



# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016



Commonwealth of Pennsylvania

Tom Wolf, Governor

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# *Commonwealth of Pennsylvania*

## Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016

*Tom Wolf, Governor*



Prepared By:

*Randy Albright, Secretary*  
Office of the Budget

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Office of the Budget

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Chief Accounting Officer

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**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

RANDY ALBRIGHT  
SECRETARY  
OFFICE OF THE BUDGET

December 15, 2016

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, 2016. 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, 2016 Basic Financial Statements have been jointly audited by the Department of the Auditor General and CliftonLarsonAllen 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, 2016 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 12.8 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 financially accountable for them, and therefore includes them in the Commonwealth's financial reporting entity and reports them separately within its government-wide financial statements. The Commonwealth of Pennsylvania also accounts for two additional component unit organizations, the Commonwealth Financing Authority and the Philadelphia Regional Port Authority. These organizations function as an integral part of the Commonwealth's primary government therefore, their financial information is blended with the Commonwealth's primary government financial information.

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 officials, 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, 2016 are incorporated immediately following this letter.

---

## **GENERAL FUND**

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, 2016. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in special funds, and accounts for a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate net income, and sales and use taxes, constitute approximately 90% 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, 2016.



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

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

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

<u>Fiscal Year</u>	<u>Balance/(Deficit)</u>	<u>Increase/(Decrease)</u>
2016	\$ 2	\$ (255)
2015 (revised)	257	173
2014 (revised)	84	(463)
2013 (revised)	547	(126)
2012 (revised)	673	(420)

During the fiscal year ended June 30, 2016, the budgetary basis General Fund expenditures exceeded General Fund revenues and other sources by \$255, and at June 30, 2016, the Commonwealth reported a budgetary basis fund balance of \$2 in the General Fund. The budgetary basis results for the fiscal year ended June 30, 2016 include revenue collections totaling \$58,485, less appropriation authorizations totaling \$58,961, plus other net financing sources totaling \$221. Included in the \$58,961 appropriation authorizations are \$6,733 of state supplemental appropriations and \$131 in Federal supplemental appropriations authorized for the fiscal year ended June 30, 2016 (amounts in millions).

**ECONOMIC CONDITION**

Pennsylvania benefits from a highly diversified economy with 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 national economic contraction, Pennsylvania often will outperform the U.S. in areas such as growth in real gross state product, real personal income and employment. Pennsylvania's unemployment rate generally trends below the U.S. rate, and per capita income levels in the Commonwealth exceed national levels. However, during periods of economic expansion, Pennsylvania will often lag behind the rate of growth in the national economy.

Pennsylvania will benefit from the continued development of the Marcellus Shale, and eventually the Utica Shale, natural gas deposits which will continue to provide jobs in the mining industry. The state may also attract jobs in industries that can benefit from the increase in natural gas supplies, either for low-cost energy or for inputs into chemical products. Low oil prices are not expected to have a big impact on natural gas exploration. The current growth phase in the Marcellus Shale production mostly remains focused on building infrastructure to service existing wells.

The Pittsburgh area has attracted interest as high-tech jobs such as software development have moved into the area. This, and the state's numerous high-quality research universities, is helping to mitigate job migration.

Pennsylvania is expected to add jobs at an annual average rate of 0.8% over the next several years. This growth is low as compared to other states but is based upon Pennsylvania's slow population growth, which remains below the national average. Also, recent Census estimates show that Pennsylvania is lagging behind many other states in net migration. These two factors may limit the labor-force growth rate.

## LONG TERM FINANCIAL PLANNING

The Commonwealth continues to focus on the overall financial condition of the Commonwealth and the General Fund. As part of its enactment of Commonwealth's fiscal year 2016-17 budget, the General Assembly passed and Governor Wolf signed into law Act 84 of 2016, a package of limited tax increases that will provide new revenues to the General Fund. The Commonwealth is diligently implementing those tax changes, and is monitoring overall financial activity to date. The Governor also signed into law Act 39 of 2016 to modernize and make major changes to the Commonwealth's state-owned and operated Liquor Control system, changes which will generate new revenues for the General Fund. New tax revenues are anticipated to be \$727.4 million, and the enhanced revenues from liquor modernization are anticipated to be \$149 million. The Commonwealth is closely monitoring all state agency expenditures, and is restraining hiring and spending to those core functions which are absolutely necessary to maintain the Commonwealth's health and safety programs. Updated projections of the Commonwealth's financial activity and expenditures, including revenues resulting from the tax and Liquor Control system changes mentioned above, will be included in the Governor's Executive Budget request for fiscal year 2017-18, available on February 7, 2017 via the Office of the Budget website, [www.budget.pa.gov](http://www.budget.pa.gov).

## CERTIFICATE OF ACHIEVEMENT

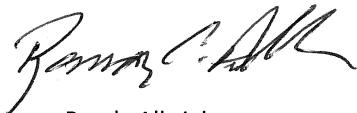
The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its CAFR as of and for the fiscal year ended June 30, 2015. This represents the thirtieth 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, 2016 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,



Randy Albright  
Secretary  
Office of the Budget

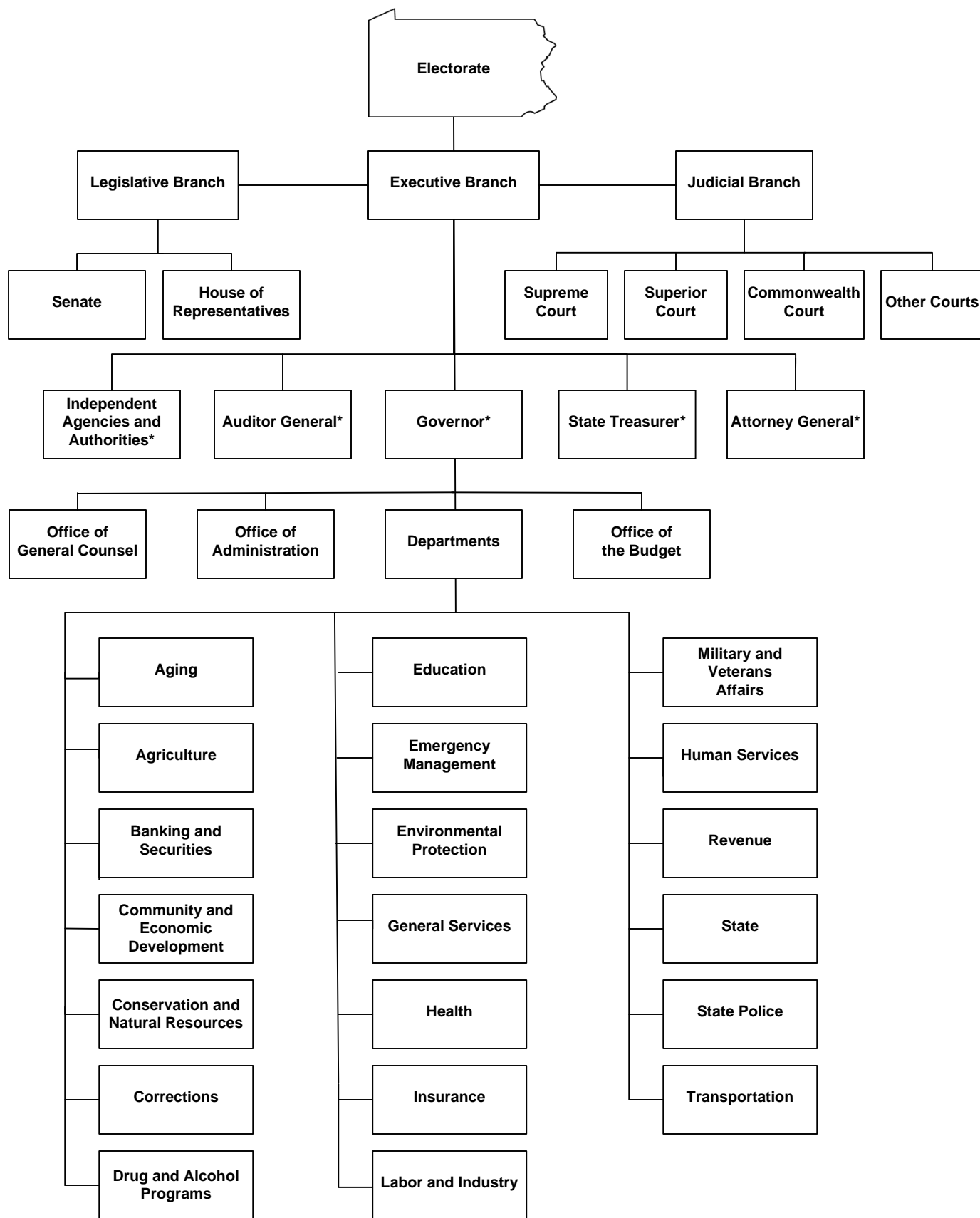


Brenda Warburton  
Executive Deputy Secretary  
Office of the Budget



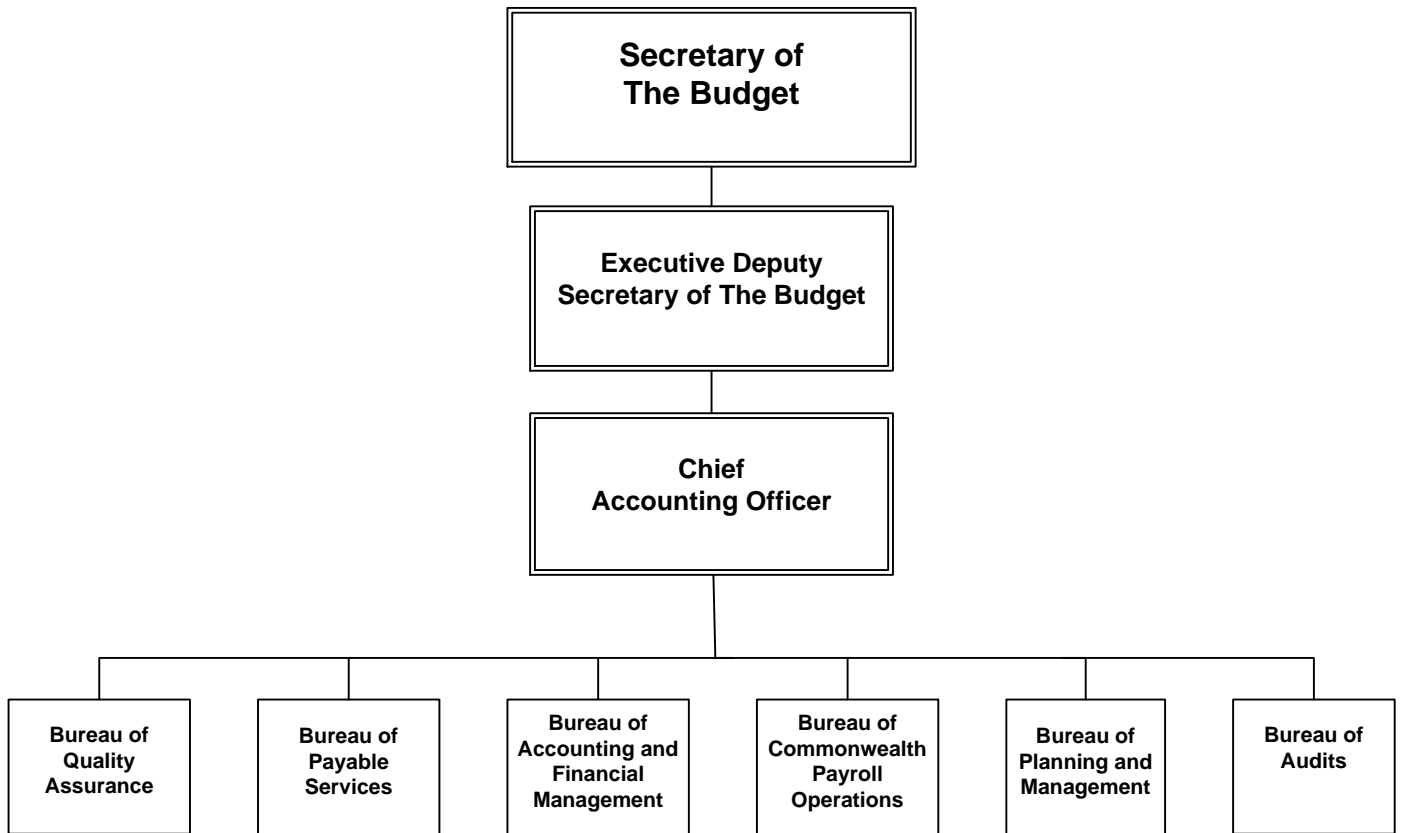
Anna Maria Kiehl, CPA  
Chief Accounting Officer  
Office of the Budget

**COMMONWEALTH OF PENNSYLVANIA  
ORGANIZATION CHART  
JUNE 30, 2016**



\*Independently Elected

**Office of the Budget -  
Office of  
Comptroller Operations  
Organization Chart  
June 30, 2016**



Principal Leadership

Commonwealth Elected and Selected Appointed Officials as of June 30, 2016

Tom Wolf, Governor

Mike Stack, Lieutenant Governor

Timothy Reese, Treasurer

Eugene DePasquale, Auditor General

Kathleen Kane, Attorney General

Randy Albright, Secretary of the Budget

Sharon Minnich, Secretary of Administration

Joseph Scarnati, President pro Tempore, Senate

Mike Turzai, Speaker of the House

Thomas Saylor, Chief Justice State Supreme Court



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Commonwealth of Pennsylvania**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# Financial Section





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



CliftonLarsonAllen

CliftonLarsonAllen LLP  
CLAconnect.com

**INDEPENDENT AUDITORS' REPORT**

The Honorable Tom Wolf, 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, 2016, 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 accounting principles generally accepted in the United States of America; 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 jointly express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain funds and component units of the Commonwealth, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including CliftonLarsonAllen LLP and the Commonwealth of Pennsylvania's 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 those funds and component units, are based solely on the reports of the other auditors.

	Percentage Audited Separately by				Percent Audited by	
	Department of the Auditor General		CliftonLarsonAllen LLP		Other Auditors	
	Total Assets & Deferred Outflows of Resources	Total Revenue	Total Assets & Deferred Outflows of Resources	Total Revenue	Total Assets & Deferred Outflows of Resources	Total Revenue
<b>Government-Wide</b>						
Business-type Activities	7%	20%	23%	2%	17%	1%
Component Units	0%	0%	18%	43%	82%	57%
<b>Fund statements</b>						
Enterprise Funds	7%	20%	23%	2%	17%	1%
Fiduciary Funds	1%	1%	0%	0%	90%	90%
<b>Discretely Presented</b>						
Component Units	0%	0%	18%	43%	82%	57%

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 entity'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 entity'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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### ***Pennsylvania Turnpike Commission***

The Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under an Amended Lease and Funding Agreement as required under the terms of Act 44 of 2007 and Act 89 of 2013. 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 and current lease payments (see Note S). Our auditors' opinion was not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18-41, and the schedules of funding progress and employer contributions, schedules of pension amounts – Commonwealth's proportionate share of the net pension liability and Commonwealth's schedule of contributions and the budgetary comparison schedules on pages 174-181 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

The Honorable Tom Wolf, Governor  
Commonwealth of Pennsylvania

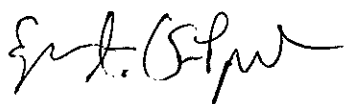
of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United 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'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 the budgetary comparison schedules for budgeted non-major special revenue funds, as listed in the table of contents, 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 basic 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 and the reports of the other auditors, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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



Harrisburg, Pennsylvania  
December 12, 2016



Baltimore, Maryland  
December 12, 2016



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's (Commonwealth'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, 2016 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.

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**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 statements' 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> <li>*Generally used to account for tax-supported activities</li> </ul>	<ul style="list-style-type: none"> <li>• Enterprise Funds</li> <li>• Internal Service Funds</li> <li>*Activities that focus on the determination of operating income, changes in net position (cost recovery), financial position and cash flow</li> </ul>	<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> <li>*Activities held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs</li> </ul>
<b>Required Financial Statements</b>	<ul style="list-style-type: none"> <li>• -Statement (Stmt) of Net Position (1)</li> <li>• -Stmt of Activities (2)</li> </ul>			<ul style="list-style-type: none"> <li>• Balance Sheet (3)</li> <li>• Stmt of Revenues, Expenditures and Changes in Fund Balances (4)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmt of Net Position (1)</li> <li>• Stmt of Revenues, Expenses and Changes in Net Position (8)</li> <li>• Stmt of Cash Flows (5)</li> </ul>	<ul style="list-style-type: none"> <li>• Stmt Fiduciary Net Position (6)</li> <li>• Stmt of Changes in Fiduciary Net Position (7)</li> </ul>
<b>Measurement Focus and Basis of Accounting</b>	Economic resources measurement focus and accrual basis			Current financial resources measurement focus and modified accrual basis	Economic resources measurement focus and accrual basis	Accrual basis

- (1) **Statement of Net Position** is a government-wide or proprietary fund financial statement that reports the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 function and the activities as a whole.
- (3) **Balance Sheet** presents a comprehensive statement of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and fund balances of the government at a point in time.
- (4) **Statement of Revenues, Expenditures, and Changes in Fund Balances** presents the flows of resources in and out, as well as fund balance at the beginning and end of the financial period.
- (5) **Statement of Cash Flows** provides relevant information about cash receipts and cash payments during a period.
- (6) **Statement of Fiduciary Net Position** presents information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources 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 flows of resources in and out, 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 Commonwealth.

**Note 3: Fiduciary Funds** account for resources held for the benefit of parties outside the Commonwealth and retired government employees. 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 the financial statements section of the CAFR.

All dollar amounts in the MD&A are stated in millions unless otherwise indicated. There may be rounding differences between amounts reported in the MD&A section and amounts reported in other sections of the CAFR.

## Section B: Commonwealth's Overall Financial Activity

Section C contains condensed financial information for the Commonwealth. The following are explanations of the various categories broken out in the condensed Statement of Activities.

### Government-wide Revenues

**Tax revenue** is the largest portion 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. Gaming taxes provide funding for several initiatives, most notably the Commonwealth's property tax relief program.

**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 Unemployment Compensation Fund; the profits from lottery ticket sales are utilized to support programs for the elderly.

**Operating grants and contributions** include the revenue from the federal government in the form of grants. The Department of Human Services 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 Unemployment Compensation program, Department of Transportation supporting infrastructure development, Department of Health supporting an effective public health system and the Department of Education funding basic and higher education programs.

**Capital grants and contributions** make 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 Expenses

#### Governmental Activities:

**Direction and supportive services** are centralized functions affecting all agencies. These services provide an administrative support system through which the goals and objectives of Commonwealth programs are attained. The Governor's Office, Executive Offices, Auditor General, Treasury, the departments of General Services and Revenue and the Legislature are some of the agencies that provide these services.

**Protection of persons and property** includes 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, Public Utility Commission, Department of Military and Veterans Affairs, Pennsylvania Emergency Management Agency, and Insurance Department are some of the agencies that support these programs.

**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.

**Health and human services** programs are primarily the responsibility of the departments of Human Services, Health, Aging and Drug and Alcohol Programs with contributions by the departments of Agriculture, Labor and Industry, Military and Veterans Affairs and Revenue. Agencies include these programs to ensure access to quality medical care for all citizens, support citizens seeking self-sufficiency and maximize citizens' opportunities to participate in society.

**Economic development** programs invest public resources to create jobs for Commonwealth citizens. The total efforts of the Department of Community and Economic Development are devoted to these programs and are the primary source of reported expenses.



**Transportation** reports the expenses of the Commonwealth's road and bridge infrastructure improvements and enhancements as well as the costs to provide licensing and highway safety programs. Transportation systems are developed to serve the needs of citizens, commerce and industry and are financed through the Department of Transportation.

**Recreation and cultural enrichment** programs focus resources on recreational and cultural amenities, ensuring that Commonwealth citizens and visitors can explore the cultural traditions, art and history of the Commonwealth and take advantage of outdoor recreational opportunities. The programs are primarily the responsibility of the Department of Conservation and Natural Resources, the Fish and Boat Commission, the Game Commission, the Historical and Museum Commission and the Department of Education.

**Interest** expense is the result of Commonwealth incurred debt used to finance its capital programs, voter-approved bond referenda and certain disaster relief programs. Most long-term financing of the Commonwealth is provided by the issuance of general obligation debt.

**Business-Type Activities:**

**State lottery** reports the cost of sales and services 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.

**State workers' insurance** reports the administrative expenses to provide workers' compensation insurance to employers, including those refused policies by private insurance firms.

**Tuition payment** reports the administrative expenses of the Tuition Payment Fund which provides Commonwealth residents the opportunity to prepay college tuition towards future education expenses at eligible educational institutions.

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

**Commonwealth financing** reports the expenses of the Commonwealth Financing Authority. The majority of expenses are for grants that promote the health, safety, employment, business opportunities and economic activity of the Commonwealth.

**Liquor control** expenses cover all costs associated with the operation and administration of the Liquor Store System and enforcement of the Liquor Code.

**Economic development and other** expenses reported include, among other things, those for a variety of economic development programs and the Philadelphia Regional Port Authority.

Section C: Condensed Financial Information

Government-wide Statement of Net Position as of June 30, 2016 and 2015

(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
<b>Assets:</b>						
Cash and investments.....	\$ 8,767	\$ 9,803	\$ 7,278	\$ 6,823	\$ 16,045	\$ 16,626
Capital assets (net).....	36,451	35,060	547	514	36,998	35,574
All other assets.....	10,318	9,605	1,714	1,714	12,032	11,319
<b>Total assets.....</b>	<b>55,536</b>	<b>54,468</b>	<b>9,539</b>	<b>9,051</b>	<b>65,075</b>	<b>63,519</b>
<b>Total deferred outflows.....</b>	<b>3,020</b>	<b>1,009</b>	<b>134</b>	<b>47</b>	<b>3,154</b>	<b>1,056</b>
<b>Liabilities:</b>						
Accounts payable.....	8,101	8,043	766	764	8,867	8,807
All other current liabilities.....	4,107	3,785	1,646	1,619	5,753	5,404
Bonds payable, non-current.....	11,762	12,219	3,298	3,844	15,060	16,063
All other long-term liabilities.....	21,175	17,979	3,514	3,375	24,689	21,354
<b>Total liabilities.....</b>	<b>45,145</b>	<b>42,026</b>	<b>9,224</b>	<b>9,602</b>	<b>54,369</b>	<b>51,628</b>
<b>Total deferred inflows.....</b>	<b>377</b>	<b>264</b>	<b>9</b>	<b>4</b>	<b>386</b>	<b>268</b>
<b>Net position:</b>						
Net investment in capital assets.....	30,525	29,178	528	505	31,053	29,683
Restricted.....	1,917	1,856	1,307	619	3,224	2,475
Unrestricted.....	(19,408)	(17,847)	(1,395)	(1,632)	(20,803)	(19,479)
<b>Total net position.....</b>	<b>\$ 13,034</b>	<b>\$ 13,187</b>	<b>\$ 440</b>	<b>\$ (508)</b>	<b>\$ 13,474</b>	<b>\$ 12,679</b>

Statement of Net Position Variance Analysis Year-Over-Year

(A discussion of significant activities)

Cash and investments net decrease:

- Governmental Activities total cash and investments decreased \$1,036 primarily due to increases in expenses for the General Fund and a decrease in bonds issued for the Capital Facilities Fund.
- Business-Type Activities total cash and investments increased \$455 primarily due to increased revenue and decreased expenses in the Unemployment Compensation Fund and the State Lottery Fund. These increases were partially offset by decreased investments in the State Workers' Insurance Fund due to decreased participation in the Treasury Department's securities lending program.

Capital assets net increase:

- Governmental Activities capital assets increased \$1,391 primarily as a result of an increase in spending within the Motor License Fund to build and improve the Commonwealth's bridge and highway infrastructure.

**All other assets** net increase: (Items reported in this category include taxes receivable, due from other governments, accounts receivable, inventory, supplies and other assets.)

- Governmental Activities reported an overall net increase of \$713 largely due to General Fund increases in accounts receivable and amounts due from the federal government, particularly for the Department of Human Services. These increases are discussed further in the General Fund analysis.

**Deferred outflows of resources** net increase:

- The total increase of \$2,098 is the result of increases in pension related deferred outflows of resources. Deferred outflows of resources related to the Commonwealth's employer share of the State Employee's Retirement System (SERS) net pension liability increased primarily due to actual investment earnings that were lower than long-term expected return rates and changes in actuarial assumptions for the SERS.
- Governmental Activities deferred outflows of resources increased \$2,011 due to the change in pension related items.
- Business-Type Activities deferred outflows of resources increased \$87 due to the change in pension related items.

**All other current liabilities** net increase: (Items reported in this category include tax refunds payable, due to other governments and political subdivisions, bonds payable and other current liabilities.)

- Governmental Activities increase of \$322 is largely attributable to an increase of tax refunds payable in the General Fund due to the January 1, 2016 elimination of the capital stock and foreign franchise tax. This increase is discussed further in the General Fund analysis.

**Bonds payable, non-current** net decrease:

- Governmental Activities non-current bonds payable decreased \$457 primarily due to the refunding of bonds, and the scheduled reclassification of bond-debt from non-current to current offset by new general obligation bond issuances for capital facilities.
- Business-Type Activities decreased \$546 largely as a result of bond repayments the scheduled reclassification of Unemployment Compensation Fund and Commonwealth Financing Authority bond-debt from non-current to current.

**All other long-term liabilities** net increase: (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, net pension liability, other postemployment benefit obligations and other long-term liabilities.)

- The total increase of \$3,335 is primarily attributed to the \$2,779 increase in the Commonwealth's employer share of the SERS net pension liability. The

SERS' total net pension liability increased primarily due to interest on the total pension liability, service costs, and actuarial changes in actuarial assumptions offset by employer and employee contributions.

- Governmental Activities increased \$3,196 largely due to the increase in net pension liability.
- The increase in net pension liability was also the primary cause of the \$139 increase in Business-Type Activities.

**Deferred inflows of resources** net increase:

- Governmental Activities deferred inflows of resources increased \$113 as the result of increases in pension related deferred inflows of resources. Deferred inflows of resources related to the Commonwealth's employer share of the State Employee's Retirement System (SERS) net pension liability increased primarily due to changes in the proportionate share of the SERS' collective net pension liability for various Commonwealth agencies.
- Business-Type Activities deferred inflows of resources increased \$5 as the result of increases in pension and debt refunding related deferred inflows of resources. Deferred inflows of resources related to the Commonwealth's employer share of the State Employee's Retirement System (SERS) net pension liability increased primarily due to changes in the proportionate share of the SERS' collective net pension liability for various Commonwealth agencies. Deferred inflows of resources related to the refunding of bond debt increased due to the Commonwealth's issuance of \$633 in refunding general obligation bonds during the fiscal year ended June 30, 2016. Note L in the notes to the financial statements section of the CAFR provides additional information related to refunded debt.

**Net position** is one way of measuring the health of the Commonwealth's finances. An overall surplus is reported for both Governmental Activities and Business-Type Activities, however, the majority of the surplus is related to net investment in capital assets and other restricted funds which are unavailable to utilize in satisfying the Commonwealth's day-to-day expenses. The Governmental Activities increase of \$1,347 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.

Statement of Activities for the Fiscal Years Ended June 30, 2016 and 2015  
(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program Revenues						
Charges for sales and services	\$ 5,545	\$ 5,642	\$ 9,693	\$ 9,229	\$ 15,238	\$ 14,871
Operating grants and contributions	26,947	24,084	111	417	27,058	24,501
Capital grants and contributions	62	32	-	-	62	32
Total program revenues	32,554	29,758	9,804	9,646	42,358	39,404
General revenues: taxes and investment income	34,942	35,060	-	-	34,942	35,060
<b>Total revenues</b>	<b>67,496</b>	<b>64,818</b>	<b>9,804</b>	<b>9,646</b>	<b>77,300</b>	<b>74,464</b>
<b>Expenses:</b>						
Governmental Activities						
Direction and supportive services	1,367	1,415	-	-	1,367	1,415
Protection of persons and property	6,750	6,660	-	-	6,750	6,660
Public education	14,915	14,451	-	-	14,915	14,451
Health and human services	36,621	33,880	-	-	36,621	33,880
Economic development	883	978	-	-	883	978
Transportation	5,944	5,751	-	-	5,944	5,751
Recreation and cultural enrichment	607	615	-	-	607	615
Interest	512	266	-	-	512	266
Business-Type Activities						
State lottery	-	-	3,968	4,079	3,968	4,079
State workers' insurance	-	-	287	313	287	313
Tuition payment	-	-	231	226	231	226
Unemployment compensation	-	-	2,322	2,235	2,322	2,235
Commonwealth financing	-	-	189	162	189	162
Liquor control	-	-	1,855	1,801	1,855	1,801
Economic development and other	-	-	54	58	54	58
<b>Total expenses</b>	<b>67,599</b>	<b>64,016</b>	<b>8,906</b>	<b>8,874</b>	<b>76,505</b>	<b>72,890</b>
Excess/(deficiency) before transfers and special items	(103)	802	898	772	795	1,574
Transfers	(50)	127	50	(127)	-	-
Special Items	-	-	-	(158)	-	(158)
<b>Increase (decrease) in net position</b>	<b>(153)</b>	<b>929</b>	<b>948</b>	<b>487</b>	<b>795</b>	<b>1,416</b>
<b>Net position-beginning</b>	<b>13,187</b>	<b>22,881</b>	<b>(508)</b>	<b>(535)</b>	<b>12,679</b>	<b>22,346</b>
<b>Restatement</b>	<b>-</b>	<b>(10,623)</b>	<b>-</b>	<b>(460)</b>	<b>-</b>	<b>(11,083)</b>
<b>Net position-ending</b>	<b>\$ 13,034</b>	<b>\$ 13,187</b>	<b>\$ 440</b>	<b>\$ (508)</b>	<b>\$ 13,474</b>	<b>\$ 12,679</b>

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

**Charges for sales and services** increase of \$464 in Business-Type Activities is primarily due to increases in unemployment compensation revenues, wine and spirit sales, and lottery sales. Unemployment compensation assessments increased due to a growing Pennsylvania workforce resulting in increased contributions from employers and employees. The Liquor Control Board increased wine and spirit sales by \$23 and \$41, respectively, or 4.1%. Lottery sales increased significantly for instant games and the Powerball, which reached a record \$1.6 billion jackpot prize in January 2016.

**Operating grants and contributions** increased \$2,557 in total. Governmental Activities increased \$2,863 primarily as a result of the expansion of the Medicaid program which is currently a 100% federally funded program. Federal reimbursements for physical and behavioral health Medicaid recipients increased \$2,991. Additional details related of the expansion of Medicaid can be found in the General Fund analysis. Business-Type Activities decreased \$306 mainly due to General Appropriations Act 10-A of 2015 which moved Department of Aging federal appropriations from the

State Lottery Fund to the General Fund for the fiscal year ended June 30, 2016.

**Capital grants and contributions** increased \$30 in Governmental Activities due primarily to an increase in capital contributions from the Pennsylvania Turnpike Commission (PTC). The PTC and the Pennsylvania Department of Transportation (PennDOT) have an active agreement regarding the ownership of bridges that carry state roads and cross over the Pennsylvania Turnpike. Per the agreement, once the PTC replaces these overhead bridges, ownership and maintenance responsibilities of the bridges are transferred from the PTC to PennDOT.

**Taxes and investment income** net decrease of \$118 in Governmental Activities is primarily the result of decreased corporation tax due to the phase out of the capital stock and foreign franchise tax effective January 1, 2016. This decrease was partially offset by increases in personal income, sales and use, realty transfer, and liquid fuel taxes.

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

**Public education** expenses increased \$464 primarily due to increased appropriated funding for basic education programming, ready-to-learn block grants, early intervention programs and food and nutrition programs, as well as increased contributions for school employee pension costs.

**Health and human services** expenses increased \$2,741 primarily due to the expansion of the federal Medicaid program to newly eligible physical and behavioral health recipients. Additional details related of the expansion of Medicaid can be found in the General Fund analysis.

**Transportation** expenses increased \$193 largely as a result of new funding provided by Act 89 of 2013 in the Public Transportation Trust Fund which is being used to modernize transit agencies' fleets, facilities, and make other capital improvements. Additionally there was an increase in funding for the construction and repair of Commonwealth highway and bridge infrastructure.

**Business-Type Activities**

**State Lottery** expenses decreased \$111 due to several factors including a reduction in appropriated funding. General Appropriations Act 10-A of 2015 reduced the

Department of Human Services' appropriation for medical assistance and long term care by \$150 and moved the Department of Aging's federal appropriations to the General Fund.

**Unemployment Compensation (UC)** program expenses increased \$87 due to a variety of factors related to the acceleration of debt service payments and an increase in payments to the reserve fund. Refer to the Unemployment Compensation Fund analysis for additional detail.

**Liquor Control Board (LCB)** expenses increased \$54 largely from a cost of goods sold increase of \$51, or 4.0%, which directly relates to increased wine and spirit sales as noted in the discussion on charges for sales and services. Additionally, payroll benefits increased \$17 for pension and \$7 for other post-employment benefits. The increase in pension is due primarily to actuarial changes in assumptions from a 5-year-study and a lower than estimated market return, and other post-employment benefit increased as a result of increases in actuarial valuations in the current year. These increases were offset by a decrease in self-insurance of \$22 due to a lower proportionate share of the Commonwealth's overall liability.

Section D: Individual Funds Analysis

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

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

expenditures and other financing uses. The General Fund collects approximately 85% of the total tax revenues and is the primary funding source for most Commonwealth expenditures.

	2016	2015
<b>Assets:</b>		
Cash and investments.....	\$ 3,074	\$ 3,731
Receivables, net.....	5,348	5,028
Due from other funds/governments/advances/other.....	4,204	3,623
<b>Total assets.....</b>	<b>\$ 12,626</b>	<b>\$ 12,382</b>
<b>Liabilities:</b>		
Accounts payable and tax refunds payable.....	\$ 7,575	\$ 7,056
Securities lending obligations.....	5	4
Due to other funds/governments/advances/other.....	1,988	2,110
Unearned revenue.....	29	31
<b>Total liabilities.....</b>	<b>9,597</b>	<b>9,201</b>
<b>Total deferred inflows of resources.....</b>	<b>2,939</b>	<b>2,907</b>
<b>Fund Balance:</b>		
<b>Total fund balance.....</b>	<b>90</b>	<b>274</b>
<b>Total liabilities, deferred inflows of resources and fund balance.....</b>	<b>\$ 12,626</b>	<b>\$ 12,382</b>

**Cash and investments** decreased \$657 largely due to transfers out of the fund exceeding transfers into the fund. Increased expenditures also contributed to the decrease in cash and investments.

**Receivables, net** increased \$320 largely due to an increase in Medicaid drug rebates receivable, offset by a decrease to taxes receivable. This is mainly attributable to an increase in prescription drug purchases due to Medicaid expansion and an increased number of participants, with normal delays in pharmacy invoicing. Corporate taxes receivable decreased due to system modifications that were implemented to improve the evaluation of taxpayer balances at the end of the reporting period, using a net reporting of taxes receivable, and an enhanced approach to the determination of uncollectible debts.

**Due from other funds/governments/advances/other** increased \$581 due to the significant expansion of the federally funded Medicaid program. The increase in amounts due from the federal government for Medicaid directly corresponds to the year-over-year increase in accounts payable for the program.

**Accounts payable and tax refunds payable** increased \$519. The accounts payable increase is primarily due to the significant expansion of the federal Medicaid program and correlates to an increased amount due from the federal government. Tax refunds payable also increased predominantly due to the January 1, 2016 elimination of the corporate capital stock and foreign franchise tax. The Department of Revenue anticipates that corporations will request refunds on excess capital stock and foreign franchise taxes paid.

**Total fund balance** decreased \$184 primarily due to an increase in health and human services expenditures and a decrease in total tax revenues, net of refunds, partially offset by an increase in intergovernmental revenues. Discussion of these changes follows in the analysis of General Fund Revenues, Expenditures and Changes in Fund Balance.



**General Fund Revenues, Expenditures and Changes in Fund Balance**

Condensed, comparative, financial information (amounts in millions)

	2016	2015
<b>Revenues:</b>		
<b>Taxes, net of refunds</b>		
Personal income.....	\$ 11,855	\$ 11,590
Sales and use.....	9,685	9,425
Corporation.....	4,381	5,243
Inheritance.....	944	980
Cigarette.....	951	934
Realty transfer.....	480	413
Gaming.....	102	98
Other.....	1,231	1,247
<b>Total taxes, net of refunds.....</b>	<b>29,629</b>	<b>29,930</b>
Intergovernmental.....	24,405	21,550
Charges for sales and services/licenses/fees/investment/other income.....	2,707	3,047
<b>Total revenues.....</b>	<b>56,741</b>	<b>54,527</b>
<b>Expenditures:</b>		
Direction and supportive services.....	629	756
Protection of persons and property.....	4,242	4,536
Health and human services.....	36,117	33,071
Public education.....	14,233	13,784
Recreation and cultural enrichment.....	291	283
Economic development.....	426	445
Transportation.....	66	44
Capital outlay.....	117	189
Other expenditures.....	15	45
<b>Total expenditures.....</b>	<b>56,136</b>	<b>53,153</b>
Revenues over expenditures.....	605	1,374
<b>Other financing sources (uses):</b>		
Transfers in.....	480	690
Transfers out.....	(1,269)	(1,224)
<b>Net other financing uses.....</b>	<b>(789)</b>	<b>(534)</b>
Net change in fund balance.....	(184)	840
Fund balance (deficit), beginning.....	274	(566)
<b>Fund balance, ending.....</b>	<b>\$ 90</b>	<b>\$ 274</b>

**Total taxes, net of refunds** decreased \$301 primarily due to decreased corporation tax due to the phase out of the capital stock and foreign franchise tax effective January 1, 2016 as well as system improvements that decreased amounts accrued as receivables. These decreases were partially offset by increases in personal income, sales and use, and realty transfer taxes. The increases in these taxes are predominantly the result of improved economic conditions.

**Intergovernmental revenues** increased \$2,855 primarily due to an increase of \$2,991 in federal revenues collected by the Department of Human Services as the result of Medicaid expansion for physical and behavioral health. Medicaid is currently a 100% federally funded program, therefore the increase in Medicaid revenues directly correlate to related Medicaid expenditures. Additional information related to Medicaid expansion is

included in the discussion of health and human services expenditures.

**Charges for sales and services/licenses/fees/investment and other income** decreased \$340 primarily due to a stabilizing of unclaimed property revenues. Abnormally large unclaimed property revenues were realized in the prior year as the result of Act 126 of 2014 which decreased the period of time in which most types of unclaimed property revert to the Commonwealth from five years to three years.

**Total expenditures** increased \$2,983. The largest increases were in grant and subsidy payments reflected in the health and human services and public education categories as well as an overall increase in employee benefit costs.

**Health and human services** expenditures increased \$3,046 primarily due to the expansion of Medicaid. Medicaid expenditures increased \$2,422 for newly eligible physical health recipients and \$569 for newly eligible behavioral health recipients. Medicaid expansion began in January 2015 and the Commonwealth introduced a new HealthChoices program which was developed in accordance with the federal Patient Protection and Affordable Care Act. The HealthChoices program replaced the Healthy PA program, which served as an alternative to traditional Medicaid expansion. The expansion of Medicaid under the HealthChoices program allows individuals who earn up to 138% of the federal poverty level to obtain health care coverage, compared to the Healthy PA program which limited health care coverage to individuals who earned up to 49% of the federal poverty level. From January 2015 through June 2016 there has been an increase in Medical Assistance enrollment of approximately 516,000 persons, which represents a 22.8% increase in enrollment, and is largely attributable to the Medicaid expansion.

**Public education** expenditures increased \$449 primarily attributed to budgeted funding increases for basic education programming, ready-to-learn block grants, early intervention programs and food and nutrition

programs, as well as increased contributions for school employee pension costs. Other funding increases were for special education, pre-kindergarten, and education for individuals with disabilities.

**Protection of persons and property** expenditures decreased \$294 largely due to a decrease in federally funded grant programs administered by the Pennsylvania Emergency Management Agency (PEMA) and the Department of Insurance. PEMA federal grant expenditures decreased as existing disaster projects completed and there were no new major disaster projects in the current year. Act 84 of 2015 extended the Children's Health Insurance Program (CHIP) from December 31, 2015 through December 31, 2017 and moved administration of the program from the Department of Insurance to the Department of Human Services. The decrease in grant and subsidy payments was partially offset by an increase in employee benefit costs.

**Transfers in** decreased \$210 primarily due to prior year, non-reoccurring, transfers from the Machinery and Equipment Loan Fund, Small Business First Fund, and Volunteer Company Loan Fund.

**Motor License Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2016	2015
Cash and investments.....	\$ 1,170	\$ 1,208
Other assets.....	651	630
<b>Total assets.....</b>	<b>\$ 1,821</b>	<b>\$ 1,838</b>
Accounts payable.....	\$ 749	\$ 638
Securities lending obligations.....	14	16
Other liabilities.....	173	195
<b>Total liabilities.....</b>	<b>936</b>	<b>849</b>
<b>Total fund balance.....</b>	<b>885</b>	<b>989</b>
<b>Total liabilities and fund balance.....</b>	<b>\$ 1,821</b>	<b>\$ 1,838</b>
Tax revenues.....	\$ 3,268	\$ 3,018
Licenses and fees.....	963	960
Intergovernmental.....	1,884	1,785
Other revenues.....	100	107
<b>Total revenues.....</b>	<b>6,215</b>	<b>5,870</b>
Direction and supportive services.....	23	19
Protection of persons and property.....	943	858
Transportation.....	2,646	2,643
Capital outlay.....	2,838	2,424
Other expenditures.....	7	5
<b>Total expenditures.....</b>	<b>6,457</b>	<b>5,949</b>
Net other financing sources (uses).....	138	(55)
<b>Net change in fund balances.....</b>	<b>\$ (104)</b>	<b>\$ (134)</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 \$38 which is primarily related to expenditures for the year exceeding revenue receipts. Long-term investments were liquidated in order to provide cash to pay expenditures.

**Accounts payable** increased \$111 and correlates to an increase in funding for construction projects including the ongoing Rapid Bridge Replacement Project. Increased project funding is the result of tax rate increases as provided by Act 89 of 2013 (Act 89).

**Tax revenues** increased \$250 primarily due to the increase in the liquid fuels tax rate per Act 89. The increase began in the second half of the fiscal year ended June 30, 2015 (January 2015) to the rate of 50.5 cents per gallon for gasoline and 64.2 cents per gallon for diesel fuel. Rates prior to the increase were 40.7 cents per gallon for gasoline and 51 cents per gallon for diesel fuel.

**Intergovernmental revenues** increased \$99 due to a \$20 increase in federal funding from the Appalachian Development Grant. The Appalachian Development Grant offers federal funds for the improvement of local and state highways in the southwestern portion of the Commonwealth. The Department of Transportation also increased the use of toll credits for state match contributions by \$10 enabling the Commonwealth to receive additional federal revenue. The balance of the increase is due to federal funding for new major highway construction projects, such as the Interstate 95 Corridor Project, which were undertaken in the current fiscal year.

**Protection for Persons and Property** expenditures increased \$85 primarily due to an increase in salary and benefit costs for Pennsylvania State Police troopers patrolling Commonwealth roadways.

**Capital outlay** increased \$414 which is primarily attributed a \$298 increase in infrastructure project expenditures. This increase is largely due to a trend of an increasing number of projects over the last several fiscal years resulting from increased funding under Act 89.

The \$193 increase in **Net other financing sources (uses)** is largely attributable to the transfer of bond proceeds from the Capital Facilities Fund to the Motor License Fund. Act 89 authorized the issuance of \$500 in long-term 20-year bonds to accelerate highways and bridge projects and address the backlog of bridge and roadway needs in the Commonwealth.

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

Description	2016	2015
Cash and investments.....	\$ 1,532	\$ 1,152
Unemployment assessments receivable.....	745	719
Other assets.....	550	560
Total assets.....	2,827	2,431
Accounts payable.....	57	54
Other liabilities.....	2,085	2,532
Total liabilities.....	2,142	2,586
<b>Total net position.....</b>	<b>\$ 685</b>	<b>\$ (155)</b>
Total operating revenues: Sales and services.....	\$ 3,148	\$ 3,074
Total operating expenses: Cost of sales and services.....	2,284	2,189
Operating income.....	864	885
Nonoperating revenues.....	36	35
Income before transfers.....	900	920
Transfers.....	(60)	(64)
<b>Increase in net position.....</b>	<b>\$ 840</b>	<b>\$ 856</b>

**Fund Description:** The Unemployment Compensation (UC) 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 \$380 primarily due to the continued low unemployment rate and the solvency of the Unemployment Insurance Trust account. In addition to the increased collections and decrease in benefit payments, in accordance with Act 34 of 2013, Section 301.9(c), the Commonwealth was able to utilize funds associated with the Service and Infrastructure Improvement Program for investing.

