fiscal year, the Commonwealth implemented GASB 61, which affected this table. With the implementation of GASB 61, two component units (Commonwealth Financing Authority and Philadelphia Regional Port Authority), previously reported as discretely presented component units, are reported as blended component units and are classified as proprietary fund types. Therefore, their outstanding debt is now reported within the Business-Type Activities caption. In addition, the Pennsylvania Energy Development Fund was reclassified as a discretely presented component unit. It had been previously reported as part of the General Fund, and therefore is no longer reported within the Governmental Activities caption. These changes have not been retroactively applied to prior fiscal years.

(2)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.

(3)-Details on the Commonwealth's total outstanding debt for June 30, 2013 can be found in Note K for Governmental Activities and Note F for Business-Type Activities.

(4)-See Table 15 for summarized totals for personal income and population data that were used in the calculations of these ratios. Personal income detail is presented in Table 5. As detailed in Table 5 or 15 (as appropriate), the personal income and population data have changed in several calendar years from what was presented in those tables in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2012 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2012 CAFR.

(5)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.

**Commonwealth of Pennsylvania**  
**Debt Capacity**

Table 12  
 Ratios of General Obligation Bonded Debt Outstanding  
 Last Ten Fiscal Years Ended as of June 30

(Amounts in thousands)

<b>Fiscal Year</b>	<b>(1) General Obligation Bonds</b>	<b>(2) Percentage of Actual Tax Revenues</b>	<b>(3) Per Capita</b>
<b>2004</b>	\$ 7,225,165	31.02%	\$ 579
<b>2005</b>	7,150,667	28.64%	569
<b>2006</b>	7,657,674	27.87%	614
<b>2007</b>	8,245,673	28.78%	657
<b>2008</b>	8,632,609	28.69%	685
<b>2009</b>	9,150,362	33.00%	724
<b>2010</b>	10,498,794	37.07%	825
<b>2011</b>	10,443,190	35.12%	820
<b>2012</b>	11,538,799	37.68%	902
<b>2013</b>	11,821,622	37.20%	923

**Sources:**

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the Statement of Net Position, and the tax revenues used in the percentage of actual tax revenues can be found in the Statement of Activities.

**Notes:**

- (1)-General obligation bonds amounts include the reported current and noncurrent amounts.
- (2)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenues. Therefore, the total taxes shown in the Governmental Activities section of the Statement of Activities are used in this calculation.
- (3)-General obligation bond amounts used in the per capita calculation are presented as of the fiscal year end. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year.

**Commonwealth of Pennsylvania**

**Debt Capacity**

Table 13  
Computation of Legal Debt Margin  
As of August 31 for the Last Ten Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 25,091,013,830	\$ 26,141,233,164	\$ 27,536,515,720	\$ 29,300,406,649	\$ 31,088,316,012	\$ 32,044,066,363	\$ 32,604,981,495	\$ 33,234,462,394	\$ 33,742,407,887	\$ 34,173,780,183
Constitutional factor.....	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75
Constitutional debt limit for debt incurred without the approval of the electors (A).....	43,909,274,203	45,747,158,037	48,188,902,510	51,275,711,636	54,404,553,021	56,077,116,135	57,058,717,616	58,160,309,190	59,049,213,802	59,804,115,320
Less outstanding net debt (non-electorate approved).....	6,230,365,064	6,146,947,312	6,399,655,454	6,839,080,189	7,068,178,522	7,497,271,800	8,553,447,438	8,520,640,376	9,194,240,832	9,331,058,456
<b>Legal debt margin (B).....</b>	<b>\$ 37,678,909,139</b>	<b>\$ 39,600,210,725</b>	<b>\$ 41,789,247,056</b>	<b>\$ 44,436,631,447</b>	<b>\$ 47,336,374,499</b>	<b>\$ 48,579,844,335</b>	<b>\$ 48,505,270,178</b>	<b>\$ 49,639,668,814</b>	<b>\$ 49,854,972,970</b>	<b>\$ 50,473,056,864</b>
<b>Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....</b>	14.19%	13.44%	13.28%	13.34%	12.99%	13.37%	14.99%	14.65%	15.57%	15.60%