**Other liabilities** decreased \$447 as a result of UC bond redemptions throughout the year.

**Sales and services** revenue is comprised of several UC components. The increase of \$74 represents an improvement in the labor market resulting in an increase in collection of employer taxes.

**Cost of sales and services** expense increased \$95 due to a variety of factors related to the improvement of the economy. Because of the increase in employer tax collections, larger payments were made to the UC Trust Fund in order to build a large reserve within that fund. The Commonwealth also continued to accelerate the interest and collateral payment on the redemption of bonds that occurred throughout the year.

**State Workers' Insurance Fund (SWIF)**

For the Fiscal Years Ended December 31  
Condensed, comparative, financial information (amounts in millions)

Description	2015	2014
Cash and short-term investments.....	\$ 124	\$ 187
Long-term investments.....	1,363	1,423
Other assets.....	85	84
Total assets.....	1,572	1,694
Total deferred outflows of resources.....	7	2
Securities lending obligations.....	60	117
Unearned revenue.....	78	87
Insurance loss liability.....	1,604	1,594
Other liabilities.....	91	86
Total liabilities.....	1,833	1,884
Total deferred inflows of resources.....	1	-
<b>Net position.....</b>	<b>\$ (255)</b>	<b>\$ (188)</b>
Total operating revenues: Sales and services.....	\$ 212	\$ 215
Total operating expenses: Cost of sales and services.....	283	299
Operating loss.....	(71)	(84)
Investment income.....	8	105
Investment expense.....	(4)	(3)
Net nonoperating revenue.....	4	102
<b>Increase (decrease) in net position.....</b>	<b>\$ (67)</b>	<b>\$ 18</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** decreased \$63 mainly due to a decrease in securities lending investments.

**Long-term investments** decreased \$60 because the cost of sales and services exceeded operating revenues and net nonoperating revenue in the current year.

**Securities lending obligations** decreased \$57 as a result of SWIF's decreased participation in the Treasury

Department's securities lending program compared to the prior year. This decrease in securities lending obligations directly correlates to a decrease in short-term investments.

**Investment income** includes the cumulative effect of changes in Net Asset Value of SWIF investments and realized gain / loss on sales of investments. The change in the fair value of investments and realized net gains on sales of investments were lower in 2015 due to a relatively flat bond market versus a rising bond market during 2014, resulting in a \$97 year-over-year decrease.

State Lottery Fund

Condensed, comparative, financial information (amounts in millions)

Description	2016	2015
Cash and short-term investments.....	\$ 232	\$ 46
Long-term investments.....	-	66
Other assets.....	77	70
Total assets.....	309	182
Total deferred outflows of resources.....	13	4
Accounts payable.....	386	392
Securities lending obligations.....	-	1
Other liabilities.....	166	90
Total liabilities.....	552	483
Total deferred inflows of resources.....	1	-
<b>Net position.....</b>	<b>\$ (231)</b>	<b>\$ (297)</b>
Total operating revenues: Sales and services.....	\$ 4,135	\$ 3,825
Cost of sales and services.....	3,899	3,963
Other expenses.....	69	117
Total operating expenses.....	3,968	4,080
Operating income (loss).....	167	(255)
Nonoperating revenues, net.....	3	101
Income before transfers.....	170	(154)
Transfers in.....	167	163
Transfers out.....	(271)	(249)
Transfers, net.....	(104)	(86)
<b>Increase (decrease) in net position.....</b>	<b>\$ 66</b>	<b>\$ (240)</b>

**Fund Description:** The State Lottery Fund receives the proceeds of all lottery sales and designates all of its net proceeds to programs that benefit older Pennsylvanians. These programs include shared rides and free transit, property tax and rent rebates, medical assistance for long term care, the Pharmaceutical Assistance Contract for the Elderly (PACE) which provides assistance for the payment of prescription drugs, and PENNCARE which provides a variety of community-based and in-home services, such as home health care; personal care; health support services such as housekeeping, shopping assistance, laundry and mending; respite care (caregiver relief); transportation and other routine household chores as necessary to maintain a consumer's health, safety and ability to remain in the home; and home-delivered meals prepared at a central location and delivered to a person's home.

**Cash and short term investments** increased \$186. This increase is primarily attributable to revenues and transfers in exceeding expenses and transfers out as well as the sale of long-term investments.

**Long-term investments** decreased \$66. This decrease is attributable to the sale of the long-term investments during fiscal year ended June 30, 2016 to supplement the fund's cash balance. Almost all long-term investments that were available on June 30, 2015 were sold by the Treasury Department on July 1, 2015 in order to make required payments for the Property Tax and Rent Rebate (PTRR) Program.

**Other liabilities** increased \$76 primarily due to a \$50 loan from the General Fund on July 1, 2015 so that the Lottery Fund had cash available to make required payments for the PTRR Program. The loan was repaid by the fund in July 2016.

**Sales and Services** increased \$310 attributable to several factors including a record Powerball jackpot of \$1.6 billion reached in January 2016 and a \$201 increase in instant game sales. The amount of Powerball sales increased \$118 compared to the prior year. The increase of \$201 in instant game sales was primarily driven by the amount of instant game sales with a price point of five dollars or greater which increased \$196.

**Costs of sales and services** decreased \$64. This is attributable to several factors including a reduction in appropriated funding. General Appropriations Act 10-A of 2015 (Act 10-A) reduced the Department of Human Services' appropriation for medical assistance and long term care by \$150 and moved the Department of Aging's federal appropriations, which were greater than \$140 in the prior year, to the General Fund.

**Other expenses** decreased \$48 primarily because Act 10-A moved Department of Aging's Federal Appropriations to the General Fund for the fiscal year ended June 30, 2016.

**Nonoperating revenues, net** decreased by \$98. Act 10-A moved Department of Aging federal appropriations to the General Fund for the fiscal year ended June 30, 2016. As a result the amount of Lottery Fund federal revenue was significantly reduced.

**Transfers out** increased \$22 due to a \$20 increase in the transfer to the PACE Fund and a \$2 increase in the transfer to the Public Transportation Trust Fund.

**Tuition Payment Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2016	2015
Cash and short-term investments.....	\$ 689	\$ 582
Long-term investments.....	1,573	1,660
Other assets.....	8	7
<b>Total assets.....</b>	<b>2,270</b>	<b>2,249</b>
Securities lending obligations.....	500	462
Tuition benefits payable.....	1,542	1,540
Other liabilities.....	10	20
<b>Total liabilities.....</b>	<b>2,052</b>	<b>2,022</b>
<b>Net position.....</b>	<b>\$ 218</b>	<b>\$ 227</b>
Total operating revenues: Sales and services.....	\$ 192	\$ 192
Total operating expenses: Cost of sales and services.....	228	223
Operating loss.....	(36)	(31)
Nonoperating revenues, net.....	27	102
<b>Increase (decrease) in net position.....</b>	<b>\$ (9)</b>	<b>\$ 71</b>

**Fund Description:** The Tuition Payment Fund is administered by the Tuition Account Guaranteed Savings Program Bureau, an office within the Commonwealth Treasury Department. The Fund provides Commonwealth residents the opportunity to prepay college tuition towards future education expenses at eligible educational institutions. An eligible educational institution is defined by the Internal Revenue Code. Commonwealth-owned and related universities and community colleges participate in the program. In addition, private institutions, which are defined as any private or out-of-state public post-secondary educational institution, are considered eligible for the program.

**Total assets** increased \$21 attributable to a slight increase of accounts combined with continued positive market value appreciation. The portfolio's return was 2.7% for the fiscal year ended June 30, 2016 and 5.4% for the fiscal year ended June 30, 2015. The plan's positive returns decreased from the prior year due to normal market fluctuation.

**Total liabilities** increased \$30. The primary source of this increase is the change in securities available for lending by \$38, which increased the program's liability for June 30, 2016 by nearly the same amount. Increasing the amount available for lending serves as an income generating investment for the fund.

**Total operating expenses: Cost of sales and services** increased \$5 primarily due to an increase in tuition benefit expenses of the same amount. Salaries and other administrative expenses remained flat.

**Non-operating revenues, net** decreased \$75 largely due to a decrease in investment income. Current market conditions as well as the rebalancing of the portfolio to more stable investments are reflected in the decrease in investment income.



**Commonwealth Financing Authority**

Condensed, comparative, financial information (amounts in millions)

Description	2016	2015
Current assets.....	\$ 834	\$ 809
Long-term assets.....	272	286
Total assets.....	1,106	1,095
Total deferred outflows of resources.....	2	2
Current liabilities.....	77	74
Long-term liabilities.....	1,575	1,646
Total liabilities.....	1,652	1,720
<b>Total net position.....</b>	<b>\$ (544)</b>	<b>\$ (623)</b>
Operating revenues, net of uncollectibles.....	\$ 10	\$ 11
Operating expenses.....	107	80
Operating loss.....	(97)	(69)
Nonoperating expenses, net.....	(79)	(81)
Loss before transfers.....	(176)	(150)
Transfers in.....	255	263
<b>Increase in net position.....</b>	<b>\$ 79</b>	<b>\$ 113</b>

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

**Total liabilities** decreased \$68 primarily as a result of principal payments reducing the amount of long-term debt outstanding.

**Operating expenses** increased \$27 primarily due to an increase in grant disbursements. Grant expenses fluctuate from year-to-year based on the programs being offered, demand for the grants, and the availability of funding.

Section E: Budget Analysis Overview

**General Fund Budgetary Basis**  
**Comparison between original budget and final budget**  
 (Amounts in millions)

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2016 is presented immediately following the Notes to the Financial Statements section of the CAFR. In the final budget, state program revenues were adjusted to the revised revenue estimates anticipated to be received by the end of the fiscal year, and were sufficient to fund all 2015-2016 supplemental appropriation requests.

The difference in total state revenues from the original to the final budget was due to an increase of \$613 in tax revenues and \$54 in non-tax revenues, resulting in a total increase of \$667.

The difference of \$6,733 in state program expenditures is due to the supplemental appropriations approved.

Final federal revenues and corresponding expenditures were \$67 less than originally budgeted primarily due to decreases of \$5 in the Pennsylvania Emergency Management Agency, \$5 in the Department of Aging, \$9 in the Pennsylvania State Police, and \$48 in the Department of Human Services.

**General Fund Budgetary Basis**  
**Comparison between final budgeted and actual results**  
 (Amounts in millions)

In the actual budgetary basis, state program revenues were adjusted to actual revenues received by the fiscal year end, and was sufficient to fund all 2015-2016 supplemental appropriations passed on July 12, 2016 by Act 16-A, with supplemental appropriations effective as of the fiscal year ended June 30, 2016.

Actual total state revenues were \$637 less than the final budgeted state revenues primarily due to a \$686 decrease in tax revenues offset by the \$49 increase in non-tax revenues. The net decrease was also offset by the \$105 decrease in refunds for a net decrease of \$532. The \$610 increase in departmental services is mainly attributable to authorized transfers of augmenting revenues from the Motor License Fund for state police

protection of Commonwealth highways, resulting in the net increase of \$78 in state program revenues.

The difference of \$610 in actual state program expenditures is the result of the increase available from departmental services.

Actual Federal revenues and corresponding expenditures were \$71 more than budgeted due to increases of \$3 in the Pennsylvania Department of Education, \$5 in the Department of Aging, \$5 in the Pennsylvania Emergency Management Agency, \$48 in the Department of Human Services, and \$10 in the Pennsylvania State Police.

## 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. General capital assets of the Commonwealth are those used in the performance of specific governmental functions with useful lives greater than one year. General capital assets are reported as part of governmental activities in government-wide financial statements. Capital assets of proprietary funds are reported in both proprietary fund financial statements and government-wide financial statements. Fiduciary fund capital assets are reported in fiduciary fund financial statements; fiduciary funds are not included in government-wide financial statements.

Funding for construction of buildings and related improvements is almost entirely provided by proceeds of general obligation (GO) bonds issued; such proceeds are generally accounted for in capital projects funds in governmental fund financial statements as an other financing source. In the government-wide financial statements, bond proceeds are reported as additions to long-term GO bond liabilities. Construction project expenditures and cumulative construction-in-progress expenditures at fiscal year-end are reported as part of general capital assets. Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees, transfers from the Pennsylvania Turnpike Commission, and federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in its governmental fund financial statements; a portion of

such expenditures are reported as additions to capital assets in government-wide financial statements.

In government-wide and proprietary fund financial statements, depreciation expense for capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. In other words, depreciation expense is an allocation of an asset's cost over its estimated useful life and is reported in the government-wide financial statements. This treatment differs from reporting capital outlay as 'current expenditures' in governmental fund financial statements. Depreciation expense of highway and bridge infrastructure and other capital assets is not related to the quality or relative value of these assets; rather, as previously mentioned, it is a specific accounting treatment to recognize the cost of "using up" the assets over periods of time. The estimated useful lives of highway and bridge infrastructure capital assets are 25 years for highways and 50 years for bridges. Neither land nor construction-in-progress assets are considered depreciable; therefore, no depreciation expense is reported for those assets.

Note A in the notes to the financial statements section of the CAFR discusses capital assets significant accounting policies.

Note E in the notes to the financial statements section of the CAFR provides more information on capital asset activities during the fiscal year ended June 30, 2016.

**Long-term Debt Overview – fiscal year ended June 30, 2016**

(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 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 \$65.3 billion as of August 31, 2016 with net debt outstanding after credit for refunded debt of \$11.4 billion for a remaining legal debt margin of \$53.9 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.

At June 30, 2016, the Commonwealth had total General Obligation Bond principal outstanding of \$11.6 billion for the following purposes:

\$7,151	Capital Facilities Bonds
\$3,685	Refunding Bonds
\$ 771	Electorate Approved Debt (various)

During the fiscal year ended June 30, 2016, total debt service fund transfers were paid from the General Fund of \$1,083, the Motor License Fund of \$73 and the Gaming Economic Development and Tourism Fund of \$52 to make principal and interest payments to bondholders.

Note K in the notes to the financial statements section of the CAFR provides more details on long-term debt balances and activity.

**Debt Administration – fiscal year ending June 30, 2017**

(Amounts in millions)

During the fiscal year ending June 30, 2017, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$2,371. This is an increase of \$2,016 when compared to actual new money bond issuances of \$355, which excludes refunding issuance of \$634, during the fiscal year ended June 30, 2016. This plan represents the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation infrastructure. The relatively small issuance amount for fiscal year 2015-16 and large issuance amount for fiscal year 2016-17 are the result of the legislature not passing a fiscal year 2015-16 capital budget (Act 27 of 2016) until May of 2016. Just over half of the fiscal 2016-17 issuance plan was issued in August 2016 under the fiscal year 2015-16 capital budget.

Debt principal retirements of \$756 are currently planned for the fiscal year ending June 30, 2017.

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% 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 December 12, 2016 but, instead, has drawn \$2,200 from a \$2,500 short-term investment line of credit agreement with the Pennsylvania Treasury Department. All amounts drawn using the line of credit must be returned with interest in the same fiscal year in which the draw occurred.

There were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2016 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2017. However the fiscal year 2016-17 issuance plan assumes passage of a capital budget before the Spring of 2017. No fiscal year 2016-17 capital budget has been passed as of December 12, 2016.

## Section G: Currently Known Facts

(Amounts in whole dollars)

### Sales, Use, and Other Tax Expansion

On July 13, 2016, Act 84 of 2016 (Act 84) amended the Tax Reform Code of 1971 to expand the state's tax basis. Highlights of Act 84 include the following: Effective August 1, 2016 digital downloads will be taxed at the 6% sales tax rate; while tobacco cigarettes will have an additional \$1 tax on each pack. Starting October 1, 2016, all other tobacco products except cigars will be taxed at \$0.55 per ounce, and electronic cigarettes will be subjected to a 40% wholesale tax. Additionally, effective August 1, 2016, the sales tax vendor discount is capped at the lower of \$25 per month or 1%. Previously, the sales tax vendor discount was capped at 1%. Timbering and returnable corrugated snack boxes are now excluded from sales tax. Act 84 also subjected Pennsylvania lottery winnings to personal income tax, and casinos' gross table games revenue to a 14% tax, increased from 12%. Offsetting these revenue generating taxes, Act 84 created or expanded tax credits for economic development in the sectors of education, employment, revitalization, and entertainment.

### The Pennsylvania Liquor Control Board (PLCB) Liquor Code Legislation

Signed into law June 8, 2016, Act 39 of 2016 (Act 39) made substantial updates to the Pennsylvania Liquor Code. Act 39 went into effect August 8, 2016, and will significantly impact PLCB operations in the fiscal year starting July 1, 2016. The act creates new and expanded revenue sources for the PLCB including: allows permits for limited wine sales at hotel and restaurant license holders, as well as approved grocery and convenience stores; permits direct wine shipment from registered vendors to Pennsylvania residents; removes restrictions to the number of open stores and hours on Sundays; creates a new 24/7 casino liquor license; allows for common retail pricing flexibility; limits special liquor order mark-ups; approves auctions of expired liquor licenses; and authorizes Pennsylvania lottery sales at Pennsylvania wine and liquor stores. Act 39 also establishes a commission to study the wholesale and retail wine and spirits marketplace in Pennsylvania.

### Medical Marijuana

On April 17, 2016, Act 16 of 2016 (Act 16) legalized medical marijuana for patients with a "serious medical condition" as defined within the act. The legislation went into effect May 17, 2016 and authorizes the Department of Health (DOH) to regulate and monitor the

medical marijuana program, including the creation of an advisory board; certifying physicians, patients, growers/processors, and dispensaries; providing identification cards, maintaining a database of users, and ensuring ongoing compliance of all members. Act 16 provides for up to 25 growers/processors with an initial registration fee of \$200,000 and an annual application fee of \$10,000, and up to 50 dispensaries with an initial registration fee of \$30,000 and an annual application fee of \$5,000. In addition to these new revenue sources, Act 16 institutes a 5% excise tax paid by the grower on the sale of medical marijuana to a dispensary. The sale of medical marijuana to a patient is not subject to Pennsylvania's sales tax. A general fund loan of \$3 million will be provided to start the program, which will be repaid over the next 10 years from collected medical marijuana revenues. Additionally, 55% of revenues will be used for DOH's medical marijuana operations, 10% for drug abuse prevention and treatment by the Department of Drug and Alcohol Programs, 30% for research relating to safety of medical marijuana, and 5% for local police departments. As of June 30, 2016, the program is still in the implementation phase and no revenues have been collected. The Act is set to expire three years after Congress removes marijuana from Schedule I of the Federal Controlled Substances Act. There are two bills, H.R.1013 - Regulate Marijuana Like Alcohol Act, and S.683 - Compassionate Access, Research Expansion, and Respect States Act of 2015, both introduced in March 2015, that would remove Marijuana from Schedule I but neither have been voted on by Congress.

### Medicaid Expansion

On January 1, 2015, the Commonwealth implemented Medicaid expansion, which is part of the federal Affordable Care Act and is voluntary for states. Medicaid expansion is currently available to Commonwealth citizens through the Department of Human Services' HealthChoices Medicaid plan. Federal funds will cover 100% of the medical costs of Medicaid expansion for calendar years 2015 to 2016, 95% in 2017, 94% in 2018, 93% in 2019 and 90% in 2020 and subsequent years.

### Other Post-Employment Benefits (OPEB) Accounting and Financial Reporting Standard

On June 2, 2015 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", which was preceded by

GASB Statement No. 45. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for other post-employment benefits other than pensions. The statement is effective for the fiscal years beginning after June 15, 2017. Earlier application is encouraged. The statement will require the Commonwealth to report in the Statement of Net Position a potentially significant OPEB liability. As of the issuance date of this report, the Commonwealth has not prepared an estimate in accordance with GASB Statement No. 75 of the impact that reporting this OPEB liability will have on its financial statements.

**Bond Ratings**

On August 5, 2016 Moody's Investors Service affirmed its Aa3 rating on the Commonwealth's General Obligation bonds and changed its outlook for the Commonwealth from negative to stable. The Aa3 rating incorporates the Commonwealth's large and diverse tax base, moderate debt burden, and recent and planned progress toward improving funding of its elevated pension liabilities. It

also recognizes a pattern of delayed budgets and political gridlock that has made it difficult for the Commonwealth to develop a sustainable long-term fiscal plan and indicates that it will continue to be a struggle to balance an annual budget as pension contributions increase and expenditures grow more quickly than revenues. The revision of the Commonwealth's outlook to stable, however, recognizes that these concerns are unlikely to lead to sharp liquidity deterioration, major budget imbalances or other pressures consistent with lower ratings for other US states. Furthermore the Commonwealth continues to make steady progress toward better funding of its pension liabilities, which are not considered abnormally large as compared to other US states.

Bond ratings and outlooks 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.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# Basic Financial Statements



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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# Government-wide Financial Statements

**Commonwealth of Pennsylvania**

**Statement of Net Position**

June 30, 2016

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash—Note D, S.....	\$ 363,720	\$ 827,845	\$ 1,191,565	\$ 1,594,867
Cash with fiscal agents—Note D.....	11,942	1,499,166	1,511,108	-
Temporary investments—Note D, S.....	5,975,946	1,394,300	7,370,246	3,380,177
Receivables (net):				
Taxes—Note G.....	2,373,649	-	2,373,649	-
Unemployment assessments.....	-	744,747	744,747	-
Accounts.....	2,187,858	191,368	2,379,226	174,736
Investment income.....	7,119	13,678	20,797	11,459
Interest on notes and loans.....	-	10,091	10,091	102,293
Loans—Note G, S.....	9,335	42,108	51,443	1,324,941
Lease rentals.....	-	738	738	-
Investment sale proceeds.....	21,941	4,223	26,164	-
Other.....	170,984	7	170,991	73,051
Due from pension trust funds—Note H.....	7,425	-	7,425	-
Due from primary government—Note H.....	-	-	-	13,128
Due from component units—Note H.....	15,017	521	15,538	181
Due from Federal government.....	3,968,790	5,224	3,974,014	67,997
Due from political subdivisions.....	14,450	4,004	18,454	-
Due from other governments.....	367	17,907	18,274	-
Inventory.....	142,436	244,655	387,091	31,478
Prepaid expenses.....	-	721	721	28,029
Other assets.....	9,010	19,665	28,675	60,460
Total current assets.....	<u>15,279,989</u>	<u>5,020,968</u>	<u>20,300,957</u>	<u>6,862,797</u>
Noncurrent assets:				
Restricted cash—Note D.....	-	426,897	426,897	1,364
Long-term investments—Note D, S.....	2,415,448	3,130,146	5,545,594	2,357,261
Receivables (net):				
Taxes—Note G.....	1,144,362	-	1,144,362	-
Loans—Note G, S.....	67,536	410,018	477,554	10,836,150
Due from primary government—Note H.....	-	-	-	15,000
Due from component units—Note H.....	177,225	-	177,225	-
Non-depreciable capital assets—Note E, S:				
Land.....	2,936,656	179,453	3,116,109	410,412
Construction in progress.....	4,239,987	26,383	4,266,370	1,467,099
Depreciable or amortizable capital assets—Note E, S:				
Land improvements.....	956,493	67,559	1,024,052	415,908
Buildings and building improvements.....	7,682,657	411,570	8,094,227	5,387,643
Machinery and equipment.....	1,477,070	185,285	1,662,355	1,406,320
Turnpike infrastructure.....	-	-	-	7,908,360
Highway infrastructure.....	29,146,147	-	29,146,147	-
Bridge infrastructure.....	14,238,217	-	14,238,217	-
Waterway infrastructure.....	27,297	-	27,297	-
Infrastructure-other.....	214,277	-	214,277	-
Library books.....	-	-	-	81,663
Intangible assets.....	574,649	13,095	587,744	43,723
Less: accumulated depreciation and amortization.....	(25,042,318)	(336,450)	(25,378,768)	(7,965,595)
Net depreciable or amortizable capital assets.....	<u>29,274,489</u>	<u>341,059</u>	<u>29,615,548</u>	<u>7,278,022</u>
Other assets.....	-	4,101	4,101	375,772
Total non-current assets.....	<u>40,255,703</u>	<u>4,518,057</u>	<u>44,773,760</u>	<u>22,741,080</u>
<b>TOTAL ASSETS.....</b>	<u><b>55,535,692</b></u>	<u><b>9,539,025</b></u>	<u><b>65,074,717</b></u>	<u><b>29,603,877</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note F, G, I, K, S...</b>	<u><b>\$ 3,020,470</b></u>	<u><b>\$ 133,995</b></u>	<u><b>\$ 3,154,465</b></u>	<u><b>\$ 765,756</b></u>

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

**Commonwealth of Pennsylvania**

**Statement of Net Position**

June 30, 2016

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 8,070,414	\$ 758,997	\$ 8,829,411	\$ 599,907
Investment purchases payable.....	31,210	7,095	38,305	-
Tax refunds payable.....	702,763	-	702,763	-
Tuition benefits payable—Note F.....	-	259,423	259,423	-
Securities lending obligations.....	111,372	565,822	677,194	25,483
Internal balances—Note H.....	(1,729)	1,625	(104)	-
Due to pension trust funds—Note H.....	157,818	2,225	160,043	-
Due to primary government—Note H.....	-	-	-	15,470
Due to component units—Note H.....	14,485	22	14,507	181
Due to political subdivisions.....	1,367,360	8,156	1,375,516	-
Due to other governments.....	32,798	18,233	51,031	8
Interest payable.....	168,324	53,556	221,880	250,909
Unearned revenue.....	123,722	89,764	213,486	131,369
Notes payable—Note S.....	-	-	-	939,213
General obligation bonds payable—Note K.....	755,975	-	755,975	-
Bonds payable—Note S.....	-	-	-	62,885
Revenue bonds payable—Note F, S.....	-	383,900	383,900	377,330
Capital lease/installment purchase obligations.....	3,690	-	3,690	3,563
Self insurance liabilities—Note K, M.....	203,090	8,968	212,058	9,236
Compensated absence liability—Notes F, K, S.....	151,279	7,129	158,408	19,325
Insurance loss liability—Note F.....	-	228,402	228,402	-
Other financing obligations—Note S.....	-	-	-	3,895
Other postemployment benefit obligations—Note S.....	-	-	-	294
Other liabilities—Note K.....	316,068	19,188	335,256	316,828
Total current liabilities.....	12,208,639	2,412,505	14,621,144	2,755,896
Noncurrent liabilities:				
Tuition benefits payable—Note F.....	-	1,282,700	1,282,700	-
Interest payable.....	-	-	-	11,091
Due to primary government—Note H.....	-	-	-	177,225
Due to component units—Note H.....	15,000	-	15,000	-
Unearned revenue.....	-	-	-	6,613
Student loan auction rate security bonds payable—Note S.....	-	-	-	218,200
Insurance loss liability—Note F.....	-	1,376,282	1,376,282	-
Notes payable—Note S.....	-	-	-	4,868,940
General obligation bonds payable—Note K.....	11,761,934	-	11,761,934	-
Bonds payable—Note S.....	-	-	-	1,911,462
Revenue bonds payable—Note F, S.....	-	3,297,834	3,297,834	14,363,046
Capital lease/installment purchase obligations—Note K.....	99,493	-	99,493	73,845
Other financing obligations—Note J, S.....	285,740	-	285,740	30,734
Compensated absence liability—Note F, K, S.....	587,376	28,647	616,023	136,946
Self insurance liabilities—Note K, M.....	886,324	45,336	931,660	52,995
Other postemployment benefit obligations—Note I, S.....	3,556,681	127,512	3,684,193	1,116,346
Nonexchange financial guarantees—Note N.....	-	12,124	12,124	-
Net pension liability—Note I.....	14,707,851	640,692	15,348,543	1,784,523
Other liabilities—Note K.....	1,036,100	322	1,036,422	776,305
Total non-current liabilities.....	32,936,499	6,811,449	39,747,948	25,528,271
<b>TOTAL LIABILITIES.....</b>	<b>45,145,138</b>	<b>9,223,954</b>	<b>54,369,092</b>	<b>28,284,167</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note G, I, K, L, S.....</b>	<b>377,029</b>	<b>8,914</b>	<b>385,943</b>	<b>303,323</b>
<b>NET POSITION—Note C</b>				
Net investment in capital assets.....	30,524,584	528,443	31,053,027	1,415,550
Restricted for:				
General government operations.....	47	-	47	-
Health-related programs.....	14,294	-	14,294	361
Transportation.....	599,545	139,029	738,574	-
Capital projects.....	-	2	2	3,883,341
Debt service.....	-	4,199	4,199	545,007
Unemployment/worker's compensation.....	468,215	685,191	1,153,406	-
Environmental and conservation programs.....	318,622	-	318,622	-
Economic development.....	-	5,102	5,102	77,898
Gaming licensing/regulation.....	426,436	-	426,436	-
Correctional industries and procurement.....	6,284	-	6,284	-
Emergency support.....	65,361	132,008	197,369	-
Higher education.....	-	218,155	218,155	362,300
Other purposes.....	18,528	123,408	141,936	1,079,934
Unrestricted.....	(19,407,921)	(1,395,385)	(20,803,306)	(5,582,248)
<b>TOTAL NET POSITION.....</b>	<b>\$ 13,033,995</b>	<b>\$ 440,152</b>	<b>\$ 13,474,147</b>	<b>\$ 1,782,143</b>

**Commonwealth of Pennsylvania**  
**Statement of Activities**  
For the Fiscal Year Ended June 30, 2016  
(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.....	\$ 1,366,741	\$ 424,384	\$ 58,159	\$ -	\$ (884,198)	\$ -	\$ (884,198)	\$ -
Protection of persons and property.....	6,750,256	1,539,295	507,262	1,004	(4,702,695)	-	(4,702,695)	-
Public education.....	14,914,554	7,647	1,917,151	-	(12,989,756)	-	(12,989,756)	-
Health and human services.....	36,620,781	1,999,519	21,608,254	-	(13,013,008)	-	(13,013,008)	-
Economic development.....	883,046	7,110	388,615	-	(487,321)	-	(487,321)	-
Transportation.....	5,943,778	1,316,284	2,404,782	49,287	(2,173,425)	-	(2,173,425)	-
Recreation and cultural enrichment.....	607,420	251,242	62,328	12,069	(281,781)	-	(281,781)	-
Interest.....	512,324	-	-	-	(512,324)	-	(512,324)	-
<b>Total governmental activities.....</b>	<b>67,598,900</b>	<b>5,545,481</b>	<b>26,946,551</b>	<b>62,360</b>	<b>(35,044,508)</b>	<b>-</b>	<b>(35,044,508)</b>	<b>-</b>
<b>Business-type activities:</b>								
State lottery.....	3,967,703	4,135,246	2,345	-	-	169,888	169,888	-
State workers' insurance.....	286,526	211,481	7,513	-	-	(67,532)	(67,532)	-
Tuition payment.....	231,082	192,187	30,283	-	-	(8,612)	(8,612)	-
Unemployment compensation.....	2,322,278	3,162,555	60,057	-	-	900,334	900,334	-
Commonwealth financing.....	188,604	9,237	3,312	-	-	(176,055)	(176,055)	-
Liquor control.....	1,855,594	1,956,129	892	-	-	101,427	101,427	-
Economic development and other.....	54,089	26,463	6,149	-	-	(21,477)	(21,477)	-
<b>Total business-type activities.....</b>	<b>8,905,876</b>	<b>9,693,298</b>	<b>110,551</b>	<b>-</b>	<b>-</b>	<b>897,973</b>	<b>897,973</b>	<b>-</b>
Total primary government.....	\$ 76,504,776	\$ 15,238,779	\$ 27,057,102	\$ 62,360	(35,044,508)	897,973	(34,146,535)	-
<b>Component units:</b>								
Total component units.....	\$ 6,156,309	\$ 3,482,797	\$ 1,864,175	\$ 285,248	-	-	-	(524,089)
		<u>General revenues:</u>						
		Taxes:						
					12,025,979	-	12,025,979	-
					10,231,892	-	10,231,892	-
					4,134,991	-	4,134,991	-
					3,303,273	-	3,303,273	-
					1,393,508	-	1,393,508	-
					947,699	-	947,699	-
					974,267	-	974,267	-
					564,002	-	564,002	-
					1,350,437	-	1,350,437	-
					34,926,048	-	34,926,048	-
					16,297	-	16,297	-
					34,942,345	-	34,942,345	-
					(50,376)	50,376	-	-
					34,891,969	50,376	34,942,345	-
					(152,539)	948,349	795,810	(524,089)
					13,186,534	(508,197)	12,678,337	2,306,232
					\$ 13,033,995	\$ 440,152	\$ 13,474,147	\$ 1,782,143

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



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# Fund

# Financial Statements

Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2016

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
Cash—Note D.....	\$ 59,135	\$ 273,187	\$ 28,613	\$ 360,935
Cash with fiscal agents—Note D.....	11,942	-	-	11,942
Temporary investments—Note D.....	2,809,127	370,179	2,780,517	5,959,823
Long-term investments—Note D.....	193,847	526,815	1,674,485	2,395,147
Receivables (net):				
Taxes—Note G.....	3,206,896	277,163	33,952	3,518,011
Accounts.....	1,972,246	30,701	183,977	2,186,924
Investment income.....	1,099	160	5,851	7,110
Loans—Note G.....	76,871	-	-	76,871
Investment sale proceeds.....	-	-	21,941	21,941
Other.....	90,413	18,973	61,598	170,984
Due from other funds—Note H.....	290,190	12,865	95,826	398,881
Due from pension trust funds—Note H.....	776	380	537	1,693
Due from component units—Note H.....	191,700	15	378	192,093
Due from Federal government.....	3,647,482	307,472	13,836	3,968,790
Due from political subdivisions.....	11,708	2,402	300	14,410
Due from other governments.....	-	367	-	367
Advances to other funds—Note H.....	59,475	-	4,750	64,225
Other assets.....	3,000	-	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 12,625,907</b>	<b>\$ 1,820,679</b>	<b>\$ 4,906,561</b>	<b>\$ 19,353,147</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 6,875,112	\$ 746,429	\$ 392,486	\$ 8,014,027
Investment purchases payable.....	-	-	31,210	31,210
Tax refunds payable.....	700,172	2,591	-	702,763
Securities lending obligations.....	5,133	13,955	91,746	110,834
Due to other funds—Note H.....	128,105	54,211	302,910	485,226
Due to component units—Note H.....	283	12,650	16,549	29,482
Due to pension trust funds—Note H.....	145,424	9,300	2,920	157,644
Due to political subdivisions.....	1,072,035	67,740	227,579	1,367,354
Due to other governments.....	14,068	17,799	886	32,753
Unearned revenue—Note G.....	28,546	8,819	86,357	123,722
Advances from other funds—Note H.....	68,250	2,175	9,000	79,425
Other liabilities.....	559,654	-	-	559,654
<b>TOTAL LIABILITIES.....</b>	<b>9,596,782</b>	<b>935,669</b>	<b>1,161,643</b>	<b>11,694,094</b>
<b>Deferred inflows of resources:</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES - Note G..</b>	<b>2,939,016</b>	<b>268</b>	<b>171,489</b>	<b>3,110,773</b>
<b>Fund balances—Note C:</b>				
Nonspendable.....	284,398	-	-	284,398
Restricted.....	45	884,742	2,824,125	3,708,912
Committed.....	1,486,831	-	749,304	2,236,135
Unassigned deficit.....	(1,681,165)	-	-	(1,681,165)
<b>TOTAL FUND BALANCES.....</b>	<b>90,109</b>	<b>884,742</b>	<b>3,573,429</b>	<b>4,548,280</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 12,625,907</b>	<b>\$ 1,820,679</b>	<b>\$ 4,906,561</b>	<b>\$ 19,353,147</b>

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

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**Commonwealth of Pennsylvania**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
June 30, 2016

(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 deferred 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..... \$ 4,548,280**

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.....	\$ 2,936,656	
Land improvements.....	956,301	
Buildings and building improvements.....	7,676,436	
Machinery and equipment.....	1,380,562	
Infrastructure.....	43,625,938	
Intangible.....	574,649	
Construction in progress.....	4,239,987	
Accumulated depreciation.....	<u>(24,981,814)</u>	
Net general capital assets.....		36,408,715

Certain revenues are earned but not available at fiscal year-end and therefore are reported as deferred inflows of resources in the governmental funds balance sheet..... 3,110,773

Debt refunding losses are recognized as deferred outflows of resources and debt refunding gains are reported as deferred inflows of resources in the governmental activities statement of net position..... (192,994)

Other miscellaneous adjustments that are not reported in the governmental funds balance sheet but are reported in the statement of net position..... 73,530

Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in the statement of net position as governmental activities ..... 25,966

The statement of net position includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 122,243

**Commonwealth of Pennsylvania**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
**June 30, 2016**

(Amounts in thousands)

The statement of net position includes net pension liabilities for the governmental funds that are considered long-term and therefore are not reported in the governmental funds balance sheet.

These include the net pension liability and associated deferred outflows of resources and deferred inflows of resources related to these pension obligations. (Refer to Note G and I.)..... (11,828,199)

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 J and K.)

These liabilities are:

Bonds payable.....	\$	(12,517,909)	
Accrued bond interest payable.....		(168,324)	
Capital lease and installment purchase obligations.....		(101,742)	
Compensated absence liability.....		(735,911)	
Self-insurance liabilities.....		(1,085,526)	
Other post employment benefits.....		(3,546,653)	
Other financing obligations.....		(285,740)	
Other liabilities.....		<u>(792,514)</u>	
			<u>(19,234,319)</u>

**Total Net Position--Governmental Activities.....** \$ 13,033,995

- 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, 2016**

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>REVENUES:</b>				
Taxes, net of refunds.....	\$ 29,629,553	\$ 3,268,270	\$ 2,164,741	\$ 35,062,564
Licenses and fees.....	551,565	963,338	1,196,670	2,711,573
Intergovernmental.....	24,405,051	1,884,139	841,166	27,130,356
Charges for sales and services.....	1,807,964	88,266	233,616	2,129,846
Investment income.....	18,416	6,721	60,201	85,338
Interest on notes and loans.....	1,221	157	-	1,378
Other.....	327,736	4,449	369,267	701,452
<b>TOTAL REVENUES</b> .....	<u>56,741,506</u>	<u>6,215,340</u>	<u>4,865,661</u>	<u>67,822,507</u>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	629,484	23,196	472,251	1,124,931
Protection of persons and property.....	4,241,572	942,966	700,412	5,884,950
Health and human services.....	36,116,515	-	612,926	36,729,441
Public education.....	14,233,462	494	633,721	14,867,677
Recreation and cultural enrichment.....	291,359	5,959	239,555	536,873
Economic development.....	425,765	945	432,180	858,890
Transportation.....	65,942	2,645,657	1,563,709	4,275,308
Capital outlay.....	116,497	2,838,090	231,810	3,186,397
Debt service:				
Principal retirement.....	-	-	757,455	757,455
Interest and fiscal charges.....	15,273	-	563,190	578,463
<b>TOTAL EXPENDITURES</b> .....	<u>56,135,869</u>	<u>6,457,307</u>	<u>6,207,209</u>	<u>68,800,385</u>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<u>605,637</u>	<u>(241,967)</u>	<u>(1,341,548)</u>	<u>(977,878)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	355,000	355,000
Refunding bonds issued.....	-	-	633,175	633,175
Premium on bonds/refunding bonds.....	-	-	173,671	173,671
Discount on bonds issued.....	-	-	(780)	(780)
Transfers in—Note H.....	480,332	212,124	1,572,840	2,265,296
Transfers out—Note H.....	(1,269,413)	(73,963)	(972,296)	(2,315,672)
Payment to refunded bond escrow agent.....	-	-	(763,350)	(763,350)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>(789,081)</u>	<u>138,161</u>	<u>998,260</u>	<u>347,340</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	(183,444)	(103,806)	(343,288)	(630,538)
<b>FUND BALANCES, JULY 1, 2015</b> .....	<u>273,553</u>	<u>988,548</u>	<u>3,916,717</u>	<u>5,178,818</u>
<b>FUND BALANCES, JUNE 30, 2016</b> .....	<u>\$ 90,109</u>	<u>\$ 884,742</u>	<u>\$ 3,573,429</u>	<u>\$ 4,548,280</u>

- 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, 2016

(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, 2016. 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..... \$ (630,538)**

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 .....	\$ 3,186,396	
Depreciation expense and losses on retirement or sale of assets.....	(1,838,692)	
Capital lease, installment purchase and related payments.....	<u>7,736</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,355,440

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 \$41,209 and a discount of \$780.....	\$ (395,429)	
Refunding bonds, including a premium of \$132,461.....	(765,636)	
Capital lease and installment purchase acquisitions.....	<u>(712)</u>	
Total bond proceeds and capital lease and installment purchase acquisitions.....		(1,161,777)

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.....	\$ 757,455	
Payments to refunded bond escrow agent.....	<u>763,350</u>	
Total bond principal retirement and payment to refunded bond escrow agent.....		1,520,805

Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses..... (16,071)

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..... (330,610)

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..... (889,788)

**Net change in governmental net position in the statement of activities..... \$ (152,539)**

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

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

Proprietary Funds  
 June 30, 2016

(Amounts in thousands)

	Enterprise Funds							Total	Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2015)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds			
<b>ASSETS</b>									
Current assets:									
Cash—Note D.....	\$ 25,905	\$ 1,386	\$ 135	\$ 4,979	\$ 761,638	\$ 33,802	\$ 827,845	\$ 2,785	
Cash with fiscal agents.....	1,499,164	-	-	-	-	2	1,499,166	-	
Temporary investments—Note D.....	7,205	122,473	232,158	684,272	-	348,192	1,394,300	16,123	
Receivables (net):									
Unemployment assessments.....	744,747	-	-	-	-	-	744,747	-	
Accounts.....	94,669	71,993	22,091	-	-	2,615	191,368	927	
Investment income.....	3	9,680	111	3,852	-	32	13,678	8	
Interest on loans.....	7,612	-	-	-	1,715	764	10,091	-	
Loans—Note G.....	-	-	-	-	19,274	22,834	42,108	-	
Lease rental.....	-	-	-	-	-	738	738	-	
Investment sale proceeds.....	-	-	-	4,223	-	-	4,223	-	
Other.....	-	-	-	-	-	7	7	-	
Due from other funds—Note H.....	2,565	-	12,920	-	51,606	12,441	79,532	38,492	
Due from pension trust funds—Note H.....	-	-	-	-	-	-	-	5,732	
Due from component units—Note H.....	521	-	-	-	-	-	521	149	
Due from Federal government.....	1,131	-	4,088	-	-	5	5,224	-	
Due from political subdivisions.....	4,004	-	-	-	-	-	4,004	40	
Due from other governments.....	17,841	-	-	-	-	66	17,907	-	
Inventory.....	-	-	-	-	-	244,655	244,655	20,193	
Prepaid expenses.....	-	-	-	-	-	721	721	-	
Other assets.....	-	2,834	16,376	-	-	455	19,665	-	
Total current assets.....	2,405,367	208,366	287,879	697,326	834,233	667,329	5,100,500	84,449	
Noncurrent assets:									
Restricted cash.....	422,376	-	-	-	-	4,521	426,897	-	
Long-term investments—Note D.....	-	1,363,498	2	1,572,928	-	193,718	3,130,146	20,301	
Receivables (net):									
Loans—Note G.....	-	-	-	-	272,495	137,523	410,018	-	
Non-depreciable capital assets—Note E:									
Land.....	-	-	-	-	-	179,453	179,453	-	
Construction in progress.....	-	-	-	-	-	26,383	26,383	-	
Depreciable or amortizable capital assets—Note E:									
Land improvements.....	-	-	-	-	-	67,559	67,559	192	
Buildings and building improvements.....	-	-	-	-	-	411,570	411,570	6,221	
Machinery and equipment.....	-	1,512	77,368	-	-	106,405	185,285	96,508	
Intangible assets.....	-	-	-	-	-	13,095	13,095	-	
Less: accumulated depreciation and amortization.....	-	(1,512)	(55,747)	-	-	(279,191)	(336,450)	(60,504)	
Net depreciable or amortizable capital assets.....	-	-	21,621	-	-	319,438	341,059	42,417	
Other assets.....	-	-	-	-	-	4,101	4,101	-	
Total noncurrent assets.....	422,376	1,363,498	21,623	1,572,928	272,495	865,137	4,518,057	62,718	
<b>TOTAL ASSETS.....</b>	<b>2,827,743</b>	<b>1,571,864</b>	<b>309,502</b>	<b>2,270,254</b>	<b>1,106,728</b>	<b>1,532,466</b>	<b>9,618,557</b>	<b>147,167</b>	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>									
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note F, G, I.....</b>	<b>-</b>	<b>7,048</b>	<b>12,483</b>	<b>-</b>	<b>1,980</b>	<b>112,484</b>	<b>133,995</b>	<b>11,097</b>	

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

Proprietary Funds  
 June 30, 2016

(Amounts in thousands)

	Enterprise Funds							Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2015)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and accrued liabilities.....	\$ 57,436	\$ 14,974	\$ 386,216	\$ 2,498	\$ -	\$ 297,873	\$ 758,997	\$ 56,399
Investment purchases payable.....	-	-	-	7,095	-	-	7,095	-
Tuition benefits payable—Note F.....	-	-	-	259,423	-	-	259,423	-
Securities lending obligations.....	-	60,495	-	500,196	-	5,131	565,822	538
Due to other funds—Note H.....	2,367	-	16,728	2	650	9,088	28,835	2,718
Due to pension trust funds—Note H.....	1	-	235	-	-	1,989	2,225	174
Due to component units—Note H.....	-	-	-	-	-	22	22	3
Due to political subdivisions.....	-	-	8,114	-	-	42	8,156	6
Due to other governments.....	8,847	-	6,412	-	-	2,974	18,233	45
Interest payable.....	46,315	-	-	-	6,901	340	53,556	-
Unearned revenue.....	-	78,008	8,102	-	-	3,654	89,764	-
Revenue bonds payable—Note F.....	310,940	-	-	-	69,085	3,875	383,900	-
Capital lease/installment purchase obligations—Note F.....	-	-	-	-	-	-	-	457
Self insurance liabilities—Note M.....	1	210	322	-	-	8,435	8,968	642
Compensated absences—Note F,K.....	-	427	586	-	-	6,116	7,129	549
Insurance loss liability—Note F.....	-	228,402	-	-	-	-	228,402	-
Advances from other funds—Note H.....	-	2,322	50,000	-	-	-	52,322	-
Other liabilities.....	145	18,698	-	-	-	345	19,188	-
Total current liabilities.....	426,052	403,536	476,715	769,214	76,636	339,884	2,492,037	61,531
Noncurrent liabilities:								
Tuition benefits payable—Note F.....	-	-	-	1,282,700	-	-	1,282,700	-
Insurance loss liability—Note F.....	-	1,375,702	-	-	-	580	1,376,282	-
Revenue bonds payable—Note F.....	1,716,484	-	-	-	1,564,026	17,324	3,297,834	-
Installment purchase obligation—Note K.....	-	-	-	-	-	-	-	984
Compensated absences—Note F,K.....	-	1,707	2,343	135	-	24,462	28,647	2,195
Self insurance liabilities—Note M.....	8	1,061	1,626	-	-	42,641	45,336	3,246
Other postemployment benefit obligations—Note I.....	8	9,014	11,626	50	-	106,814	127,512	10,028
Nonexchange financial guarantees—Note N.....	-	-	-	-	12,124	-	12,124	-
Net pension liability—Note I.....	-	42,547	60,346	-	-	537,799	640,692	53,641
Other liabilities.....	-	-	-	-	-	322	322	-
Total noncurrent liabilities.....	1,716,500	1,430,031	75,941	1,282,885	1,576,150	729,942	6,811,449	70,094
<b>TOTAL LIABILITIES.....</b>	<b>2,142,552</b>	<b>1,833,567</b>	<b>552,656</b>	<b>2,052,099</b>	<b>1,652,786</b>	<b>1,069,826</b>	<b>9,303,486</b>	<b>131,625</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note F, G, I.....</b>	<b>-</b>	<b>534</b>	<b>757</b>	<b>-</b>	<b>-</b>	<b>7,623</b>	<b>8,914</b>	<b>673</b>
<b>NET POSITION—Note C</b>								
Net investment in capital assets.....	-	-	21,621	-	-	506,822	528,443	40,976
Restricted for:								
Transportation.....	-	-	-	-	-	139,029	139,029	-
Capital projects.....	-	-	-	-	-	2	2	-
Debt service.....	-	-	-	-	-	4,199	4,199	-
Unemployment/workers' compensation.....	685,191	-	-	-	-	-	685,191	-
Economic development.....	-	-	-	-	-	5,102	5,102	-
Correctional industries and procurement.....	-	-	-	-	-	-	-	6,284
Emergency support.....	-	-	-	-	-	132,008	132,008	-
Higher Education.....	-	-	-	218,155	-	-	218,155	-
Other purposes.....	-	-	-	-	-	123,408	123,408	-
Unrestricted.....	-	(255,189)	(253,049)	-	(544,078)	(343,069)	(1,395,385)	(21,294)
<b>TOTAL NET POSITION.....</b>	<b>\$ 685,191</b>	<b>\$ (255,189)</b>	<b>\$ (231,428)</b>	<b>\$ 218,155</b>	<b>\$ (544,078)</b>	<b>\$ 567,501</b>	<b>\$ 440,152</b>	<b>\$ 25,966</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, 2016

(Amounts in thousands)

	Enterprise Funds							Total	Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2015)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds			
<b>OPERATING REVENUES:</b>									
Sales and services—Note G.....	\$ 3,148,697	\$ 211,385	\$ 4,135,245	\$ 192,187	\$ 186	\$ 1,978,449	\$ 9,666,149	\$ 88,293	
Interest on loans.....	-	-	-	-	9,025	2,966	11,991	-	
Other.....	-	96	-	-	26	31	153	-	
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>3,148,697</b>	<b>211,481</b>	<b>4,135,245</b>	<b>192,187</b>	<b>9,237</b>	<b>1,981,446</b>	<b>9,678,293</b>	<b>88,293</b>	
Provision for uncollectible accounts.....	-	-	-	-	150	(466)	(316)	-	
<b>NET OPERATING REVENUES.....</b>	<b>3,148,697</b>	<b>211,481</b>	<b>4,135,245</b>	<b>192,187</b>	<b>9,387</b>	<b>1,980,980</b>	<b>9,677,977</b>	<b>88,293</b>	
<b>OPERATING EXPENSES:</b>									
Cost of sales and services.....	2,284,461	282,803	3,898,987	228,244	106,518	1,867,752	8,668,765	88,046	
Depreciation and amortization.....	-	-	3,617	-	-	28,963	32,580	15,457	
Other.....	-	-	65,086	-	-	4,928	70,014	-	
<b>TOTAL OPERATING EXPENSES.....</b>	<b>2,284,461</b>	<b>282,803</b>	<b>3,967,690</b>	<b>228,244</b>	<b>106,518</b>	<b>1,901,643</b>	<b>8,771,359</b>	<b>103,503</b>	
<b>OPERATING INCOME (LOSS).....</b>	<b>864,236</b>	<b>(71,322)</b>	<b>167,555</b>	<b>(36,057)</b>	<b>(97,131)</b>	<b>79,337</b>	<b>906,618</b>	<b>(15,210)</b>	
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income.....	10,336	7,513	939	30,283	3,312	6,801	59,184	693	
Interest expense.....	(37,534)	-	-	-	(82,236)	-	(119,770)	-	
Investment expense.....	-	(3,723)	-	(2,838)	-	-	(6,561)	-	
Grants and other revenues.....	63,579	-	1,407	-	-	1,386	66,372	-	
Other expenses.....	(283)	-	(13)	-	-	(7,574)	(7,870)	(1,554)	
<b>NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>36,098</b>	<b>3,790</b>	<b>2,333</b>	<b>27,445</b>	<b>(78,924)</b>	<b>613</b>	<b>(8,645)</b>	<b>(861)</b>	
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>900,334</b>	<b>(67,532)</b>	<b>169,888</b>	<b>(8,612)</b>	<b>(176,055)</b>	<b>79,950</b>	<b>897,973</b>	<b>(16,071)</b>	
<b>TRANSFERS:</b>									
Transfers in—Note H.....	-	-	166,800	-	255,033	62,616	484,449	-	
Transfers out—Note H.....	(59,838)	-	(270,907)	-	-	(103,328)	(434,073)	-	
<b>TRANSFERS, NET.....</b>	<b>(59,838)</b>	<b>-</b>	<b>(104,107)</b>	<b>-</b>	<b>255,033</b>	<b>(40,712)</b>	<b>50,376</b>	<b>-</b>	
<b>INCREASE/(DECREASE) IN NET POSITION.....</b>	<b>840,496</b>	<b>(67,532)</b>	<b>65,781</b>	<b>(8,612)</b>	<b>78,978</b>	<b>39,238</b>	<b>948,349</b>	<b>(16,071)</b>	
<b>TOTAL NET POSITION, JULY 1, 2015.....</b>	<b>(155,305)</b>	<b>(187,657)</b>	<b>(297,209)</b>	<b>226,767</b>	<b>(623,056)</b>	<b>528,263</b>	<b>(508,197)</b>	<b>42,037</b>	
<b>TOTAL NET POSITION, JUNE 30, 2016.....</b>	<b>\$ 685,191</b>	<b>\$ (255,189)</b>	<b>\$ (231,428)</b>	<b>\$ 218,155</b>	<b>\$ (544,078)</b>	<b>\$ 567,501</b>	<b>\$ 440,152</b>	<b>\$ 25,966</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, 2016  
(Amounts in thousands)

	Enterprise Funds							
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2015)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Receipts from employers.....	\$ 3,124,689	\$ 203,630	\$ -	\$ -	\$ -	\$ -	\$ 3,328,319	\$ -
Receipts from customers and participants.....	-	-	4,117,406	192,187	-	1,972,639	6,282,232	87,552
Receipts from borrowers for fees and loan repayments.....	-	-	-	-	39,795	30,404	70,199	-
Receipt of premiums.....	-	-	-	-	-	5,518	5,518	-
Payments to programs for the elderly.....	-	-	(936,783)	-	-	-	(936,783)	-
Payments to prize winners.....	-	-	(2,632,157)	-	-	-	(2,632,157)	-
Payments to participants.....	-	-	-	(220,292)	-	-	(220,292)	-
Payments to claimants.....	(2,261,976)	(214,806)	-	-	-	(671)	(2,477,453)	-
Payments to borrowers.....	-	-	-	-	(21,866)	(36,077)	(57,943)	-
Payments for vendors, employees and other costs.....	-	(61,402)	(381,437)	(12,730)	(3,731)	(1,830,084)	(2,289,384)	(87,134)
Payments of grants and loan guarantees.....	-	-	-	-	(100,421)	-	(100,421)	-
Other receipts.....	-	96	-	-	26	27	149	-
Other payments.....	-	-	-	-	-	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>862,713</b>	<b>(72,482)</b>	<b>167,029</b>	<b>(40,835)</b>	<b>(86,197)</b>	<b>141,756</b>	<b>971,984</b>	<b>418</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>								
Net borrowings under advances from other funds.....	-	109	50,000	-	-	-	50,109	-
Principal payments on other non-capital debt.....	(365,420)	-	-	-	(66,225)	-	(431,645)	-
Interest payments on other non-capital debt.....	(104,033)	-	-	-	(85,824)	-	(189,857)	-
Transfers in.....	-	-	166,800	-	233,182	3,100	403,082	-
Transfers out.....	(59,838)	-	(270,907)	-	-	(101,672)	(432,417)	-
Grants and other revenues.....	49,728	-	10,553	-	-	1,530	61,811	-
Other payments for non-capital financing uses.....	(321)	-	-	-	-	(2,891)	(3,212)	-
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(479,884)</b>	<b>109</b>	<b>(43,554)</b>	<b>-</b>	<b>81,133</b>	<b>(99,933)</b>	<b>(542,129)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>								
Acquisition and construction of capital assets.....	-	-	(2,452)	-	-	(61,411)	(63,863)	(5,449)
Proceeds from disposal of capital assets.....	-	-	-	-	-	6	6	1,294
Capital lease/installment purchase payments.....	-	-	-	-	-	-	-	(400)
Principal payments on other capital debt.....	-	-	-	-	-	(3,500)	(3,500)	-
Interest payments on other capital debt.....	-	-	-	-	-	(1,121)	(1,121)	-
Transfers in.....	-	-	-	-	-	56,644	56,644	-
Other receipts for capital and related financing activities.....	-	-	-	-	-	4,634	4,634	-
Other payments for capital and related financing uses.....	-	-	-	-	-	(15)	(15)	-
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>(2,452)</b>	<b>-</b>	<b>-</b>	<b>(4,763)</b>	<b>(7,215)</b>	<b>(4,555)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of investments.....	(10,981)	(1,552,961)	(1,827,575)	(1,040,282)	-	(1,682,159)	(6,113,958)	(419,701)
Sales and maturities of investments.....	9,634	1,579,311	1,668,190	1,046,879	-	1,650,296	5,954,310	423,660
Investment income.....	10,333	45,431	10,923	29,769	3,312	1,854	101,622	469
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>8,986</b>	<b>71,781</b>	<b>(148,462)</b>	<b>36,366</b>	<b>3,312</b>	<b>(30,009)</b>	<b>(58,026)</b>	<b>4,428</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>391,815</b>	<b>(592)</b>	<b>(27,439)</b>	<b>(4,469)</b>	<b>(1,752)</b>	<b>7,051</b>	<b>364,614</b>	<b>291</b>
<b>CASH AT JULY 1, 2015.....</b>	<b>1,555,630</b>	<b>1,978</b>	<b>27,574</b>	<b>9,448</b>	<b>763,390</b>	<b>31,274</b>	<b>2,389,294</b>	<b>2,494</b>
<b>CASH AT JUNE 30, 2016 (including \$426,897 included in restricted assets).....</b>	<b>\$ 1,947,445</b>	<b>\$ 1,386</b>	<b>\$ 135</b>	<b>\$ 4,979</b>	<b>\$ 761,638</b>	<b>\$ 38,325</b>	<b>\$ 2,753,908</b>	<b>\$ 2,785</b>

**Commonwealth of Pennsylvania**  
**Statement of Cash Flows**  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2016  
(Amounts in thousands)

	Enterprise Funds							Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2015)	State Lottery Fund	Tuition Payment Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>								
Operating income (loss).....	\$ 864,236	\$ (71,322)	\$ 167,555	\$ (36,057)	\$ (97,131)	\$ 79,337	\$ 906,618	\$ (15,210)
Depreciation and amortization of capital assets.....	-	-	3,617	-	-	28,963	32,580	15,457
Amortization of other assets.....	-	-	-	-	-	4,928	4,928	-
Loss from disposals of capital assets.....	-	-	-	-	-	12	12	-
Provision for uncollectible accounts.....	-	-	-	-	(150)	466	316	-
Other adjustments.....	-	-	-	-	-	64	64	(1,294)
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:								
Unemployment assessments receivable.....	(25,367)	-	-	-	-	-	(25,367)	-
Accounts receivable.....	10,655	1,594	(5,834)	-	-	(988)	5,427	(543)
Interest on loans receivable.....	(142)	-	-	-	(76)	(115)	(333)	-
Loans receivable.....	-	-	-	-	8,794	(8,936)	(142)	-
Lease rental receivable.....	-	-	-	-	-	(192)	(192)	-
Other receivables.....	-	-	-	-	-	3	3	-
Due from other funds.....	1,932	-	(12,896)	-	-	(3,504)	(14,468)	(7,835)
Due from pension trust funds.....	-	-	-	-	-	-	-	1,246
Due from component units.....	(48)	-	-	-	-	-	(48)	14
Due from political subdivisions.....	1,574	-	-	-	-	-	1,574	(18)
Due from other governments.....	8,323	-	-	-	-	21	8,344	-
Inventory.....	-	-	-	-	-	(14,356)	(14,356)	(2,656)
Prepaid expenses.....	-	-	-	-	-	3,665	3,665	-
Other current and noncurrent assets.....	-	-	1,788	-	-	(50)	1,738	-
Deferred outflows.....	-	(5,459)	(8,339)	-	-	(74,138)	(87,936)	(7,420)
Accounts payable and accrued liabilities.....	3,034	2,343	(6,224)	(6,624)	-	9,796	2,325	15,548
Tuition benefits payable.....	-	-	-	1,808	-	-	1,808	-
Due to other funds.....	1,718	-	11,909	-	116	(486)	13,257	(8,877)
Due to pension trust funds.....	1	-	77	-	-	297	375	(195)
Due to component units.....	-	-	-	-	-	(44)	(44)	(11)
Due to political subdivisions.....	-	-	(4,398)	-	-	16	(4,382)	1
Due to other governments.....	(3,212)	-	5,474	-	-	(14)	2,248	10
Unearned revenue.....	-	(9,349)	891	-	-	16	(8,442)	-
Self insurance liabilities.....	5	331	534	-	-	(1,993)	(1,123)	305
Compensated absences.....	-	(206)	(113)	12	-	(1,335)	(1,642)	119
Insurance loss liability.....	-	10,120	-	-	-	172	10,292	-
Other postemployment benefit obligations.....	4	1,242	1,785	26	-	16,589	19,646	1,740
Nonexchange financial guarantees.....	-	-	-	-	2,250	-	2,250	-
Net pension liability.....	-	5,798	10,855	-	-	99,364	116,017	9,728
Other current and noncurrent liabilities.....	-	(7,803)	-	-	-	150	(7,653)	-
Deferred inflows.....	-	229	348	-	-	4,048	4,625	309
<b>Total Adjustments.....</b>	<b>(1,523)</b>	<b>(1,160)</b>	<b>(526)</b>	<b>(4,778)</b>	<b>10,934</b>	<b>62,419</b>	<b>65,366</b>	<b>15,628</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 862,713</b>	<b>\$ (72,482)</b>	<b>\$ 167,029</b>	<b>\$ (40,835)</b>	<b>\$ (86,197)</b>	<b>\$ 141,756</b>	<b>\$ 971,984</b>	<b>\$ 418</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>								
Increase (decrease) in fair value of investments during the fiscal year.....	\$ -	\$ (35,852)	\$ (10,073)	\$ 1,382	\$ -	\$ 2,112	\$ (42,431)	\$ 220
Increase (decrease) in investments from changes in securities lending obligations.....	-	(56,200)	(1,217)	38,259	-	1,648	(17,510)	173
Decrease in investments from accretion/amortization of investment income.....	-	(7,874)	-	(451)	-	-	(8,325)	-
Increase in investments from other investment income adjustments (net).....	-	4,123	-	28	-	-	4,151	-
Capital assets acquired through installment purchases.....	-	-	-	-	-	-	-	712
Capital asset acquisitions that pertain to changes in accounts payable.....	-	-	(147)	-	-	(1,832)	(1,979)	181
Disposals of capital assets.....	-	-	(13)	-	-	(114)	(127)	(1,554)
Impairment of other assets.....	-	-	-	-	-	(7,988)	(7,988)	-
Amortization of bond premium/discount (net).....	(57,972)	-	-	-	3,557	(195)	(54,610)	-
Transfers from other funds (accruals).....	-	-	-	-	21,851	2,872	24,723	-
Transfers to other funds (accruals).....	-	-	-	-	-	(1,656)	(1,656)	-
Amortization of deferred refunding loss.....	-	-	-	-	(220)	-	(220)	-
Gain on bond redemptions.....	13,858	-	-	-	-	-	13,858	-
Internal activity elimination for capital financing activities.....	-	-	-	-	-	(4,606)	(4,606)	-

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, 2016

(Amounts in thousands)

		Investment Trust Fund		
	Pension (and Other Employee Benefit) Trust Funds	INVEST Program for Local Governments (December 31, 2015)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
Cash—Note D.....	\$ 201,385	\$ 101	\$ 3,206	\$ 15,654
Cash with fiscal agents.....	-	-	-	65,975
Temporary investments—Note D.....	89,880	467,800	8,796	684,463
Long-term investments—Note D.....	365,615	-	2,081,055	2,566,732
Short-term funds—Note D.....	6,417,155	-	-	-
Corporate obligations—Note D.....	2,349,625	-	-	-
Collective trust funds—Note D.....	12,143,184	-	-	-
Real estate—Note D.....	8,585,113	-	-	-
Alternative—Note D.....	17,624,322	-	-	-
Securities lending collateral—Note D.....	2,465,758	-	-	-
Asset-backed securities—Note D.....	1,353,663	-	-	-
Derivatives—Note D.....	970	-	-	-
Domestic equities—Note D.....	12,585,832	-	-	-
International equities—Note D.....	9,306,380	-	-	-
International private debt securities—Note D.....	113,751	-	-	-
International public debt securities—Note D.....	639,581	-	-	-
Mortgage-backed securities—Note D.....	1,447,154	-	-	-
Private placements—Note D.....	513,051	-	-	-
Repurchase agreements—Note D.....	104,205	-	-	-
U.S. Treasury obligations—Note D.....	3,482,565	-	-	-
U.S. government agency debt securities—Note D.....	141,295	-	-	-
Receivables (net):				
Taxes—Note G.....	-	-	-	47,519
Accounts.....	-	-	162	38,544
Investment income.....	477,950	-	4	11,311
Interest on notes and loans.....	196	30	-	-
Pension contributions.....	1,300,066	-	-	-
Investment sale proceeds.....	1,525,207	32,102	-	1,420
Other.....	24,850	-	-	-
Due from other funds—Note H.....	19,665	-	-	-
Due from pension trust funds—Note H.....	3,062	-	-	-
Due from component units—Note H.....	41,145	-	-	-
Due from political subdivisions.....	49,040	-	-	-
Due from other governments.....	33,527	-	-	-
Advances to other funds—Note H.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,632	-	-	-
Intangible assets.....	38,336	-	-	-
Less: accumulated depreciation and amortization.....	(28,097)	-	-	-
Net depreciable or amortizable capital assets.....	22,871	-	-	-
Other assets.....	-	-	-	4,635,020
<b>TOTAL ASSETS.....</b>	<b>83,428,063</b>	<b>500,033</b>	<b>2,093,223</b>	<b>\$ 8,134,138</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note G, I.....</b>	<b>11,324</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	175,294	39	1,565	\$ 145,646
Investment purchases payable.....	621,387	32,200	1,170	3,685
Securities lending obligations.....	2,540,997	-	1,107	19,072
Due to other funds—Note H.....	1,194	-	-	-
Due to pension trust funds—Note H.....	960	-	-	-
Due to political subdivisions.....	-	-	46	469,371
Due to other governments.....	-	-	-	8
Interest payable.....	-	94	-	-
Net pension liability—Note I.....	55,921	-	-	-
Other liabilities.....	569,434	-	-	7,496,356
<b>TOTAL LIABILITIES.....</b>	<b>3,965,187</b>	<b>32,333</b>	<b>3,888</b>	<b>\$ 8,134,138</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note G, I.....</b>	<b>1,268</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>				
Restricted and held in trust for:				
Pension benefits.....	75,886,950	-	-	-
Postemployment healthcare benefits.....	601,631	-	-	-
Employee salary deferrals.....	2,984,351	-	-	-
INVEST Program participants.....	-	467,700	-	-
Tuition Account Investment Program participants.....	-	-	2,040,419	-
Other.....	-	-	48,916	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 79,472,932</b>	<b>\$ 467,700</b>	<b>\$ 2,089,335</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, 2016**

(Amounts in thousands)

	<b>Pension (and Other Employee Benefit) Trust Funds</b>	<b>Investment Trust Fund INVEST Program for Local Governments (December 31, 2015)</b>	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS:</b>			
Contributions:			
Pension:			
Employer.....	\$ 5,528,382	\$ -	\$ -
Employee.....	1,804,294	-	-
Transfer in from other plans.....	121,127	-	-
Total pension contributions.....	<u>7,453,803</u>	<u>-</u>	<u>-</u>
Other.....	-	-	12,018
Total contributions.....	<u>7,453,803</u>	<u>-</u>	<u>12,018</u>
Investment income:			
Net increase/(decrease) in fair value of investments.....	(387,118)	-	(1,539)
Interest income.....	323,161	718	44,521
Dividend income.....	541,230	-	-
Rental and other income.....	673,014	-	-
Total investment activity income.....	<u>1,150,287</u>	<u>718</u>	<u>42,982</u>
Less: investment expenses			
Investment activity expense.....	(586,051)	(417)	-
Net investment earnings.....	<u>564,236</u>	<u>301</u>	<u>42,982</u>
Securities lending activities:			
Income.....	18,330	-	-
Expenses.....	(1,821)	-	-
Total securities lending income.....	<u>16,509</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>580,745</u>	<u>301</u>	<u>42,982</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares issued in lieu of cash distributions.....	-	234	-
Shares purchased/redeemed (net).....	-	(97,108)	129,242
Net decrease in net position from share transactions.....	<u>-</u>	<u>(96,874)</u>	<u>129,242</u>
<b>TOTAL ADDITIONS.....</b>	<b><u>8,034,548</u></b>	<b><u>(96,573)</u></b>	<b><u>184,242</u></b>
<b>DEDUCTIONS:</b>			
Benefit payments.....	10,722,863	-	-
Refunds of contributions.....	31,602	-	-
Transfers to other plans.....	109,459	-	-
Administrative expenses.....	102,582	-	6,276
Other expenses.....	4,060	-	997
Distributions to participants.....	-	301	-
<b>TOTAL DEDUCTIONS.....</b>	<b><u>10,970,566</u></b>	<b><u>301</u></b>	<b><u>7,273</u></b>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>			
Pension benefits.....	(3,036,349)	-	-
Postemployment healthcare benefits.....	76,111	-	-
Employee salary deferrals.....	24,220	-	-
INVEST program participants.....	-	(96,874)	-
Tuition Account Investment Program participants.....	-	-	164,090
Other.....	-	-	12,879
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST...</b>	<b><u>(2,936,018)</u></b>	<b><u>(96,874)</u></b>	<b><u>176,969</u></b>
<b>Net position, July 1, 2015.....</b>	<b>82,408,950</b>	<b>564,574</b>	<b>1,912,366</b>
<b>Net position, June 30, 2016.....</b>	<b><u>\$ 79,472,932</u></b>	<b><u>\$ 467,700</u></b>	<b><u>\$ 2,089,335</u></b>

- 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, 2016

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2016)	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.....	\$ 974,295	\$ 370,906	\$ 17,225	\$ 27,883	\$ 168,215	\$ 36,343	\$ 1,594,867
Temporary investments—Note S.....	205,979	3,050	933,299	1,184,492	720,494	332,863	3,380,177
Receivables (net):							
Accounts .....	57,258	-	53,478	-	61,384	2,616	174,736
Investment income.....	4,460	6,844	72	-	-	83	11,459
Interest on notes and loans.....	-	20,592	77,892	3,475	-	334	102,293
Loans—Note S.....	-	139,719	962,917	164,989	8,638	48,678	1,324,941
Other .....	-	-	-	-	72,382	669	73,051
Due from primary government—Note H.....	11,270	-	52	-	523	1,283	13,128
Due from component units—Note H.....	-	129	-	52	-	-	181
Due from Federal government.....	-	-	41,425	7,826	16,986	1,760	67,997
Inventory.....	20,492	-	-	-	10,298	688	31,478
Prepaid expenses.....	-	-	8,705	-	16,408	2,916	28,029
Other assets.....	-	2,281	55,533	-	2,646	-	60,460
Total current assets .....	<u>1,273,754</u>	<u>543,521</u>	<u>2,150,598</u>	<u>1,388,717</u>	<u>1,077,974</u>	<u>428,233</u>	<u>6,862,797</u>
Noncurrent assets:							
Restricted cash.....	-	-	-	-	25	1,339	1,364
Long-term investments—Note S.....	935,770	286,295	-	-	1,104,537	30,659	2,357,261
Receivables (net):							
Loans—Note S.....	-	3,123,723	4,955,122	2,404,911	32,474	319,920	10,836,150
Due from primary government—Note H.....	-	-	-	15,000	-	-	15,000
Non-depreciable capital assets—Note S							
Land.....	333,934	2,454	8,038	-	64,831	1,155	410,412
Construction in progress.....	1,330,627	-	-	-	130,599	5,873	1,467,099
Depreciable or amortizable capital assets—Note S							
Land improvements.....	119,256	-	-	-	294,159	2,493	415,908
Buildings and building improvements.....	968,902	32,056	75,476	-	3,540,776	770,433	5,387,643
Machinery and equipment.....	619,779	9,584	35,349	-	559,702	181,906	1,406,320
Turnpike infrastructure.....	7,908,360	-	-	-	-	-	7,908,360
Library books.....	-	-	-	-	81,314	349	81,663
Intangible assets.....	-	-	43,690	-	-	33	43,723
Less: accumulated depreciation and amortization.....	(5,763,532)	(13,251)	(83,466)	-	(1,785,605)	(319,741)	(7,965,595)
Net depreciable or amortizable capital assets.....	<u>3,852,765</u>	<u>28,389</u>	<u>71,049</u>	<u>-</u>	<u>2,690,346</u>	<u>635,473</u>	<u>7,278,022</u>
Other assets.....	155,908	79,511	-	-	125,924	14,429	375,772
Total noncurrent assets .....	<u>6,609,004</u>	<u>3,520,372</u>	<u>5,034,209</u>	<u>2,419,911</u>	<u>4,148,736</u>	<u>1,008,848</u>	<u>22,741,080</u>
<b>TOTAL ASSETS.....</b>	<b>7,882,758</b>	<b>4,063,893</b>	<b>7,184,807</b>	<b>3,808,628</b>	<b>5,226,710</b>	<b>1,437,081</b>	<b>29,603,877</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note S...</b>	<b>396,350</b>	<b>28,612</b>	<b>128,125</b>	<b>1,587</b>	<b>191,221</b>	<b>19,861</b>	<b>765,756</b>

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Discretely Presented Component Units  
June 30, 2016

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2016)	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.....	176,437	20,542	179,892	1,725	205,381	15,930	599,907
Securities lending obligations.....	-	-	-	24,680	-	803	25,483
Due to primary government—Note H.....	-	16	475	14,288	371	320	15,470
Due to component units—Note H.....	-	52	-	129	-	-	181
Due to other governments.....	-	-	-	6	-	2	8
Interest payable.....	219,492	24,233	3,054	-	-	4,130	250,909
Unearned revenue.....	67,844	-	35	22	61,130	2,338	131,369
Notes payable—Note S.....	-	1,000	938,213	-	-	-	939,213
Bonds payable—Note S.....	-	-	-	-	62,885	-	62,885
Revenue bonds payable—Note S.....	262,690	87,915	-	2,130	-	24,595	377,330
Capital lease/installment purchase obligations.....	-	-	-	-	3,476	87	3,563
Self insurance liabilities.....	4,817	-	-	-	4,419	-	9,236
Compensated absences.....	8,783	-	-	105	9,990	447	19,325
Other financing obligations—Note S.....	-	-	3,895	-	-	-	3,895
Other postemployment benefit obligations—Note S.....	-	-	-	-	-	294	294
Other liabilities.....	-	88,846	55,533	-	172,240	209	316,828
Total current liabilities.....	740,063	222,604	1,181,097	43,085	519,892	49,155	2,755,896
Non-current liabilities:							
Interest payable.....	-	-	-	-	11,091	-	11,091
Due to primary government—Note H.....	-	-	-	177,225	-	-	177,225
Unearned revenue.....	1,998	-	-	-	4,615	-	6,613
Student loan auction rate security bonds payable—Note S.....	-	-	218,200	-	-	-	218,200
Notes payable—Note S.....	-	28,000	4,533,641	-	307,299	-	4,868,940
Bonds payable—Note S.....	-	-	-	-	1,911,462	-	1,911,462
Revenue bonds payable—Note S.....	11,431,859	2,668,641	-	68,922	-	193,624	14,363,046
Capital lease/installment purchase obligations.....	-	-	-	-	73,598	247	73,845
Other financing obligations—Note S.....	-	-	30,734	-	-	-	30,734
Compensated absences.....	7,187	-	21,582	418	105,433	2,326	136,946
Self insurance liabilities.....	35,323	-	-	-	17,672	-	52,995
Other postemployment benefit obligations—Note S.....	-	-	-	1,021	1,106,643	8,682	1,116,346
Net pension liability—Note I, S.....	346,946	25,525	440,673	6,519	938,637	26,223	1,784,523
Other liabilities.....	224,901	359,966	-	-	180,145	11,293	776,305
Total non-current liabilities.....	12,048,214	3,082,132	5,244,830	254,105	4,656,595	242,395	25,528,271
<b>TOTAL LIABILITIES.....</b>	<b>12,788,277</b>	<b>3,304,736</b>	<b>6,425,927</b>	<b>297,190</b>	<b>5,176,487</b>	<b>291,550</b>	<b>28,284,167</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note S.....</b>	<b>137,490</b>	<b>-</b>	<b>135,294</b>	<b>10</b>	<b>30,162</b>	<b>367</b>	<b>303,323</b>
<b>NET POSITION</b>							
Net investment in capital assets.....	(24,520)	11,558	79,087	-	709,271	640,154	1,415,550
Restricted for:							
Health-related programs.....	-	-	-	-	-	361	361
Capital projects.....	332,920	-	-	3,513,015	37,406	-	3,883,341
Debt service.....	28,878	149,947	310,324	-	-	55,858	545,007
Economic development.....	-	-	-	-	-	77,898	77,898
Higher education.....	-	-	362,300	-	-	-	362,300
Other purposes.....	-	626,264	-	-	424,146	29,524	1,079,934
Unrestricted.....	(4,983,937)	-	-	-	(959,541)	361,230	(5,582,248)
<b>TOTAL NET POSITION.....</b>	<b>\$ (4,646,659)</b>	<b>\$ 787,769</b>	<b>\$ 751,711</b>	<b>\$ 3,513,015</b>	<b>\$ 211,282</b>	<b>\$ 1,165,025</b>	<b>\$ 1,782,143</b>

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

**Commonwealth of Pennsylvania**  
**Statement of Activities**  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	<b>Pennsylvania Turnpike Commission (May 31, 2016)</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.....	\$ 1,816,031	\$ 617,405	\$ 1,050,249	\$ 56,981	\$ 2,454,786	\$ 160,857	\$ 6,156,309
Program revenues:							
Charges for goods and services.....	1,052,691	189,148	663,379	35,997	1,471,989	69,593	3,482,797
Operating grants and contributions.....	50,720	453,660	334,561	65,714	881,621	77,899	1,864,175
Capital grants and contributions.....	180,906	-	-	66,978	23,359	14,005	285,248
<b>Total program revenues.....</b>	<b>1,284,317</b>	<b>642,808</b>	<b>997,940</b>	<b>168,689</b>	<b>2,376,969</b>	<b>161,497</b>	<b>5,632,220</b>
<b>Net (expense) revenue.....</b>	<b>(531,714)</b>	<b>25,403</b>	<b>(52,309)</b>	<b>111,708</b>	<b>(77,817)</b>	<b>640</b>	<b>(524,089)</b>
<b>Change in net position.....</b>	<b>(531,714)</b>	<b>25,403</b>	<b>(52,309)</b>	<b>111,708</b>	<b>(77,817)</b>	<b>640</b>	<b>(524,089)</b>
<b>Net position, July 1, 2015 (restated)—Note S.....</b>	<b>(4,114,945)</b>	<b>762,366</b>	<b>804,020</b>	<b>3,401,307</b>	<b>289,099</b>	<b>1,164,385</b>	<b>2,306,232</b>
<b>Net position, June 30, 2016.....</b>	<b>\$ (4,646,659)</b>	<b>\$ 787,769</b>	<b>\$ 751,711</b>	<b>\$ 3,513,015</b>	<b>\$ 211,282</b>	<b>\$ 1,165,025</b>	<b>\$ 1,782,143</b>

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

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

The basic financial statements of the Commonwealth of Pennsylvania (the Commonwealth) 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. There may be rounding differences between amounts reported in the basic financial statements section and amounts reported in other sections of the Comprehensive Annual Financial Report (CAFR). Also note, all amounts in the CAFR are stated in thousands unless otherwise indicated.

**Government-wide Financial Statements**

Government-wide financial statements report the financial position and results of activities for the Commonwealth 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, 2016. 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, 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 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 they 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.

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 entity's financial data is blended with the financial data of the PG. The following two entities are 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.

**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. The 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

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

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, 2015.

*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 \$993,030 of PTC debt at fiscal year-end. The PTC is reported for its fiscal year ended May 31, 2016.

*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 Human Services, 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 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, 2016, 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

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

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 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, 2015.

*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.

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

*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 budgets and the PCCA may not incur debt without the prior written approval of the PG. The PG financed a portion of the PCCA facility in prior fiscal years and during the fiscal year ended June 30, 2016 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 the majority of the 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 purpose 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 is reported as an activity of the PEDA. 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 established the Pennsylvania eHealth Partnership Fund. The fund is 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.

**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

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

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, 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 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.

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

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.

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. The **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 the **SWIF**. The **SWIF** is reported for its fiscal year ended December 31, 2015.

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.

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

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 the 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.

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 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, 2015.

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, 2015. 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 Monetary Penalty Endowments Trust Fund, a private purpose trust fund, was established in accordance with Act 1 of 2013 to account for the monetary penalty payments from the Pennsylvania State University.

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



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

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 liabilities regardless of when payment is due and all deferred inflows and outflows 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 when incurred, regardless of when the benefits are used or the liabilities are paid.

**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

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

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 non-operating, 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 non-operating revenues by all proprietary funds. Fiduciary funds, except for agency funds, classify revenues and expenses as either additions or deductions to net position.

Agency funds, a fiduciary fund type, use the accrual basis of accounting to report assets and liabilities. 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 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 fair value, 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. Most long-term investments are reported at fair value, those not recorded at fair value are recorded at net asset value. 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.

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

**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 using weighted average cost. 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. Prepaid expenses are not reported in governmental fund financial statements.

**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 acquisition 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 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 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

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

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 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 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.

**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

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

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 the PG governmental activities and business-type activities; and between the 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, 2016 and transfers in/out during the fiscal year ended June 30, 2016 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 Act 89 of 2013, and the related lease and funding agreement between the PTC and the PG Department of Transportation.

**Pension Costs, Liabilities and Deferred Items:** In the government-wide statement of net position, the proprietary fund statement of net position, and the statement of fiduciary net position pension liabilities are reported at their actuarial present value of projected benefit payments to periods of employee service. The Commonwealth's policy is to fund employer contributions to the SERS and PSERS as required by their Boards, through statutory authority, or as required based on other applicable statutory requirements. Since the SERS and PSERS are cost-sharing, multiple-employer pension plans, the Commonwealth reports a net pension liability as required by GASB 68. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about

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

the fiduciary net position of the Pension Plans (Plans) and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**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, 2016.

**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, 2016, 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.

**Spendable Categories:****Restricted:**

Amounts which may only be spent for 1) expenditures in accordance with grants received from external parties or 2) 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.

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

**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 Fund provides financial assistance to minimize future revenue shortfalls and deficits, and promote greater continuity and predictability in the funding of vital government services. It minimizes the need to increase taxes to balance the budget of the commonwealth during periods of economic distress. 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. No transfer occurred for this reporting period.

**New Accounting Pronouncements –Adopted:**

The Commonwealth adopted GASB Statement No. 72, "Fair Value Measurement and Application". The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 79, "Certain external Investment Pools and Pool Participants". The adoption of this statement had no effect on previously reported amounts.

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

The GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" in June 2015. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

The GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

The GASB issued Statement No. 77, "Tax Abatement Disclosures" in August 2015. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

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

The GASB issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" in December 2015. This Statement addresses a practice issue regarding the scope and applicability of Statement No. 68. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

The GASB issued Statement No. 80, "Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14" in January 2016. The Statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

The GASB issued Statement No. 81, "Irrevocable Split-Interest Agreements" in March 2016. The Statement establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts – or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements – in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government and at least one other beneficiary.

The GASB issued Statement No. 82, "Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73. The Statement was issued to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised with respect to Statements No. 67, No. 68 and No. 73.

The new standards must be adopted as follows:

GASB Statement No. 74 Effective July 1, 2016 for financial statements for fiscal year ending June 30, 2017.

GASB Statement No. 75 Effective July 1, 2017 for financial statements for fiscal year ending June 30, 2018.

GASB Statement No. 77 Effective July 1, 2016 for financial statements for fiscal year ending June 30, 2017.

GASB Statement No. 78 Effective July 1, 2016 for financial statements for fiscal year ending June 30, 2017.

GASB Statement No. 80 Effective July 1, 2016 for financial statements for fiscal year ending June 30, 2017.

GASB Statement No. 81 Effective July 1, 2017 for financial statements for fiscal year ending June 30, 2018.

GASB Statement No. 82 Effective July 1, 2017 for financial statements for fiscal year ending June 30, 2018.

The effect of these statements has not yet been determined.



**NOTE B – RESTATEMENTS**

While the Commonwealth implemented four new accounting standards for the fiscal year ending June 30, 2016, neither GASB Statement No. 72, GASB Statement No. 73, GASB Statement No. 76, or GASB Statement No. 79 required any restatement to the Commonwealth's net position.

Details of the discretely presented component unit restatement are disclosed in Note S.

**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, 2016, governmental and business-type activities, respectively, reported net investment in capital assets of \$30,524,584 and \$528,443.

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, 2016, governmental and business-type activities, respectively, reported \$1,917,332 and \$1,307,094 of restricted net position. Net position restricted for other purposes of \$18,528 and \$123,408 for governmental activities and business-type activities, respectively, at June 30, 2016 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, 2016, governmental and business-type activities, respectively, reported unrestricted net position deficits of \$19,407,921 and \$1,395,385.

**Governmental Funds Fund Balance:** Reported fund balance within individual governmental funds is categorized between nonspendable and spendable categories. At June 30, 2016 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, unassigned categories. For the **General Fund**, balances may be reported within any of the four spendable categories. However, for all other funds, all balances must be reported within the restricted, committed, or assigned categories, with the exception of a fund balance deficit, which then must be reported in the unassigned category. At June 30, 2016, 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, 2016:

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.....	\$ 59,475	\$ -	\$ -	\$ 59,475
Long-term loans receivable.....	47,698	-	-	47,698
Due from component unit.....	177,225	-	-	177,225
<b>Total nonspendable.....</b>	<b>284,398</b>	<b>-</b>	<b>-</b>	<b>284,398</b>
<b>Restricted for:</b>				
General government operations.....	45	-	-	45
Health-related programs.....	-	-	14,450	14,450
Transportation.....	-	884,742	606,615	1,491,357
Unemployment/worker's compensation.....	-	-	939,949	939,949
Environmental and conservation programs.....	-	-	558,546	558,546
Gaming licensing/regulation.....	-	-	561,185	561,185
Emergency support.....	-	-	67,041	67,041
Other purposes.....	-	-	76,339	76,339
<b>Total restricted.....</b>	<b>45</b>	<b>884,742</b>	<b>2,824,125</b>	<b>3,708,912</b>
<b>Committed for:</b>				
General government operations.....	1,222,911	-	-	1,222,911
Health-related programs.....	-	-	121,622	121,622
Transportation.....	-	-	43,084	43,084
Capital projects.....	-	-	523,739	523,739
Debt service.....	-	-	23,446	23,446
Elderly programs.....	15,462	-	-	15,462
Environmental and conservation programs.....	103,753	-	37,413	141,166
Economic development.....	1	-	-	1
Higher education.....	7,585	-	-	7,585
Other purposes.....	137,119	-	-	137,119
<b>Total committed.....</b>	<b>1,486,831</b>	<b>-</b>	<b>749,304</b>	<b>2,236,135</b>
<b>Unassigned:</b>				
Deficit.....	(1,681,165)	-	-	(1,681,165)
<b>Total fund balances.....</b>	<b>\$ 90,109</b>	<b>\$ 884,742</b>	<b>\$ 3,573,429</b>	<b>\$ 4,548,280</b>

A portion of the nonspendable fund balance reported by the **General Fund**, \$59,475, is applicable to advances to other funds at June 30, 2016 as follows: \$50,000 to the **State Lottery Fund**, an enterprise fund; \$2,300 to the **State Workers' Insurance Fund**, an enterprise fund; \$2,175 to the **Motor License Fund** and \$5,000 to the State Farm Products Show Fund, both special revenue funds, respectively.

**Governmental Funds Fund Balance Deficit:** With the exception of the **General Fund**, no governmental funds reported deficits at June 30, 2016.

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

**Proprietary Funds Net Position:** Nonmajor enterprise funds reported total restricted net position for “other purposes” of \$123,408 at June 30, 2016 for the following programs: mine subsidence insurance, \$113,557; vocational rehabilitation, \$1,701; and \$8,150 for other programs.

**Proprietary Funds Unrestricted Net Position Deficits:** In addition to unrestricted net position deficits reported in three of the five major enterprise funds (**State Workers’ Insurance Fund**, **State Lottery Fund**, and the **Commonwealth Financing Authority**, a blended component unit), three nonmajor enterprise funds and an internal service fund reported an unrestricted net position deficit in the statement of net position-proprietary funds at June 30, 2016. These enterprise funds reported the following unrestricted net position deficits at June 30, 2016: the State Stores Fund, \$326,209; the Rehabilitation Center Fund, \$14,970; and the Philadelphia Regional Port Authority (a blended component unit), \$1,890.

The Purchasing Fund, an internal service fund, reported an unrestricted net position deficit of \$21,294 at June 30, 2016. With the Commonwealth’s implementation of GASB Statement No. 68, this fund began reporting net pension liability, causing this deficit. This liability has not yet been reflected in the rate setting processes for this fund.

**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 Department 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 is 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. The Treasury Department 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, fixed income securities and loans to the primary government 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.