**Source:** The Governor's Budget Office

**Notes:**

(A)-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.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

**Commonwealth of Pennsylvania**  
**Demographic and Economic**

Table 14  
 Employment by Nonfarm Related Industry  
 For the Last Ten Calendar Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Employment by nonfarm related industry (1)(2):</b>										
<b>Total nonfarm:</b>										
<b>Private earnings:</b>										
<b>Goods producing:</b>										
Natural resources and mining.....	17,900	18,700	19,700	20,300	21,100	22,200	22,300	26,600	33,800	37,000
Construction.....	246,000	250,200	255,700	261,000	262,300	254,600	224,600	215,900	222,800	225,800
Manufacturing.....	712,400	690,700	679,400	670,400	659,100	643,800	574,100	560,000	564,900	567,100
<b>Total goods producing.....</b>	<b>976,300</b>	<b>959,600</b>	<b>954,800</b>	<b>951,700</b>	<b>942,500</b>	<b>920,600</b>	<b>821,000</b>	<b>802,500</b>	<b>821,500</b>	<b>829,900</b>
<b>Service providing:</b>										
Trade.....	1,108,200	1,113,600	1,120,300	1,125,800	1,133,900	1,125,900	1,080,800	1,080,000	1,093,400	1,102,000
Information.....	120,600	112,200	109,500	108,200	107,500	105,900	99,600	93,200	91,100	90,200
Financial activities .....	338,500	336,200	335,700	335,000	332,800	329,800	318,400	311,000	308,600	310,200
Professional and business services.....	610,500	638,100	660,500	685,300	705,700	709,400	674,800	689,900	716,800	730,000
Education and health services.....	980,500	999,200	1,030,000	1,054,400	1,075,100	1,101,000	1,119,600	1,135,000	1,152,100	1,168,500
Leisure and hospitality.....	471,000	477,200	484,700	491,700	499,900	503,200	494,300	500,500	510,500	521,100
Other services.....	260,100	263,700	261,600	258,400	255,800	254,300	249,900	250,300	253,000	256,000
<b>Total service providing.....</b>	<b>3,889,400</b>	<b>3,940,200</b>	<b>4,002,300</b>	<b>4,058,800</b>	<b>4,110,700</b>	<b>4,129,500</b>	<b>4,037,400</b>	<b>4,059,900</b>	<b>4,125,500</b>	<b>4,178,000</b>
<b>Total private earnings.....</b>	<b>4,865,700</b>	<b>4,899,800</b>	<b>4,957,100</b>	<b>5,010,500</b>	<b>5,053,200</b>	<b>5,050,100</b>	<b>4,858,400</b>	<b>4,862,400</b>	<b>4,947,000</b>	<b>5,007,900</b>
<b>Government.....</b>	<b>748,300</b>	<b>747,100</b>	<b>747,800</b>	<b>748,300</b>	<b>747,500</b>	<b>752,000</b>	<b>759,600</b>	<b>761,200</b>	<b>740,500</b>	<b>721,800</b>
<b>Total nonfarm.....</b>	<b>5,614,000</b>	<b>5,646,900</b>	<b>5,704,900</b>	<b>5,758,800</b>	<b>5,800,700</b>	<b>5,802,100</b>	<b>5,618,000</b>	<b>5,623,600</b>	<b>5,687,500</b>	<b>5,729,700</b>

**Source:** Information obtained from the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis website ([www.paworkstats.state.pa.us](http://www.paworkstats.state.pa.us)).

**Notes:**

(1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.

(2)-Various calendar years may differ from the totals presented in the same table in the June 30, 2012 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

**Commonwealth of Pennsylvania**  
**Demographic and Economic**

Table 15  
Population and Per Capita Personal Income  
For the Last Ten Calendar Years

Calendar Year	Population (1) (Expressed in thousands)			Personal Income (2) (Expressed in millions)			Per Capita (3) Personal Income		
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania percentage above/(below) U.S.
2003	12,375	290,108	4.27%	\$ 409,424	\$ 9,479,611	4.32%	\$ 33,086	\$ 32,676	1.25%
2004	12,411	292,805	4.24%	430,410	10,043,284	4.29%	34,680	34,300	1.11%
2005	12,450	295,517	4.21%	447,274	10,605,645	4.22%	35,926	35,888	0.11%
2006	12,511	298,380	4.19%	476,825	11,376,460	4.19%	38,113	38,127	(0.04)%
2007	12,564	301,231	4.17%	501,591	11,990,244	4.18%	39,923	39,804	0.30%
2008	12,612	304,094	4.15%	519,543	12,429,284	4.18%	41,193	40,873	0.78%
2009	12,667	306,772	4.13%	514,679	12,073,738	4.26%	40,632	39,357	3.24%
2010	12,711	309,326	4.11%	529,808	12,423,332	4.26%	41,680	40,163	3.78%
2011	12,744	311,588	4.09%	558,345	13,179,561	4.24%	43,813	42,298	3.58%
2012	12,764	313,914	4.07%	575,425	13,729,063	4.19%	45,083	43,735	3.08%

**Sources:** Population data is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce website at <http://www.bea.gov/index.htm>, whose source is the U.S. Bureau of Census' mid-year population estimate. Personal income details can be found in Table 5.

**Notes:**

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' mid-year population estimate include revisions to the annual population estimate back to the calendar year of the most recent Census (2010 calendar year). Therefore, the totals shown may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2012 fiscal year.

(2)-Personal income data is provided as of the calendar year. Various calendar years differ from the totals presented in the June 30, 2012 CAFR. See Table 5 for details.

(3)-As a result of changes noted in Notes (1) and (2), the Per Capita Personal Income may differ from what was presented in the June 30, 2012 CAFR.

**Commonwealth of Pennsylvania**  
**Demographic and Economic**

Table 16  
Employment Information  
For the Last Ten Calendar Years  
(Expressed in thousands)

Calendar Year	Pennsylvania (1)				United States				PA rate percentage above/(below) U.S. Rate
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
2003	6,145	5,796	349	5.7	146,510	137,736	8,774	6.0	(5.00)%
2004	6,197	5,860	337	5.4	147,401	139,252	8,149	5.5	(1.82)%
2005	6,270	5,958	312	5.0	149,320	141,730	7,591	5.1	(1.96)%
2006	6,308	6,021	287	4.5	151,428	144,427	7,001	4.6	(2.17)%
2007	6,330	6,054	276	4.4	153,124	146,047	7,078	4.6	(4.35)%
2008	6,450	6,105	345	5.3	154,287	145,362	8,924	5.8	(8.62)%
2009	6,407	5,898	508	7.9	154,142	139,877	14,265	9.3	(15.05)%
2010	6,393	5,855	538	8.4	153,889	139,064	14,825	9.6	(12.50)%
2011	6,400	5,893	507	7.9	153,617	139,869	13,747	8.9	(11.24)%
2012	6,487	5,973	513	7.9	154,975	142,469	12,506	8.1	(2.47)%

**Sources:** Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at [www.paworkstats.state.pa.us/](http://www.paworkstats.state.pa.us/).

**Notes:**

(1)-Various calendar years may differ from the totals presented in the same table in the June 30, 2012 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.