The Treasury Department has created Pools 999 and 998 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 999, consists of short-term fixed income securities and cash which provide 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 998, 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, Workers Compensation Security Trust, **State Workers Insurance Fund (SWIF)**, **Tuition Payment**, Tuition Account Investment Program, INVEST Program for Local Governments (INVEST Program), 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), and limited partnerships. Several of the organizations also prohibit short selling and margin transactions. An exception includes **Tuition Payment**; this organization permits some or all of the previously mentioned prohibited assets and transactions as well as foreign investments. **SWIF** and INVEST Program amounts are reported as of December 31, 2015 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 Investment Pool is managed by the Treasury Department, whereas the other aforementioned trusts are managed outside the Treasury Department.

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

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, 2015.

**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 Fund holdings is invested in the CIP.

**Fair Value of Investments****Treasury Department**

The Treasury Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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

The Treasury Department has the following recurring fair value measurements as of June 30, 2016:

Investments by Fair Value Level	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Debt Securities</b>				
Corporate obligations.....	\$ 1,619,055	\$ -	\$ 1,437,991	\$ 181,064
U.S. Treasury obligations.....	707,662	707,662	-	-
Mortgage backed securities.....	402,182	-	402,182	-
Private placements.....	249,774	-	249,774	-
State and municipal obligations.....	273,897	-	273,897	-
U.S. government agencies.....	38,527	-	38,527	-
Asset backed securities.....	60,837	-	60,837	-
U.S. government sponsored enterprises.....	1,100,559	-	1,100,559	-
Commercial paper.....	5,698,639	-	5,698,639	-
Sovereign debt.....	45,085	3,447	41,638	-
<b>Equity Securities</b>				
Equity.....	2,251,872	2,251,872	-	-
Preferred securities.....	12,121	5,012	7,109	-
<b>Other Securities</b>				
Treasury group investment..... *	10,398,512	-	10,398,512	-
<b>Other</b>				
Mutual funds.....	234,270	234,270	-	-
Money market mutual funds.....	1,840,886	1,791,618	49,268	-
<b>Total investments by fair value level.....</b>	<b><u>\$ 24,933,878</u></b>	<b><u>\$ 4,993,881</u></b>	<b><u>\$ 19,758,933</u></b>	<b><u>\$ 181,064</u></b>
<b>Investments by Net Asset Value (NAV)</b>				
Global opportunity alternative managers.....	52,895			
Real estate alternative managers.....	81,310			
Fund of funds alternative managers.....	721,369			
Private equity alternative managers.....	5,307			
Absolute return alternative managers.....	7,128			
<b>Total investments at NAV.....</b>	<b><u>868,009</u></b>			
<b>Total investments measured at fair value.....</b>	<b><u>\$ 25,801,887</u></b>			

\*The amount is 100% invested in the Treasury Group Consolidated Cash Pool which is made up of 17% Level 1 and 83% Level 2 inputs.

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt securities classified in Level 3 are valued by a loan pricing matrix. If vendor pricing is not available the price defaults to cost.

Equity securities classified in Level 3 of the fair value hierarchy are not actively traded through established exchange mechanisms and therefore have limited information in the market place. They are valued by a general or managing partner (or functional equivalent) or the investment manager whose portfolio contains the private equity.

Other securities classified in Level 1 of the fair value hierarchy consist of mutual funds. The underlying funds are reported at fair value, determined by Vanguard based on the net asset value per share of each mutual fund as of the close of the New

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

York Stock Exchange (NYSE) on the reporting date (level 1 inputs). Other securities classified in Level 2 of the fair value hierarchy consist of Treasury pooled investments. The underlying investments for the pools consist of 17% Level 1 securities and 83% Level 2 securities.

The Treasury Department has the following investments measured at the Net Asset Value (NAV):

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemptions Frequency</u>	<u>Redemption Notice Period</u>
Global opportunity alternative managers (1).....	\$ 52,895	\$ -	Monthly	30-60 days
Real estate alternative managers (2).....	81,310	7,785	Monthly	n/a, 30-60 days
Fund of funds alternative managers (3).....	721,369	69,193	Monthly, Quarterly	n/a, 45-90 days
Private equity alternative managers (4).....	5,307	1,410	n/a	n/a
Absolute return alternative managers (5).....	7,128	8,904	n/a	n/a, 60 days
<b>Total investments at NAV.....</b>	<u>\$ 868,009</u>			

1. Global Opportunities Manager- This type of investment’s objective is to provide investors with an above average long-term return primarily in equity securities of companies located outside of the United States. The fair value of the investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. There is a restriction to redemption of assets placed on the first 12 months after first contribution. Any redemption request after the initial 12 month period requires a minimum 30 days.

2. Real Estate Managers- This type of investment’s objective is to provide investors a return by investing in Real Estate Investment Trusts, mortgage loans, and other real estate development projects in certain metropolitan markets. The fair value of the investments in these managers have been determined using the NAV per share (or its equivalent) of the investments. For one investment valued at \$5.9 million, the invested funds cannot be withdrawn until the agreement expires.

3. Fund of Fund Managers- This type of investment objective aims to achieve broad diversification and appropriate asset allocation with investments in a variety of fund categories that are all wrapped into one fund. This strategy invests in portfolios that contain different underlying assets through investing in other types of funds instead of investing directly in bonds, stocks and other types of securities. The fair value of the investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. The redemption notices of these investments vary from no notice specified, 45 or 90 day required notice.

4. Private Equity Managers- This type of investment objective is to provide an above average return by investing in private companies across a variety of industries. The fair value of the investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. These investments cannot be easily redeemed as distributions are received through the liquidation of the underlying assets. For this category, the invested funds cannot be withdrawn until the agreement expires.

5. Absolute Return Managers- This type of investment vehicle seeks to make positive returns by employing investment management techniques that differ from traditional mutual funds. The fair value of the investments in this manager have been determined using the NAV per share (or its equivalent) of the investments. Redemption may be the first business day of each quarter or close of business on any calendar quarter, depending on the fund. For one investment valued at \$300, the invested funds cannot be withdrawn until the agreement expires.

**State Employees’ Retirement System (SERS) and Deferred Compensation Program (DCP)**

SERS and DCP have not adopted GASB Statement No. 72, Fair Value Measurement and Application for the fiscal year ended December 31, 2015 and therefore fair value disclosure information is not available. SERS and DCP plan to implement GASB Statement No. 72 for the fiscal year ending December 31, 2016.



**NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)****Public School Employees' Retirement System (PSERS)**

PSERS measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1 inputs: Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market (e.g., an equity security traded on a major exchange) provides the most reliable fair value measurement and, if available, should be used to measure fair value in that particular market.
- Level 2 inputs: The categorization of an asset/liability as Level 1 requires that it is traded in an active market. If an instrument is not traded in an active market, it may fall to Level 2. Level 2 inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1.
- Level 3 inputs: Reporting entities may use unobservable inputs to measure fair value if relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. These unobservable inputs are considered Level 3.

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

At June 30, 2016, PSERS had the following recurring fair value measurements:

Investments by Fair Value Level	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Short term</b>				
PSERS Short-Term Investment Fund.....	\$ 4,459,476	\$ 4,459,476	\$ -	\$ -
Other domestic short-term.....	132,603	129,859	-	2,744
International short-term.....	106,425	105,455	970	-
<b>Fixed income</b>				
Domestic asset backed and mortgage backed securities .....	1,450,885	-	1,450,885	-
U.S. government and agency obligations.....	923,896	909,123	14,773	-
Domestic corporate and taxable municipal bonds.....	1,195,561	-	1,195,561	-
International fixed income.....	482,171	-	481,327	844
<b>Common and preferred stock</b>				
Domestic common and preferred stock.....	5,331,356	5,329,831	-	1,525
International common and preferred stock.....	5,124,942	5,124,867	-	75
<b>Directly owned real estate</b>	330,599	(132,000)	-	462,599
<b>Total investments by fair value level.....</b>	<u>\$ 19,537,914</u>	<u>\$ 15,926,611</u>	<u>\$ 3,143,516</u>	<u>\$ 467,787</u>
<b>Investments by Net Asset Value (NAV)</b>				
Collective trust funds.....	12,143,184			
Equity real estate.....	4,835,469			
Private equity alternative investments.....	5,792,265			
Private debt alternative investments.....	4,441,297			
Venture capital alternative investments.....	965,638			
<b>Total investments at NAV.....</b>	<u>28,177,853</u>			
<b>Total investments measured at fair value.....</b>	<u>\$ 47,715,767</u>			
<b>Investment derivative instruments</b>				
Futures.....	32,019	32,019	-	-
Total return type swaps.....	302,321	302,321	-	-
Foreign exchange contracts.....	(9,932)	(9,932)	-	-
<b>Total investment derivative instruments.....</b>	<u>\$ 324,408</u>	<u>\$ 324,408</u>	<u>\$ -</u>	<u>\$ -</u>

Debt, equity, and derivative instrument securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices and recently printed security specific trading levels. 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, 2016 and 2015, \$132,000 in line of credit advances were netted against the related property valuation and are classified as Level 1. The

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

line of credit balance is due on March 3, 2017. The line is payable at an interest rate equivalent to LIBOR plus 85 basis points and is collateralized by certain fixed income investments of the System.

Derivative instruments classified in Level 1 of the fair value hierarchy are valued using observable exchange, dealer, or broker market pricing.

The Premium Assistance investment assets have the following recurring fair value measurements as of June 30, 2016:

- PSERS Short-Term Investment Fund of \$23,944 is valued using pricing quoted in active markets for those securities (Level 1 inputs).
- Other domestic short-term investments of \$64,943 are valued using a matrix pricing model (Level 2 inputs).

The Health Options Program (HOP) investment assets have the following recurring fair value measurements as of June 30, 2016:

- PSERS Short-Term Investment Fund of \$89,125 is valued using pricing quoted in active markets for those securities (Level 1 inputs).
- Other domestic short-term investments of \$104,205 are valued using pricing quoted in active markets for those securities (Level 1 inputs).

The valuation method for investments measured at the NAV per share (or its equivalent) as of June 30, 2016 is presented in the following table:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemptions Frequency</u>	<u>Redemption Notice Period</u>
Collective trust funds (1).....	\$ 12,143,184	\$ 160,000	see note (1)	0-90 days
Equity real estate (2).....	4,835,469	2,205,905	see note (2)	
Private equity alternative investments (3).....	5,792,265	3,404,544	see note (3)	
Private debt alternative investments (4).....	4,441,297	3,175,050	see note (4)	
Venture capital alternative investments (5).....	<u>965,638</u>	422,282	see note (5)	
<b>Total investments at NAV.....</b>	<b><u>\$ 28,177,853</u></b>			

1. Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. 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. Redemption frequency for these assets range from monthly, to quarterly, to annual. One asset has a 2-year hard lock that expires on December 31, 2017.

2. Equity real estate includes 75 real estate funds that invest primarily in U.S., Latin American, European and Asian commercial real estate. Fund investments can be made across the capital structure of each property venture. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. These investments cannot be easily redeemed. Distributions from each fund may be received as: 1) cash flows from operations or 2) return of capital from dispositions. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 12 years.

3. Private equity includes 74 U.S. buyout funds and 35 international buyout funds that invest mostly in private companies across a variety of industries (although they may invest in public companies from time to time). The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. These investments cannot be easily redeemed. The nature of private equity investments is that distributions are received through the liquidation of the underlying assets of the fund. The expected holding period of a private equity portfolio company is 3 to 7 years.

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

4. Private debt includes 61 private investment funds that invest across the fixed income capital structure primarily in North America and Western Europe. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. These investments cannot be easily redeemed. Instead, the nature of the investments in this type is that distributions are received through the orderly liquidation of the underlying assets of the fund throughout the stated term of the fund. It is expected that the underlying assets of the funds will be liquidated over the next 3 to 7 years.

5. Venture capital includes 36 U.S. based private funds that finance young, relatively small, rapidly growing companies, typically in either the health care or information technology sectors. The fair value of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. These investments cannot be easily redeemed. The nature of venture capital investments is that distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over the next 5 to 10 years.

**Statutory Liquidator Fund**

The Statutory Liquidator categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The Statutory Liquidator fund has the following recurring fair value measurements as of June 30, 2016:

Investments by Fair Value Level	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Debt Securities</b>				
Corporate obligations.....	\$ 1,254,199	\$ 5,066	\$ 1,249,133	\$ -
U.S. Treasury obligations.....	575,095	575,095	-	-
Mortgage backed securities.....	16,851	12,197	4,654	-
State and municipal obligations.....	7,549	-	7,549	-
U.S. government agency.....	42,528	44	42,484	-
Asset backed securities.....	97,925	-	97,925	-
Sovereign debt.....	455	-	455	-
<b>Other Securities</b>				
Annuity.....	1,184	-	-	1,184
Negotiable certificates of deposit.....	15,504	15,504	-	-
Treasury group investment..... *	80,420	-	80,420	-
Money market mutual funds.....	346,928	346,928	-	-
<b>Total investments by fair value level.....</b>	<b><u>\$ 2,438,638</u></b>	<b><u>\$ 954,834</u></b>	<b><u>\$ 1,482,620</u></b>	<b><u>\$ 1,184</u></b>

\*The amount is 100% invested in the Treasury Group Consolidated Cash Pool which are made up of 17% Level 1 and 83% Level 2.

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

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Other securities classified in Level 1 of the fair value hierarchy consist of mutual funds valued using prices quoted in active markets. Other securities classified in Level 2 of the fair value hierarchy consist of Treasury Pooled investments. The underlying investments for the pools consist of 17% Level 1 securities and 83% Level 2 securities.

**Deposit Risks**

At June 30, 2016, Commonwealth bank balances of \$26,015 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$65,475 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 \$104,205 at June 30, 2016 and are under the custody of its bank which has an A-rating by Standard and Poor's (S&P) and an Aa2 rating by Moody's Investors Service (Moody's).

**Cash with Fiscal Agent**

Within the business-type activities cash with fiscal agent, the **Unemployment Compensation Fund** reported \$1,499,166 and within the governmental activities cash with fiscal agent, the **General Fund** reported \$11,942. The cash reported in both funds 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 other nonmajor funds, all of which is collateralized. At June 30, 2016, the reported carrying amount of the **Unemployment Compensation Fund** and other nonmajor funds restricted cash and cash equivalents were \$422,376 and \$4,521, 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.

**Investments by Type**

At June 30, 2016, the Treasury Department and other investing organizations, excluding Statutory Liquidator, Tuition Account Investment Program, SERS, DCP and PSERS, reported a total of \$18,297,100 in investments. Cash equivalents and certificates of deposit, amounting to \$2,102,331, 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 \$16,194,769; of this amount, excluding equities and alternative investments (\$2,251,872 and \$868,009 respectively), fixed income investments disclosed amount to \$13,074,888.

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

The investment types and related amounts are as follows:

<b>Investment Type</b>	<b>Amount</b>
Alternative Investments.....	\$ 868,009
Asset backed securities.....	60,837
Commercial paper.....	5,698,639
Corporate obligations.....	1,619,055
Equity.....	2,251,872
Money market mutual funds.....	1,840,886
Mortgage-backed securities.....	402,182
Mutual funds.....	234,270
Preferred securities.....	12,121
Private placements.....	249,774
Securities lending collateral pool.....	791,394
Sovereign debt obligations.....	45,084
State and municipal obligations.....	273,898
U.S. government agencies.....	38,527
U.S. government sponsored enterprises.....	1,100,559
U.S. Treasury obligations.....	707,662
<b>Total investments</b> .....	<u>16,194,769</u>
Cash equivalents and certificates of deposit.....	2,102,331
<b>Total investments, cash equivalents and certificates of deposit</b> .....	<u><b>\$ 18,297,100</b></u>

In addition, at June 30, 2016, all reported investments of the Tuition Account Investment Program, amounting to \$2,039,267 consist entirely of mutual funds, \$1,942,468, and money market mutual funds, \$96,799.

**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, 2016 \$761,638 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, 2016, only the Statutory Liquidator Fund, an Agency Fund, owned investment securities subject to custodial credit risk, in the amount of \$1,943,190. 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:

<u>Investment Type</u>	<u>Amount</u>
Asset backed securities.....	\$ 97,922
Certificates of Deposit.....	15,604
Corporate obligations.....	1,127,076
Mortgage-backed securities.....	16,852
Private placements.....	68,114
Sovereign obligations.....	5,000
U.S. government agencies.....	37,527
U.S. Treasury obligations.....	575,095
<b>Total</b> .....	<u><b>\$ 1,943,190</b></u>

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

**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% limit on the concentration of investments in any one fixed income issuer within the CIP, **Tuition Payment** and INVEST Program. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. government agencies, and repurchase agreements. The Treasury Department also places a 5% 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% of portfolios to consist of securities issued by the U.S. Treasury. Among Treasury and other investing organizations, based on total portfolio value of \$16,194,769, the following concentrations existed as of June 30, 2016:

<u>Issuer Name</u>	<u>Amount</u>	<u>% of Treasury and Other Investing Organizations Portfolio</u>
Fidelity Prime Money Market.....	\$ 1,007,243	5.8%

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>
Legg Mason .....	\$ 143,024	5.6%
Federated Prime.....	\$ 140,374	5.5%

**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% 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, 2016, \$13,074,888 of total Treasury and other investing organization investments of \$18,297,100 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities \$2,251,872, alternative investments \$868,009, cash equivalents, certificates of deposit, and various deposit accounts of \$2,102,331. Of the Treasury amount susceptible to credit quality rating, \$9,395,216 is rated; ratings are not available for \$3,679,671 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.....	\$ 1,197,530
Aaa .....	184,115
Aa.....	85,895
A.....	438,154
Baa.....	441,529
Ba.....	129,561
B.....	147,989
Caa.....	32,498
Ca.....	330
C.....	140
<b>Moody's Investors Service subtotal.....</b>	<b><u>2,657,741</u></b>
<u>Standard and Poor's</u>	
A-1.....	1,210,651
AAA.....	22,878
AA.....	2,239,239
A.....	178,525
BBB.....	162,941
BB.....	41,495
B.....	60,577
CCC.....	9,325
CC.....	1,480
D.....	800
<b>Standard and Poor's subtotal.....</b>	<b><u>3,927,911</u></b>
<u>Fitch Ratings</u>	
F-1.....	2,377,396
AAA.....	1,322
AA.....	7,477
A.....	388,154
BBB.....	33,022
BB.....	925
B.....	1,067
CCC.....	45
CC.....	25
C.....	121
D.....	11
<b>Fitch Ratings subtotal.....</b>	<b><u>2,809,565</u></b>
<b>Rated subtotal.....</b>	<b>9,395,217</b>
<b>Unrated subtotal.....</b>	<b><u>3,679,671</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 13,074,888</u></b>

At June 30, 2016, 5% (\$426,389) of rated fixed income Treasury investments of \$9,395,217 are rated below investment grade. Approximately 28% (\$3,679,671) 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, 2016. 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.



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

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, 2015), which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service<sup>a</sup></u>	<u>SERS</u>	<u>DCP</u>
Aaa.....	\$ 284,360	\$ 51,220
Aa.....	574,631	300,870
A.....	372,843	133,346
Baa.....	688,631	58,738
Ba and below.....	697,873	2,098
Unrated <sup>b</sup> .....	54,936	-
Short-term investments.....	1,711,312	72,614
<b>Total.....</b>	<b>\$ 4,384,586</b>	<b>\$ 618,886</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, 2016:

<u>Standard and Poor's Equivalent<sup>a</sup></u>	<u>Amount</u>
AAA.....	\$ 638,124
AA.....	153,353
A.....	238,902
BBB.....	455,746
BB and below.....	254,925
Unrated <sup>b</sup> .....	10,592,798
U.S. government guaranteed <sup>c</sup> .....	1,331,821
<b>Total.....</b>	<b>\$ 13,665,669</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' securities include \$4,632,435 in collective trust funds.
- 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, 2016, which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 246,247
Aa.....	62,005
A.....	372,642
Baa.....	423,303
Ba.....	15,176
B.....	<u>22,192</u>
<b>Moody's Investors Service subtotal.....</b>	<b><u>1,141,565</u></b>
<u>Standard and Poor's</u>	
AAA.....	37,367
AA.....	502,131
A.....	137,121
BBB.....	<u>131,057</u>
<b>Standard and Poor's subtotal.....</b>	<b><u>807,676</u></b>
<u>Fitch Ratings</u>	
A.....	38,212
BBB.....	<u>23,332</u>
<b>Fitch Ratings subtotal.....</b>	<b><u>61,544</u></b>
<b>Rated subtotal.....</b>	<b>2,010,785</b>
<b>Unrated subtotal.....</b>	<b><u>531,266</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 2,542,051</u></b>

The \$2,542,051 exceeds the total of investments reported in the Statutory Liquidator Statement of Fiduciary Assets and Liabilities as it also includes certain investments included within the cash with fiscal agents and other assets classifications.

**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, 2016, Treasury and 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)**

<u>Investment Type</u>	<u>Amount of Securities with Duration</u>	<u>Option-Adjusted Duration</u>	<u>Amount of Securities with no Duration</u>	<u>Total</u>
Asset backed securities.....	\$ 47,963	0.975	\$ 12,874	\$ 60,837
Commercial paper.....	5,698,639	0.318	-	5,698,639
Corporate obligations.....	1,416,146	5.124	202,909	1,619,055
Money market.....	1,791,618	0.083	49,268	1,840,886
Mortgage-backed securities.....	366,219	3.327	35,963	402,182
Mutual funds.....	-	-	234,270	234,270
Preferred securities.....	6,502	9.875	5,619	12,121
Private placements.....	226,470	3.663	23,304	249,774
Securities lending collateral pool.....	791,394	0.083	-	791,394
Sovereign debt obligations.....	13,784	3.899	31,300	45,084
State and municipal obligations.....	58,326	5.687	215,572	273,898
U.S. government agencies.....	29,462	3.560	9,065	38,527
U.S. government sponsored enterprises.....	1,083,042	0.449	17,517	1,100,559
U.S. Treasury obligations.....	707,662	6.599	-	707,662
<b>Total.....</b>	<b>\$ 12,237,227</b>		<b>\$ 837,661</b>	<b>\$ 13,074,888</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:

<u>Investment Type</u>	<u>No Maturity Date</u>	<u>Matures in less than 1 Year</u>	<u>Matures in 1 to 5 Years</u>	<u>Matures in 6 to 10 Years</u>	<u>Matures in 11 to 20 Years</u>	<u>Matures in 21 to 30 Years</u>	<u>Matures in 31 to 40 Years</u>	<u>Matures after 40 Years</u>	<u>Total</u>
Alternative investments.....	\$ -	\$ 35,950	\$ 21,077	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,027
Annuity.....	1,184	-	-	-	-	-	-	-	1,184
Asset backed securities.....	-	348	93,821	3,753	-	-	-	-	97,922
Commonwealth investment program..	80,420	-	-	-	-	-	-	-	80,420
Corporate bonds.....	-	2,441	-	-	-	-	-	-	2,441
Corporate obligations.....	-	652,169	474,907	-	-	-	-	-	1,127,076
Money markets.....	380,506	-	-	-	-	-	-	-	380,506
Mortgage-backed securities.....	1,188	736	2,741	4,723	6,235	976	253	-	16,852
Private placements.....	-	55,807	12,303	3	-	-	-	-	68,113
Sovereign debts.....	-	5,000	-	-	-	-	-	-	5,000
State and municipal obligations.....	-	-	7,549	-	-	-	-	-	7,549
U.S. government agencies.....	-	2,639	27,318	-	44	3,485	-	4,041	37,527
U.S. Treasury obligations.....	-	219,932	355,163	-	-	-	-	-	575,095
Cash & equivalents.....	58,602	-	-	-	-	11,133	-	-	69,735
Certificates of deposit.....	100	15,504	-	-	-	-	-	-	15,604
<b>Total.....</b>	<b>\$ 522,000</b>	<b>\$ 990,526</b>	<b>\$ 994,879</b>	<b>\$ 8,479</b>	<b>\$ 6,279</b>	<b>\$ 15,594</b>	<b>\$ 253</b>	<b>\$ 4,041</b>	<b>\$ 2,542,051</b>

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

	<u>Amount</u>	<u>Average Duration</u>	<u>Average Effective Maturity</u>
Vanguard Total Bond Market II Index Fund Institutional Shares.....	\$ 669,799	5.8 years	8.0 years
Vanguard Inflation-Protected Securities Fund Institutional Shares.....	45,846	8.4 years	8.8 years
Vanguard Prime Money Market Fund Admiral Shares.....	96,799	N/A	53 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.....	\$ 322,144	\$ 57,125	2.60	1.80
Corporate obligations.....	895,622	258,442	5.40	4.80
Mortgage-backed securities.....	626,403	344,260	3.00	3.50
Other investments <sup>a</sup> .....	10,382	-	N/A	N/A
Sovereign debt obligations.....	245,552	22,865	8.30	4.80
Treasury investment pool.....	1,711,312	72,614	0.10	0.10
U.S. Treasury obligations.....	1,875,233	656,968	6.50	4.80
U.S. government sponsored enterprises.....	111,703	14,819	4.20	4.50
U.S. private placements.....	502,594	10,457	3.10	0.20
<b>Total.....</b>	<b>\$ 6,300,945</b>	<b>\$ 1,437,550</b>		

a. Other Investments represents certain SERS securities and the value of swaps and futures agreements as of December 31, 2015, for which the duration is not available.

PSERS:

Investment Type	Amount	Option-Adjusted Duration
Domestic asset-backed and mortgage-backed securities....	\$ 1,450,885	0.9
U.S. government and agency obligations.....	923,896	8.2
Domestic corporate and taxable municipal bonds.....	1,195,561	3.2
International fixed income.....	482,171	6.5
Collective trust funds.....	4,632,435	3.8
PSERS Short-Term Investment Fund.....	4,572,545	0.1
<b>Total.....</b>	<b>\$ 13,257,493</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 portfolio duration upward by 0.1 at June 30, 2016.

**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. Investment managers may trade in foreign currencies if investments will be returned to U.S. dollars. The Treasury amounts invested, by currency, are as follows:

Foreign Currency	Equities	Preferred Securities	Total
Australian dollar.....	\$ 9,083	\$ -	\$ 9,083
British pound sterling.....	30,838	-	30,838
Canadian dollar.....	13,541	-	13,541
Danish krone.....	2,375	-	2,375
Euro currency unit.....	55,957	611	56,568
Hong Kong dollar.....	16,484	-	16,484
Israeli shekel.....	915	-	915
Japanese yen.....	35,771	-	35,771
Malaysian ringgit.....	1,606	-	1,606
Mexican new peso.....	1,751	-	1,751
New Zealand dollar.....	279	-	279
Philippines peso.....	879	-	879
Singapore dollar.....	2,706	-	2,706
South African rand.....	3,022	-	3,022
Swedish krona.....	3,972	-	3,972
Swiss franc.....	17,748	-	17,748
Thailand baht.....	1,382	-	1,382
<b>Total.....</b>	<b>\$ 198,309</b>	<b>\$ 611</b>	<b>\$ 198,920</b>

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

Within the Tuition Account Investment Program, equities of \$295,752 are 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, 2015 as follows:

<u>Foreign Currency</u>	<u>Short-Term Investments<sup>a</sup></u>	<u>Fixed income</u>	<u>Equities</u>	<u>Real Estate</u>	<u>Alternative Investments</u>	<u>Total</u>
Euro.....	\$ 1,880	\$ 21,206	\$ 1,008,401	\$ 31,191	\$ 504,255	\$ 1,566,933
British pound sterling.....	2,396	28,377	730,571	17,190	13,262	791,796
Japanese yen.....	5,037	10,919	651,795	39,893	-	707,644
Swiss franc.....	2,586	-	412,539	-	-	415,125
Hong Kong dollar.....	558	-	300,638	14,219	-	315,415
Australian dollar.....	877	14,837	171,031	17,585	-	204,330
Canadian dollar.....	131	10,437	165,488	-	-	176,056
South Korean won.....	1,408	-	118,597	-	-	120,005
Swedish krona.....	52	10,418	77,525	1,255	29,618	118,868
New Taiwan dollar.....	(82)	-	79,443	-	-	79,361
Mexican peso.....	191	23,787	27,250	853	-	52,081
Danish krone.....	287	246	51,378	-	-	51,911
Singapore dollar.....	270	-	46,180	1,827	-	48,277
Brazilian real.....	409	7,130	34,206	-	-	41,745
Norwegian krone.....	30	5,128	32,677	-	-	37,835
South African rand.....	164	5,480	31,680	-	-	37,324
New Zealand dollar.....	113	6,589	12,138	-	-	18,840
Indonesian rupiah.....	182	7,788	9,577	-	-	17,547
Thai baht.....	38	-	17,245	-	-	17,283
Indian rupee.....	-	8,657	5,690	-	-	14,347
Turkish lira.....	-	-	13,585	-	-	13,585
Chilean peso.....	-	11,859	576	-	-	12,435
Malaysian ringgit.....	(10)	6,284	6,069	-	-	12,343
Hungarian forint.....	108	7,106	4,308	-	-	11,522
New Israeli shekel.....	11	-	11,057	-	-	11,068
Other currencies (6).....	1,016	4,072	7,721	-	-	12,809
<b>Total.....</b>	<b><u>\$ 17,652</u></b>	<b><u>\$ 190,320</u></b>	<b><u>\$ 4,027,365</u></b>	<b><u>\$ 124,013</u></b>	<b><u>\$ 547,135</u></b>	<b><u>\$ 4,906,485</u></b>

a. Includes receivables and payables as of December 31, 2015 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, 2015, the DCP had the following currency exposures related to equity securities:

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

<u>Foreign Currency</u>	<u>Fair Value</u>
Euro.....	\$ 46,936
Japanese yen.....	36,367
British pound sterling.....	30,025
Swiss franc.....	14,569
Australian dollar.....	10,536
Hong Kong dollar.....	4,753
Swedish krona.....	4,443
Danish krone.....	2,926
Singapore dollar.....	1,941
New Israeli shekel.....	1,144
Norwegian krone.....	829
New Zealand dollar.....	244
<b>Total.....</b>	<b><u>\$ 154,713</u></b>

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

<u>Foreign Currency</u>	<u>Equities</u>	<u>Fixed income</u>	<u>Alternative Investments and Real Estate</u>	<u>Short-term<sup>a</sup></u>	<u>Currency Hedge</u>	<u>Total</u>
Euro.....	\$ 906,601	\$ 104,468	\$ 1,787,026	\$ 36,889	\$ (1,879,668)	\$ 955,316
British pound sterling.....	878,211	34,096	124,921	27,078	(768,640)	295,666
South Korean won.....	117,185	10,286	-	182	(3,834)	123,819
Taiwan new dollar.....	100,552	-	-	3,067	(4,738)	98,881
Indian rupee.....	75,260	7,328	-	4,043	(2,037)	84,594
South African rand.....	56,661	7,626	-	(90)	1,917	66,114
Danish krone.....	133,456	808	-	1,051	(73,384)	61,931
Mexican new peso.....	44,094	15,302	-	407	(2,680)	57,123
Brazil real.....	33,249	16,468	-	269	(14,432)	35,554
Other currencies.....	2,514,294	135,675	27	72,313	(2,647,952)	74,357
<b>Total.....</b>	<b><u>\$ 4,859,563</u></b>	<b><u>\$ 332,057</u></b>	<b><u>\$ 1,911,974</u></b>	<b><u>\$ 145,209</u></b>	<b><u>\$ (5,395,448)</u></b>	<b><u>\$ 1,853,355</u></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% 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%. 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 invests the cash in accordance with reinvestment guidelines approved by the Treasury Department. At June 30, 2016, 100% of the collateral was invested in overnight U.S. Government repurchase agreements. Either the lender or the borrower may terminate the loan on demand. Loans are

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

typically of very short duration, usually overnight. 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 loans 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, 2016, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2016, 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.				
		U.S. Treasury Obligations	Government Sponsored Enterprises	Corporate Obligations	Equities	Exchange Traded
Deferred Compensation Program.....	\$ 2,401	\$ -	\$ -	\$ 2,401	\$ -	\$ -
State Employees' Retirement System.....	627,659	123,600	3,211	45,168	455,116	564
Public School Employees' Retirement System.....	213	-	-	-	213	-
Underground Storage Tank Indemnification Fund....	15,313	864	549	3,545	366	9,989
Workers' Compensation Security Trust Fund.....	67,163	26,639	-	10,640	711	29,173
<b>State Workers' Insurance Fund.....</b>	<b>59,172</b>	<b>40,231</b>	<b>-</b>	<b>5,069</b>	<b>9,209</b>	<b>4,663</b>
Other Postemployment Benefits Investment Pool..	74,692	-	-	-	-	74,692
Commonwealth Investment Program.....	80,947	3,039	9,116	11,373	15,123	42,296
<b>Tuition Payment Fund.....</b>	<b>497,124</b>	<b>1,899</b>	<b>517</b>	<b>1,745</b>	<b>4,061</b>	<b>488,902</b>

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

During the year ended June 30, 2016, the PSERS entered into a securities lending program with a third party agent. Under this program, the lending agent loans securities (equities, fixed income and money market instruments) to independent brokers and dealers in exchange for U.S. dollar cash collateral in an amount not less than 102% of the fair value of any securities loaned except for non-U.S. corporations for which 105% of the fair value is required. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained. The lending agent invests the cash collateral in accordance with reinvestment guidelines approved by the PSERS. As of June 30, 2016, the PSERS had no credit risk exposure to borrowers because the amounts the PSERS owed the borrowers exceeded the amounts the borrowers owed the PSERS. Under the securities lending program, the lending agent provides indemnification to the PSERS if a borrower fails to return borrowed securities (and the collateral is inadequate to replace the loaned securities) or fails to pay income distributions on them. The lending agent also provides indemnification to the PSERS if investment of cash collateral results in investment loss. There were no losses during the fiscal year ended June 30, 2016 resulting from a default of the borrowers or the lending agent. All securities loans can be terminated on demand by either the PSERS or the borrower, although the average term of the loan is one day. There were no term loans as of June 30, 2016.

Cash collateral is invested in a short-term collateral investment pool that is managed by the lending agent, is segregated from all other clients of the lending agent, and is not subject to custodial credit risk. The PSERS's income from securities lending represents its pro-rata share from participating in the program. The weighted-average maturity of the investments in the pool was one day at June 30, 2016. During the fiscal year ended June 30, 2016, the mismatch between the maturities of the investments made with cash collateral and the maturities of the securities loans may have posed some interest rate risk to the PSERS. In the event of a default, the lending agent may use the collateral to replace the loaned securities. As of June 30, 2016, the fair value of loaned securities was \$2,046,869. The fair value of the associated collateral was \$2,092,729, all of which was cash.

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

**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, 2016, which consist of “buy” contracts that 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, transactions have settlement dates and there is no expectation of holding these contracts until settlement.

	Changes in Fair Value		Fair Value at June 30, 2016		
	Classification	Amount	Classification	Amount	Notional
<b>Investment Derivatives</b>					
<b>Foreign Currency Forward Contracts</b>					
Governmental Activities.....	Investment income	\$ 123	Investments	\$ 123	\$ 7,214
Business-Type Activities.....		18		18	1,085
Fiduciary Funds.....		13		13	785
Component Units.....		81		81	4,739
<b>Total.....</b>		<b>\$ 235</b>		<b>\$ 235</b>	<b>\$ 13,823</b>

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

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

The 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, 2015, the SERS’ counterparty credit risk was not significant. The SERS mitigates its legal risk on investment holdings including derivatives by ensuring that all of its legal requirements (indemnification, sovereign immunity, jurisdiction, etc.) are acknowledged and agreed to in all of the derivatives agreements that it is subject to.

The SERS managers also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through its investments in commingled funds and hedge funds. These funds invest in instruments directly 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 manager 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 manager for the purpose of eliminating foreign exchange risk. As a matter of policy, the investment managers enter into these contracts at their full discretion to protect currency fluctuations. To reduce the risk of counterparty nonperformance, the investment managers generally enter 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



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

fair value of the contracts on December 31. At December 31, 2015, the SERS had contracts to purchase and sell, by major foreign currency, as follows:

<u>Foreign Currency</u>	<u>Purchase Contracts</u>	<u>Unrealized Gain/(Loss)</u>	<u>Sell Contracts</u>	<u>Unrealized Gain/(Loss)</u>
Chilean peso.....	\$ 11,859	\$ (127)	\$ -	\$ -
Japanese yen.....	10,831	199	817	(1)
Swedish krona.....	9,477	(228)	1,412	(38)
Indian rupee.....	8,657	98	-	-
Australian dollar.....	7,960	64	10,948	355
Norwegian krone.....	5,128	(464)	-	-
Euro.....	2,837	(15)	20,343	(235)
Canadian dollar.....	2,343	(22)	1,537	69
British pound sterling.....	1,441	(16)	3,419	70
Swiss franc.....	237	(3)	15,414	577
New Zealand dollar.....	-	-	1,180	(36)
Mexican peso.....	-	-	963	20
Colombian peso.....	-	-	817	(38)
Russian ruble.....	-	-	789	33
Other currencies (6).....	475	(2)	595	(1)
<b>Total.....</b>	<b><u>\$ 61,245</u></b>	<b><u>\$ (516)</u></b>	<b><u>\$ 58,234</u></b>	<b><u>\$ 775</u></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. The exchange assumes the risk that the counterparty will not pay 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, 2015.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, and credit worthiness. The SERS uses 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 managers use 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 managers use 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, 2015.

**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, 2015.

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.

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

**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 performance and reduce the volatility of the 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 conditions 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, 2016:

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts - long.....	\$ 4,479,615
Futures contracts - short.....	79,696
Foreign exchange forward and spot contracts, gross.....	5,558,947
Swaps - total return type.....	7,105,829

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the PSERS 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, 2016 represent a restriction on the amount of assets available as of fiscal year-end for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The PSERS generally uses exchange listed currency, index, stock, and futures options. The PSERS held no option positions at June 30, 2016.

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 managers generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported primarily include forwards. The \$5,558,947 of foreign currency contracts outstanding at June 30, 2016 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$86,868 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$5,472,080. The unrealized loss on contracts of \$(9,932) at June 30, 2016, is included in the statement of fiduciary net position and represents the fair value of the contracts.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes, or interest rates. During the year ended June 30, 2016, 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 indexes in exchange for a short-term rate minus a spread or a predetermined fixed charge. The receivable on the

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

total return type swap contracts of \$302,321 at June 30, 2016 is included in the statement of fiduciary net position and represents the fair value of the contracts. The contracts have varying maturity dates ranging from August 3, 2016 to June 26, 2017.

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2016 is \$477,412.

The PSERS invests in U.S. Treasury strips which essentially act as zero coupon bonds and are subject to market volatility from a rise or drop 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/or reduce the volatility of their portfolios.

**NOTE E – CAPITAL ASSETS**

Changes in governmental activities capital assets for the fiscal year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 585,198	\$ 16,974	\$ 7	\$ 602,165
Highway right-of-way.....	2,269,711	64,780	-	2,334,491
General construction in progress.....	1,048,844	325,776	411,167	963,453
Transportation construction in progress.....	2,959,210	2,869,303	2,551,979	3,276,534
Subtotal.....	<u>6,862,963</u>	<u>3,276,833</u>	<u>2,963,153</u>	<u>7,176,643</u>
<b>Depreciable and Amortizable Capital Assets:</b>				
Land improvements.....	882,044	81,266	6,817	956,493
Buildings and building improvements.....	7,511,972	189,398	18,713	7,682,657
Machinery and equipment.....	1,419,292	92,637	34,859	1,477,070
Highway infrastructure.....	27,404,003	1,743,022	878	29,146,147
Bridge infrastructure.....	13,586,165	660,265	8,213	14,238,217
Waterway infrastructure.....	26,661	636	-	27,297
Other infrastructure.....	197,426	16,851	-	214,277
Software.....	428,680	148,267	2,498	574,449
Other intangibles.....	2,685	231	2,716	200
Subtotal.....	<u>51,458,928</u>	<u>2,932,573</u>	<u>74,694</u>	<u>54,316,807</u>
<b>Less accumulated depreciation and amortization for:</b>				
Land Improvements.....	372,944	27,444	6,796	393,592
Buildings and building improvements.....	3,048,268	166,986	18,695	3,196,559
Machinery and equipment.....	816,890	116,014	30,956	901,948
Highway infrastructure.....	15,218,637	1,108,173	440	16,326,370
Bridge infrastructure.....	3,558,385	363,793	2,283	3,919,895
Waterway infrastructure.....	3,928	544	-	4,472
Other infrastructure.....	55,974	10,246	-	66,220
Software.....	186,090	47,936	947	233,079
Other intangibles.....	277	31	125	183
Subtotal.....	<u>23,261,393</u>	<u>1,841,167</u>	<u>60,242</u>	<u>25,042,318</u>
Total depreciable and amortizable capital assets, net.....	<u>28,197,535</u>	<u>1,091,406</u>	<u>14,452</u>	<u>29,274,489</u>
Total governmental activities capital assets, net.....	<u>\$ 35,060,498</u>	<u>\$ 4,368,239</u>	<u>\$ 2,977,605</u>	<u>\$ 36,451,132</u>

The decreases in construction in progress represent increases to all Capital Asset classes including Non-Depreciable assets such as Land and Highway right-of-way. For the fiscal year ending June 30, 2016, the amount of the decreases to construction in progress that resulted in increases to Land and Highway right-of-way totaled \$71,076.

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

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2016 is as follows:

	<b>Governmental Activities Capital Assets</b>	
Direction and supportive services.....	\$	63,917
Protection of persons and property.....		134,686
Public education.....		36,776
Health and human services.....		25,982
Economic development.....		251
Transportation.....		1,556,275
Recreation and cultural enrichment.....		23,280
Total depreciation and amortization expense.....	<u>\$</u>	<u>1,841,167</u>

Changes in business-type activities capital assets for the fiscal year ended June 30, 2016 are as follows:

	<u>Balance June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 158,805	\$ 20,648	\$ -	\$ 179,453
General construction in progress.....	27,116	30,737	31,470	26,383
Subtotal.....	<u>185,921</u>	<u>51,385</u>	<u>31,470</u>	<u>205,836</u>
<b>Depreciable and Amortizable Capital Assets:</b>				
Land Improvements.....	50,553	17,024	18	67,559
Buildings and building improvements.....	398,594	13,320	344	411,570
Machinery and equipment.....	176,465	12,396	3,576	185,285
Software.....	20,076	3,274	10,255	13,095
Other intangibles.....	-	-	-	-
Subtotal.....	<u>645,688</u>	<u>46,014</u>	<u>14,193</u>	<u>677,509</u>
<b>Less accumulated depreciation and amortization for:</b>				
Land Improvements.....	9,072	2,988	5	12,055
Buildings and building improvements.....	175,759	15,568	243	191,084
Machinery and equipment.....	122,649	13,601	3,421	132,829
Software.....	10,313	423	10,255	481
Other intangibles.....	-	-	-	-
Subtotal.....	<u>317,793</u>	<u>32,580</u>	<u>13,924</u>	<u>336,449</u>
Total depreciable and amortizable capital assets, net.....	<u>327,895</u>	<u>13,434</u>	<u>269</u>	<u>341,060</u>
Total business-type activities capital assets, net.....	<u>\$ 513,816</u>	<u>\$ 64,819</u>	<u>\$ 31,739</u>	<u>\$ 546,896</u>

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

Construction in progress included in governmental activities capital assets at June 30, 2016 includes project information as follows:

	<u>Project Authorization</u>	<u>Amounts Expended at June 30, 2016</u>	<u>Authorization Available</u>
General Construction in Progress:			
Capitol Complex.....	\$ 527,895	\$ 81,924	\$ 445,971
Department of Corrections Institutions.....	510,796	430,735	80,061
Educational Institutions.....	777,728	159,502	618,226
Environmental Protection.....	22,949	4,801	18,148
State Parks and Forests.....	267,301	50,252	217,049
Veterans Homes and Military Armories.....	118,353	21,077	97,276
Department of Human Services Institutions.....	101,527	46,554	54,973
Transportation Facilities.....	195,937	48,082	147,855
Historical and Museum Commission Facilities.....	54,797	11,496	43,301
State Police Facilities.....	85,451	23,199	62,252
Agriculture Facilities.....	115,598	537	115,061
Department of Labor and Industry Software.....	3,561	2,182	1,379
Other.....	278,406	83,112	195,294
Total general construction in progress.....	<u>3,060,299</u>	<u>963,453</u>	<u>2,096,846</u>
Highway and Bridge Construction in Progress:.....	5,101,591	3,276,534	1,825,057
Total construction in progress.....	<u>\$ 8,161,890</u>	<u>\$ 4,239,987</u>	<u>\$ 3,921,903</u>

The Commonwealth’s initial valuation of governmental activities capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, governmental activities capital asset acquisitions are reported at cost or, for donations or confiscations, at fair value. At June 30, 2016 the remaining amount of governmental activities capital assets related to the initial June 30, 1986 valuation amounted to \$1,528,900. 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 \$1,542,123 of the **Tuition Payment Fund**, an enterprise fund, at June 30, 2016 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 7.00%.