Commonwealth of Pennsylvania

Operating Information

Table 17

Commonwealth Employees by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Direction and supportive services</b>										
Legislative.....	3,206	3,268	3,336	3,339	3,346	3,327	3,133	2,959	2,844	2,784
Revenue.....	2,272	2,322	2,377	2,385	2,374	2,254	2,058	1,965	1,934	1,883
Executive Offices.....	1,986	1,962	1,990	1,966	2,012	2,004	1,906	1,767	1,715	1,612
General Services.....	1,242	1,255	1,295	1,305	1,251	1,244	1,145	1,115	1,030	993
Auditor General.....	768	736	740	711	730	708	670	606	598	475
Treasurer.....	511	497	534	565	552	492	420	408	396	386
Other.....	425	379	376	327	327	281	274	270	273	268
<b>Total direction and supportive services.....</b>	<b>10,410</b>	<b>10,419</b>	<b>10,648</b>	<b>10,598</b>	<b>10,592</b>	<b>10,310</b>	<b>9,606</b>	<b>9,090</b>	<b>8,790</b>	<b>8,401</b>
<b>Protection of persons and property</b>										
Corrections.....	14,384	14,826	15,301	15,441	15,722	16,139	16,232	15,740	15,751	15,398
State Police.....	5,790	6,039	6,191	6,272	6,249	6,193	5,989	6,015	5,978	5,938
Liquor Control Board.....	4,407	4,580	4,772	4,704	4,835	5,031	5,082	4,847	4,952	5,007
Environmental Protection.....	2,836	2,831	2,890	2,799	2,793	2,786	2,590	2,609	2,648	2,616
Judiciary.....	2,100	2,102	2,140	2,130	2,136	2,141	2,197	2,154	2,176	2,150
Transportation.....	1,208	1,253	1,251	1,253	1,235	1,185	1,125	1,129	1,194	1,191
Agriculture.....	997	968	1,032	1,056	1,187	1,112	995	962	919	952
Probation and Parole Board.....	972	1,001	1,008	967	1,084	1,141	1,114	1,105	1,162	1,199
Attorney General.....	944	886	919	935	985	955	897	814	821	810
Public Utility Commission.....	467	469	529	485	519	535	547	506	508	497
Military and Veterans Affairs.....	459	489	529	517	538	529	478	450	468	467
Other.....	2,012	2,025	2,106	2,088	2,085	2,014	1,955	1,850	1,905	1,839
<b>Total protection of persons and property.....</b>	<b>36,576</b>	<b>37,469</b>	<b>38,668</b>	<b>38,647</b>	<b>39,368</b>	<b>39,761</b>	<b>39,201</b>	<b>38,181</b>	<b>38,482</b>	<b>38,064</b>
<b>Public education</b>										
Education.....	624	672	674	665	693	578	544	503	521	514
Other.....	20	18	18	18	18	16	15	15	-	-
<b>Total public education.....</b>	<b>644</b>	<b>690</b>	<b>692</b>	<b>683</b>	<b>711</b>	<b>594</b>	<b>559</b>	<b>518</b>	<b>521</b>	<b>514</b>
<b>Health and human services</b>										
Public Welfare.....	19,773	19,769	19,655	18,786	19,082	18,399	18,300	17,169	16,995	16,504
Labor and Industry.....	4,431	4,370	4,462	4,277	3,960	4,740	4,887	4,632	4,599	4,140
Military and Veterans Affairs.....	1,939	2,015	2,060	2,095	2,128	1,965	2,033	2,049	2,023	1,924
Health.....	1,404	1,429	1,524	1,465	1,511	1,490	1,384	1,364	1,461	1,331
Other.....	99	109	112	107	102	98	193	206	220	252
<b>Total health and human services.....</b>	<b>27,646</b>	<b>27,692</b>	<b>27,813</b>	<b>26,730</b>	<b>26,783</b>	<b>26,692</b>	<b>26,797</b>	<b>25,420</b>	<b>25,298</b>	<b>24,151</b>
<b>Economic development</b>										
Labor and Industry.....	923	911	960	927	911	930	934	912	942	919
Community and Economic Development.....	298	324	336	346	349	352	334	311	302	321
<b>Total economic development.....</b>	<b>1,221</b>	<b>1,235</b>	<b>1,296</b>	<b>1,273</b>	<b>1,260</b>	<b>1,282</b>	<b>1,268</b>	<b>1,223</b>	<b>1,244</b>	<b>1,240</b>
<b>Transportation</b>										
Transportation.....	10,645	10,578	10,810	10,509	10,770	10,655	10,626	10,486	10,696	10,695
<b>Total transportation.....</b>	<b>10,645</b>	<b>10,578</b>	<b>10,810</b>	<b>10,509</b>	<b>10,770</b>	<b>10,655</b>	<b>10,626</b>	<b>10,486</b>	<b>10,696</b>	<b>10,695</b>
<b>Recreation and cultural enrichment</b>										
Conservation and Natural Resources.....	2,632	2,608	2,639	2,573	2,632	2,493	2,279	2,219	2,335	2,392
Game Commission.....	758	734	732	734	725	706	734	735	774	769
Fish and Boat Commission.....	482	492	497	514	508	485	486	486	481	448
Historical and Museum Commission.....	488	444	435	419	399	347	228	213	231	214
Other.....	116	111	114	113	111	92	56	50	51	43
<b>Total recreation and cultural enrichment.....</b>	<b>4,476</b>	<b>4,389</b>	<b>4,417</b>	<b>4,353</b>	<b>4,375</b>	<b>4,123</b>	<b>3,783</b>	<b>3,703</b>	<b>3,872</b>	<b>3,866</b>
<b>Total Commonwealth Employees.....</b>	<b>91,618</b>	<b>92,472</b>	<b>94,344</b>	<b>92,793</b>	<b>93,859</b>	<b>93,417</b>	<b>91,840</b>	<b>88,621</b>	<b>88,903</b>	<b>86,931</b>