Changes in tuition benefits payable are as follows:

Balance at July 1, 2015	Additions	Reductions	Balance at June 30, 2016	Current	Non Current
				Due within One Year	Due after One Year
\$ 1,540,315	\$ 205,723	\$ 203,915	\$ 1,542,123	\$ 259,423	\$ 1,282,700

**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 percent at December 31, 2015 and December 31, 2014. 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, 2015 and 2014, 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	
2015	\$1,593,984	\$276,464	(\$14,287)	\$48,555	\$203,502	\$1,604,104
2014	1,577,783	224,392	44,946	43,414	209,723	\$1,593,984

The current portion of the total **SWIF** insurance loss liability is \$228,402 and the noncurrent portion is \$1,375,702. Additionally, nonmajor enterprise funds reported a noncurrent insurance loss liability of \$580 at June 30, 2016. Total reported current insurance loss liability amounts to \$228,402 and total noncurrent insurance loss liability amounts to \$1,376,282 at June 30, 2016.

**Compensated Absences Liability**

The reported compensated absences liability for the enterprise funds totaled \$35,775 at June 30, 2016. Of that amount, the liability is primarily owed by the State Stores Fund (\$27,519), the **SWIF** (\$2,134), and the **State Lottery Fund** (\$2,929). The following summary provides aggregated information reported for June 30, 2016 compensated absences liabilities; additions and reductions during the fiscal year ended June 30, 2016 and reported compensated absences liabilities at June 30, 2016:

Liability at June 30, 2015	Additions	Reductions	Liability at June 30, 2016
\$ 37,418	\$ 24,532	\$ 26,175	\$ 35,775

The current portion of the total compensated absences liability for enterprise funds is \$7,128; the noncurrent portion is \$28,647.

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, 2016 and changes during the fiscal year ended June 30, 2016 are as follows:

REVENUE BONDS PAYABLE	Issue	Interest	Maturity	Balance	Additions	Reductions	Balance
	Dates	Rates	Dates Through	July 1, 2015			June 30, 2016
Philadelphia Regional Port Authority.....	2008	3.00-5.00%	2021	\$ 23,885	\$ -	\$ 3,500	\$ 20,385
Unemployment Compensation Fund.....	2012	1.00-5.00%	2024	2,230,245	-	355,855	1,874,390
Commonwealth Financing Authority.....	2005-13	0.55-6.40%	2042	1,637,350	-	66,225	1,571,125
Total principal obligations.....				3,891,480	-	425,580	3,465,900
Less: unamortized bond discount.....				(909)		(58)	(851)
Add: unamortized bond premium.....				292,325	-	75,640	216,685
TOTAL REVENUE BONDS PAYABLE.....				\$ 4,182,896	\$ -	\$ 501,162	\$ 3,681,734

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

	2017	2018	2019	2020	2021	2022-26	2027-31
Philadelphia Regional Port Authority.....	\$ 4,607	\$ 4,609	\$ 4,605	\$ 4,607	\$ 4,607	\$ -	\$ -
Unemployment Compensation Fund.....	397,049	316,109	327,959	331,792	332,856	491,737	-
Commonwealth Financing Authority....	151,893	151,723	151,532	151,341	150,166	731,535	444,972
Total Principal and Interest.....	553,549	472,441	484,096	487,740	487,629	1,223,272	444,972
Less: Interest Payments.....	(169,844)	(153,331)	(137,200)	(119,765)	(101,519)	(294,012)	(170,892)
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 383,705	\$ 319,110	\$ 346,896	\$ 367,975	\$ 386,110	\$ 929,260	\$ 274,080

	2032-36	2037-41	2042	Total
Philadelphia Regional Port Authority.....	\$ -	\$ -	\$ -	\$ 23,035
Unemployment Compensation Fund.....	-	-	-	2,197,502
Commonwealth Financing Authority....	383,529	180,770	13,792	2,511,253
Total Principal and Interest.....	383,529	180,770	13,792	4,731,790
Less: Interest Payments.....	(93,474)	(25,196)	(657)	(1,265,890)
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 290,055	\$ 155,574	\$ 13,135	\$ 3,465,900



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

**Demand bonds payable**

On October 18, 2012 the Department of Labor and 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 0.073%. The payment of the principal and Tender Price of and interest on the Series C Bonds were secured by a direct-pay letter of credit (LOC) issued by the bank that expired on July 1, 2015, in conjunction with the redemption of the remainder of all Series C Bonds outstanding.

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Bonds payable:				
UC variable rate demand revenue bonds Series C due 2024 at weighted-average rates of 0.88% as of June 30, 2016	\$ 9,565	\$ -	\$ 9,565	\$ -

NOTE G - RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES

Taxes Receivable: Taxes receivable, by tax type, reported on the statement of net position at June 30, 2016 consisted of the following:

	Statement of Net Position		
	Governmental Activities		
	Current	Noncurrent	Total
Sales and use.....	\$ 800,418	\$ 103,787	\$ 904,205
Personal income....	626,922	596,488	1,223,410
Corporation.....	242,798	337,558	580,356
Liquid fuels.....	277,163	-	277,163
Inheritance.....	334,902	106,529	441,431
Cigarette.....	50,288	-	50,288
Other.....	41,158	-	41,158
Total.....	<u>\$ 2,373,649</u>	<u>\$ 1,144,362</u>	<u>\$ 3,518,011</u>

Taxes receivable reported on the governmental funds balance sheet and the statement of fiduciary net position at June 30, 2016 consisted of the following:

	Balance Sheet-Governmental Funds				Motor License Fund	Nonmajor Governmental Funds	Statement of Fiduciary Net Position	
	General Fund						Fiduciary Funds	
	Expected to be Collected:						Collected by	Collected by
	From						August 31, 2016	August 31, 2016
	By	through	After	Total			Collected by	
	August 31, 2016	June 30, 2017	June 30, 2017		August 31, 2016	August 31, 2016	August 31, 2016	
Sales and use.....	\$ 684,227	\$ 116,191	\$ 103,787	\$ 904,205	\$ -	\$ -	\$ 45,385	
Personal income...	323,914	303,008	596,488	1,223,410	-	-	-	
Corporation.....	68,426	174,372	337,558	580,356	-	-	-	
Liquid fuels.....	-	-	-	-	277,163	-	-	
Inheritance.....	162,267	172,635	106,529	441,431	-	-	-	
Cigarette.....	50,288	-	-	50,288	-	-	347	
Other.....	7,206	-	-	7,206	-	33,952	1,787	
Total.....	<u>\$ 1,296,328</u>	<u>\$ 766,206</u>	<u>\$ 1,144,362</u>	<u>\$ 3,206,896</u>	<u>\$ 277,163</u>	<u>\$ 33,952</u>	<u>\$ 47,519</u>	

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$1,910,568 expected to be collected after August 31, 2016 is reported as deferred inflows of resources. The total amount of taxes receivable reported on the governmental funds balance sheet, \$2,373,649 (\$2,062,534 reported in the **General Fund**, \$277,163 reported in the **Motor License Fund**, and \$33,952 reported in nonmajor governmental funds), expected to be collected from July 1, 2016 through June 30, 2017 is also reported as current taxes receivable in governmental activities on the statement of net position. The remaining **General Fund** taxes receivable of \$1,144,362 reported on the governmental funds balance sheet expected to be collected after June 30, 2017 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 – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)

Loans Receivable: Loans receivable at June 30, 2016 consisted of the following:

	Governmental Activities	Business Type Activities	
		Commonwealth Financing Authority	Nonmajor Enterprise Funds
Economic development loans.....	\$ 66,440	\$ 302,437	\$ 91,918
Volunteer fire, ambulance and rescue company loans.....	-	-	74,940
Environmental program loans.....	3,599	-	-
School district loans.....	20,000	-	-
Other notes and loans.....	110	-	-
	<u>90,149</u>	<u>302,437</u>	<u>166,858</u>
Less: allowance for uncollectible amounts.....	(13,278)	(10,668)	(6,501)
Loans receivable, net.....	<u>\$ 76,871</u>	<u>\$ 291,769</u>	<u>\$ 160,357</u>

The **General Fund** reported \$67,536 in loans due after June 30, 2017, the **Commonwealth Financing Authority** (a blended component unit) reported \$272,495 in loans due after June 30, 2017, and nonmajor enterprise funds reported \$137,523 in loans due after June 30, 2017.

**Uncollectible Receivables:** On the statement of revenues, expenses and changes in net position-proprietary funds, the **State Workers' Insurance Fund** reports sales and services net of \$11,522 in uncollectible amounts.

**Governmental Funds Unearned Revenue:** The **General Fund**, the **Motor License Fund**, and several nonmajor special revenue and debt service funds reported unearned revenue. The following chart provides the portion of total revenue which was not yet earned as of June 30, 2016:

	General Fund	Motor License Fund	Nonmajor Funds	Total Governmental Funds
Unearned revenue.....	\$ 28,546	\$ 8,819	\$ 86,357	\$ 123,722

**Deferred Outflows of Resources and Deferred Inflows of Resources:** On the statement of net position, governmental activities and business-type activities reported both deferred outflows of resources and deferred inflows of resources at June 30, 2016. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2016:

	Total Governmental Activities	Total Business-type Activities
<b>Deferred Outflows of Resources</b>		
Refundings of debt.....	\$ 933	\$ 3,078
Pension related:		
Contributions subsequent to measurement date.....	615,311	24,939
Differences between expected and actual experience.....	292,712	12,973
Net difference between projected and actual earnings on plan investments.....	1,471,921	65,234
Changes of assumptions.....	429,492	19,034
Changes in proportion.....	188,784	7,773
Differences between employer contributions and proportionate share.....	21,317	964
<b>Total deferred outflows of resources.....</b>	<u>\$ 3,020,470</u>	<u>\$ 133,995</u>
<b>Deferred Inflows of Resources</b>		
Refundings of debt.....	\$ 193,927	\$ -
Pension related:		
Differences between expected and actual experience.....	1,038	-
Net difference between projected and actual earnings on plan investments.....	509	-
Changes in proportion.....	165,554	8,207
Differences between employer contributions and proportionate share.....	16,001	707
<b>Total deferred inflows of resources.....</b>	<u>\$ 377,029</u>	<u>\$ 8,914</u>

NOTE G – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)

On the balance sheet for governmental funds, the **General Fund**, the **Motor License Fund** and several nonmajor special revenue funds reported unavailable revenue as deferred inflows of resources. The following chart provides, per receivable, the amounts expected to be collected after August 31, 2016 which are reported as deferred inflows of resources:

	General Fund	Motor License Fund	Nonmajor Funds	Total Governmental Funds
<b>Expected to be collected after August 31, 2016:</b>				
Taxes receivable.....	\$ 1,910,568	\$ -	\$ -	\$ 1,910,568
Accounts receivable.....	740,446	-	171,465	911,911
Due from federal government.....	287,768	-	-	287,768
Miscellaneous receivables.....	234	268	24	526
<b>Total deferred inflows of resources.....</b>	<b>\$ 2,939,016</b>	<b>\$ 268</b>	<b>\$ 171,489</b>	<b>\$ 3,110,773</b>

On the statement of net position-proprietary funds, the **State Workers' Insurance Fund**, the **State Lottery Fund**, the **Commonwealth Financing Authority**, (a blended component unit), each respectively a major fund, various nonmajor proprietary funds and the internal service funds reported deferred outflows of resources and deferred inflows of resources at June 30, 2016. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2016:

	State Workers' Insurance Fund	State Lottery Fund	Commonwealth Financing Authority	Nonmajor Funds	Total Proprietary Funds	Internal Service Funds
<b>Deferred Outflows of Resources</b>						
Refundings of debt.....	\$ -	\$ -	\$ 1,980	\$ 1,098	\$ 3,078	\$ -
Pension related:						
Contributions subsequent to measurement date.....	-	2,487	-	22,452	24,939	2,211
Differences between expected and actual experience....	861	1,222	-	10,890	12,973	1,086
Net difference between projected and actual earnings on plan investments.....	4,332	6,144	-	54,758	65,234	5,462
Changes of assumptions.....	1,264	1,793	-	15,977	19,034	1,593
Changes in proportion.....	528	748	-	6,497	7,773	666
Differences between employer contributions and proportionate share.....	63	89	-	812	964	79
<b>Total deferred outflows of resources.....</b>	<b>\$ 7,048</b>	<b>\$ 12,483</b>	<b>\$ 1,980</b>	<b>\$ 112,484</b>	<b>\$ 133,995</b>	<b>\$ 11,097</b>
<b>Deferred Inflows of Resources</b>						
Pension related:						
Changes in proportion.....	\$ 487	\$ 691	\$ -	\$ 7,029	\$ 8,207	\$ 614
Differences between employer contributions and proportionate share.....	47	66	-	594	707	59
<b>Total deferred inflows of resources.....</b>	<b>\$ 534</b>	<b>\$ 757</b>	<b>\$ -</b>	<b>\$ 7,623</b>	<b>\$ 8,914</b>	<b>\$ 673</b>

**NOTE G – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)**

On the statement of fiduciary net position, the pension (and other employee benefit) trust funds reported deferred outflows of resources and deferred inflows of resources at June 30, 2016. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2016:

<u>Deferred Outflows of Resources</u>	<u>Pension (and Other Employee Benefit) Trust Funds</u>
Pension related:	
Contributions subsequent to measurement date.....	\$ 2,432
Differences between expected and actual experience....	1,132
Net difference between projected and actual earnings on plan investments.....	5,694
Changes of assumptions.....	1,661
Changes in proportion.....	311
Differences between employer contributions and proportionate share.....	94
<b>Total deferred outflows of resources.....</b>	<b>\$ 11,324</b>
<u>Deferred Inflows of Resources</u>	
Pension related:	
Changes in proportion.....	\$ 1,233
Differences between employer contributions and proportionate share.....	35
<b>Total deferred inflows of resources.....</b>	<b>\$ 1,268</b>

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Position

Internal Balances

In the statement of net position, reported internal balances of (\$1,729)/\$1,625 for governmental activities/business-type activities differ by (\$104) because the **State Workers' Insurance Fund**, an enterprise fund, reports for its fiscal year ended December 31, 2015.

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2016 is as follows, with major fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$96,363 and \$378; aggregate nonmajor enterprise funds receivables from other funds amount to \$12,441; aggregate internal service funds receivables from other funds and from component units, respectively, amount to \$44,224 and \$149:

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER	COMPONENT	OTHER	COMPONENT
	FUNDS	UNITS	FUNDS	UNITS
<b>General Fund</b> .....	\$ 290,966	\$ 191,700	\$ 273,529	\$ 283
<u>Special Revenue:</u>				
<b>Motor License Fund</b> .....	13,245	15	63,511	12,650
Tobacco Settlement Fund.....	1	-	219,609	-
Public Transportation Trust Fund.....	48,720	-	34	-
Gaming Fund.....	14	-	6,977	16,282
State Farm Products Show Fund.....	3,112	-	100	-
Emergency Medical Services Operating Fund.....	2,078	-	-	-
Agricultural Conservation Easement Purchase Fund.....	12,743	-	-	-
Marcellus Shale Fund.....	-	-	22,096	-
Multimodal Transportation Fund.....	-	-	27,834	-
Other Funds.....	9,606	-	13,781	267
Special Revenue subtotal.....	89,519	15	353,942	29,199
<u>Debt Service:</u>				
PA Infrastructure Investment Authority Redemption Fund.....	-	378	-	-
Capital Debt Fund.....	-	-	7,516	-
Growing Greener Bond Sinking Fund.....	1,295	-	-	-
Debt Service subtotal.....	1,295	378	7,516	-
<u>Capital Projects:</u>				
Capital Facilities Fund.....	541	-	6,508	-
Keystone Recreation, Park and Conservation Fund.....	9,132	-	62	-
Water Supply and Wastewater Treatment Fund.....	-	-	337	-
Public Transportation Assistance Fund.....	9,121	-	976	-
Capital Projects subtotal.....	18,794	-	7,883	-
<u>Enterprise:</u>				
<b>Unemployment Compensation Fund</b> .....	2,565	521	2,368	-
<b>State Lottery Fund</b> .....	12,920	-	16,963	-
<b>Tuition Payment Fund</b> .....	-	-	2	-
<b>Commonwealth Financing Authority</b> .....	51,606	-	650	-
State Stores Fund.....	87	-	10,516	-
Rehabilitation Center Fund.....	5,514	-	400	-
Philadelphia Regional Port Authority.....	6,826	-	87	-
Other Funds.....	14	-	74	22
Enterprise subtotal.....	79,532	521	31,060	22
<u>Internal Service:</u>				
Purchasing Fund.....	38,932	143	2,489	3
Manufacturing Fund.....	5,292	6	403	-
Internal Service subtotal.....	44,224	149	2,892	3

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

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
	<u>Fiduciary - Pension Trust:</u>			
State Employees' Retirement System.....	17,608	41,145	-	-
Deferred Compensation Fund.....	-	-	132	-
Public School Employees' Retirement System.....	5,119	-	2,022	-
Fiduciary - Pension Trust subtotal.....	22,727	41,145	2,154	-
Total primary government.....	\$ 547,057	\$ 233,908	\$ 678,976	\$ 29,507

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM		DUE TO	
	PRIMARY GOVERNMENT	COMPONENT UNITS	PRIMARY GOVERNMENT	COMPONENT UNITS
	<u>Pennsylvania Turnpike Commission.....</u>			
	\$ 11,270	\$ -	\$ -	\$ -
<u>Pennsylvania Housing Finance Agency.....</u>				
	-	129	16	52
<u>Pennsylvania Higher Education Assistance Agency.....</u>				
	52	-	475	-
<u>Pennsylvania Infrastructure Investment Authority.....</u>				
	15,000	52	191,513	129
<u>State System of Higher Education.....</u>				
	523	-	371	-
<u>Pennsylvania Convention Center Authority.....</u>				
	1,233	-	-	-
<u>Pennsylvania eHealth Partnership Authority.....</u>				
	-	-	56	-
<u>Other component units.....</u>				
	50	-	264	-
Total component units.....	\$ 28,128	\$ 181	\$ 192,695	\$ 181

The amount of total reported interfund receivables of \$809,274 does not agree with total reported interfund payables of \$901,359 at June 30, 2016 due to different fiscal year ends and reporting differences for certain funds included in the fund financial statements at June 30, 2016. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2016; 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, 2015. The following presents a reconciliation of interfund balances reported at June 30, 2016 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.....	\$ 398,881	\$ 118,024	\$ 19,665	\$ -	\$ 536,570
Due from pension trust funds.....	1,693	5,732	3,062	-	10,487
Due from component units.....	192,093	670	41,145	181	234,089
Due from primary government.....	-	-	-	28,128	28,128
Total.....	\$ 592,667	\$ 124,426	\$ 63,872	\$ 28,309	\$ 809,274
<b>Reported Interfund Receivables.....</b>					\$ 809,274
State Employees' Retirement System decrease in receivables from January 1, 2016 through June 30, 2016.....					(14,995)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2016 through June 30, 2016.....					1,380
<b>State Workers' Insurance Fund increase in receivables from January 1, 2016 through June 30, 2016.....</b>					210
Interfund receivables reported as taxes receivable and accounts receivable by fiduciary funds.....					60,326
Payroll accrual at June 30, 2016 - receivables attributable to State Employees' Retirement System.....					52,148
<b>Reconciled Interfund Receivables.....</b>					\$ 908,343

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

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 485,226	\$ 31,553	\$ 1,194	\$ -	\$ 517,973
Due to pension trust funds.....	157,644	2,399	960	-	161,003
Due to component units.....	29,482	25	-	181	29,688
Due to primary government.....	-	-	-	192,695	192,695
Total.....	<u>\$ 672,352</u>	<u>\$ 33,977</u>	<u>\$ 2,154</u>	<u>\$ 192,876</u>	<u>\$ 901,359</u>

Reported Interfund Payables.....	\$ 901,359
State Employees' Retirement System increase in payables from January 1, 2016 through June 30, 2016.....	1,359
Deferred Compensation Fund decrease in payables from January 1, 2016 through June 30, 2016.....	(132)
Pennsylvania Turnpike Commission increase in payables from June 1, 2016 through June 30, 2016.....	129
State Workers' Insurance Fund increase in payables from January 1, 2016 through June 30, 2016.....	336
Interfund payables reported as accounts payable by fiduciary funds.....	5,292
Reconciled Interfund Payables.....	<u>\$ 908,343</u>

Advances – Fund Financial Statements

At June 30, 2016, the **General Fund** reported Advances to Other Funds of \$59,475. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund (SWIF)** and \$50,000 to the **State Lottery Fund**, enterprise funds; \$2,175 to the **Motor License Fund** and \$5,000 to the State Farm Show Products Show 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 \$2,322 at its fiscal year ended December 31, 2015. At June 30, 2016 the Workers' Compensation Security Fund and the Workers' Compensation Administration Fund, special revenue funds, reported Advances to Other Funds of \$750 and \$4,000, respectively; these amounts were advanced to the **General Fund** and the Uninsured Employers Guaranty Fund, a special revenue fund. The advances to the **State Lottery Fund** and the State Farm Products Show Fund, in the amounts \$50,000 and \$5,000, respectively, are expected to be repaid during the fiscal year ending June 30, 2017. The Underground Storage Tank Indemnification Fund, an agency fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2016; a \$7,000 repayment is expected to occur during the fiscal year ending June 30, 2017.

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2016 is as follows, with major fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,572,840 during the fiscal year ended June 30, 2016; aggregate nonmajor governmental fund transfers to other funds amounted to \$972,296. Aggregate nonmajor proprietary fund transfers from other funds amounted to \$62,616, while aggregate nonmajor proprietary fund transfers to other funds amounted to \$103,328.

As authorized by Act 89 of 2013, the Capital Facilities Fund, a capital projects fund, transferred general obligation bond proceeds in the amount \$195,000 to the **Motor License Fund**.



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

	TRANSFERS	
	IN	OUT
<b>PRIMARY GOVERNMENT</b>		
General Fund.....	\$ 480,332	\$ 1,269,413
Special Revenue:		
Motor License Fund.....	212,124	73,963
Workers' Compensation Administration Fund.....	2	6,100
Public Transportation Trust Fund.....	116,063	30,000
Gaming Fund.....	-	348,927
Environmental Stewardship Fund.....	26,787	48,499
Vocational Rehabilitation Fund.....	45,473	-
Agricultural Conservation Easement Purchase Fund.....	10,901	-
State Farm Products Show Fund.....	5,000	-
Recycling Fund.....	1,000	-
Oil and Gas Lease Fund.....	-	102,957
Hazardous Sites Cleanup Fund.....	8,393	5,000
Uninsured Employers Guaranty Fund.....	6,100	2
Marcellus Shale Fund.....	25,000	83,976
Insurance Regulation and Oversight Fund.....	-	13,000
State Racing Fund.....	6,774	-
Fish and Boat Fund.....	1,500	-
Multimodal Transportation Fund.....	30,000	56,576
Other Funds.....	-	476
Special Revenue subtotal.....	495,117	769,476
Debt Service:		
Pennsylvania Infrastructure Investment Authority Redemption Fund.....	4,891	-
Capital Debt Fund.....	1,207,481	-
Growing Greener Bond Sinking Fund.....	37,598	-
Water and Sewer Assistance Bond Sinking Fund.....	24,738	-
Water Supply and Wastewater Treatment Sinking Fund.....	14,707	-
Persian Gulf Veterans' Compensation Bond Sinking Fund.....	432	-
Debt Service subtotal.....	1,289,847	-
Capital Projects:		
Capital Facilities Fund.....	-	256,016
Water Supply and Wastewater Treatment Fund.....	-	611
Public Transportation Assistance Fund.....	-	20,156
Capital Projects subtotal.....	-	276,783
Enterprise:		
Unemployment Compensation Fund.....	-	59,838
State Lottery Fund.....	166,800	270,907
Commonwealth Financing Authority.....	255,033	-
State Stores Fund.....	-	103,328
Philadelphia Regional Port Authority.....	62,616	-
Enterprise subtotal.....	484,449	434,073
Total transfers, fund financial statements.....	2,749,745	2,749,745
Less: net elimination of governmental fund transfers.....	(2,699,369)	(2,699,369)
Total transfers, Statement of Activities.....	\$ 50,376	\$ 50,376

**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, 2016 (May 31, 2016 for Pennsylvania 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) .....	\$ 553,753
Pennsylvania Higher Education Assistance Agency (grants) .....	326,359
Pennsylvania Turnpike Commission (capital contributions) .....	147,803
Pennsylvania Infrastructure Investment Authority (operating revenues; capital contributions) .....	23,940
Pennsylvania Housing Finance Agency (program income and fees; other liabilities) .....	19,194

**Nonmajor Discretely Presented Component Units**

During the fiscal year ended June 30, 2016, 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 .....	12,949
eHealth Partnership Authority.....	1,500
Port of Pittsburgh Commission.....	750

**Financial Support Provided to the Commonwealth**

During its fiscal year ended May 31, 2016, the Pennsylvania Turnpike Commission incurred additional debt in order to provide \$450,000 to the Public Transportation Trust Fund under the statutory provisions of Act 89 of 2013, Act 44 of 2007, and the related Lease and Funding Agreement between the Pennsylvania Turnpike Commission and the Commonwealth. Under the provisions of Act 89 of 2013, the Commonwealth subsequently transferred \$30,000 from the Public Transportation Trust Fund to the Multimodal Transportation Fund.

**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.pa.gov](http://www.sers.pa.gov) 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, 2015 there were 104 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 three 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 three 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% of their final average salary instead of the previous 2.5%. The new vesting period changed from five to 10 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% 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% of salary for 25 or more years of service and 50% of salary for 20-24.99 years of service. Judges are entitled to a benefit of 4% of final average salary for each of the first 10 years of service and 3% for subsequent years. District Justices are entitled to a benefit of 3% 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% of the final average salary for each year of service. The general annual benefit for full retirement for Class A members is 2% 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% of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5%.

**Contribution Requirements:** Commonwealth law establishes the funding policy for all members' contribution rates. The active plan member contribution rate is 6.25% of covered payroll for employees in Class AA; for Class A members, the contribution rate is 5%. The general membership contribution rate under Act 120 for A-3 and A-4 members is 6.25% and 9.3% 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. The collar for the fiscal year ended June 30, 2016 is 4.5% and will remain at that rate until no longer needed. Contributions to the SERS from the Commonwealth, including PRPA (a blended component unit) were \$1,222,732 for the year ended June 30, 2016.

**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. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide contributions. 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. U.S. government securities, corporate and foreign bonds and notes, and common and preferred stocks 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, or valued by valuation committees.

The investments in short-term funds, including those managed by the Treasury Department, 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.

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 are valued by the investment manager using discounted cash flows, recent comparable sales and current market conditions to arrive at net asset value. Net asset value approximates fair value. Real estate funds estimated fair values are updated by routine independent appraisals by appraisers who meet specific professional qualifications. The appraisal process involves significant judgment and estimating; thus the value upon sale of an asset may differ from its appraised value. Alternative investment and real estate limited partnerships are valued at net asset value, which are determined by the general partners using processes that have been reviewed and approved by valuation committees. The partnerships' investments, as well as the assumptions and estimates used in developing the net asset values, approximate fair value. Because the investments in such partnerships are generally illiquid and the holding period may last for several years, the value realized by SERS upon disposition may differ materially from estimated values reflected in the financial statements.

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.

**Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:**

At June 30, 2016, the Commonwealth reported a total net pension liability of \$15,097,007 for its participation in the SERS. The net pension liability attributed to participation in the SERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commonwealth's proportion of the SERS net pension liability was based on a projection of the Commonwealth's long-term share of contributions to the pension plan relative to the projected contributions of all participating SERS employers, actuarially determined. At December 31, 2015, the Commonwealth's reported proportionate share of the SERS net pension liability was 83.05%, which was an increase of .11% from its proportion measured as of December 31, 2014.

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

As of June 30, 2016, the Commonwealth recognized pension expense of \$2,014,542, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS (December 31, 2015)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience.....	\$ 305,685	\$ -
Differences between employer contributions and proportionate share.....	22,281	16,547
Net difference between projected and actual earnings on plan investments.....	1,537,155	-
Changes of assumptions.....	448,527	-
Changes in proportion.....	187,026	173,761
Contributions subsequent to measurement date.....	620,762	-
<b>Total.....</b>	<b>\$ 3,121,436</b>	<b>\$ 190,308</b>

The \$620,762 reported as deferred outflows of resources related to pensions resulting from Commonwealth contributions to SERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>SERS (December 31, 2015)</u>
2017.....	\$ 592,990
2018.....	592,990
2019.....	592,990
2020.....	497,351
2021.....	34,045

Actuarial Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th Investigation of Actuarial Experience study for the period 2011 – 2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability.

Economic assumption recommendations resulting from the experience study included: keeping the targeted investment return rate assumption at 7.5%; keeping the inflation rate at 2.75%; keeping the general salary growth rate at 3.05%; and decreasing career salary growth rates, by varying amounts depending upon the employee’s length of service at all service levels. In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation.

Most demographic assumptions remained the same as or similar to experience over the last five years. However, the experience study did recommend changing some assumptions, which are highlighted as follows. The study recommended decreasing disability retirement rates for all active members. Additionally, it recommended adjusting superannuation separation rates, early retirement separation rates, and withdrawal rates for certain active member groupings (gender, age, years of service) in both the general and special membership classes. Furthermore, it recommended decreasing most annuitant and survivor mortality rates.

The board adopted the actuarial assumptions set forth in the 18th Investigation of Actuarial Experience at its March 2016 meeting. The study can be viewed at [www.sers.pa.gov](http://www.sers.pa.gov).

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

The following methods and assumptions were used in the actuarial valuation for the December 31, 2015, measurement date:

Actuarial Cost Method	Entry age
Amortization Method	Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.50% net of expenses including inflation
Projected salary increases	Average of 5.70% with range of 3.85% to 9.05% including inflation
Asset valuation method	Fair (market) value
Inflation	2.75%
Mortality Rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
Cost of living adjustments	Ad hoc

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class in SERS current and target asset allocation as of December 31, 2015, are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Alternative investments.....	15.00%	8.50%
Global public equity.....	40.00%	5.40%
Real assets.....	17.00%	4.95%
Diversifying assets.....	10.00%	5.00%
Fixed income.....	15.00%	1.50%
Liquidity reserve.....	3.00%	0.00%
<b>Total.....</b>	<b>100.00%</b>	

Discount rate

The SERS discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, the SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

The following chart presents the Commonwealth's proportionate share of the SERS net pension liability using the discount rate of 7.5%, as well as what the Commonwealth's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) higher than the current rate.

	<u>1 Percent Decrease</u> <u>(6.50%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.50%)</u>	<u>1 Percent Increase</u> <u>(8.50%)</u>
SERS (December 31, 2015).....	\$ 18,759,122	\$ 15,097,007	\$ 11,965,610

Payables to the Pension Plan

For the fiscal year ended June 30, 2016, the Commonwealth reported an accounts payable for the employer's share of retirement contributions to the SERS in the amount of \$54,523.

Separately Financed Specific Liabilities

As part of collective bargaining arbitration, State Police Officers, Park Rangers and Capitol Police Officers were awarded a retroactive change to the calculation of their retirement benefits. State Police Officers employed at any time on or after July 1, 1989 and retired with less than 20 years of service, have their retirement based on their current class of service. State Police Officers that retire with more than 20 but less than 25 years, their retirement will be based on 50% of their highest year's earnings, excluding the year in which they retire. State Police Officers that continue to work and retire with more than 25 years of service, their retirement will be based on 75% of their highest year's earnings, excluding the year in which they retire. At December 31, 1992, Park Rangers and Capitol Police Officers became eligible to retire at age 50 upon attaining 20 years of service. This favorable change to the retirement benefit provisions created an increase in the Commonwealth's total pension liability and is reported as a past service liability component of the total pension liability. For the fiscal year ended June 30, 2016, the past service liability for the State Police was \$246,357 and the past service liability for the Park Rangers and Capitol Police Officers was \$1,045.

**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, 2016 there were 781 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 of 2010 (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% or 2.5%, 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.

**Contribution Requirements:** 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

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

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 resulting in a special funding situation. Contributions to the PSERS from the Commonwealth were \$19,017 for the year ended June 30, 2016.

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

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

- Membership Class T-E rates may increase or decrease by 0.5%, but will never go below 7.5% or above 9.5%
- Membership Class T-F rates may increase or decrease by 0.5%, but will never go below 10.3% or above 12.3%

Act 120 suppressed the employer contribution rate by using rate caps through June 30, 2016 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 year's rate. For the fiscal year ended June 30, 2016 and thereafter, the rate can increase no more than 4.5% plus the premium assistance contribution rate.

The rate cap remains at 4.5% 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.

**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, 2016 \$132,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 3, 2016. The line is payable at an interest rate equivalent to the London InterBank Offered Rate plus 85 basis points and is collateralized by certain fixed income investments of PSERS.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. 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.

The fair value of equity real estate, private equity, private debt, and venture capital are determined using the NAV per share (or its equivalent) of PSERS' ownership interest in partners' capital.



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

**Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:**

At June 30, 2016, the Commonwealth reported a liability of \$251,536 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commonwealth's proportion of the net pension liability was calculated by dividing the plan's total covered payroll by the sum of all employers' covered payroll. The Commonwealth remits directly to PSERS 50% of the employer contributions for employers other than school entities. At June 30, 2015 the Commonwealth's proportion was .58%, which was an increase of .02% from its proportion measured as of June 30, 2014.

As a result of its requirement to contribute to the PSERS, the Commonwealth recognized expense of \$25,151 for the year ended June 30, 2016. At June 30, 2016 the Commonwealth reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to the PSERS:

	<u>PSERS (June 30, 2015)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience.....	\$ -	\$ 1,038
Differences between employer contributions and proportionate share.....	-	161
Net difference between projected and actual earnings on plan investments.....	-	509
Changes in proportion.....	9,531	-
Contributions subsequent to measurement date.....	19,488	-
<b>Total.....</b>	<b>\$ 29,019</b>	<b>\$ 1,708</b>

**NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)****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 Employees Benefit 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 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, Judiciary, House, and Senate plans are established and may be amended by the establishing sponsor of the given OPEB plan. The RPSPP, under the terms of the collective bargaining agreement, cannot be amended for existing retirees. 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 employer 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, 2016, almost all employing agencies contributed \$418 (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. Most employees who retired after June 30, 2005 and before July 1, 2007 pay a retiree contribution of 1% 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% 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% of their final average salary. Upon enrollment in Medicare, Commonwealth employees who are currently paying 3% will pay retiree contributions of 1.5% 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, REHP Medicare-eligible members were enrolled in Medicare HMO or Medicare PPO medical plans. In January 2013, a Medicare Prescription Part D plan was implemented for all Medicare eligible members.

RPSPP employer contribution requirements are established by the Office of Administration and the Governor's Budget Office. During the fiscal year ended June 30, 2016 employing agencies contributed \$1,000 (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, 2016, the Commonwealth funded \$765,713 (estimated) and \$90,580 (estimated) 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, 2016, advance funding of \$50,000 for REHP was contributed to the Other Postemployment Benefits Investment Pool, a pension (and other employee benefit) trust fund. Neither the REHP nor the RPSPP annual required contribution has ever been fully funded. Policy on advance funding is evaluated annually.

NOTE I - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

As of and for the fiscal year ended June 30, 2016	REHP	RPSPP	Judiciary	House	Senate	Total
Annual required contributions.....	\$ 1,158.74	\$ 253.23	\$ 42.86	\$ 46.22	\$ 19.30	\$1,520.35
Interest on net OPEB obligation.....	103.90	43.52	6.92	9.87	3.78	167.99
Adjustment to annual required contribution..	(92.76)	(38.86)	(6.13)	(13.47)	3.05	(148.17)
Total Annual OPEB cost (expense).....	1,169.88	257.89	43.65	42.62	26.13	1,540.17
Qualifying contributions.....	(815.71)	(90.58)	(20.99)	(17.10)	(8.22)	(952.60)
Increase in net OPEB obligation.....	354.17	167.31	22.66	25.52	17.91	587.57
Net OPEB obligation, July 1, 2015.....	1,979.11	829.03	138.30	219.40	107.87	3,273.71
Net OPEB obligation, June 30, 2016.....	<u>\$ 2,333.28</u>	<u>\$ 996.34</u>	<u>\$ 160.96</u>	<u>\$ 244.92</u>	<u>\$ 125.78</u>	<u>\$3,861.28</u>

The net OPEB obligation attributable to REHP at June 30, 2016 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 reported as discretely presented component units. Percentage of annual OPEB cost contributed during the fiscal years ended June 30, 2016, 2015 and 2014 is as follows (amounts in millions):

	REHP	RPSPP	Judiciary	House	Senate	Total
<b>For the fiscal year ended June 30, 2016</b>						
Annual OPEB cost.....	\$1,169.88	\$ 257.89	\$ 43.65	\$ 42.62	\$ 26.13	\$ 1,540.17
Percentage of annual OPEB cost contributed.....	70%	35%	48%	40%	31%	62%
Net OPEB obligation.....	\$2,333.28	\$ 996.34	\$ 160.96	\$ 244.92	\$ 125.78	\$ 3,861.28
<b>For the fiscal year ended June 30, 2015</b>						
Annual OPEB cost.....	\$1,136.81	\$ 246.65	\$ 41.49	\$ 43.07	\$ 17.39	\$ 1,485.41
Percentage of annual OPEB cost contributed.....	70%	33%	58%	37%	39%	62%
Net OPEB obligation.....	\$1,979.11	\$ 829.03	\$ 138.30	\$ 219.40	\$ 107.87	\$ 3,273.71
<b>For the fiscal year ended June 30, 2014</b>						
Annual OPEB cost.....	\$ 898.33	\$ 217.49	\$ 40.55	\$ 40.48	\$ 16.32	\$ 1,213.17
Percentage of annual OPEB cost contributed.....	77%	35%	54%	35%	37%	67%
Net OPEB obligation.....	\$1,638.11	\$ 664.40	\$ 120.73	\$ 192.27	\$ 97.20	\$ 2,712.71

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.....	January 1, 2015	\$ 144.74	\$ 16,134.42	\$ 15,989.68	0.90%	\$ 4,289.10	373%
RPSPP.....	January 1, 2015	80.22	3,531.02	3,450.80	2.27%	394.33	875%
Judiciary.....	July 1, 2016	-	562.30	562.30	-	202.50	278%
House.....	July 1, 2014	-	415.27	415.27	-	95.30	436%
Senate.....	July 1, 2015	-	306.52	306.52	-	46.12	665%
<b>Total.....</b>		<u>\$ 224.96</u>	<u>\$ 20,949.53</u>	<u>\$ 20,724.57</u>		<u>\$ 5,027.35</u>	412%

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

The REHP and RPSPP data in the preceding charts was obtained from an actuarial valuation, prepared by an independent actuary, as of January 1, 2015 using census data collected as of December 2014 and health care claims costs for calendar year 2014. 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, 2015. 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:	Entry Age Normal Level Percent of Pay
Method used to determine actuarial value of assets:	Market Value
Investment returns:	5.25%
Inflation rate assumption:	2.75 %

Healthcare cost trend increases:	<u>Initial Rate</u>		<u>Ultimate Rate</u>	
	REHP	RPSPP	REHP	RPSPP
<u>Medicare-Retiree</u>				
Medical benefits (REHP)	4.9	--	4.0	--
<u>Non-Medicare Retiree</u>				
Medical benefits (REHP)	4.9	--	4.0	--
Medical benefits (RPSPP)	--	4.9	--	4.0
Pharmacy benefits	4.9	4.9	4.0	4.0
Dental benefits (RPSPP)	--	4.9	--	4.0
Part B premiums	--	4.9	--	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 the 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**

Due to budget impasse funding limitations, members of the Pennsylvania House of Representatives originated a non-revolving line of credit for \$30,000 for the purpose of paying operational expenses until the passage of the 2015-16 General Appropriations Act. On October 19, 2015 \$22,350 was made available for this use. The loan was repaid on January 5, 2016. The repayment consisted of the \$22,350 principal balance and \$108 in interest.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Advance	\$ -	\$ 22,350	\$ 22,350	\$ -

Due to budget impasse funding limitations, on October 21, 2015 members of the Pennsylvania Senate entered into an agreement to borrow funds for the purpose of paying the necessary operations of the Senate until the passage of the Fiscal Year 2015-16 General Appropriations Act. The loan was structured as a non-revolving line of credit with a limit of \$15,000. The loan was repaid on January 8, 2016. The repayment consisted of the \$15,000 principal balance and \$93 in interest.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Advance	\$ -	\$ 15,000	\$ 15,000	\$ -

On January 5, 2016 the Commonwealth initiated a Short Term Investment Agreement (Investment Agreement) between the Treasury Department’s Short Term Investment Pool (STIP) and the Office of the Budget for \$2,000,000. The Investment Agreement is structured as a revolving line of credit, which imposes a market based rate of return, for the exclusive purpose of providing revenue for the general purposes of the Commonwealth and such other expenses payable from the **General Fund**. The Investment Agreement will provide the benefit, consistent with the public interest, of an alternate means of financing short term revenue shortfalls and avoids unnecessary costs and fees otherwise associated with traditional short-term bond financing. An advance to the **General Fund** occurred on January 6, 2016 for \$1,000,000.

On March 22, 2016 the **General Fund** initiated the transfer of \$1,000,000 to the appropriate Treasury accounts to retire the outstanding advance on the Investment Agreement. Additionally, as per the Investment Agreement, it is calculated that the interest charge for the STIP Investment is \$1,317. The Investment Agreement expired on June 30, 2016.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Advance	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -

**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, 2016, as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
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

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

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, 2016 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total Other Financing Obligations</u>
2017.....	\$ 13,956
2018.....	13,956
2019.....	13,956
2020.....	18,726
2021.....	19,483
2022-26.....	76,913
2027-31.....	100,463
2032-36.....	127,640
2037-39.....	<u>77,151</u>
Total principal and interest.....	462,242
Less: interest .....	<u>(244,002)</u>
<b>Total Principal .....</b>	<b><u>\$ 218,240</u></b>

Total bond interest payments made during the fiscal year ended June 30, 2016 amounted to \$13,956 and were financed by \$9,072 from the City (in the form of an annual service fee), and \$4,884 from the U.S. Treasury (in the form of a Build America Bonds interest subsidy for Series B of the bonds).

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 \$330,000; a total of \$90,285 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 \$10,901; and the Commonwealth will appropriate a maximum amount of \$31,056 to be financed by the Gaming Fund under the provisions of Act 53 of 2007 to finance total bond principal and interest payments of \$462,242 at June 30, 2016. 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. No Gaming Fund payment was required for the fiscal year ended June 30, 2016.

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

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2016 and changes therein during the fiscal year ended June 30, 2016 are as follows:

GENERAL LONG-TERM OBLIGATIONS	Issue	Interest	Maturity	Bonds	Balance			Balance
	Dates	Rates	Dates	Authorized	July 1, 2015	Additions	Reductions	June 30, 2016
			Through	But Unissued				
General Obligation Bonds Payable From								
Tax Revenues:								
Capital Facilities.....	2006-15	3.00-5.85%	2035	\$ 114,175,374	\$ 7,794,345	\$ 355,000	\$ 997,900	\$ 7,151,445
Disaster Relief.....	-	-	-	105,908	-	-	-	-
Land and Water Development.....	-	-	-	300	-	-	-	-
Nursing Home Loan Development.....	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan.....	-	-	-	50,000	-	-	-	-
Vietnam Conflict Veterans								
Compensation.....	-	-	-	3,000	-	-	-	-
Water Facilities Loan.....	-	-	-	11,500	-	-	-	-
Pennsylvania Economic Revitalization.....	-	-	-	14,000	-	-	-	-
Pennsylvania Infrastructure								
Investment Authority.....	2006-13	3.00-5.85%	2033	51,600	499,525	-	40,620	458,905
Local Criminal Justice.....	2006-08	4.00-5.00%	2028	3,000	780	-	395	385
Water Supply and Wastewater								
Treatment.....	2006-14	3.00-5.85%	2034	8,725	111,255	-	42,770	68,485
Growing Greener.....	2006-15	3.00-5.85%	2035	26,000	308,190	-	66,455	241,735
Persian Gulf Conflict Veterans								
Compensation.....	2008	4.00-5.00%	2028	13,000	3,245	-	1,655	1,590
Refunding Bonds.....	2004-16	4.00-5.38%	2027	-	3,368,535	633,175	316,670	3,685,040
Total principal.....				114,493,407	12,085,875	988,175	1,466,465	11,607,585
Unamortized premium on bonds issued.....					897,114	173,672	153,820	916,966
Unamortized discount on bonds issued.....					(6,458)	(780)	(597)	(6,641)
Total general obligation bonds payable.....				<u>\$ 114,493,407</u>	<u>12,976,531</u>	<u>1,161,067</u>	<u>1,619,688</u>	<u>\$ 12,517,910</u>
Other General Long-Term Obligations								
Payable From Tax and Other Revenues:								
Installment Purchase Obligations*.....					2,267	712	616	2,363
Capital Lease Obligations*.....					107,941	-	7,120	100,821
Self-Insurance--Note M *.....					980,275	953,525	844,387	1,089,413
Compensated Absences *.....					751,322	482,239	494,905	738,656
Other**.....					1,378,500	266,780	293,111	1,352,169
Subtotal.....					<u>3,220,305</u>	<u>1,703,256</u>	<u>1,640,139</u>	<u>3,283,422</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>					<u>\$ 16,196,836</u>	<u>\$ 2,864,323</u>	<u>\$ 3,259,827</u>	<u>\$ 15,801,332</u>

\*The reported current liability portion of: Installment Purchase Obligations is \$1,124; Capital Lease Obligations is \$2,565; Self-Insurance is \$203,091; Compensated Absences is \$151,280; and Other liabilities is \$316,068.

\*\* The Other beginning balance has been adjusted to include the pollution remediation liability prior year ending balance of \$222,822 since this liability will now be reported as part of the Other liabilities.

Total principal “Additions” above, amounting to \$988,175 are equal to bonds issued of \$355,000 and refunding bonds issued of \$633,175 reported in the governmental funds statement of revenues, expenditures, and changes in fund balances for the fiscal year ended June 30, 2016.

The total “Additions” of \$1,161,067 for general obligation bonds payable at June 30, 2016 consists of total bond and refunding bond proceeds of \$395,430 and \$765,636, respectively, for governmental funds (including a premium of \$173,672 and a discount of \$780).

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

The total “Reductions” of \$1,619,688 for general obligation bonds payable at June 30, 2016 consists of total principal repayments of \$1,466,465, plus \$153,820 of bond premium and \$597 bond discount that were amortized and posted to bond interest expense in the statement of activities (unamortized premium in the statement of net position at June 30, 2016 is \$916,966, unamortized discount is \$6,641).

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, 2016, these three funds transferred \$1,082,731, \$72,963 and \$51,787 respectively, to the Capital Debt Fund. The Capital Debt Fund reported \$1,223,457 (93 percent) of total Debt Service funds principal and interest expenditures of \$1,318,290. 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.

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, 2016:

Workers' compensation security trust claims.....	\$ 398,787
Catastrophic loss benefits claims.....	72,693
Public Utility Realty Tax Act (PURTA) liability.....	29,119
Litigation liability - Note N.....	73,468
State Insurance Fund claims.....	5,322
Restricted receipts liability.....	3,444
Escheated property liability.....	556,210
Pollution remediation liability.....	213,125
<b>Total.....</b>	<b><u>\$ 1,352,168</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, 2016 are payable with currently expendable available financial resources.

Pollution remediation obligations generally involve groundwater, surface water and/or soil at or adjacent to former manufacturing/industrial locations. Affected landfills have either received specific contaminants and/or are the source of leachate, either on-site or affecting adjacent properties. 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, 2016. 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.



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

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 \$65,321,610 as of August 31, 2016, with net debt outstanding after credit for refunded debt of \$11,423,804.

The following tables present annual principal and interest payments for long-term debt outstanding at June 30, 2016:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022-26</u>	<u>2027-31</u>
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities.....	\$ 750,973	\$ 707,897	\$ 678,795	\$ 626,062	\$ 647,175	\$ 3,139,748	\$ 2,939,880
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.....	38,281	35,597	35,476	37,715	38,460	233,931	217,290
Local Criminal Justice.....	126	82	9	9	9	122	125
Water Supply and Wastewater							
Treatment.....	12,228	10,061	7,380	4,389	6,232	23,837	20,812
Growing Greener.....	33,911	26,075	24,622	23,211	25,255	94,117	86,446
Persian Gulf Conflict Veterans Compensation.....	372	367	41	41	41	585	598
Refunding Bonds.....	456,082	467,729	510,257	514,476	450,333	1,680,846	272,016
Total Principal and Interest.....	1,291,973	1,247,808	1,256,580	1,205,903	1,167,505	5,173,186	3,537,167
Less: Interest Payments.....	(535,998)	(512,078)	(473,880)	(434,683)	(397,646)	(1,437,806)	(594,897)
Total General Obligation Bonds.....	755,975	735,730	782,700	771,220	769,859	3,735,380	2,942,270
Other General Long-Term Obligations.....	670,439	224,033	227,310	236,837	192,183	790,086	415,764
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS</b>	<b>\$ 1,426,414</b>	<b>\$ 959,763</b>	<b>\$ 1,010,010</b>	<b>\$ 1,008,057</b>	<b>\$ 962,042</b>	<b>\$ 4,525,466</b>	<b>\$ 3,358,034</b>

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

	<u>2032-36</u>	<u>Total</u>
<b>GENERAL OBLIGATION BONDS:</b>		
Capital Facilities.....	\$ 1,151,995	\$ 10,642,525
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.....	29,652	666,402
Local Criminal Justice.....	-	482
Water Supply and Wastewater Treatment.....	7,194	92,133
Growing Greener.....	22,186	335,823
Persian Gulf Conflict Veterans Compensation.....	-	2,045
Refunding Bonds.....	-	4,351,739
	<hr/>	<hr/>
Total Principal and Interest.....	1,211,027	16,091,149
Less: Interest Payments.....	(96,576)	(4,483,564)
Total General Obligation Bonds.....	1,114,451	11,607,585
Other General Long-Term Obligations.....	516,770	3,273,422
	<hr/>	<hr/>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>	<b>\$ 1,631,221</b>	<b>\$ 14,881,007</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, 2016:

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

	<b>Capital Lease Obligations</b>	<b>Installment Purchase Obligations</b>
Fiscal Year Ending June 30		
2017.....	7,355	1,209
2018.....	7,400	680
2019.....	7,426	355
2020.....	7,815	226
2021.....	7,923	49
2022-26.....	40,817	-
2027-31.....	43,280	-
2032-36.....	<u>36,142</u>	<u>-</u>
Total minimum lease payments.....	158,158	2,519
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>-</u>	<u>-</u>
Net minimum lease payments and installment purchases.....	158,158	2,519
Less: amount representing interest.....	<u>(57,337)</u>	<u>(156)</u>
<b>Total Capital Lease and Installment Purchase Obligations.....</b>	<b><u>\$ 100,821</u></b>	<b><u>\$ 2,363</u></b>

At June 30, 2016, general capital assets included \$197,000 of buildings and \$1,484 of equipment procured by capital leases. A total of \$22,675 in general capital assets have been procured using vendor-financed installment purchase arrangements.

**NOTE L - REFUNDED DEBT**

During the fiscal year ended June 30, 2016 the Commonwealth issued \$633,175 in general obligation bonds, First Refunding Series of 2016 with an average interest cost of 2.3% to advance refund \$709,010 of previously issued general obligation bonds with average interest rates of 4.8%. The net refunding bond proceeds of \$763,350 (including bond premium of \$130,178), 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 \$111,459 and to obtain an economic gain of \$92,589.

A deferred inflow of resources of \$85,655 for net refunding gain was reported in the statement of net position. Bond issuance costs of \$1,965 were reported in the statement of revenues, expenditures and changes in fund balance, as interest and fiscal charges.

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, 2016, \$1,583,270 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 \$1,000,000 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, 2016. 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, 2016. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

At June 30, 2016, none of the \$1,089,414 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** (\$860,690) and the **Motor License Fund** (\$189,966). Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$1,948), the **State Workers’ Insurance Fund** (\$1,271), and the State Stores Fund (\$49,426), all enterprise funds. All accrued self-insurance liabilities at June 30, 2016 are summarized as follows:

	Governmental Activities		Business-Type Activities	
	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>
Employee disability.....	\$ 151,265	\$ 764,645	\$ 8,968	\$ 45,336
Annuitant medical/hospital.....	32,326	-	-	-
Automobile tort.....	3,250	7,861	-	-
Employee tort.....	5,750	46,942	-	-
General tort.....	500	11,072	-	-
Transportation.....	10,000	55,803	-	-
Totals.....	<u>\$ 203,091</u>	<u>\$ 886,323</u>	<u>\$ 8,968</u>	<u>\$ 45,336</u>

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

The following summary provides aggregated information on June 30, 2015 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2016 and reported self-insurance liabilities at June 30, 2016:

	June 30, 2015	Incurred Claims		Payments		June 30, 2016
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 860,944	\$ 71,906	\$ 148,902	\$ 8,732	\$ 102,806	\$ 970,214
Annuitant medical/hospital..	30,503	719,205	-	717,382	-	32,326
Automobile tort.....	10,308	3,325	1,344	1,056	2,810	11,111
Employee tort.....	51,049	9,717	(1,870)	16	6,188	52,692
General tort.....	12,422	1,014	(856)	55	953	11,572
Transportation.....	70,712	7,518	(6,680)	375	5,372	65,803
Totals.....	<u>\$ 1,035,938</u>	<u>\$ 812,685</u>	<u>\$ 140,840</u>	<u>\$ 727,616</u>	<u>\$ 118,129</u>	<u>\$ 1,143,718</u>

The following summary provides aggregated information on June 30, 2014 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2015; and reported self-insurance liabilities at June 30, 2015:

	June 30, 2014	Incurred Claims		Payments		June 30, 2015
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 700,487	\$ 87,496	\$ 186,182	\$ 11,274	\$ 101,947	\$ 860,944
Annuitant medical/hospital..	30,996	678,384	-	647,881	30,996	30,503
Automobile tort.....	9,433	3,868	407	1,780	1,620	10,308
Employee tort.....	55,968	8,098	(2,242)	84	10,691	51,049
General tort.....	12,054	855	(74)	48	365	12,422
Transportation.....	73,174	7,856	(2,987)	363	6,968	70,712
Totals.....	<u>\$ 882,112</u>	<u>\$ 786,557</u>	<u>\$ 181,286</u>	<u>\$ 661,430</u>	<u>\$ 152,587</u>	<u>\$ 1,035,938</u>

**NOTE N – COMMITMENTS AND CONTINGENCIES**

**Construction and Other Commitments:** At June 30, 2016 the Department of Transportation (DOT) had contractual commitments of approximately \$1,378,885 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 \$4,619,131 at June 30, 2016. 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.....	\$ 479,566
Motor License Fund.....	308,563
Capital Facilities Fund.....	1,296,207
Other nonmajor funds.....	<u>364,262</u>
Total.....	<u>\$ 2,448,598</u>

**Investment Commitments:** At June 30, 2016, the Treasury Commonwealth Investment Program had capital commitments of \$15,000 to fund alternative investments, of which \$10,314 was unfunded. At June 30, 2016, the **Tuition Payment Fund** had capital commitments of \$152,000 to fund alternative investments, of which \$76,978 was unfunded.

**Loan and Grant Commitments:** At June 30, 2016 primary government funds had approved \$13,420 in loans that had not been disbursed. Also at June 30, 2016 the **Commonwealth Financing Authority (CFA)**, a blended component unit, had approved loans and grants that had not been disbursed of \$185,075.

**Operating Lease Commitments:** As of June 30, 2016, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2016 were as follows:

Fiscal year ending June 30:	
2017.....	\$ 237,039
2018.....	162,451
2019.....	140,146
2020.....	118,145
2021.....	99,463
2022-26.....	<u>344,753</u>
Total Minimum Lease Payments.....	<u>\$ 1,101,997</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2016 amounted to \$300,252.

**Child Support Payments:** At June 30, 2016, the Commonwealth was contingently liable for approximately \$12,314 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, 2016 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 \$70,000 for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible and may impair future revenue sources. Unfavorable outcomes for such cases, which the

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

Commonwealth is vigorously contesting, could range from approximately \$17,000 to \$1,200,000 for the **General Fund**; \$1,000 to \$177,000 for the **Motor License Fund**, a special revenue fund; and \$100 to \$1,000,000 of possible additional liabilities for the State Employees’ Retirement System, a fiduciary fund. The range of potential liability for governmental activities is from \$100,000 to \$1,800,000. The liability for these cases has not been recorded as of June 30, 2016.

**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 \$17,000 to \$350,000 at June 30, 2016. The Commonwealth’s management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

**Lottery Prizes:** The **State Lottery Fund (Lottery)**, 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, 2016, the amount of future payments owed to prizewinners was \$659,077. To satisfy its financial obligation to these prizewinners, the **Lottery** purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the **Lottery** 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 **Lottery** is not liable for the related annuity payments. At June 30, 2016, prizewinners had voluntarily assigned future payments of \$559,467.

**Pennsylvania Turnpike Commission (PTC):** Through fiscal year ended May 31, 2016, the PTC, a discretely presented component unit, issued \$936,297 of special revenue bonds with an accreted value of \$993,030. Pursuant to Act 44 of 2007 the PG, through its **Motor License Fund**, provided security for these bonds in the event of a debt service shortfall. This guarantee extends until the retirement or defeasance of any special revenue bonds or until October 13, 2057, whichever is sooner. To date, the PTC has made all required Special Revenue Bond debt service payments. No funds have been drawn or requested from the Commonwealth’s **Motor License Fund** for special revenue bond debt service during the current reporting period or any prior reporting periods. In the event that the Commonwealth’s **Motor License Fund** would be required to make a special revenue bond debt service payment, a provision of the Amended Lease and Funding Agreement, executed between the PTC and the **Motor License Fund**, requires the PTC to reimburse the **Motor License Fund** for any special revenue bond debt service payments plus interest.

During the PTC’s fiscal year ending May 31, 2016, total interest and principal due on the \$993,030 of special revenue bonds outstanding at May 31, 2016 will amount to \$42,599 and \$2,595, respectively. Disclosures related to the PTC’s special revenue bonds payable as of May 31, 2016 are provided in Note S to the basic financial statements.

**Loan Guarantees:** The **CFA**, through various economic development programs, provided loan guarantees as of June 30, 2016 as follows:

First Industries Loan Guarantees	\$ 37,130
Tax Increment Financing Guarantees	23,400
Second Stage Loan Guarantees	125
New Pennsylvania Venture Guarantees	<u>56,365</u>
Total loan guarantees	<u>\$ 117,020</u>

In the event a borrower is unable to make the required debt service payment on a guaranteed debt issuance, or a loss is incurred on the aggregate guaranteed investment portfolio, the **CFA** is required to make payment. The guarantees related to



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

the New Pennsylvania Venture Guarantee Program extend throughout the life of the investment portfolio. The guarantees related to the Tax Increment Financing Guarantee, Second Stage Loan, and First Industries programs extend through July 1, 2032, September 1, 2016, and July 15, 2035, respectively, as of June 30, 2016.

The CFA has recognized a liability for nonexchange financial guarantees at June 30, 2016 of \$12,124 and has made cumulative payments of \$7,761 for said amount. The CFA expects to recover a portion of these amounts in future periods; however, at this time the amount of any future recoveries is undeterminable.

Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
\$ 9,874	\$ 3,178	\$ 928	\$ 12,124

**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 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.

**Primary Government 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, 2016 the primary government paid a service fee in the amount of \$152,047. Disclosures related to the CFA's \$1,571,125 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, 2016 the actual amount appropriated to support the SEA debt service was \$5,767.

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

The Pennsylvania Medical Care Availability and Reduction of Error Fund (Mcare), 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 Mcare collects statutory healthcare provider surcharges, as a percentage of insurance premiums for basic liability coverage; in turn, the Mcare pays claimants on behalf of healthcare providers. The Mcare has assets of \$113,346 at June 30, 2016. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$1,090,000 at June 30, 2016. 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 (USTIF), 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 \$386,008 and \$1,343,676 respectively, at June 30, 2016. There are statutory limits on the extent of the USTIF's liability to participating owners and operators; the USTIF is not obligated beyond assets held at June 30, 2016. The USTIF has assets of \$323,430 at June 30, 2016. Owners and operators will be assessed for any claims exceeding 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 2015 were \$135,272.

**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 bargaining unit 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, 2016, total employer contributions for active employees amounted to approximately \$956,960; active employee contributions amounted to approximately \$127,107. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2016, for the active employees benefit program, the PEBTF reported total assets of \$493,524, total liabilities of \$3,019, total benefit obligations of \$105,876, and an excess of net assets over benefit obligations of \$384,629. During the fiscal year ended June 30, 2016 the PEBTF reported an increase in net assets over benefit obligations of \$19,868 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 \$237 in contribution overpayments for the fiscal year ended June 30, 2016. It is expected that these overpayments will be offset by reductions in contribution payments as the collective bargaining agreements are adopted.

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****Short Term Debt**

On August 11, 2016 the Commonwealth initiated a Short Term Investment Agreement (Investment Agreement) between the Treasury Department's Short Term Investment Pool and the Office of the Budget for \$2,500,000. The Investment Agreement is structured as a revolving line of credit, which imposes a market based rate of return, for the exclusive purpose of providing revenue for the general purposes of the Commonwealth and such other expenses payable from the **General Fund**. The Investment Agreement will provide the benefit, consistent with the public interest, of an alternate means of financing short term revenue shortfalls and avoids unnecessary costs and fees otherwise associated with traditional short-term bond financing.

Advances to the **General Fund** related to the Investment Agreement occurred on August 17, 2016 for \$400,000; September 13 for \$1,200,000 and on November 15 for \$600,000. The Investment Agreement will expire on June 30, 2017.

**General Obligation Bonds**

On August 9, 2016 the Commonwealth issued \$1,280,725 of General Obligation Bonds Second Series of 2016. The proceeds of the issuance will be used for: the construction, acquisition and major rehabilitation of capital facilities projects; and to provide local governments grants/loans pursuant to the Pennworks Act for the construction, expansion or improvement of water and wastewater infrastructure.

On December 7, 2016 the Commonwealth sold \$605,170, General Obligation Bonds, Second Refunding Series of 2016 to refund \$637,275 of prior issued Commonwealth general obligation bonds. Closing on these bonds is scheduled for December 16, 2016. Anticipated debt service savings from this refunding is \$41,855 with a net economic benefit of \$35,294.

**Revenue Bonds**

On October 31, 2016 the Commonwealth Financing Authority (a blended component unit) issued \$758,000 of federally taxable revenue bonds, Series A of 2016. The bonds were issued to provide funds for reimbursements to Pennsylvania school districts under the PlanCon process of the Pennsylvania Department of Education. The bonds bear interest at fixed rates payable on each December 1 and June 1, with a final maturity of June 1, 2038.

**Bond Redemption**

In July 2016, the Department of Labor & Industry, through the Pennsylvania Economic Development Financing Authority, called a total of \$90,000 Series 2012 B Unemployment Compensation Revenue Bonds for early redemption at face value. The bonds carried an interest rate of 5%. The amounts and their respective maturity dates were as follows: \$33,000 originally maturing on January 1, 2023 and \$57,000 originally maturing on July 1, 2022.

**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.

**Restatement**

One of the State System of Higher Education’s (SSHE) component units disaffiliated during the fiscal year ended June 30, 2016. The following table reflects the aggregate restatement impact on the beginning net position:

<u>Statement of Net Position</u>	<u>SSHE</u>
Net position, as previously reported, at June 30, 2015....	\$ 307,411
Disaffiliation of a component unit.....	(17,920)
<b>Net position, as restated, at July 1, 2015.....</b>	<b><u>\$ 289,491</u></b>

Please refer to the individual component unit separately audited and issued financial statements for additional restatement detail.

**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).

**Fair Value of Investments**

The following table categorizes the investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Component Units of the SSHE reported investments that were valued at net asset value (NAV).

A more detailed discussion of the application of the fair value hierarchy as it applies to each component unit is available from the component units separately issued financial statements.

NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Investment Type/Fair Value	PTC	PHFA	PHEAA	PENNVEST	SSHE
Asset backed securities.....					
Level 2.....	\$ -	\$ -	\$ -	\$ -	\$ 108,864
Bond mutual funds.....					
Level 2.....	-	-	-	-	1,744
NAV.....	-	-	-	-	11,143
Commercial paper.....					
Level 2.....	-	-	9,674	-	265,251
Common stock.....					
Level 1.....	-	-	-	-	2,319
Commonwealth investment pool.....					
Level 2.....	-	-	-	1,159,813	-
Level 3.....	-	-	582,367	-	-
Corporate obligations.....					
Level 2.....	511,946	-	-	-	242,437
Debt securities.....					
Level 2.....	-	-	-	-	82
Equity balanced mutual funds.....					
Level 1.....	-	-	-	-	2,385
Level 2.....	-	-	-	-	3,345
Level 3.....	-	-	-	-	7,006
NAV.....	-	-	-	-	23,267
Federal agency discount notes.....					
Level 2.....	-	-	61,721	-	-
GNMA mortgages.....					
Level 2.....	3,717	-	-	-	-
Investment derivatives.....					
Level 2.....	13,923	-	-	-	-
Money market mutual funds.....					
Level 1.....	-	-	214,961	-	-
Level 2.....	-	-	64,576	-	79,979
Mortgage-backed securities.....					
Level 2.....	-	200,700	-	-	193,070
Municipal bonds.....					
Level 2.....	128,341	-	-	-	-
U.S. Government agency obligations.....					
Level 2.....	239,413	86,326	-	-	414,737
U.S. Treasury obligations.....					
Level 1.....	244,409	2,319	-	-	-
Subtotal Level 1.....	244,409	2,319	214,961	-	4,704
Subtotal Level 2.....	897,340	287,026	135,971	1,159,813	1,309,509
Subtotal Level 3.....	-	-	582,367	-	7,006
Subtotal NAV.....	-	-	-	-	34,410
Total.....	\$ 1,141,749	\$ 289,345	\$ 933,299	\$1,159,813	\$ 1,355,629

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.

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

At May 31, 2016, \$22.1 of the Pennsylvania Turnpike Commission's (PTC) demand deposits were exposed to custodial credit risk, as they were uninsured and collateralized with securities held by an agent of the pledging financial institution but are not in the PTC's name.

The Pennsylvania Housing Finance Agency (PHFA) held \$61,103 of cash deposits that were uninsured but collateralized in accordance with the Commonwealth of Pennsylvania Act 72 of 1971, as amended, by securities held by the pledging financial institution, its trust department or agent, but not in the PHFA's name.

The Pennsylvania Higher Education Assistance Agency (PHEAA) held \$15,300 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured.

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

The SSHE held \$16,066 of uninsured and uncollateralized deposits of which \$15,458 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 bonds or notes issued by any state or municipality which are rated by S&P, Moody's and Fitch in one of their two highest rating categories; 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



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

deposit, bankers acceptances eligible for purchase by the Federal Reserve System, and other investments approved by the Board of Directors.

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, banker’s 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, 2016 (May 31, 2016 for the PTC) are as follows:

<u>Investment Type</u>	<u>PTC</u>	<u>PHFA</u>	<u>PHEAA</u>	<u>PENNVEST</u>	<u>SSHE</u>
Asset-backed securities.....	\$ -	\$ -	\$ -	\$ -	\$ 108,864
Bond mutual funds.....	-	-	-	-	12,887
Commercial paper.....	-	-	9,674	-	265,251
Common stock.....	-	-	-	-	2,319
Corporate obligations.....	511,946	-	-	-	242,437
Debt securities.....	-	-	-	-	82
Derivatives.....	13,923	-	-	-	-
Equity/balanced mutual funds.....	-	-	-	-	36,003
Federal agency discount notes.....	-	-	61,721	-	-
GNMA mortgages.....	3,717	-	-	-	-
Money market mutual funds.....	-	-	279,537	-	79,979
Mortgage backed securities.....	-	200,700	-	-	193,070
Municipal bonds.....	128,341	-	-	-	-
Securities lending collateral.....	-	-	-	24,680	-
Commonwealth Investment Program.....	-	-	582,367	1,159,812	-
U.S. Government and agency obligations.....	239,413	86,326	-	-	414,737
U.S. Treasury obligations.....	244,409	2,319	-	-	-
<b>Total investments.....</b>	<b>1,141,749</b>	<b>289,345</b>	<b>933,299</b>	<b>1,184,492</b>	<b>1,355,629</b>
Certificates of deposit.....	-	-	-	-	14
<b>Total investments and certificates of deposits...</b>	<b>\$ 1,141,749</b>	<b>\$ 289,345</b>	<b>\$ 933,299</b>	<b>\$ 1,184,492</b>	<b>\$ 1,355,643</b>

Note: Total investments by type does not include \$469,388 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.

The PTC’s investment policy defines permitted investments along with the following concentration limitations. Investments in any single federal agency are limited to 35% of the portfolio. Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio and combined exposure to commercial paper,

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

corporate bonds, and asset-backed securities, in aggregate, is limited to 35% of the total portfolio. Investments in any single issuer, excluding U.S. Treasury and federal agencies, are limited to five percent of the portfolio.

The PHFA policy indicates that the proportion of investments in government securities shall not exceed 70% of the portfolio and the proration of investments in certificates of deposit shall not exceed 30% of the portfolio. As of June 30, 2016, concentrations in government securities, which represented 100% of the portfolio, exceed the policy. Departure from the policy was approved by 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, 2016, the PHEAA had investments in federal agency discount notes (Federal Home Loan Bank) that represented 6.6% of their total investments.

The PENNVEST participates in the CIP managed by the Commonwealth. The Commonwealth places a 10% 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% limit on the concentration of investments in one equity issuer within the CIP.

The SSHE investment policy contains the following limitations: U.S. Government securities together with repurchase agreements must comprise at least 20% of market value of the fund. Commercial paper investments must not exceed 20% 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% of the market value of the fund. Corporate bonds may not exceed 20% of the market value of the fund; 15% must carry a long-term debt rating of A or better while 5% 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% of the market value of the fund. Asset-backed securities must be Aaa rated and the total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer. Investment fund loans may not exceed 20% of the market value of the fund and the loan terms may not exceed five years.

The following concentration existed as of June 30, 2016:

<u>Issuer Name</u>	<u>PHFA</u>
Government National Mortgage Association.....	\$ 107,703
Tennessee Valley Authority.....	71,904
Federal Farm Credit Bank.....	25,758
Federal Home Loan Mortgage Corporation.....	4,021
Federal Home Loan Bank.....	56,614
	<u>\$ 266,000</u>

**NOTE S – 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, 2016 (May 31, 2016 for the PTC):

	PTC	PHFA	PHEAA	PENNVEST	SSHE
<b>Moody's Investors Service</b>					
Aaa.....	\$ -	\$ 168,698	\$ -	\$ -	\$ 787,859
Aa.....	7,149	-	-	-	19,799
A.....	1,193	-	-	-	-
Baa.....	5,581	-	-	-	49,934
P1.....	-	-	-	-	280,239
<b>Moody's Investors Service subtotal.....</b>	<b>13,923</b>	<b>168,698</b>	<b>-</b>	<b>-</b>	<b>1,137,831</b>
<b>Standard and Poor's</b>					
AAA.....	102,579	-	279,537	-	-
AA.....	702,162	-	-	-	25
A.....	74,444	-	9,674	-	166,564
Below A.....	515	-	-	-	-
<b>Standard and Poor's subtotal.....</b>	<b>879,700</b>	<b>-</b>	<b>289,211</b>	<b>-</b>	<b>166,589</b>
<b>Rated Subtotal.....</b>	<b>893,623</b>	<b>168,698</b>	<b>289,211</b>	<b>-</b>	<b>1,304,420</b>
<b>Unrated</b>					
Bond mutual funds.....	-	-	-	-	12,887
Debt securities.....	-	-	-	-	-
Federal agency discount notes.....	-	-	61,721	-	-
Mortgage backed securities.....	-	118,328	-	-	-
Commonwealth Investment Program.....	-	-	582,367	1,159,812	-
U.S. Treasury obligations.....	244,409	2,319	-	-	-
U.S. Government agency obligations.....	3,717	-	-	-	-
<b>Unrated subtotal.....</b>	<b>248,126</b>	<b>120,647</b>	<b>644,088</b>	<b>1,159,812</b>	<b>12,887</b>
<b>Total Fixed income investments.....</b>	<b>1,141,749</b>	<b>289,345</b>	<b>933,299</b>	<b>1,159,812</b>	<b>1,317,307</b>
<b>Variable income investments</b>					
Equity/balanced mutual funds.....	-	-	-	-	36,003
Common stock.....	-	-	-	-	2,319
<b>Variable income investments subtotal.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,322</b>
<b>Total investments.....</b>	<b>\$ 1,141,749</b>	<b>\$ 289,345</b>	<b>\$ 933,299</b>	<b>\$ 1,159,812</b>	<b>\$ 1,355,629</b>

Note: Total investments do not include \$469,388 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.

NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)

**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, 2016 and the SSHE at June 30, 2016:

Investment Type	PTC		SSHE		
	Amount	Option-Adjusted Duration	Amount	Option-Adjusted Duration	Securities with no Duration
Asset backed securities.....	\$ -	-	\$ 108,864	0.43	\$ -
Bond mutual funds.....	-	-	12,887	4.50	-
Certificates of deposit.....	-	-	-	-	14
Commercial paper.....	-	-	265,251	0.17	-
Corporate obligations.....	511,946	1.90	241,710	1.54	727
Debt securities.....	-	-	82	3.04	-
GNMA mortgages.....	3,717	3.22	-	-	-
Money market mutual funds.....	-	-	-	-	79,979
Mortgage-backed securities.....	-	-	193,070	2.15	-
Municipal bonds.....	128,341	2.29	-	-	-
U.S. Government agency obligations.....	239,413	1.86	414,737	2.45	-
U.S. Treasury obligations.....	244,409	2.88	-	-	-
<b>Total.....</b>	<b>\$1,127,826</b>		<b>\$ 1,236,601</b>		<b>\$ 80,720</b>

The PHFA and PHEAA 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, 2016:

Investment Type	PHFA			
	Matures in less than 1 year	Matures in 1 to 10 years	Matures in more than 10 years	Total
Mortgage-backed securities.....	\$ 50	\$ 92,947	\$ 107,703	\$ 200,700
U.S. Government agency obligations...	1,999	12,068	72,259	86,326
U.S. Treasury obligations.....	-	2,319	-	2,319
<b>Total.....</b>	<b>\$ 2,049</b>	<b>\$ 107,334</b>	<b>\$ 179,962</b>	<b>\$ 289,345</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.....	\$ 9,674	\$ -	\$ -	\$ 9,674
Money market mutual funds.....	279,537	-	-	279,537
Commonwealth Investment Program..	582,367	-	-	582,367
Federal agency discount notes.....	61,721	-	-	61,721
<b>Total.....</b>	<b>\$ 933,299</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 933,299</b>

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

**Derivatives**

As of May 31, 2016, the PTC in its separately-issued financial statements reported noncurrent hedging derivative instrument liabilities of \$133,791 which were offset by reported deferred outflow of resources of \$133,791. Changes in the net fair value of the hedging derivative instruments during the fiscal year ended May 31, 2016 (\$24,468) were deferred.

As of June 30, 2016, the PHFA, in its separately-issued financial statements, reported a noncurrent hedging derivative instrument liability of \$29,007. Changes in the fair value of the hedging derivatives of \$9,286 were deferred.

Further information regarding the nature and notional value of the hedging and investment derivative instruments of the PTC (as of May 31, 2016) and the PHFA (as of June 30, 2016) are available within their separately audited and issued financial statements.

**Loans Receivable**

Loans receivable at June 30, 2016 consisted of the following:

	<u>PHFA</u>	<u>PHEAA</u>	<u>PENNVEST</u>
Mortgage loans.....	\$ 3,450,011	\$ -	\$ -
Student loans.....	-	5,939,268	-
Drinking water, storm water and sewer system loans.....	-	-	2,610,726
<b>Subtotal.....</b>	<b>3,450,011</b>	<b>5,939,268</b>	<b>2,610,726</b>
Less: allowance for uncollectible amounts.....	186,569	21,229	40,826
<b>Loans receivable, net.....</b>	<b><u>\$ 3,263,442</u></b>	<b><u>\$ 5,918,039</u></b>	<b><u>\$ 2,569,900</u></b>

NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Capital Assets

A summary of capital assets by category at May 31, 2016 for PTC and June 30, 2016 for SSHE is as follows:

PTC	Balance May 31, 2015	Increases	Decreases	Balance May 31, 2016
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 310,518	\$ 23,416	\$ -	\$ 333,934
Construction in progress.....	956,984	632,034	258,391	1,330,627
<b>Subtotal.....</b>	<b>1,267,502</b>	<b>655,450</b>	<b>258,391</b>	<b>1,664,561</b>
<b>Depreciable capital assets:</b>				
Buildings.....	936,517	32,385	-	968,902
Improvements other than buildings.....	117,331	1,925	-	119,256
Equipment.....	591,223	32,620	4,064	619,779
Infrastructure.....	7,713,188	238,011	42,839	7,908,360
<b>Subtotal.....</b>	<b>9,358,259</b>	<b>304,941</b>	<b>46,903</b>	<b>9,616,297</b>
<b>Accumulated depreciation:</b>				
Buildings.....	354,269	22,842	-	377,111
Improvements other than buildings.....	73,215	5,364	-	78,579
Equipment.....	449,801	34,962	3,707	481,056
Infrastructure.....	4,558,915	269,773	1,902	4,826,786
<b>Total accumulated depreciation.....</b>	<b>5,436,200</b>	<b>332,941</b>	<b>5,609</b>	<b>5,763,532</b>
<b>Total capital assets being depreciated, net....</b>	<b>3,922,059</b>	<b>(28,000)</b>	<b>41,294</b>	<b>3,852,765</b>
<b>Total capital assets.....</b>	<b>\$ 5,189,561</b>	<b>\$ 627,450</b>	<b>\$ 299,685</b>	<b>\$ 5,517,326</b>
SSHE	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 32,360	\$ -	\$ -	\$ 32,360
Construction in progress.....	99,144	56,475	75,607	80,012
<b>Subtotal.....</b>	<b>131,504</b>	<b>56,475</b>	<b>75,607</b>	<b>112,372</b>
<b>Depreciable capital assets:</b>				
Buildings.....	2,056,185	157,278	-	2,213,463
Improvements other than buildings.....	274,779	10,357	-	285,136
Equipment.....	454,128	24,278	8,059	470,347
Library books.....	81,940	869	1,495	81,314
<b>Subtotal.....</b>	<b>2,867,032</b>	<b>192,782</b>	<b>9,554</b>	<b>3,050,260</b>
<b>Accumulated depreciation:</b>				
Buildings.....	842,958	82,671	8,923	916,706
Improvements other than buildings.....	131,524	9,355	1,593	139,286
Equipment.....	361,207	27,789	9,681	379,315
Library books.....	73,663	1,868	1,495	74,036
<b>Total accumulated depreciation.....</b>	<b>1,409,352</b>	<b>121,683</b>	<b>21,692</b>	<b>1,509,343</b>
<b>Total capital assets being depreciated, net....</b>	<b>1,457,680</b>	<b>71,099</b>	<b>(12,138)</b>	<b>1,540,917</b>
<b>Total capital assets.....</b>	<b>\$ 1,589,184</b>	<b>\$ 127,574</b>	<b>\$ 63,469</b>	<b>\$ 1,653,289</b>

Note: Capital assets do not include \$1,249,476 and \$1,232,487 reported by the component units of the SSHE as of June 30, 2015 and 2016, respectively.

NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Service Concession Arrangements

There are 17 service plazas along the Turnpike System providing gasoline and diesel fuel, other automotive supplies and services, and restaurant services. The PTC has entered into long term service plaza redevelopment agreements with HMSHost Restaurants, LLC and Sunoco Retail LLC to design, reconstruct, finance, operate and maintain all of the service plazas. The PTC has no responsibility for maintaining the service plazas under the agreements. The PTC maintains the ability to approve and/or modify the services that the operators can provide and the rates that can be charged. The service plaza operators are compensated by the users of the services and share a portion of that revenue with the PTC as rental payments. Upon completion of construction, the reconstructed assets are recognized by the PTC. The current contracts with HMSHost Restaurants, LLC and Sunoco Retail LLC expire on August 25, 2036 and January 31, 2022, respectively. Sunoco Retail LLC's lease may be extended for three additional five-year periods. The first extension shall be at the discretion of Sunoco Retail LLC, and the second and third extensions shall be mutually agreed to by both parties. As of May 31, 2016, the PTC had capitalized \$115,000 in capital assets representing 15 service plazas that had fully completed construction and recorded deferred inflows of resources of \$91,900 related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2016 and in accordance with GASB Statement No. 60, the PTC recognized a receivable and deferred inflow of resources in the amount of \$32,100 for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

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. Interest rates on these bonds ranged from .12% to .03% with no maturity being greater than 120 days. The PENNVEST issued revenue bonds on June 30, 2015 and the proceeds were used to pay off the outstanding balance (\$74,000). As of June 30, 2016, no bonds remained outstanding. A schedule of changes in the short-term obligations follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Notes Payable.....	\$ 74,000	-	74,000	\$ -

The PHEAA has reported \$218,200 of auction rate security bonds payable, \$5,471,854 of notes payable (consisting of student loan financings of \$200,000, student loan financing warehouse facility of \$738,213 and student loan floating rate notes of \$4,533,641), and \$34,629 of other obligations (consisting of capital acquisition refunding bonds of \$28,349 and term financings of \$6,280) at June 30, 2016 as follows:

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

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Bonds payable:</b>				
Student loan auction rate security bonds, due 2042-2044, at weighted-average rates of 1.65 % as of June 30, 2016 and 1.45 % as of June 30, 2015.....	\$ 268,400	\$ -	\$ 50,200	\$ 218,200
<b>Notes payable:</b>				
Student loan floating rate notes, due 2027-2046 at weighted average rates of 1.17 % as of June 30, 2016 and 0.87 % as of June 30, 2015.....	5,398,585	-	853,142	4,545,443
Less: discount on student loan floating rate notes.....	(14,752)	-	2,950	(11,802)
<b>Subtotal.....</b>	<u>5,383,833</u>	<u>-</u>	<u>856,092</u>	<u>4,533,641</u>
Student loan financings, due on demand at weighted-average rates of 1.20 % as of June 30, 2016 and 0.94 % as of June 30, 2015 .....	200,000	-	-	200,000
Student loan financing warehouse facilities, due 2017-2018, at weighted average rates of 1.70 % as of June 30, 2016 and 1.01 % as of June 30, 2015.....	903,779	-	165,566	738,213
<b>Total notes payable.....</b>	<u>\$ 6,487,612</u>	<u>\$ -</u>	<u>\$ 1,021,658</u>	<u>\$ 5,471,854</u>
Capital acquisition refunding bonds, Series of 2012, due 2016-2022, at weighted-average rates of 4.15 % as of June 30, 2016 and June 30, 2015.....	\$ 29,940	\$ -	\$ 3,745	\$ 26,195
Term financings, due 2029, at 0 % interest as of June 30, 2016 and 2015.....	6,280	-	-	6,280
<b>Subtotal.....</b>	<u>36,220</u>	<u>-</u>	<u>3,745</u>	<u>32,475</u>
<b>Plus: unamortized premium.....</b>	<u>2,815</u>	<u>-</u>	<u>661</u>	<u>2,154</u>
<b>Total capital and other financing obligations</b>	<u>\$ 39,035</u>	<u>\$ -</u>	<u>\$ 4,406</u>	<u>\$ 34,629</u>

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan financings. As of June 30, 2016, \$5,900,000 of student loan principal and related interest receivable and \$218,600 of cash equivalents collateralized the \$5,700,000 of student loan financings and notes and bonds payable.

The student loan financings and other financings are non-recourse obligations to the PHEAA's unrestricted net position and to the Commonwealth, except for the \$200,000 of student loan financings and \$26,195 of capital acquisition refunding bonds, Series of 2012, which are borrowings from the Commonwealth's Treasury Department.

The PHEAA reported debt service requirements subsequent to June 30, 2016, based upon stated maturities for student loan bonds and estimated interest payments for variable-rate debt after considering terms renegotiated after June 30, 2016 are as follows:



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

<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>
2017.....	\$ 938,213	\$ 70,295	\$ 3,895	\$ 2,089
2018.....	-	57,100	4,055	833
2019.....	-	56,903	4,230	661
2020.....	-	56,903	4,415	482
2021.....	-	56,903	4,595	295
2022-26.....	-	284,515	5,005	104
2027-31.....	552,733	266,323	6,280	-
2032-36.....	168,064	251,990	-	-
2037-41.....	2,061,182	168,680	-	-
2042-46.....	1,966,814	30,534	-	-
2047-51.....	14,850	92	-	-
<b>Total.....</b>	<b>\$ 5,701,856</b>	<b>\$ 1,300,238</b>	<b>\$ 32,475</b>	<b>\$ 4,464</b>

**Reported as:**

Total principal owed on student loan

auction rate security bonds payable.....	\$ 218,200	\$ -
Notes payable - current.....	938,213	-
Notes payable - non-current.....	4,533,641	-
Discount on student loan floating rate notes.....	11,802	-
Other financing obligations, current.....	-	3,895
Other financing obligations, non-current.....	-	30,734
Unamortized premium.....	-	(2,154)
<b>Total principal .....</b>	<b>\$ 5,701,856</b>	<b>\$ 32,475</b>

The PHEAA reported \$5,700,000 of its total \$5,900,000 of student loan bonds, notes, and financings as variable-rate debt, of which, interest rates on \$218,200 reset based upon auctions every 28 days, \$4,700,000 is indexed to the one-month or three-month LIBOR (London interbank offered rate), \$738,213 is indexed to the asset-backed commercial paper rate. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA, payable only from related pledged assets.

The PHEAA reported current notes payable of \$938,213 at June 30, 2016. Also, the PHEAA reported non-current notes payable of \$4,533,641 at June 30, 2016 and Component Unit (CU) organizations of the SSHE reported non-current notes payable of \$307,299.

NOTE S – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Long-Term Obligations

Significant revenue bond obligations of PTC (as of May 31, 2016) and PHFA (as of June 30, 2016), changes during the fiscal year and annual principal and interest payments for long-term debt outstanding are as follows:

	Issue Dates	Interest Rates	Maturity Dates Through	Balance June 1, 2015	Additions	Reductions	Balance May 31, 2016
<b>REVENUE BONDS PAYABLE</b>							
PTC.....	2003-16	various	2049	\$ 10,129,261	\$ 2,002,387	\$ 951,495	\$ 11,180,153
Less: unamortized bond discount.....				(7,559)	-	(4,334)	(3,225)
Add: unamortized bond premium.....				313,706	226,958	23,043	517,621
<b>TOTAL</b> .....				<u>\$ 10,435,408</u>	<u>\$ 2,229,345</u>	<u>\$ 970,204</u>	<u>\$ 11,694,549</u>

Year of Maturity	Principal	Interest	Total
2017.....	\$ 262,690	\$ 467,008	\$ 729,698
2018.....	291,710	478,392	770,102
2019.....	310,065	491,039	801,104
2020.....	319,855	484,285	804,140
2021.....	584,940	475,079	1,060,019
2022-26.....	1,400,511	2,208,853	3,609,364
2027-31.....	1,523,653	1,915,552	3,439,205
2032-36.....	2,293,370	1,459,145	3,752,515
2037-41.....	2,513,391	958,775	3,472,166
2042-46.....	1,412,528	297,497	1,710,025
2047-51.....	267,440	37,733	305,173
<b>Total</b> .....	<u>\$ 11,180,153</u>	<u>\$ 9,273,358</u>	<u>\$ 20,453,511</u>

	Issue Dates	Interest Rates	Maturity Dates Through	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
<b>REVENUE BONDS &amp; NOTES PAYABLE</b>							
PHFA.....	1999-2016	various	2045	2,984,995	543,500	753,850	2,774,645
Add: unamortized bond premium.....				6,071	6,408	1,568	10,911
<b>TOTAL</b> .....				<u>\$ 2,991,066</u>	<u>\$ 549,908</u>	<u>\$ 755,418</u>	<u>\$ 2,785,556</u>

Year of Maturity	Principal	Interest	Total
2017.....	\$ 88,915	\$ 78,425	\$ 167,340
2018.....	113,585	76,715	190,300
2019.....	129,455	74,131	203,586
2020.....	138,160	70,832	208,992
2021.....	134,585	67,192	201,777
2022-26.....	555,355	288,896	844,251
2027-31.....	545,845	218,813	764,658
2032-36.....	594,635	135,928	730,563
2037-41.....	406,790	50,149	456,939
2042-46.....	67,320	5,774	73,094
<b>Total</b> .....	<u>\$ 2,774,645</u>	<u>\$ 1,066,855</u>	<u>\$ 3,841,500</u>

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

The table below presents significant bond obligations of SSHE at June 30, 2016 and changes during the fiscal year then ended, followed by principal and interest payments for long-term debt outstanding.