**Source:** Employees for the Legislature, Judiciary, Auditor General, Treasury and Attorney General were provided by the individual agency. All other agencies fall within the Governor's jurisdiction and were provided by the Office of Administration.



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**Commonwealth of Pennsylvania**

**Operating Information**

Table 18  
Operating Indicators by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2004	2005	2006	2007	2008	2009	2010	2011	2012(5)	2013(5)
<b>Direction and supportive services:</b>										
<b>Executive Offices</b>										
<b>Council on the Arts</b>										
Attendance at supported events (in thousands)	27,000	28,000	28,000	30,566	20,700	20,950	15,747	15,800	21,700	21,950
<b>Office of Inspector General-Welfare Fraud</b>										
Fraud prevention - investigations.....	N/A	21,073	22,051	20,582	21,392	25,802	27,645	25,893	25,362	27,000
Fraud prevention - ineligibility determinations.....	N/A	10,898	11,500	10,793	10,762	10,897	12,902	12,420	12,650	13,000
<b>Protection of persons and property:</b>										
<b>Corrections</b>										
Inmates (1).....	40,817	40,965	42,446	44,365	46,028	49,307	51,321	51,638	51,184	50,069
Inmates enrolled in academic educational programs (1).....	11,749	11,680	13,457	14,453	15,017	14,551	13,152	12,064	12,871	12,465
<b>Agriculture</b>										
Number of food safety inspection reports available online	N/A	N/A	N/A	N/A	23,950	44,308	51,632	55,180	61,000	94,500
<b>Revenue</b>										
Personal Income Tax:										
Total - electronic.....	2,272,861	2,520,663	2,813,228	3,040,325	3,347,123	3,544,248	3,709,651	3,699,817	4,538,565	4,636,000
Total - paper.....	3,494,305	3,288,166	3,994,634	2,076,124	3,239,502	2,842,447	2,137,790	2,299,575	1,678,647	1,464,000
Total personal income tax returns processed.....	5,767,166	5,808,829	6,807,862	5,116,449	6,586,625	6,386,695	5,847,441	5,999,392	6,217,212	6,100,000
<b>State Police</b>										
Traffic citations issued.....	438,328	451,160	479,086	506,844	500,820	564,582	567,116	560,063	600,986	611,000
Background Checks:										
Firearms checks conducted for the purchase of a firearm.....	10,406	514,287	512,686	503,013	505,500	681,516	596,879	688,564	849,329	863,500
<b>Judiciary</b>										
Caseload (cases filed/reopened/appeals) (1).....	3,598,042	3,790,068	3,783,987	3,816,270	3,768,167	3,884,107	3,825,045	3,761,142	3,614,627	3,501,722
<b>Public education:</b>										
<b>Education</b>										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12).....	1,821,146	1,828,089	1,830,684	1,810,430	1,797,520	1,800,314	1,780,413	1,781,206	1,765,327	1,764,000
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education.....	95,523	98,657	100,392	102,445	103,356	105,566	109,636	112,030	109,738	106,736
Community Colleges.....	86,935	88,494	88,150	91,161	92,526	98,988	106,270	106,164	103,971	102,348
State-Related Universities.....	140,806	140,697	139,894	144,993	148,272	152,678	156,435	157,939	156,517	156,230
Non-State Related Universities and Colleges.....	41,678	43,106	43,662	48,078	48,607	49,532	888	840	809	901
<b>Health and human services:</b>										
<b>Aging and Long Term Living</b>										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average).....	242,755	290,482	306,138	390,207	313,643	312,916	309,329	307,585	298,137	296,630
Total prescriptions per year.....	10,888,090	12,794,090	13,253,256	13,025,489	11,173,934	11,605,980	10,773,967	10,341,180	10,288,430	10,333,520
<b>Health</b>										
Vital events (births, deaths, fetal deaths) registered.....	274,664	273,432	274,105	275,261	280,928	273,381	268,788	270,194	273,522	273,522
Total number of encounters by State Health Care Centers.....	N/A	N/A	375,240	511,736	550,083	555,584	523,874	561,140	440,860	462,900
<b>Public Welfare</b>										
<b>MEDICAL ASSISTANCE</b>										
Persons participating in Medical Assistance (monthly average).....	1,621,901	1,747,615	1,833,760	1,883,235	1,907,396	1,972,559	2,072,461	2,135,477	2,225,011	2,256,790
Persons receiving cash assistance (monthly average).....	250,581	278,474	278,496	250,687	225,846	221,744	240,650	248,173	248,298	185,187
Children participating in subsidized child care (unduplicated).....	185,971	195,211	200,650	212,112	239,550	234,899	251,347	257,735	220,530	210,050
Total persons provided mental health services (2).....	208,345	398,590	418,749	517,440	525,991	525,136	530,387	649,375	655,577	656,030
Persons receiving Intellectual Disability services during fiscal year (3).....	89,985	72,538	45,414	50,139	51,375	53,284	53,399	53,455	53,569	54,699
<b>Economic development:</b>										
<b>Community and Economic Development</b>										
Businesses assisted.....	22,305	19,781	16,215	18,454	15,805	17,852	18,439	21,004	23,804	17,290
Persons receiving Customized Job Training.....	N/A	N/A	N/A	N/A	N/A	N/A	45,376	51,334	39,394	40,182
Persons participating in Community Services Block Grant.....	324,436	339,564	339,564	339,564	348,829	325,322	387,055	444,529	398,558	250,250

**Commonwealth of Pennsylvania**

**Operating Information**

Table 18

Operating Indicators by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2004	2005	2006	2007	2008	2009	2010	2011	2012(5)	2013(5)
<b>Labor and Industry</b>										
Total public health and safety inspections performed.....	122,584	117,056	82,123	80,408	75,223	76,253	76,136	77,142	87,913	75,000
Vocational Rehabilitation-Eligible participants with active plans.....	N/A	N/A	N/A	N/A	N/A	41,316	43,644	48,652	45,471	45,000
<b>Transportation:</b>										
<b>Transportation</b>										
Miles of State maintained highways.....	39,893	39,890	39,890	39,843	39,872	39,861	39,845	39,793	39,797	39,770
Passengers carried by State-assisted operators (millions annually).....	304	310	401	390	427	434	423	432	441	440
Safety and Emissions inspections.....	15,000,000	17,100,000	17,388,858	17,470,970	17,470,125	17,972,890	17,720,432	17,707,480	17,441,664	17,800,000
Registrations:										
Registrations-Total New and Renewed.....	9,978,000	10,017,000	9,864,461	9,708,974	9,724,462	9,550,413	9,389,974	9,206,015	9,369,992	9,450,000
Licensed drivers-Total New and Renewed.....	2,476,213	2,377,057	2,345,311	2,274,866	2,432,976	2,402,935	2,407,963	2,364,145	2,449,267	2,310,000
<b>Recreation and cultural enrichment:</b>										
<b>Conservation and Natural Resources</b>										
State park attendance (visitor days per calendar year).....	34,692,000	35,095,476	36,295,873	35,800,000	33,200,000	37,000,000	38,400,000	37,600,000	37,600,000	38,500,000
<b>Fish and Boat Commission</b>										
Fishing licenses sold.....	909,053	834,877	843,302	864,416	905,806	839,172	883,932	810,050	876,233	876,000
<b>Game Commission</b>										
Hunting licenses sold.....	1,018,248	1,007,613	964,158	945,892	924,448	926,892	946,497	927,527	931,060	930,000
<b>Historical and Museum Commission</b>										
Records maintained by the State Records Center (in thousands) (4).....	709,821	726,747	753,354	791,553	812,175	811,000	811,000	239,540	239,772	240,000
Annual visits to commission historical sites and museums (in thousands)..	1,528	1,477	1,516	1,420	1,450	1,425	1,425	1,283	1,045	1,050