<b>BONDS PAYABLE</b>	<b>Issue</b>	<b>Interest</b>	<b>Maturity</b>	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>
	<b>Dates</b>	<b>Rates</b>	<b>Dates</b>	<b>July 1, 2015</b>			<b>June 30, 2016</b>
SSHE.....	2005-16	various	2040	\$ 800,455	\$ 149,645	\$ 107,510	\$ 842,590
<b>Year of Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>				
2017.....	\$ 62,885	\$ 38,570	\$ 101,455				
2018.....	63,505	35,525	99,030				
2019.....	67,935	32,543	100,478				
2020.....	75,290	29,399	104,689				
2021.....	59,025	25,926	84,951				
2022-26.....	261,165	88,074	349,239				
2027-31.....	143,720	40,059	183,779				
2032-36.....	78,960	15,083	94,043				
2037-41.....	30,105	2,815	32,920				
<b>Total.....</b>	<b>\$842,590</b>	<b>\$ 307,994</b>	<b>\$ 1,150,584</b>				

Note: The total principal obligations outstanding do not include \$1,131,757 in bonds payable and \$307,299 in notes payable 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, 2016, the PHFA had \$193,003 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, 2016, the SPSBA had \$3,035,421 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, 2016, the PHEFA had \$5,985,323 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 revenues. At June 30, 2016, the PEDFA had \$6,243,659 of debt outstanding of which \$4,051,249 represented

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

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****PTC**

In June 2015, the PTC issued \$385,095 2015 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series A-1 Senior Bonds were issued to provide funds to finance the costs of various capital expenditures and advance refund all of the PTC's 2006 Series A Senior Revenue Bonds and for paying the cost of issuing the 2015 Series A-1 Senior Bonds. The advanced refunding of the 2006 Series A Senior Bonds allowed the PTC to reduce its debt service by approximately \$18,200. The transaction resulted in an economic gain of approximately \$13,700.

In June 2015, the PTC issued \$115,635 2015 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2021. The 2015 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt which included the PTC's 2013 Series B Variable Rate Revenue Bonds (\$65,155), the PTC's 2014 Series B-1 Variable Rate Revenue Bonds (\$15,080) and the PTC's 2014 Series B-2 Variable Rate Revenue Bonds (\$34,920). The bonds were also issued for payment of the costs of issuance for the 2015 Series A-2 Senior Bonds.

In February 2016, the PTC issued \$360,990 2016 Series Refunding Subordinate Bonds at a fixed rate with a maturity date of June 1, 2038. The 2016 Series Refunding Subordinate Bonds were issued to provide funds for the advance refunding of a portion of the PTC's 2008 Series A-1 Subordinate Revenue Bonds (\$29,025), 2008 Series B-1 Subordinate Revenue Bonds (\$52,390), 2008 Series C-1 Subordinate Revenue Bonds (\$189,875), 2009 Series A Subordinate Revenue Bonds (\$23,470), 2009 Series B Subordinate Revenue Bonds (\$76,435), 2009 Series D Subordinate Revenue Bonds (\$9,975) and for paying the cost of issuing the 2016 Series Refunding Subordinate Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2008 Series C-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, and 2009 Series D Subordinate Bonds allowed the PTC to reduce its debt service by approximately \$82,600. The transaction resulted in an economic gain of approximately \$57,900.

In April 2016, the PTC issued \$185,455 2016 Series A-2 Subordinate Bonds at a fixed rate with a maturity date of June 1, 2033. The 2016 Series A-2 Subordinate Bonds were issued to provide funds for the advance refunding of a portion of the PTC's 2008 Series A-1 Subordinate Revenue Bonds (\$39,655), 2008 Series B-1 Subordinate Revenue Bonds (\$61,860), 2009 Series A Subordinate Revenue Bonds (\$27,275), 2009 Series B Subordinate Revenue Bonds (\$69,735) and for paying the cost of issuing the 2016 Series A-2 Subordinate Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, and 2009 Series B Subordinate Bonds allowed the PTC to reduce its debt service by approximately \$26,600. The transaction resulted in an economic gain of approximately \$20,700.

**PHFA**

On September 22, 2015, the PHFA issued Series 2015-117A single family mortgage revenue bonds in the amount of \$95,240. The proceeds of this issuance and a PHFA contribution were used to refund \$58,110 of Series 2005-90C bonds and \$38,775 of Series 2008-102C bonds. This refunding resulted in an economic gain (the difference between the present value of the old and new debt service payments) equal to \$10,210 and a reduction of future debt service payments equal to \$23,606.

On December 8, 2015, the PHFA issued Series 2015-118A single family mortgage revenue bonds in the amount of \$141,165. The proceeds of this issuance and a PHFA contribution were used to refund \$22,340 of Series 2004-85B bonds, \$44,645 of Series 2004-85C bonds, \$30,035 of Series 2005-87B bonds and \$46,575 of Series 2005-87C

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

bonds. This refunding resulted in an economic gain equal to \$14,032 and a reduction of future debt service payments equal to \$21,078.

On April 28, 2016, the PHFA issued Series 2016-119 single family mortgage revenue bonds in the amount of \$162,095. \$109,110 of the proceeds of this issuance and a PHFA contribution were used to refund \$110,680 of Series 2009-106C bonds. This refunding resulted in an economic gain equal to \$6,152 and a reduction of future debt service payments equal to \$5,200.

**SSHE**

In June 2016, the net proceeds from the Series AS revenue bonds were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to advance refund the Series AF revenue bonds. Although it resulted in an accounting loss of \$1,115, the refunding was performed to reduce debt service by approximately \$8,842 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$7,469. The accounting loss, or deferred loss on refunding, is reported as a deferred outflow of resources. As of June 30, 2016, \$49,800 of Series AF revenue bonds remained outstanding, and the fair value of the escrow account was \$51,934. The funds in escrow will be used to pay the December 15, 2016, interest payment and the June 15, 2017, principal and interest payment of Series AF. Neither the funds in escrow nor the outstanding balance of Series AF is reflected on the balance sheet.

**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, 2016 and the PHFA and SSHE at June 30, 2016 as follows:

As of and for the fiscal year ended June 30, 2016	PTC (May 31, 2016)	PHFA	SSHE
Annual required contributions.....	\$ 11,368	\$ 7,405	\$ 102,000
Interest on net OPEB obligation.....	(6,820)	1,350	44,690
Adjustment to annual required contribution.	14,596	(1,841)	(58,736)
Annual OPEB cost (expense).....	19,144	6,914	87,954
Qualifying contributions.....	(28,143)	(1,147)	(40,060)
Increase in net OPEB obligation/(asset).....	(8,999)	5,767	47,894
Net OPEB obligation/(asset), July 1, 2015.....	(104,931)	29,998	1,058,749
Net OPEB obligation/(asset), June 30, 2016....	\$ (113,930)	\$ 35,765	\$ 1,106,643

As of and for the fiscal year ended June 30, 2016	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, 2016).....	\$ 331,568	\$ 330,395	\$ (1,173)	100.4%	\$ 124,458	-0.9%
PHFA.....	\$ -	\$ 65,976	\$ 65,976	0.0%	\$ 18,523	356.2%
SSHE.....	\$ -	\$ 1,194,849	\$ 1,194,849	0.0%	\$ 589,917	202.5%

Note: The PHFA report their OPEB liability as other noncurrent liabilities on the Statement of Net Position.

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

**Net Pension Liability and Pension Expense**

The PTC, PHEAA, PENNVEST and SSHE all have employees that are members of the Pennsylvania State Employees Retirement System (SERS). The SSHE is also a member of the Public School Employees Retirement System (PSERS). For the fiscal year ended June 30, 2016 (May 31, 2016 for the PTC), these entities reported a net pension liability, proportionate share percentage and pension expense as follows:

<b>SERS</b>		<b>PTC</b>			
<u>Fiscal year ended June 30, 2016</u>	<u>(May 31, 2016)</u>	<u>PHEAA</u>	<u>PENNVEST</u>	<u>SSHE</u>	
Net pension liability.....	\$ 346,946	\$ 440,673	\$ 6,519	\$ 858,417	
Proportionate share percentage.....	1.91%	2.42%	0.04%	4.72%	
Pension expense.....	\$ 42,800	\$ 68,009	\$ 946	\$ 103,982	

<b>PSERS</b>	
<u>Fiscal year ended June 30, 2016</u>	<u>SSHE</u>
Net pension liability.....	\$ 80,220
Proportionate share percentage.....	0.19%
Pension expense.....	\$ 16,035

The PHFA's full time employees participate in two defined benefit single employer plans. For the fiscal year ended June 30, 2016, the PHFA reported a net pension liability of \$25,525 and a pension expense of \$4,338.

**Commitments and Contingencies**

**PTC**

The 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. Subsequently, in April 2014, the PTC and PennDOT executed Amendment Number One to the aforementioned Lease and Funding Agreement in accordance with Act 89 of November 2013. In accordance with Act 89 and the Amended Funding Agreement, the PTC's aggregate annual payment to PennDOT for fiscal year 2014 through fiscal year 2022 remains at \$450,000 and at 2023 through the term of the Amended Funding Agreement, the PTC's aggregate annual payment to PennDOT is \$50,000, which must be paid from current revenues. Through June 30, 2016 the PTC has paid PennDOT \$5,200,000; the **Motor License Fund** received \$2,250,000 and the Public Transportation Trust Fund received \$2,950,000.

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 calendar year). Through its fiscal year ended May 31, 2016, the PTC issued \$936,297 of special revenue bonds with an accreted value of \$993,030.

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

**Deferred Outflows and Inflows of Resources**

The following table discloses the deferred outflows of resources and deferred inflows of resources at June 30, 2016 (May 31, 2016 for the PTC):

<b>Deferred Outflows of Resources</b>	<b>PTC</b>	<b>PHFA</b>	<b>PHEAA</b>	<b>PENNVEST</b>	<b>SSHE</b>	<b>Total</b>
Hedge derivatives.....	\$ 133,791	\$ 9,286	\$ -	\$ -	\$ -	\$ 143,077
<b>Pensions</b>						
Difference between expected and actual experience.....	7,025	2,373	8,923	132	17,381	35,834
Net difference between projected and actual investment earnings...	35,326	1,420	44,868	664	87,404	169,682
Changes in proportions.....	-	-	40,165	330	3,550	44,045
Changes in assumptions.....	10,307	6,932	13,092	194	25,503	56,028
Difference between employer contributions and proportionate share of total contributions.....	-	-	-	-	568	568
Contributions after the measurement date.....	13,623	2,075	19,778	267	47,651	83,394
Deferred loss on bond refundings.....	196,278	6,526	1,299	-	9,164	213,267
	<u>\$ 396,350</u>	<u>\$ 28,612</u>	<u>\$ 128,125</u>	<u>\$ 1,587</u>	<u>\$ 191,221</u>	<u>\$ 745,895</u>
<b>Deferred Inflows of Resources</b>						
Deferred gain on bond refundings.....	\$ 1,269	\$ -	\$ 134,067	\$ -	\$ 1,073	\$ 136,409
Deferred gain on sales leaseback.....	-	-	355	-	-	355
<b>Pensions</b>						
Difference between expected and actual experience.....	-	-	-	-	331	331
Net difference between projected and actual investment earnings...	-	-	-	-	162	162
Changes in proportions.....	11,569	-	-	-	26,207	37,776
Difference between employer contributions and proportionate share of total contributions.....	624	-	872	10	2,389	3,895
Service concession arrangements.....	124,028	-	-	-	-	124,028
<b>Total.....</b>	<u>\$ 137,490</u>	<u>\$ -</u>	<u>\$ 135,294</u>	<u>\$ 10</u>	<u>\$ 30,162</u>	<u>\$ 302,956</u>

**Subsequent Events**

**PTC**

On June 7, 2016, the PTC issued \$649,545 2016 Second Series Subordinate Revenue Refunding Bonds with a final maturity of June 1, 2039. The 2016 Second Series Subordinate Bonds were issued primarily to advance refund various outstanding subordinate bonds.

On June 21, 2016, the PTC issued \$588,440 2016 Series A Senior Revenue Bonds with a final maturity of December 1, 2046. The 2016 Series A-1 Bonds were issued primarily to finance capital expenditures and the 2016 Series A-2 Bonds were issued primarily to refund various maturing variable rate bonds. The 2016 Series A-2 Bonds specifically included refunding the December 1, 2016 maturities of the 2012 Series B, the 2014 Series B-1 Bonds and the 2014 Series B-2 Bonds. As a result, the \$86,277 of the PTC’s Mainline LIBOR Fixed Payer swaps associated with those bonds were deemed terminated and are now associated with the 2016 Series A-2 Senior Bonds.

On June 21, 2016, the PTC authorized the issuance of Oil Company Franchise Tax (OFT) Bonds in an aggregate principal amount not to exceed \$450,000. On September 7, 2016, the PTC issued \$198,595 2016 Oil Franchise Tax Series A Senior Refunding Bonds and \$115,395 2016 Oil Franchise Tax Series B Subordinate Refunding Bonds at a fixed rate with a final maturity of December 1, 2032. The 2016 A bonds are being issued to provide funds to finance the costs of the current and advance refunding of a portion of the PTC’s outstanding OFT Senior Revenue Bonds and issuing the 2016 A Bonds. The 2016 B Bonds are being issued to provide funds to finance the costs of the current and advance refunding of the PTC’s outstanding OFT Subordinate Revenue Bonds and issuing the 2016 B Bonds.

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

On August 23, 2016, the PTC authorized the issuance of the PTC's subordinate indenture bonds in one or more series or sub-series, fixed rate, taxable or tax-exempt, in an aggregate principal amount not to exceed \$650,000 (based on par amount). The primary purpose of these bonds is to refund all or a portion of the subordinate indenture bonds previously issued by the PTC. On October 20, 2016, the PTC issued \$411,075 Revenue Refunding Bonds consisting of \$331,210 Subordinate Revenue Refunding Bonds, Third Series of 2016 and \$79,865 Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Refunding Bonds, First Series of 2016. The Third Series of 2016 Subordinate Revenue Refunding Bonds consisted of \$255,455 Sub Series A at a fixed rate with a final maturity of December 1, 2041 and \$75,755 2016 Sub Series B (Federally Taxable) at a fixed rate and a final maturity of December 1, 2025. The Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Refunding Bonds were issued at a fixed rate with a final maturity of December 1, 2036. The Third Series of 2016 Subordinate Revenue Refunding Bonds and the Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Refunding Bonds were issued to provide funds to finance the cost of advance refunding a portion of the Subordinate Indenture Bonds previously issued by the PTC and for paying the costs of issuing these bonds.

On August 23, 2016, the PTC authorized the issuance of the PTC's subordinate indenture bonds or notes, including subordinate revenue bonds, bond anticipation notes and special revenue bonds, in one or more series or sub-series, fixed rate or variable rate, taxable and/or tax-exempt, in an aggregate initial principal amount not to exceed \$650,000 (based on par amount). The primary purpose of these bonds is to finance the costs of making lease, grant or other payments to the Pennsylvania Department of Transportation in accordance with Act 44 and Act 89 and to refund all or a portion of the subordinate indenture bonds previously issued by the PTC.

**PENNVEST**

On October 4, 2016, PIAA authorized the issuance of \$85,000 of commercial paper via a Third Supplemental Trust Indenture securing the PENNVEST/Commonwealth Funded Revolving Fund Indenture. At that time, an initial tranche of \$10,000 in short term notes was issued backed by a line of credit. These short term notes will be taken out either with the issuance of revenue bonds under the Indenture or with existing recycled loan repayment funds. The proceeds from the commercial paper are used to fund disbursements to projects in the pledged loan pool for sewer, drinking water, and/or storm water construction projects.

**PHEAA**

On May 7, 2015, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2015-2, a statutory trust under the laws of the State of Delaware. On August 5, 2016, an Amended and Restated Certificate of Trust was filed with the Delaware Secretary to modify the legal name of the PHEAA Student Loan Trust 2015-2 to the PHEAA Student Loan Trust 2016-1 ("2016-1 Trust"). The principal purpose of the 2016-1 Trust is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue one or more classes of securities secured by a pledge of such assets.

On September 14, 2016, the 2016-1 Trust issued \$534,000 of original principal amount of student loan asset backed notes, Class A ("Class A Notes"), at par, and \$11,600 of original principal amount of student loan asset backed notes, Class B ("Class B Notes"), at a discount. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 1.15% and a final maturity of September 25, 2065. The Class B Notes had a price to public of 84.00%, which resulted in a discount of \$1,900. The Class B Notes were issued with an interest rate of one-month LIBOR plus 1.50% and a final maturity date of September 25, 2065.

On October 24, 2016, the Foundation entered into a trust agreement with a financial institution, which created the PHEAA Student Loan Trust 2016-2 ("2016-2 Trust"), a statutory trust under the laws of the State of Delaware. The principal purpose of the 2016-2 Trust is to securitize student loans and related assets, and to acquire student loans from the Foundation and issue one or more classes of securities secured by a pledge of such assets.



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

On November 22, 2016, the 2016-2 Trust issued \$375,700 of original principal amount of student loan asset backed notes, Class A ("Class A Notes"), at par, and \$7,000 of original principal amount of student loan asset backed notes, Class B ("Class B Notes"), at a discount. The Class A Notes were issued with an interest rate of 1-month LIBOR plus 0.95% and a final maturity of November 25, 2065. The Class B Notes had a price to public of 88.52%, which resulted in a discount of \$803. The Class B Notes were issued with an interest rate of 1-month LIBOR plus 1.50% and a final maturity date of November 25, 2065.

**PHFA**

On July 14, 2016, the PHFA Board authorized the issuance of Single Family Mortgage Revenue Bonds Series 2016-122 in an amount not to exceed \$375,000. These bonds will be general obligations of the PHFA that bear interest at fixed rates payable on each April 1 and October 1 through their final maturity date. Proceeds are expected to include a portion to be used to refund certain PHFA single family mortgage revenue bonds issued previously and a portion to purchase new single family mortgage loans.

On July 21, 2016, the PHFA issued \$214,265 of Single Family Mortgage Revenue Bonds, Series 2016-120. These bonds are general obligations of the PHFA that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2046. The proceeds from the bond issuance were used to refund certain PHFA single family mortgage revenue bonds issued previously equal to \$158,770 and to purchase new single family mortgage loans.

On October 3, 2016, the PHFA issued \$254,835 of Single Family Mortgage Revenue Bonds, Series 2016-121. These bonds are general obligations of the PHFA that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2046. The proceeds from the bond issuance were used to refund certain PHFA single family mortgage revenue bonds issued previously equal to \$131,440 and to purchase new single family mortgage loans.

**SSHE**

In September 2016, PHEFA issued Series AT-1 tax exempt revenue bonds in the amount of \$279,050 and Series AT-2 taxable revenue bonds in the amount of \$19,060. The net proceeds from the Series AT revenue bonds were used to finance capital projects at several universities and to purchase certain student housing projects constructed by respective affiliated organizations. In connection with the bond issuance, the SSHE entered into a loan agreement with PHEFA under which the SSHE pledged its full faith and credit for repayment of bonds.

In September 2016, after more than a year of contract negotiations with the SSHE, the Association of Pennsylvania State College and University Faculties (APSCUF), which represents all faculty and coaches, voted to authorize union leaders to call a strike if and when considered necessary. APSCUF had been working under the terms of a contract that expired June 30, 2015. After a brief strike in October 2016, the members of the APSCUF reached a tentative agreement with the SSHE. The agreement runs through June 30, 2018. Details of the tentative agreement will be released upon ratification. The total financial impact of the agreement on SSHE is estimated to be \$51,300 over the life of the contract.



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# 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, 2016  
 (\$ 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, 2016</b>						
Actuarial Valuation Date.....	January 1, 2015	January 1, 2015	July 1, 2016	July 1, 2014	July 1, 2015	
Actuarial Value of Assets.....	\$ 144.74	\$ 80.22	\$ -	\$ -	\$ -	\$ 224.96
Actuarial Accrued Liability (AAL).....	\$ 16,134.42	\$ 3,531.02	\$ 562.30	\$ 415.27	\$ 306.52	\$ 20,949.53
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 15,989.68	\$ 3,450.80	\$ 562.30	\$ 415.27	\$ 306.52	\$ 20,724.57
Funded Ratio (assets as % of AAL).....	0.9%	2.3%	0.0%	0.0%	0.0%	1.1%
Estimated Annual Covered Payroll.....	\$ 4,289.10	\$ 394.33	\$ 202.50	\$ 95.30	\$ 46.12	\$ 5,027.35
UAAL as a Percentage of Covered Payroll.....	372.8%	875.1%	277.7%	435.8%	664.6%	412.2%
<b>As of and for the fiscal year ended June 30, 2015</b>						
Actuarial Valuation Date.....	January 1, 2015	January 1, 2015	July 1, 2014	July 1, 2014	July 1, 2014	
Actuarial Value of Assets.....	\$ 144.74	\$ 80.22	\$ -	\$ -	\$ -	\$ 224.96
Actuarial Accrued Liability (AAL).....	\$ 16,134.42	\$ 3,531.02	\$ 502.60	\$ 415.27	\$ 230.63	\$ 20,813.94
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 15,989.68	\$ 3,450.80	\$ 502.60	\$ 415.27	\$ 230.63	\$ 20,588.98
Funded Ratio (assets as % of AAL).....	0.9%	2.3%	0.0%	0.0%	0.0%	1.1%
Estimated Annual Covered Payroll.....	\$ 4,289.10	\$ 394.33	\$ 200.60	\$ 95.30	\$ 48.55	\$ 5,027.88
UAAL as a Percentage of Covered Payroll.....	372.8%	875.1%	250.5%	435.8%	475.0%	409.5%
<b>As of and for the fiscal year ended June 30, 2014</b>						
Actuarial Valuation Date.....	July 1, 2013	July 1, 2013	July 1, 2014	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	\$ 502.60	\$ 386.30	\$ 220.87	\$ 17,532.00
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 13,151.98	\$ 3,118.71	\$ 502.60	\$ 386.30	\$ 220.87	\$ 17,380.46
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	\$ 200.60	\$ 95.32	\$ 49.75	\$ 5,000.67
UAAL as a Percentage of Covered Payroll.....	308.4%	797.6%	250.5%	405.3%	444.0%	347.6%

<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, 2016</b>						
Annual required contribution.....	\$ 1,158.74	\$ 253.23	\$ 42.86	\$ 46.22	\$ 19.30	\$ 1,520.35
Percentage contributed.....	70.4%	35.8%	49.0%	37.0%	42.6%	62.7%
<b>For the fiscal year ended June 30, 2015</b>						
Annual required contribution.....	\$ 1,127.59	\$ 242.91	\$ 40.93	\$ 46.22	\$ 14.37	\$ 1,472.02
Percentage contributed.....	70.6%	33.8%	58.4%	34.5%	46.8%	62.8%
<b>For the fiscal year ended June 30, 2014</b>						
Annual required contribution.....	\$ 893.07	\$ 215.56	\$ 39.96	\$ 43.20	\$ 13.76	\$ 1,205.55
Percentage contributed.....	77.3%	35.7%	54.9%	32.8%	44.3%	67.2%

- The notes to required supplementary information are an integral part of this schedule. -

Following is a list of assumptions used in the August 2015 valuation for the REHP and RPSPP plans.

**Economic Assumptions** - The discount rate used is 5.25%.

**Healthcare Assumptions** - The healthcare trend rates were modified to reflect the SOA-Getzen trend rate model version 2014\_b; the first five years of trend are based on projections by the Congressional Budget Office.

**Demographic assumptions** - The demographic assumptions used for valuing the liabilities of the post-retirement medical plan are consistent with those used for the actuarial valuation of the State Employees' Retirement System. The demographic assumptions include the rate of mortality, the rate of withdrawal, the rate of retirement, and the rate of disability. Ancillary demographic assumptions specific to the post-retirement medical plan, including coverage rates and participation rates are based on recent experience.

**Commonwealth of Pennsylvania**

**Schedule of Pension Amounts**

Commonwealth's Proportionate Share of the Net Pension Liability  
For the Last Ten Fiscal Years Ended June 30 (1)

(Amounts in thousands)

	<u>2016 (2)</u>	<u>2015</u>
<b><u>SERS as of 12/31</u></b>		
Commonwealth's portion of the net pension liability.....	83.05%	82.94%
Commonwealth's proportionate share of the net pension liability .....	\$ 15,097,007	\$ 12,318,240
Commonwealth's covered-employee payroll.....	\$ 4,883,069	\$ 4,668,334
Commonwealth's proportionate share of the net pension liability as a percentage of its covered-employee payroll.....	309.17%	263.87%
Plan fiduciary net position as a percentage of the total pension liability.....	58.90%	64.80%
 <b><u>PSERS as of 6/30</u></b>		
<b>Non-employer contributing entity</b>		
Commonwealth's proportionate share of the net pension liability .....	\$ 251,536	\$ 223,083

- The notes to required supplementary information are an integral part of this schedule. -

(1) The Commonwealth adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only two years are presented in the above schedule.

(2) Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th Investigation of Actuarial Experience study for the period 2011 – 2015 was released in March 2016 and can be viewed at [www.sers.pa.gov](http://www.sers.pa.gov). The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was an increase to the net pension liability.

**Commonwealth of Pennsylvania**  
**Schedule of Pension Amounts**  
Commonwealth's Schedule of Contributions  
For the Last Ten Fiscal Years Ended June 30 (1)

(Amounts in thousands)	<u>2016</u>	<u>2015 (2)</u>
<b>SERS as of 12/31</b>		
Contractually required contribution.....	\$ 1,119,266	\$ 900,733
Contributions in relation to the contractually required contribution.....	\$ 1,119,266	\$ 900,733
Contribution deficiency (excess).....	\$ -	\$ -
Commonwealth's covered-employee payroll.....	\$ 4,883,069	\$ 4,668,334
Contributions as a percentage of its covered-employee payroll.....	22.92%	19.29%
<b>PSERS as of 6/30</b>		
<b>Non-employer</b>		
Contributions to the plan.....	\$ 19,017	\$ 14,994

- The notes to required supplementary information are an integral part of this schedule. -

(1) The Commonwealth adopted GASB 68 on a prospective basis for the fiscal year ended June 30, 2015; therefore, only two years are presented in the above schedule.

(2) Contributions to the PSERS plan as of June 30, 2015 were revised from those originally published in the Commonwealth's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Major Funds  
 General Fund  
 For the Fiscal Year Ended June 30, 2016

(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:					
Corporation taxes.....	\$ 5,035,900	\$ 113,700	\$ 5,149,600	\$ (11,752)	\$ 5,137,848
Consumption taxes.....	11,114,700	164,300	11,279,000	(199,297)	11,079,703
Other taxes.....	14,179,800	334,887	14,514,687	(474,418)	14,040,269
<b>TOTAL TAX REVENUE.....</b>	<b>30,330,400</b>	<b>612,887</b>	<b>30,943,287</b>	<b>(685,467)</b>	<b>30,257,820</b>
Nontax revenue.....	541,300	53,900	595,200	48,561	643,761
<b>TOTAL REVENUE STATE.....</b>	<b>30,871,700</b>	<b>666,787</b>	<b>31,538,487</b>	<b>(636,906)</b>	<b>30,901,581</b>
less: Refunds.....	(1,355,000)	-	(1,355,000)	105,000	(1,250,000)
plus: Departmental services.....	3,285,993	-	3,285,993	609,936	3,895,929
<b>TOTAL STATE PROGRAMS.....</b>	<b>32,802,693</b>	<b>666,787</b>	<b>33,469,480</b>	<b>78,030</b>	<b>33,547,510</b>
Federal programs.....	24,934,108	(67,372)	24,866,736	71,125	24,937,861
<b>TOTAL REVENUES.....</b>	<b>57,736,801</b>	<b>599,415</b>	<b>58,336,216</b>	<b>149,155</b>	<b>58,485,371</b>
<b>EXPENDITURES:</b>					
State programs.....	26,679,667	6,733,492	33,413,159	609,935	34,023,094 *
Federal programs.....	24,934,108	(67,372)	24,866,736	71,125	24,937,861
<b>TOTAL EXPENDITURES.....</b>	<b>51,613,775</b>	<b>6,666,120</b>	<b>58,279,895</b>	<b>681,060</b>	<b>58,960,955</b>
<b>REVENUES OVER/(UNDER) EXPENDITURES.....</b>	<b>6,123,026</b>	<b>(6,066,705)</b>	<b>56,321</b>	<b>(531,905)</b>	<b>(475,584)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	200,000	200,000	20,953	220,953
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>6,123,026</b>	<b>(5,866,705)</b>	<b>256,321</b>	<b>(510,952)</b>	<b>(254,631)</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2015, REVISED.....</b>	<b>205,843</b>	<b>500</b>	<b>206,343</b>	<b>50,279</b>	<b>256,622</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016, REVISED.....</b>	<b>\$ 6,328,869</b>	<b>\$ (5,866,205)</b>	<b>\$ 462,664</b>	<b>\$ (460,673)</b>	<b>\$ 1,991</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.pa.gov](http://www.budget.pa.gov)

- 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, 2016

(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.....	\$ 1,678,600	\$ -	\$ 1,678,600	\$ (19,403)	\$ 1,659,197
Motor licenses and fees.....	953,800	-	953,800	8,878	962,678
Other Motor License Fund revenues *.....	47,700	-	47,700	(12,026)	35,674
<b>TOTAL REVENUE STATE</b> .....	<b>2,680,100</b>	<b>-</b>	<b>2,680,100</b>	<b>(22,551)</b>	<b>2,657,549</b>
plus: Departmental services *.....	274,561	-	274,561	(20,572)	253,989
<b>TOTAL STATE PROGRAMS</b> .....	<b>2,954,661</b>	<b>-</b>	<b>2,954,661</b>	<b>(43,123)</b>	<b>2,911,538</b>
Federal programs.....	1,699,366	-	1,699,366	(35,672)	1,663,694
<b>TOTAL REVENUES</b> .....	<b>4,654,027</b>	<b>-</b>	<b>4,654,027</b>	<b>(78,795)</b>	<b>4,575,232</b>
<b>EXPENDITURES:</b>					
State programs.....	3,075,713	-	3,075,713	(54,863)	3,020,850
Federal programs.....	1,699,366	-	1,699,366	(35,672)	1,663,694
<b>TOTAL EXPENDITURES</b> .....	<b>4,775,079</b>	<b>-</b>	<b>4,775,079</b>	<b>(90,535)</b>	<b>4,684,544</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>(121,052)</b>	<b>-</b>	<b>(121,052)</b>	<b>11,740</b>	<b>(109,312)</b>
<b>OTHER FINANCING SOURCES:</b>					
Current year lapses **.....	-	5,000	5,000	(5,000)	-
Prior year lapses.....	-	20,000	20,000	(956)	19,044
<b>TOTAL OTHER FINANCING SOURCES</b> .....	<b>-</b>	<b>25,000</b>	<b>25,000</b>	<b>(5,956)</b>	<b>19,044</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<b>(121,052)</b>	<b>25,000</b>	<b>(96,052)</b>	<b>5,784</b>	<b>(90,268)</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2015</b> .....	<b>130,345</b>	<b>-</b>	<b>130,345</b>	<b>-</b>	<b>130,345</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016</b> .....	<b>\$ 9,293</b>	<b>\$ 25,000</b>	<b>\$ 34,293</b>	<b>\$ 5,784</b>	<b>\$ 40,077</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.pa.gov](http://www.budget.pa.gov)

- The notes to required supplementary information are an integral part of this schedule. -

## **NOTES TO THE 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 anticipated to be 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: [www.budget.pa.gov](http://www.budget.pa.gov) 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 THE 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 <u>Fund</u>
<b>Budgetary basis</b> – revenues and other sources under expenditures and other uses.....	\$ (254,631)	\$ -	\$ (254,631)	\$ (90,268)
<b>Adjustments:</b>				
<b><u>Basis differences</u></b>				
To adjust revenues, other financing sources and related receivables and unearned revenue.....	(1,922,200)	-	(1,922,200)	1,832,796
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	2,038,678	-	2,038,678	(1,846,321)
<b>Basis difference adjustments.....</b>	<u>116,478</u>	<u>-</u>	<u>116,478</u>	<u>(13,525)</u>
<b><u>Perspective differences</u></b>				
Nonbudgeted statutory funds which are financially reported as part of this fund:				
Revenues.....	-	437,714	437,714	392
Expenditures.....	-	(483,005)	(483,005)	(405)
<b>Perspective difference adjustments..</b>	<u>-</u>	<u>(45,291)</u>	<u>(45,291)</u>	<u>(13)</u>
<b>Net adjustments.....</b>	<u>116,478</u>	<u>(45,291)</u>	<u>71,187</u>	<u>(13,538)</u>
<b>Modified accrual basis</b> – net change in governmental fund balance.....	<u>\$ (138,153)</u>	<u>\$ (45,291)</u>	<u>\$ (183,444)</u>	<u>\$ (103,806)</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.

## **NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION** (amounts in thousands)

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### **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 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 a net \$6,733,491 of appropriation increases approved for the fiscal year ended June 30, 2016.

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, 2016. This report includes a variety of detailed 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: [www.budget.pa.gov](http://www.budget.pa.gov) and click on Publications and Reports and then click on Status of Appropriations. 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: [www.budget.pa.gov](http://www.budget.pa.gov) by clicking on Publications and Reports at the top of the page and then click on Annual Financial Reports and finally click on ‘**General Fund** Budgetary Comparison Schedule Rationale’ and ‘**Motor License Fund** Budgetary Comparison Schedule Rationale’ at the bottom of the page.

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# Combining Financial Statements

Including  
Nonmajor Budgetary Comparison Schedules

**Commonwealth of Pennsylvania**  
**Combining Balance Sheet-Nonmajor Governmental Funds**

June 30, 2016

(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
<b>ASSETS</b>				
Cash.....	\$ 25,640	\$ -	\$ 2,973	\$ 28,613
Temporary investments.....	2,234,485	31,600	514,432	2,780,517
Long-term investments.....	1,557,562	-	116,923	1,674,485
Receivables (net):				
Taxes.....	-	-	33,952	33,952
Accounts.....	180,707	3,222	48	183,977
Investment income.....	5,594	9	248	5,851
Investment sale proceeds.....	21,941	-	-	21,941
Other.....	61,598	-	-	61,598
Due from other funds.....	75,737	1,295	18,794	95,826
Due from pension trust funds.....	537	-	-	537
Due from component units.....	-	378	-	378
Due from Federal government.....	13,836	-	-	13,836
Due from political subdivisions.....	-	-	300	300
Advances to other funds.....	4,750	-	-	4,750
<b>TOTAL ASSETS.....</b>	<b>\$ 4,182,387</b>	<b>\$ 36,504</b>	<b>\$ 687,670</b>	<b>\$ 4,906,561</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 312,585	\$ 2,320	\$ 77,581	\$ 392,486
Investment purchases payable.....	31,210	-	-	31,210
Securities lending obligations.....	88,649	-	3,097	91,746
Due to other funds.....	287,514	7,516	7,880	302,910
Due to component units.....	16,549	-	-	16,549
Due to pension trust funds.....	2,917	-	3	2,920
Due to political subdivisions.....	195,294	-	32,285	227,579
Due to other governments.....	885	-	1	886
Unearned revenue.....	83,135	3,222	-	86,357
Advances from other funds.....	9,000	-	-	9,000
<b>TOTAL LIABILITIES.....</b>	<b>1,027,738</b>	<b>13,058</b>	<b>120,847</b>	<b>1,161,643</b>
<b>Deferred inflows of resources:</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>171,489</b>	<b>-</b>	<b>-</b>	<b>171,489</b>
<b>Fund balances:</b>				
Nonspendable.....	-	-	-	-
Restricted.....	2,824,125	-	-	2,824,125
Committed.....	159,035	23,446	566,823	749,304
<b>TOTAL FUND BALANCES.....</b>	<b>2,983,160</b>	<b>23,446</b>	<b>566,823</b>	<b>3,573,429</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 4,182,387</b>	<b>\$ 36,504</b>	<b>\$ 687,670</b>	<b>\$ 4,906,561</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances-Nonmajor Governmental Funds**  
For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
<b>REVENUES:</b>				
Taxes.....	\$ 1,853,637	\$ -	\$ 311,104	\$ 2,164,741
Licenses and fees.....	1,196,670	-	-	1,196,670
Intergovernmental.....	816,451	24,715	-	841,166
Charges for sales and services.....	233,616	-	-	233,616
Investment income.....	54,607	101	5,493	60,201
Other.....	355,436	13,831	-	369,267
<b>TOTAL REVENUES</b> .....	<u>4,510,417</u>	<u>38,647</u>	<u>316,597</u>	<u>4,865,661</u>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	416,722	437	55,092	472,251
Protection of persons and property.....	699,147	-	1,265	700,412
Health and human services.....	612,926	-	-	612,926
Public education.....	616,686	-	17,035	633,721
Recreation and cultural enrichment.....	185,874	-	53,681	239,555
Economic development.....	252,029	-	180,151	432,180
Transportation.....	1,203,483	-	360,226	1,563,709
Capital outlay.....	10,305	-	221,505	231,810
Debt service:				
Principal retirement.....	-	757,455	-	757,455
Interest and fiscal charges.....	-	560,836	2,354	563,190
<b>TOTAL EXPENDITURES</b> .....	<u>3,997,172</u>	<u>1,318,728</u>	<u>891,309</u>	<u>6,207,209</u>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<u>513,245</u>	<u>(1,280,081)</u>	<u>(574,712)</u>	<u>(1,341,548)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	355,000	355,000
Refunding bonds issued.....	-	632,852	323	633,175
Premium on bonds/refunding bonds.....	-	132,461	41,210	173,671
Discount on bonds issued.....	-	-	(780)	(780)
Transfers in.....	282,993	1,289,847	-	1,572,840
Transfers out.....	(695,513)	-	(276,783)	(972,296)
Payment to refunded bond escrow agent.....	-	(763,350)	-	(763,350)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>(412,520)</u>	<u>1,291,810</u>	<u>118,970</u>	<u>998,260</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	100,725	11,729	(455,742)	(343,288)
<b>FUND BALANCES JULY 1, 2015</b> .....	<u>2,882,435</u>	<u>11,717</u>	<u>1,022,565</u>	<u>3,916,717</u>
<b>FUND BALANCES JUNE 30, 2016</b> .....	<u>\$ 2,983,160</u>	<u>\$ 23,446</u>	<u>\$ 566,823</u>	<u>\$ 3,573,429</u>

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# 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 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-nine individual special revenue funds.

There are a total of forty-seven 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, 2016

(Amounts in thousands)

	Budgeted Funds						Gaming	Other	Total
	Banking	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust			
<b>ASSETS</b>									
Cash.....	\$ 128	\$ 14	\$ 2	\$ 1,056	\$ 135	\$ 112	\$ 2,889	\$ 21,304	\$ 25,640
Temporary investments.....	16,479	4,078	73,296	107,260	350,148	363,145	658,693	661,386	2,234,485
Long-term investments.....	13,534	-	-	786,416	-	204,520	-	553,092	1,557,562
Receivables (net):									
Accounts.....	8,692	-	2	-	171,465	-	1	547	180,707
Investment income.....	8	2	-	4,787	-	167	307	323	5,594
Investment sale proceeds.....	-	-	-	21,941	-	-	-	-	21,941
Other.....	-	-	-	-	-	-	-	61,598	61,598
Due from other funds.....	13	-	20	-	1	48,720	14	26,969	75,737
Due from pension trust funds.....	-	-	-	-	-	-	-	537	537
Due from Federal government.....	-	-	-	-	1,043	-	-	12,793	13,836
Advances to other funds.....	-	-	4,000	750	-	-	-	-	4,750
<b>TOTAL ASSETS.....</b>	<b>\$ 38,854</b>	<b>\$ 4,094</b>	<b>\$ 77,320</b>	<b>\$ 922,210</b>	<b>\$ 522,792</b>	<b>\$ 616,664</b>	<b>\$ 661,904</b>	<b>\$ 1,338,549</b>	<b>\$ 4,182,387</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities.....	\$ 814	\$ 159	\$ 3,997	\$ 4,926	\$ 8,423	\$ 19,852	\$ 42,856	\$ 231,558	\$ 312,585
Investment purchases payable.....	-	-	-	31,210	-	-	-	-	31,210
Securities lending obligations.....	358	-	-	68,224	-	5,417	-	14,650	88,649
Due to other funds.....	121	20	606	216	219,608	20	6,463	60,460	287,514
Due to component units.....	-	-	-	-	-	-	16,282	267	16,549
Due to pension trust funds.....	130	12	375	2	1	14	514	1,869	2,917
Due to political subdivisions.....	-	-	-	-	1,673	92,790	25,730	75,101	195,294
Due to other governments.....	34	3	97	-	-	4	89	658	885
Unearned revenue.....	-	2,976	-	-	-	-	8,785	71,374	83,135
Advances from other funds.....	-	-	-	-	-	-	-	9,000	9,000
<b>TOTAL LIABILITIES.....</b>	<b>1,457</b>	<b>3,170</b>	<b>5,075</b>	<b>104,578</b>	<b>229,705</b>	<b>118,097</b>	<b>100,719</b>	<b>464,937</b>	<b>1,027,738</b>
<b>Deferred inflows of resources:</b>									
<b>TOTAL DEFERRED INFLOWS OF RESOURCES..</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>171,465</b>	<b>-</b>	<b>-</b>	<b>24</b>	<b>171,489</b>
<b>Fund balances:</b>									
Restricted.....	37,397	924	72,245	817,632	-	498,567	561,185	836,175	2,824,125
Committed.....	-	-	-	-	121,622	-	-	37,413	159,035
<b>TOTAL FUND BALANCES.....</b>	<b>37,397</b>	<b>924</b>	<b>72,245</b>	<b>817,632</b>	<b>121,622</b>	<b>498,567</b>	<b>561,185</b>	<b>873,588</b>	<b>2,983,160</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 38,854</b>	<b>\$ 4,094</b>	<b>\$ 77,320</b>	<b>\$ 922,210</b>	<b>\$ 522,792</b>	<b>\$ 616,664</b>	<b>\$ 661,904</b>	<b>\$ 1,338,549</b>	<b>\$ 4,182,387</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds**  
**Nonmajor Governmental Funds**

Special Revenue Funds  
 For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	Budgeted Funds								Total
	Banking	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming	Other	
<b>REVENUES:</b>									
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 455,452	\$ 1,291,154	\$ 107,031	\$ 1,853,637
Licenses and fees.....	7,875	1,010	24	40,988	-	245,582	79,217	821,974	1,196,670
Intergovernmental.....	-	-	-	-	182,758	450,000	9,062	174,631	816,451
Charges for sales and services.....	17,985	-	57,571	-	16,572	-	-	141,488	233,616
Investment income.....	454	12	-	26,907	429	6,960	1,611	18,234	54,607
Other.....	25	-	109	180	339,971	-	-	15,151	355,436
<b>TOTAL REVENUES</b> .....	<b>26,339</b>	<b>1,022</b>	<b>57,704</b>	<b>68,075</b>	<b>539,730</b>	<b>1,157,994</b>	<b>1,381,044</b>	<b>1,278,509</b>	<b>4,510,417</b>
<b>EXPENDITURES:</b>									
Current:									
Direction and supportive services.....	77	-	-	-	-	-	414,583	2,062	416,722
Protection of persons and property.....	19,142	2,472	-	33,097	-	-	-	644,436	699,147
Health and human services.....	-	-	67,897	-	496,982	-	8,041	40,006	612,926
Public education.....	-	-	-	-	-	-	616,491	195	616,686
Recreation and cultural enrichment.....	-	-	-	-	-	-	10,075	175,799	185,874
Economic development.....	-	-	368	-	3,000	-	46,255	202,406	252,029
Transportation.....	-	-	-	-	-	1,173,286	-	30,197	1,203,483
Capital outlay.....	-	-	-	-	-	708	-	9,597	10,305
<b>TOTAL EXPENDITURES</b> .....	<b>19,219</b>	<b>2,472</b>	<b>68,265</b>	<b>33,097</b>	<b>499,982</b>	<b>1,173,994</b>	<b>1,095,445</b>	<b>1,104,698</b>	<b>3,997,172</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>7,120</b>	<b>(1,450)</b>	<b>(10,561)</b>	<b>34,978</b>	<b>39,748</b>	<b>(16,000)</b>	<b>285,599</b>	<b>173,811</b>	<b>513,245</b>
<b>OTHER FINANCING SOURCES (USES):</b>									
Transfers in.....	-	-	2	-	-	116,063	-	166,928	282,993
Transfers out.....	-	-	(6,100)	-	-	(30,000)	(348,927)	(310,486)	(695,513)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>-</b>	<b>-</b>	<b>(6,098)</b>	<b>-</b>	<b>-</b>	<b>86,063</b>	<b>(348,927)</b>	<b>(143,558)</b>	<b>(412,520)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>7,120</b>	<b>(1,450)</b>	<b>(16,659)</b>	<b>34,978</b>	<b>39,748</b>	<b>70,063</b>	<b>(63,328)</b>	<b>30,253</b>	<b>100,725</b>
<b>FUND BALANCES, JULY 1, 2015</b> .....	<b>30,277</b>	<b>2,374</b>	<b>88,904</b>	<b>782,654</b>	<b>81,874</b>	<b>428,504</b>	<b>624,513</b>	<b>843,335</b>	<b>2,882,435</b>
<b>FUND BALANCES, JUNE 30, 2016</b> .....	<b>\$ 37,397</b>	<b>\$ 924</b>	<b>\$ 72,245</b>	<b>\$ 817,632</b>	<b>\$ 121,622</b>	<b>\$ 498,567</b>	<b>\$ 561,185</b>	<b>\$ 873,588</b>	<b>\$ 2,983,160</b>

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Banking  
 For the Fiscal Year Ended June 30, 2016  
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 22,870	\$ (1,170)	\$ 21,700	\$ 2,046	\$ 23,746
Fines, penalties and interest.....	400	-	400	884	1,284
Investment income.....	287	(51)	236	64	300
Miscellaneous.....	400	-	400	(392)	8
<b>TOTAL STATE PROGRAMS.....</b>	<b>23,957</b>	<b>(1,221)</b>	<b>22,736</b>	<b>2,602</b>	<b>25,338</b>
Federal Programs.....	-	-	-	-	-
<b>TOTAL REVENUES.....</b>	<b>23,957</b>	<b>(1,221)</b>	<b>22,736</b>	<b>2,602</b>	<b>25,338</b>
<b>EXPENDITURES:</b>					
State Programs.....	25,178	-	25,178	-	25,178
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(1,221)</b>	<b>(1,221)</b>	<b>(2,442)</b>	<b>2,602</b>	<b>160</b>
<b>FUND BALANCE</b> <b>(BUDGETARY BASIS), JUNE 30, 2015.....</b>	<b>11,566</b>	<b>-</b>	<b>11,566</b>	<b>-</b>	<b>11,566</b>
<b>FUND BALANCE</b> <b>(BUDGETARY BASIS), JUNE 30, 2016.....</b>	<b>\$ 10,345</b>	<b>\$ (1,221)</b>	<b>\$ 9,124</b>	<b>\$ 2,602</b>	<b>\$ 11,726</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, 2016 and is available at the following web address:  
<http://www.budget.pa.gov/Pages/default.aspx> (At the website, click on Publications & Reports, then June 2016.)