**Sources:** Governor's Office of the Budget, Comptroller Offices, various agencies

**Notes:**

- (1)-Amounts are presented as of December 31.
- (2)-Beginning with the 2005 fiscal year, this amount was revised to include individuals receiving services from community mental health funds, Medical Assistance expenditures, and BHSI funds.
- (3)-Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.
- (4)-Beginning with the 2011 fiscal year, this amount was revised to reflect the number of boxes maintained. Previous years reflected the actual number of records.
- (5)-For the 2013 fiscal year, a majority of the indicators presented are estimates. For the 2012 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2012 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2012 CAFR.

Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>GOVERNMENTAL ACTIVITIES</b>										
<b>Direction and Supportive Services</b>										
<b>Department of General Services</b>										
Number of buildings (1).....	36	36	85	85	87	85	119	116	116	116
Total pieces of machinery and equipment.....	137	137	137	139	133	148	394	139	155	134
Capital and Agency projects in design and/or construction.....	375	500	409	440	385	425	638	725	764	799
Vehicles in fleet.....	N/A	16,544	16,337	16,384	16,307	16,307	15,808	16,353	15,821	14,704
<b>Protection of persons and property</b>										
<b>Department of Corrections</b>										
State Correctional Institutions (2).....	26	27	26	26	27	27	27	27	27	26
<b>State Police</b>										
Patrol vehicles.....	2,188	2,282	2,316	2,173	2,189	2,189	2,182	2,182	2,182	2,182
Police stations and/or troop headquarters (2).....	21	23	23	23	23	24	25	25	25	26
<b>Department of Military and Veterans Affairs</b>										
Number of National Guard readiness centers.....	96	117	117	117	117	117	100	100	99	99
<b>Public education</b>										
<b>State System of Higher Education (SSHE)-Component Unit (3)</b>										
Number of SSHE universities using Commonwealth owned buildings and land.....	14	14	14	14	14	14	14	14	14	14
<b>Health and human services</b>										
<b>Department of Public Welfare</b>										
Total number of hospital or treatment center complexes (1)(2).....	22	21	19	19	19	18	19	17	17	17
<b>Transportation</b>										
<b>Department of Transportation</b>										
Total pieces of equipment (4).....	21,256	7,070	7,495	7,923	7,316	7,969	7,707	7,722	7,792	8,128
Total lane miles of highways (state or locally maintained).....	115,402	116,055	116,100	116,716	116,998	117,187	117,385	117,499	117,588	117,670
<b>Recreational and cultural enrichment</b>										
<b>Department of Conservation and Natural Resources</b>										
Acres of land in state parks and forests (in millions).....	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5
<b>Game Commission</b>										
Acres of game lands (in millions).....	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.50
<b>Fish Commission</b>										
Public boat launches.....	N/A	N/A	178	153	153	271	271	271	271	271
Total number of fish hatcheries.....	15	15	15	15	15	15	15	15	15	15
<b>Historical and Museum Commission</b>										
Museums and historic sites.....	26	26	25	25	25	25	23	23	23	23
<b>Economic Development</b>										
<b>Department of Labor and Industry</b>										
Square footage of rehabilitation centers owned by the Commonwealth.....	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	469,065

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.

Notes:

- (1)-Beginning with the 2006 fiscal year, the control of the Harrisburg State Hospital was transferred from the Department of Public Welfare (reducing the reported number of hospital complexes) to the Department of General Services (increasing the reported number of buildings). Also, beginning with the 2010 fiscal year this amount includes buildings that were leased to non-Primary Government entities but owned by the Commonwealth. These were not reported in the totals for the other fiscal years.
- (2)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (e.g. land) and depreciable assets (e.g. machinery and equipment, buildings, improvements, etc.).
- (3)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Position. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.
- (4)-Through the 2004 fiscal year, this total includes equipment that did not meet the capitalization thresholds.