<b>Traceability to the " Status of Appropriations " Column Totals</b>	<b>Special Funds "Status of Appropriations" Report Page Reference</b>	
<b>Total State Programs-Actual (Budgetary Basis) Expenditures</b>		
Appropriations (Column A).....	230	\$ 25,178
plus Actual Augmentations (Column C).....	230	-
less Lapses (Column D).....	230	-
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<b>\$ 25,178</b>

**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).....	\$ 160
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	1,001
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	5,959
Net adjustments.....	6,960
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ 7,120</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 179 to 181 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, 2016

(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:					
Licenses and fees.....	\$ 2,381	\$ 12	\$ 2,393	\$ (1,404)	\$ 989
Fines, penalties and interest.....	13	(8)	5	16	21
Investment income.....	6	1	7	4	11
<b>TOTAL REVENUES.....</b>	<u>2,400</u>	<u>5</u>	<u>2,405</u>	<u>(1,384)</u>	<u>1,021</u>
<b>EXPENDITURES:</b>					
State programs.....	2,840	-	2,840	-	2,840
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<u>(440)</u>	<u>5</u>	<u>(435)</u>	<u>(1,384)</u>	<u>(1,819)</u>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	261	261	-	261
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<u>(440)</u>	<u>266</u>	<u>(174)</u>	<u>(1,384)</u>	<u>(1,558)</u>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2015.....</b>	2,102	-	2,102	-	2,102
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016.....</b>	<u>\$ 1,662</u>	<u>\$ 266</u>	<u>\$ 1,928</u>	<u>\$ (1,384)</u>	<u>\$ 544</u>

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, 2016 and is available at the following web address:  
<http://www.budget.pa.gov/Pages/default.aspx> (At the website, click on Publications & Reports, then June 2016.)

Total Actual (Budgetary Basis) Expenditures of \$2,840 are traceable from page 234, Column A 'Appropriations' in the June 30, 2016 "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).....	<u>\$ (1,558)</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(260)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>368</u>
Net adjustments.....	<u>108</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ (1,450)</u>

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 179 to 181 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, 2016

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 70,666	\$ (10,239)	\$ 60,427	\$ (397)	\$ 60,030
Fines, penalties and interest.....	5	4	9	16	25
Investment income.....	224	(89)	135	(135)	-
Miscellaneous.....	720	43	763	(652)	111
<b>TOTAL REVENUES.....</b>	<b>71,615</b>	<b>(10,281)</b>	<b>61,334</b>	<b>(1,168)</b>	<b>60,166</b>
<b>EXPENDITURES:</b>					
State programs.....	74,966	7,587	82,553	-	82,553
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(3,351)</b>	<b>(17,868)</b>	<b>(21,219)</b>	<b>(1,168)</b>	<b>(22,387)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	278	278	-	278
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(3,351)</b>	<b>(17,590)</b>	<b>(20,941)</b>	<b>(1,168)</b>	<b>(22,109)</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2015.....</b>	<b>77,607</b>	<b>-</b>	<b>77,607</b>	<b>-</b>	<b>77,607</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016.....</b>	<b>\$ 74,256</b>	<b>\$ (17,590)</b>	<b>\$ 56,666</b>	<b>\$ (1,168)</b>	<b>\$ 55,498</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, 2016 and is available at the following web address:  
<http://www.budget.pa.gov/Pages/default.aspx>(At the website, click on Publications & Reports, then June 2016.)

<b>Traceability to the " Status of Appropriations " Column Totals</b>	<i>Special Funds</i> <i>"Status of</i> <i>Appropriations"</i>	
<b>Total State Programs-Actual (Budgetary Basis) Expenditures</b>	Report Page Reference	
Appropriations (Column A).....	324	\$ 82,066
plus Actual Augmentations (Column C).....	324	487
less Lapses (Column D).....	324	-
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<b>\$ 82,553</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>\$ (22,109)</b>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(2,738)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	8,188
Net adjustments.....	5,450
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ (16,659)</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 179 to 181 are an integral part of this schedule. -

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# 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 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.

***Growing Greener Bond Sinking Fund*** — payments for principal and interest for the Growing Greener Bond Fund are made from this Fund. Funding consists of transfers from the Environmental Stewardship Fund.

***Water and Sewer Systems Assistance Bond Sinking Fund*** — payments to redeem or pay interest on bonds issued for the Water and Sewer Systems Assistance Fund are made from this Fund. Funding is requested annually by the Governor and appropriated by the General Assembly.

***Water Supply and Wastewater Treatment Sinking Fund*** — monies in this fund are used to redeem or pay interest on bonds issued for the Water Supply and Wastewater Treatment Fund. Funding consists of monies appropriated annually by the General Assembly.

***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, 2016

(Amounts in thousands)

	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Growing Greener Bond Sinking	Water and Sewer Systems Assistance Bond Sinking	Water Supply and Wastewater Treatment Sinking	Other	Total
<b>ASSETS</b>							
Temporary investments.....	\$ 2,310	\$ 29,021	\$ -	\$ -	\$ -	\$ 269	\$ 31,600
Receivables (net):							
Accounts.....	-	3,222	-	-	-	-	3,222
Investment income.....	2	7	-	-	-	-	9
Due from other funds.....	-	-	1,295	-	-	-	1,295
Due from component units.....	378	-	-	-	-	-	378
<b>TOTAL ASSETS.....</b>	<b>\$ 2,690</b>	<b>\$ 32,250</b>	<b>\$ 1,295</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 269</b>	<b>\$ 36,504</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities.....	\$ -	\$ 2,320	\$ -	\$ -	\$ -	\$ -	\$ 2,320
Due to other funds.....	-	7,516	-	-	-	-	7,516
Unearned revenue.....	-	3,222	-	-	-	-	3,222
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>13,058</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,058</b>
<b>Fund balances:</b>							
Committed.....	2,690	19,192	1,295	-	-	269	23,446
<b>TOTAL FUND BALANCES.....</b>	<b>2,690</b>	<b>19,192</b>	<b>1,295</b>	<b>-</b>	<b>-</b>	<b>269</b>	<b>23,446</b>
<b>TOTAL LIABILITIES AND FUND BALANCES....</b>	<b>\$ 2,690</b>	<b>\$ 32,250</b>	<b>\$ 1,295</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 269</b>	<b>\$ 36,504</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, 2016

(Amounts in thousands)	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Growing Greener Bond Sinking	Water and Sewer Systems Assistance Bond Sinking	Water Supply and Wastewater Treatment Sinking	Other	Total
<b>REVENUES:</b>							
Intergovernmental.....	\$ -	\$ 23,420	\$ 1,295	\$ -	\$ -	\$ -	\$ 24,715
Investment income.....	7	112	-	-	-	(18)	101
Other.....	13,831	-	-	-	-	-	13,831
<b>TOTAL REVENUES</b> .....	<u>13,838</u>	<u>23,532</u>	<u>1,295</u>	<u>-</u>	<u>-</u>	<u>(18)</u>	<u>38,647</u>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	-	437	-	-	-	-	437
Debt service:							
Principal retirement.....	9,820	705,810	23,400	8,265	9,780	380	757,455
Interest and fiscal charges.....	7,354	517,647	14,198	16,522	4,927	188	560,836
<b>TOTAL EXPENDITURES</b> .....	<u>17,174</u>	<u>1,223,894</u>	<u>37,598</u>	<u>24,787</u>	<u>14,707</u>	<u>568</u>	<u>1,318,728</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b> .....	<u>(3,336)</u>	<u>(1,200,362)</u>	<u>(36,303)</u>	<u>(24,787)</u>	<u>(14,707)</u>	<u>(586)</u>	<u>(1,280,081)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Refunding bonds issued.....	-	632,852	-	-	-	-	632,852
Premium on refunding bonds.....	-	132,461	-	-	-	-	132,461
Transfers in.....	4,891	1,207,481	37,598	24,738	14,707	432	1,289,847
Payment to refunded bond escrow agent.....	-	(763,350)	-	-	-	-	(763,350)
<b>NET OTHER FINANCING SOURCES</b> .....	<u>4,891</u>	<u>1,209,444</u>	<u>37,598</u>	<u>24,738</u>	<u>14,707</u>	<u>432</u>	<u>1,291,810</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	1,555	9,082	1,295	(49)	-	(154)	11,729
<b>FUND BALANCES, JULY 1, 2015</b> .....	<u>1,135</u>	<u>10,110</u>	<u>-</u>	<u>49</u>	<u>-</u>	<u>423</u>	<u>11,717</u>
<b>FUND BALANCES, JUNE 30, 2016</b> .....	<u>\$ 2,690</u>	<u>\$ 19,192</u>	<u>\$ 1,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269</u>	<u>\$ 23,446</u>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# 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, 2016

(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.....	\$ 2,919	\$ 49	\$ -	\$ -	\$ -	\$ 5	\$ 2,973
Temporary investments.....	424,719	39,193	17,603	24,096	57	8,764	514,432
Long-term investments.....	-	116,923	-	-	-	-	116,923
Receivables (net):							
Taxes.....	-	-	-	-	-	33,952	33,952
Accounts.....	48	-	-	-	-	-	48
Investment income.....	202	18	9	11	-	8	248
Due from other funds.....	541	9,132	-	-	-	9,121	18,794
Due from political subdivisions.....	300	-	-	-	-	-	300
<b>TOTAL ASSETS.....</b>	<b>\$ 428,729</b>	<b>\$ 165,315</b>	<b>\$ 17,612</b>	<b>\$ 24,107</b>	<b>\$ 57</b>	<b>\$ 51,850</b>	<b>\$ 687,670</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities.....	\$ 65,199	\$ 7,601	\$ 3,980	\$ 801	\$ -	\$ -	\$ 77,581
Securities lending obligations.....	-	3,097	-	-	-	-	3,097
Due to other funds.....	6,508	59	-	337	-	976	7,880
Due to pension trust funds.....	-	3	-	-	-	-	3
Due to political subdivisions.....	23,013	1,273	70	139	-	7,790	32,285
Due to other governments.....	-	1	-	-	-	-	1
<b>TOTAL LIABILITIES.....</b>	<b>94,720</b>	<b>12,034</b>	<b>4,050</b>	<b>1,277</b>	<b>-</b>	<b>8,766</b>	<b>120,847</b>
<b>Fund balances:</b>							
Committed.....	334,009	153,281	13,562	22,830	57	43,084	566,823
<b>TOTAL FUND BALANCES.....</b>	<b>334,009</b>	<b>153,281</b>	<b>13,562</b>	<b>22,830</b>	<b>57</b>	<b>43,084</b>	<b>566,823</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 428,729</b>	<b>\$ 165,315</b>	<b>\$ 17,612</b>	<b>\$ 24,107</b>	<b>\$ 57</b>	<b>\$ 51,850</b>	<b>\$ 687,670</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, 2016

(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>REVENUES:</b>							
Taxes.....	\$ -	\$ 84,283	\$ -	\$ -	\$ -	\$ 226,821	\$ 311,104
Investment income.....	1,701	3,543	88	90	-	71	5,493
<b>TOTAL REVENUES</b> .....	<u>1,701</u>	<u>87,826</u>	<u>88</u>	<u>90</u>	<u>-</u>	<u>226,892</u>	<u>316,597</u>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	55,092	-	-	-	-	-	55,092
Protection of persons and property.....	-	-	1,235	-	30	-	1,265
Public education.....	-	13,059	3,976	-	-	-	17,035
Recreation and cultural enrichment.....	-	48,242	5,439	-	-	-	53,681
Economic development.....	172,191	-	2,344	5,616	-	-	180,151
Transportation.....	158,172	-	-	-	-	202,054	360,226
Capital outlay.....	205,048	9,691	6,766	-	-	-	221,505
Debt service:							
Interest and fiscal charges.....	2,354	-	-	-	-	-	2,354
<b>TOTAL EXPENDITURES</b> .....	<u>592,857</u>	<u>70,992</u>	<u>19,760</u>	<u>5,616</u>	<u>30</u>	<u>202,054</u>	<u>891,309</u>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<u>(591,156)</u>	<u>16,834</u>	<u>(19,672)</u>	<u>(5,526)</u>	<u>(30)</u>	<u>24,838</u>	<u>(574,712)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Bonds issued.....	355,000	-	-	-	-	-	355,000
Refunding bonds issued.....	323	-	-	-	-	-	323
Premium on bonds issued.....	41,210	-	-	-	-	-	41,210
Discount on bonds issued.....	(780)	-	-	-	-	-	(780)
Transfers out.....	(256,016)	-	-	(611)	-	(20,156)	(276,783)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>139,737</u>	<u>-</u>	<u>-</u>	<u>(611)</u>	<u>-</u>	<u>(20,156)</u>	<u>118,970</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>(451,419)</u>	<u>16,834</u>	<u>(19,672)</u>	<u>(6,137)</u>	<u>(30)</u>	<u>4,682</u>	<u>(455,742)</u>
<b>FUND BALANCES JULY 1, 2015</b> .....	<u>785,428</u>	<u>136,447</u>	<u>33,234</u>	<u>28,967</u>	<u>87</u>	<u>38,402</u>	<u>1,022,565</u>
<b>FUND BALANCES JUNE 30, 2016</b> .....	<u>\$ 334,009</u>	<u>\$ 153,281</u>	<u>\$ 13,562</u>	<u>\$ 22,830</u>	<u>\$ 57</u>	<u>\$ 43,084</u>	<u>\$ 566,823</u>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# 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.

**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.

**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 (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.

**Philadelphia Regional Port Authority (PRPA)** — The PRPA (a blended component unit) 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 Primary Government. The PRPA also issues revenue bonds to finance its activities.

**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 seven individual enterprise funds.

There are a total of sixteen 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, 2016

(Amounts in thousands)

	State Stores	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
<b>ASSETS</b>								
Current assets:								
Cash .....	\$ 19,964	\$ 101	\$ 80	\$ -	\$ 109	\$ 13,504	\$ 44	\$ 33,802
Cash with fiscal agents.....	-	-	-	-	2	-	-	2
Temporary investments.....	275,395	18,032	18,441	9,308	9,942	441	16,633	348,192
Receivables (net):								
Accounts .....	1,481	221	-	770	143	-	-	2,615
Investment income.....	-	8	8	4	5	-	7	32
Interest on loans.....	-	98	-	666	-	-	-	764
Loans.....	-	12,881	-	8,593	-	-	1,360	22,834
Lease rental.....	-	-	-	-	-	738	-	738
Other .....	-	-	-	-	-	7	-	7
Due from other funds .....	87	-	-	-	5,514	6,826	14	12,441
Due from Federal government.....	-	-	-	-	4	-	1	5
Due from other governments .....	-	-	-	-	-	66	-	66
Inventory.....	244,651	-	-	-	-	-	4	244,655
Prepaid expenses.....	-	-	-	-	-	721	-	721
Other assets.....	-	-	-	-	-	455	-	455
Total current assets .....	<u>541,578</u>	<u>31,341</u>	<u>18,529</u>	<u>19,341</u>	<u>15,719</u>	<u>22,758</u>	<u>18,063</u>	<u>667,329</u>
Noncurrent assets:								
Restricted cash.....	-	-	-	-	-	4,521	-	4,521
Long-term investments .....	-	40,602	105,016	48,100	-	-	-	193,718
Receivables:								
Loans.....	-	61,644	-	75,075	-	-	804	137,523
Non-depreciable capital assets:								
Land.....	323	-	-	-	-	179,130	-	179,453
Construction in progress.....	-	-	-	-	-	26,383	-	26,383
Depreciable or amortizable capital assets:								
Land improvements.....	-	-	-	-	-	67,559	-	67,559
Buildings and building improvements.....	20,316	-	-	-	34,135	357,119	-	411,570
Machinery and equipment.....	61,957	-	71	-	2,673	39,932	1,772	106,405
Intangible assets.....	13,095	-	-	-	-	-	-	13,095
Less: accumulated depreciation and amortization...	(55,232)	-	(40)	-	(26,301)	(195,865)	(1,753)	(279,191)
Net depreciable or amortizable capital assets.....	<u>40,136</u>	<u>-</u>	<u>31</u>	<u>-</u>	<u>10,507</u>	<u>268,745</u>	<u>19</u>	<u>319,438</u>
Other assets.....	-	-	-	-	-	4,101	-	4,101
Total noncurrent assets .....	<u>40,459</u>	<u>102,246</u>	<u>105,047</u>	<u>123,175</u>	<u>10,507</u>	<u>482,880</u>	<u>823</u>	<u>865,137</u>
<b>TOTAL ASSETS.....</b>	<u>582,037</u>	<u>133,587</u>	<u>123,576</u>	<u>142,516</u>	<u>26,226</u>	<u>505,638</u>	<u>18,886</u>	<u>1,532,466</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>								
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES..</b>	<u>101,988</u>	<u>-</u>	<u>686</u>	<u>-</u>	<u>5,435</u>	<u>3,827</u>	<u>548</u>	<u>112,484</u>

Commonwealth of Pennsylvania  
**Combining Statement of Net Position-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 June 30, 2016

(Amounts in thousands)

	State Stores	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and accrued liabilities.....	286,637	419	255	2,154	1,420	6,157	831	297,873
Securities lending obligations.....	-	1,075	2,782	1,274	-	-	-	5,131
Due to other funds.....	8,767	-	21	-	272	6	22	9,088
Due to pension trust funds.....	1,749	-	18	-	128	81	13	1,989
Due to component units.....	-	-	22	-	-	-	-	22
Due to political subdivisions.....	-	-	-	-	42	-	-	42
Due to other governments.....	511	-	4	-	34	2,419	6	2,974
Interest payable.....	-	-	-	-	-	340	-	340
Unearned revenue.....	-	85	2,481	59	-	1,029	-	3,654
Revenue bonds payable.....	-	-	-	-	-	3,875	-	3,875
Self insurance liabilities.....	8,163	-	18	-	131	89	34	8,435
Compensated absences.....	5,504	-	77	-	272	228	35	6,116
Other liabilities.....	-	-	-	-	-	345	-	345
<b>Total current liabilities.....</b>	<b>311,331</b>	<b>1,579</b>	<b>5,678</b>	<b>3,487</b>	<b>2,299</b>	<b>14,569</b>	<b>941</b>	<b>339,884</b>
Non-current liabilities:								
Insurance loss liability.....	-	-	580	-	-	-	-	580
Revenue bond payable.....	-	-	-	-	-	17,324	-	17,324
Compensated absences.....	22,015	-	307	-	1,089	912	139	24,462
Self insurance liabilities.....	41,263	-	91	-	663	452	172	42,641
Other postemployment benefit obligations.....	97,297	-	660	-	5,472	2,850	535	106,814
Net pension liability.....	491,699	-	3,316	-	26,270	13,871	2,643	537,799
Other liabilities.....	-	-	-	-	-	322	-	322
<b>Total non-current liabilities.....</b>	<b>652,274</b>	<b>-</b>	<b>4,954</b>	<b>-</b>	<b>33,494</b>	<b>35,731</b>	<b>3,489</b>	<b>729,942</b>
<b>TOTAL LIABILITIES.....</b>	<b>963,605</b>	<b>1,579</b>	<b>10,632</b>	<b>3,487</b>	<b>35,793</b>	<b>50,300</b>	<b>4,430</b>	<b>1,069,826</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
<b>TOTAL DEFERRED INFLOWS OF RESOURCES...</b>	<b>6,170</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>330</b>	<b>1,049</b>	<b>32</b>	<b>7,623</b>
<b>NET POSITION</b>								
Net investment in capital assets.....	40,459	-	31	-	10,508	455,805	19	506,822
Restricted for:								
Transportation.....	-	-	-	139,029	-	-	-	139,029
Capital projects.....	-	-	-	-	-	2	-	2
Debt service.....	-	-	-	-	-	4,199	-	4,199
Economic development.....	-	-	-	-	-	-	5,102	5,102
Emergency support.....	-	132,008	-	-	-	-	-	132,008
Other purposes.....	-	-	113,557	-	-	-	9,851	123,408
Unrestricted.....	(326,209)	-	-	-	(14,970)	(1,890)	-	(343,069)
<b>TOTAL NET POSITION.....</b>	<b>\$ (285,750)</b>	<b>\$ 132,008</b>	<b>\$ 113,588</b>	<b>\$ 139,029</b>	<b>\$ (4,462)</b>	<b>\$ 458,116</b>	<b>\$ 14,972</b>	<b>\$ 567,501</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, 2016

(Amounts in thousands)

	State Stores	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
<b>OPERATING REVENUES:</b>								
Sales and services.....	\$ 1,956,129	\$ -	\$ 5,490	\$ 15	\$ 204	\$ 12,238	\$ 4,373	\$ 1,978,449
Interest on loans.....	-	1,470	-	1,413	-	-	83	2,966
Other.....	-	-	-	-	-	4	27	31
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>1,956,129</b>	<b>1,470</b>	<b>5,490</b>	<b>1,428</b>	<b>204</b>	<b>12,242</b>	<b>4,483</b>	<b>1,981,446</b>
Provision for uncollectible accounts.....	-	82	-	(649)	-	-	101	(466)
<b>NET OPERATING REVENUES.....</b>	<b>1,956,129</b>	<b>1,552</b>	<b>5,490</b>	<b>779</b>	<b>204</b>	<b>12,242</b>	<b>4,584</b>	<b>1,980,980</b>
<b>OPERATING EXPENSES:</b>								
Cost of sales and services.....	1,845,838	251	4,027	-	1,186	13,629	2,821	1,867,752
Depreciation.....	9,756	-	25	-	953	18,181	48	28,963
Other.....	-	-	-	-	-	4,928	-	4,928
<b>TOTAL OPERATING EXPENSES.....</b>	<b>1,855,594</b>	<b>251</b>	<b>4,052</b>	<b>-</b>	<b>2,139</b>	<b>36,738</b>	<b>2,869</b>	<b>1,901,643</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>100,535</b>	<b>1,301</b>	<b>1,438</b>	<b>779</b>	<b>(1,935)</b>	<b>(24,496)</b>	<b>1,715</b>	<b>79,337</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment income.....	892	1,248	3,126	1,448	30	2	55	6,801
Grants and other revenues.....	-	-	-	-	1,072	291	23	1,386
Other expenses.....	-	-	-	-	-	(7,574)	-	(7,574)
<b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>	<b>892</b>	<b>1,248</b>	<b>3,126</b>	<b>1,448</b>	<b>1,102</b>	<b>(7,281)</b>	<b>78</b>	<b>613</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>101,427</b>	<b>2,549</b>	<b>4,564</b>	<b>2,227</b>	<b>(833)</b>	<b>(31,777)</b>	<b>1,793</b>	<b>79,950</b>
<b>TRANSFERS:</b>								
Transfers in.....	-	-	-	-	-	62,616	-	62,616
Transfers out.....	(103,328)	-	-	-	-	-	-	(103,328)
<b>TRANSFERS, NET.....</b>	<b>(103,328)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,616</b>	<b>-</b>	<b>(40,712)</b>
<b>CHANGE IN NET POSITION.....</b>	<b>(1,901)</b>	<b>2,549</b>	<b>4,564</b>	<b>2,227</b>	<b>(833)</b>	<b>30,839</b>	<b>1,793</b>	<b>39,238</b>
<b>TOTAL NET POSITION, JULY 1, 2015.....</b>	<b>(283,849)</b>	<b>129,459</b>	<b>109,024</b>	<b>136,802</b>	<b>(3,629)</b>	<b>427,277</b>	<b>13,179</b>	<b>528,263</b>
<b>TOTAL NET POSITION, JUNE 30, 2016.....</b>	<b>\$ (285,750)</b>	<b>\$ 132,008</b>	<b>\$ 113,588</b>	<b>\$ 139,029</b>	<b>\$ (4,462)</b>	<b>\$ 458,116</b>	<b>\$ 14,972</b>	<b>\$ 567,501</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, 2016

(Amounts in thousands)

	State Stores	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Receipts from customers.....	\$ 1,955,894	\$ -	\$ -	\$ -	\$ 172	\$ 12,205	\$ 4,368	\$ 1,972,639
Receipts from borrowers for fees and loan repayments.....	-	14,369	-	15,267	-	-	768	30,404
Receipt of premiums.....	-	-	5,518	-	-	-	-	5,518
Payments to claimants.....	-	-	(671)	-	-	-	-	(671)
Payments to borrowers.....	-	(16,071)	-	(19,155)	-	-	(851)	(36,077)
Payments for vendors, employees and other costs.....	(1,809,459)	(250)	(2,727)	-	(2,534)	(12,781)	(2,333)	(1,830,084)
Other receipts.....	-	-	-	-	-	-	27	27
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>146,435</b>	<b>(1,952)</b>	<b>2,120</b>	<b>(3,888)</b>	<b>(2,362)</b>	<b>(576)</b>	<b>1,979</b>	<b>141,756</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>								
Transfers in.....	-	-	-	-	-	3,100	-	3,100
Transfers out.....	(101,672)	-	-	-	-	-	-	(101,672)
Grants and other revenues.....	-	-	-	-	1,252	255	23	1,530
Other payments for non-capital financing uses.....	-	-	-	-	-	(2,891)	-	(2,891)
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(101,672)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,252</b>	<b>464</b>	<b>23</b>	<b>(99,933)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>								
Acquisition and construction of capital assets.....	(12,214)	-	-	-	-	(49,197)	-	(61,411)
Proceeds from disposal of capital assets.....	4	-	-	-	-	2	-	6
Principal payments on other capital debt.....	-	-	-	-	-	(3,500)	-	(3,500)
Interest payments on other capital debt.....	-	-	-	-	-	(1,121)	-	(1,121)
Transfers in.....	-	-	-	-	-	56,644	-	56,644
Other receipts for capital and related financing activities.....	-	-	-	-	-	4,634	-	4,634
Other payments for capital and related financing uses.....	-	-	-	-	-	(15)	-	(15)
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(12,210)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,447</b>	<b>-</b>	<b>(4,763)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of investments.....	(1,613,172)	(12,521)	(7,035)	(16,874)	(18,621)	(8,123)	(5,813)	(1,682,159)
Sales and maturities of investments.....	1,579,479	13,643	3,006	22,613	19,730	8,020	3,805	1,650,296
Investment income.....	892	800	1,975	(1,892)	27	2	50	1,854
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>(32,801)</b>	<b>1,922</b>	<b>(2,054)</b>	<b>3,847</b>	<b>1,136</b>	<b>(101)</b>	<b>(1,958)</b>	<b>(30,009)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>(248)</b>	<b>(30)</b>	<b>66</b>	<b>(41)</b>	<b>26</b>	<b>7,234</b>	<b>44</b>	<b>7,051</b>
<b>CASH AT JULY 1, 2015.....</b>	<b>20,212</b>	<b>131</b>	<b>14</b>	<b>41</b>	<b>85</b>	<b>10,791</b>	<b>-</b>	<b>31,274</b>
<b>CASH AT JUNE 30, 2016 (including \$4,521 included in restricted assets).....</b>	<b>\$ 19,964</b>	<b>\$ 101</b>	<b>\$ 80</b>	<b>\$ -</b>	<b>\$ 111</b>	<b>\$ 18,025</b>	<b>\$ 44</b>	<b>\$ 38,325</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	State Stores	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>								
Operating income (loss).....	\$ 100,535	\$ 1,301	\$ 1,438	\$ 779	\$ (1,935)	\$ (24,496)	\$ 1,715	\$ 79,337
Depreciation and amortization of capital assets.....	9,756	-	25	-	953	18,181	48	28,963
Amortization of other assets.....	-	-	-	-	-	4,928	-	4,928
Loss from disposals of capital assets.....	12	-	-	-	-	-	-	12
Provision for uncollectible accounts.....	-	(82)	-	649	-	-	(101)	466
Other adjustments.....	-	-	-	-	64	-	-	64
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:								
Accounts receivable.....	(179)	(7)	-	(770)	(32)	-	-	(988)
Interest on loans receivable.....	-	(5)	-	(110)	-	-	-	(115)
Loans receivable.....	-	(2,174)	-	(6,590)	-	-	(172)	(8,936)
Lease rental receivable.....	-	-	-	-	-	(192)	-	(192)
Other receivables.....	-	-	-	-	-	3	-	3
Due from other funds.....	(56)	-	-	-	(3,452)	-	4	(3,504)
Due from other governments.....	-	-	-	-	-	21	-	21
Inventory.....	(14,356)	-	-	-	-	-	-	(14,356)
Prepaid expenses.....	3,766	-	-	-	-	(101)	-	3,665
Other current and noncurrent assets.....	-	-	-	-	-	(50)	-	(50)
Deferred outflows.....	(67,887)	-	(466)	-	(3,591)	(1,823)	(371)	(74,138)
Accounts payable and accrued liabilities.....	8,061	(974)	92	2,154	145	(19)	337	9,796
Due to other funds.....	(595)	-	13	-	204	(4)	(104)	(486)
Due to pension trust funds.....	245	-	6	-	21	22	3	297
Due to component units.....	-	-	20	-	(64)	-	-	(44)
Due to political subdivisions.....	-	-	-	-	18	-	(2)	16
Due to other governments.....	(16)	-	-	-	(1)	-	3	(14)
Unearned revenue.....	-	(11)	27	-	-	-	-	16
Self insurance liabilities.....	(2,176)	-	38	-	188	(52)	9	(1,993)
Compensated absences.....	(1,201)	-	(47)	-	(51)	(40)	4	(1,335)
Insurance loss liability.....	-	-	172	-	-	-	-	172
Other postemployment benefit obligations.....	15,220	-	93	-	770	432	74	16,589
Net pension liability.....	92,441	-	689	-	4,253	1,464	517	99,364
Other current and noncurrent liabilities.....	-	-	-	-	-	150	-	150
Deferred inflows.....	2,865	-	20	-	148	1,000	15	4,048
<b>Total Adjustments.....</b>	<b>45,900</b>	<b>(3,253)</b>	<b>682</b>	<b>(4,667)</b>	<b>(427)</b>	<b>23,920</b>	<b>264</b>	<b>62,419</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 146,435</b>	<b>\$ (1,952)</b>	<b>\$ 2,120</b>	<b>\$ (3,888)</b>	<b>\$ (2,362)</b>	<b>\$ (576)</b>	<b>\$ 1,979</b>	<b>\$ 141,756</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>								
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 443	\$ 1,145	\$ 524	\$ -	\$ -	\$ -	\$ 2,112
Increase in investments from changes in securities lending obligations.....	-	345	894	409	-	-	-	1,648
Capital asset acquisitions that pertain to changes in accounts payable.....	-	-	-	-	-	(1,832)	-	(1,832)
Disposals of capital assets.....	-	-	-	-	-	(114)	-	(114)
Impairment of other assets.....	-	-	-	-	-	(7,988)	-	(7,988)
Amortization of bond premium/discount (net).....	-	-	-	-	-	(195)	-	(195)
Transfers from other funds (accruals).....	-	-	-	-	-	2,872	-	2,872
Transfers to other funds (accruals).....	(1,656)	-	-	-	-	-	-	(1,656)
Internal activity elimination for capital financing activities.....	-	-	-	-	-	(4,606)	-	(4,606)

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, 2016

# 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, 2016

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash.....	\$ 2,241	\$ 544	\$ 2,785
Temporary investments.....	6,837	9,286	16,123
Receivables (net):			
Accounts.....	7	920	927
Investment income.....	4	4	8
Due from other funds.....	36,873	1,619	38,492
Due from pension trust funds.....	2,059	3,673	5,732
Due from component units.....	143	6	149
Due from political subdivisions.....	6	34	40
Inventory.....	35	20,158	20,193
Total current assets.....	<u>48,205</u>	<u>36,244</u>	<u>84,449</u>
Noncurrent assets:			
Long-term investments .....	-	20,301	20,301
Depreciable capital assets:			
Land improvements.....	192	-	192
Buildings and building improvements.....	-	6,221	6,221
Machinery and equipment.....	60,904	35,604	96,508
Less: accumulated depreciation.....	(38,770)	(21,734)	(60,504)
Net depreciable capital assets.....	<u>22,326</u>	<u>20,091</u>	<u>42,417</u>
Total noncurrent assets.....	<u>22,326</u>	<u>40,392</u>	<u>62,718</u>
<b>TOTAL ASSETS.....</b>	<b><u>70,531</u></b>	<b><u>76,636</u></b>	<b><u>147,167</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>3,346</u></b>	<b><u>7,751</u></b>	<b><u>11,097</u></b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities.....	49,392	7,007	56,399
Securities lending obligations.....	-	538	538
Due to other funds.....	2,434	284	2,718
Due to pension trust funds.....	55	119	174
Due to component units.....	3	-	3
Due to political subdivisions.....	3	3	6
Due to Federal government.....	-	-	-
Due to other governments.....	13	32	45
Capital lease/installment purchase obligations.....	457	-	457
Self insurance liabilities.....	154	488	642
Compensated absences.....	161	388	549
Total current liabilities.....	<u>52,672</u>	<u>8,859</u>	<u>61,531</u>
Non-current liabilities:			
Installment purchase.....	984	-	984
Compensated absences.....	643	1,552	2,195
Self insurance liabilities.....	778	2,468	3,246
Other postemployment benefit obligations.....	2,835	7,193	10,028
Net pension liability.....	16,171	37,470	53,641
Total non-current liabilities.....	<u>21,411</u>	<u>48,683</u>	<u>70,094</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>74,083</u></b>	<b><u>57,542</u></b>	<b><u>131,625</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
<b>TOTAL DEFERRED INFLOWS OF RESOURCES...</b>	<b><u>203</u></b>	<b><u>470</u></b>	<b><u>673</u></b>
<b>NET POSITION</b>			
Net investment in capital assets.....	20,885	20,091	40,976
Restricted for:			
Correctional industries and procurement.....	-	6,284	6,284
Unrestricted.....	(21,294)	-	(21,294)
<b>TOTAL NET POSITION.....</b>	<b><u>\$ (409)</u></b>	<b><u>\$ 26,375</u></b>	<b><u>\$ 25,966</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, 2016

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services.....	\$ 17,781	\$ 70,512	\$ 88,293
<b>OPERATING EXPENSES:</b>			
Cost of sales and services.....	18,561	69,485	88,046
Depreciation.....	13,586	1,871	15,457
<b>TOTAL OPERATING EXPENSES</b> .....	<u>32,147</u>	<u>71,356</u>	<u>103,503</u>
<b>OPERATING GAIN/(LOSS)</b> .....	<u>(14,366)</u>	<u>(844)</u>	<u>(15,210)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	68	625	693
Other expenses.....	(1,368)	(186)	(1,554)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET....</b>	<u>(1,300)</u>	<u>439</u>	<u>(861)</u>
<b>CHANGE IN NET POSITION</b> .....	(15,666)	(405)	(16,071)
<b>TOTAL NET POSITION, JULY 1, 2015</b> .....	<u>15,257</u>	<u>26,780</u>	<u>42,037</u>
<b>TOTAL NET POSITION, JUNE 30, 2016</b> .....	<u>\$ (409)</u>	<u>\$ 26,375</u>	<u>\$ 25,966</u>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
**Internal Service Funds**  
**For the Fiscal Year Ended June 30, 2016**

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers.....	\$ 17,428	\$ 70,124	\$ 87,552
Payments for vendors, employees and other costs.....	(19,337)	(67,797)	(87,134)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>(1,909)</b>	<b>2,327</b>	<b>418</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets.....	(4,576)	(873)	(5,449)
Proceeds from disposal of capital assets.....	1,294	-	1,294
Capital lease/installment purchase payments.....	(400)	-	(400)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES...</b>	<b>(3,682)</b>	<b>(873)</b>	<b>(4,555)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments.....	(362,599)	(57,102)	(419,701)
Sales and maturities of investments.....	368,472	55,188	423,660
Investment income.....	68	401	469
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>5,941</b>	<b>(1,513)</b>	<b>4,428</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>350</b>	<b>(59)</b>	<b>291</b>
<b>CASH AT JULY 1, 2015.....</b>	<b>1,891</b>	<b>603</b>	<b>2,494</b>
<b>CASH AT JUNE 30, 2016.....</b>	<b>\$ 2,241</b>	<b>\$ 544</b>	<b>\$ 2,785</b>

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

Operating loss.....	\$ (14,366)	\$ (844)	\$ (15,210)
Depreciation and amortization of capital assets.....	13,586	1,871	15,457
Other adjustments.....	(1,294)	-	(1,294)
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:			
Accounts receivable.....	-	(543)	(543)
Due from other funds.....	(8,007)	172	(7,835)
Due from pension trust funds.....	1,247	(1)	1,246
Due from component units.....	18	(4)	14
Due from political subdivisions.....	(6)	(12)	(18)
Inventory.....	5	(2,661)	(2,656)
Deferred outflows.....	(2,256)	(5,164)	(7,420)
Accounts payable and accrued liabilities.....	14,397	1,151	15,548
Due to other funds.....	(8,920)	43	(8,877)
Due to pension trust funds.....	(117)	(78)	(195)
Due to component units.....	(11)	-	(11)
Due to political subdivisions.....	3	(2)	1
Due to other governments.....	3	7	10
Self insurance liabilities.....	110	195	305
Compensated absences.....	5	114	119
Other postemployment benefit obligations.....	445	1,295	1,740
Net pension liability.....	3,154	6,574	9,728
Deferred inflows.....	95	214	309
<b>Total Adjustments.....</b>	<b>12,457</b>	<b>3,171</b>	<b>15,628</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ (1,909)</b>	<b>\$ 2,327</b>	<b>\$ 418</b>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:**

Increase in fair value of investments during the fiscal year.....	\$ -	\$ 220	\$ 220
Increase in investments from changes in securities lending obligations.....	-	173	173
Capital assets acquired through installment purchases.....	712	-	712
Capital asset acquisitions that pertain to changes in accounts payable.....	181	(8)	173
Disposals of capital assets.....	(1,368)	(186)	(1,554)

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, 2016

# 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, 2016

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					
	State Employees' Retirement System	Deferred Compensation	Public School Employees' Retirement System		Other Postemployment Benefits	Total
	(December 31, 2015)	(December 31, 2015)	Pension	Postemployment Healthcare	Investment Pool	
<b>ASSETS</b>						
Cash.....	\$ -	\$ 7,312	\$ 194,073	\$ -	\$ -	\$ 201,385
Temporary investments.....	-	14,641	-	-	75,239	89,880
Long-term investments.....	-	82,599	-	-	283,016	365,615
Short-term funds.....	1,721,694	57,973	4,459,476	178,012	-	6,417,155
Corporate obligations.....	895,622	258,442	1,195,561	-	-	2,349,625
Collective trust funds.....	-	-	12,143,184	-	-	12,143,184
Real estate.....	3,419,045	-	5,166,068	-	-	8,585,113
Alternative.....	6,425,122	-	11,199,200	-	-	17,624,322
Securities lending collateral.....	370,517	2,512	2,092,729	-	-	2,465,758
Asset-backed securities.....	322,144	57,125	974,394	-	-	1,353,663
Derivatives.....	-	-	970	-	-	970
Domestic equities.....	5,957,628	1,296,848	5,331,356	-	-	12,585,832
International equities.....	4,026,724	154,714	5,124,942	-	-	9,306,380
International private debt securities.....	-	-	113,751	-	-	113,751
International public debt securities.....	245,552	22,865	371,164	-	-	639,581
Mortgage-backed securities.....	626,403	344,260	476,491	-	-	1,447,154
Private placements.....	502,594	10,457	-	-	-	513,051
Repurchase agreements.....	-	-	-	104,205	-	104,205
U.S. Treasury obligations.....	1,875,233	656,968	950,364	-	-	3,482,565
U.S. government agency debt securities.....	111,703	14,819	14,773	-	-	141,295
Receivables (net):						
Investment income.....	61,664	27	415,987	272	-	477,950
Interest on notes and loans.....	-	-	-	-	196	196
Pension contributions.....	-	6,859	1,258,458	34,749	-	1,300,066
Investment sale proceeds.....	98,239	-	1,426,968	-	-	1,525,207
Other.....	3,475	431	281	20,663	-	24,850
Due from other funds.....	14,926	-	4,739	-	-	19,665
Due from pension trust funds.....	2,682	-	380	-	-	3,062
Due from component units.....	41,145	-	-	-	-	41,145
Due from political subdivisions.....	49,040	-	-	-	-	49,040
Due from other governments.....	-	-	-	33,527	-	33,527
Depreciable or amortizable capital assets:						
Machinery and equipment.....	-	-	12,632	-	-	12,632
Intangible assets.....	-	-	38,336	-	-	38,336
Less: accumulated depreciation and amortization.....	-	-	(28,097)	-	-	(28,097)
Net depreciable or amortizable capital assets.....	-	-	22,871	-	-	22,871
<b>TOTAL ASSETS.....</b>	<b>26,771,152</b>	<b>2,988,852</b>	<b>52,938,180</b>	<b>371,428</b>	<b>358,451</b>	<b>83,428,063</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>-</b>	<b>-</b>	<b>11,324</b>	<b>-</b>	<b>-</b>	<b>11,324</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities.....	51,995	1,857	117,906	3,453	83	175,294
Investment purchases payable.....	293,750	-	327,136	501	-	621,387
Securities lending obligations.....	370,517	2,512	2,092,729	-	75,239	2,540,997
Due to other funds.....	-	12	1,182	-	-	1,194
Due to pension trust funds.....	-	120	840	-	-	960
Net pension liability.....	-	-	55,921	-	-	55,921
Other liabilities.....	-	-	520,462	48,972	-	569,434
<b>TOTAL LIABILITIES.....</b>	<b>716,262</b>	<b>4,501</b>	<b>3,116,176</b>	<b>52,926</b>	<b>75,322</b>	<b>3,965,187</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>-</b>	<b>-</b>	<b>1,268</b>	<b>-</b>	<b>-</b>	<b>1,268</b>
<b>NET POSITION</b>						
Restricted and held in trust for:						
Pension benefits.....	26,054,890	-	49,832,060	-	-	75,886,950
Postemployment healthcare benefits.....	-	-	-	318,502	283,129	601,631
Employee salary deferrals.....	-	2,984,351	-	-	-	2,984,351
<b>TOTAL NET POSITION.....</b>	<b>\$ 26,054,890</b>	<b>\$ 2,984,351</b>	<b>\$ 49,832,060</b>	<b>\$ 318,502</b>	<b>\$ 283,129</b>	<b>\$ 79,472,932</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, 2016

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust					Total
	State Employees' Retirement System	Deferred Compensation	Public School Employees' Retirement System		Other Postemployment Benefits	
	(December 31, 2015)	(December 31, 2015)	Pension	Postemployment Healthcare	Investment Pool	
<b>ADDITIONS:</b>						
Contributions:						
Pension:						
Employer.....	\$ 1,360,431	\$ -	\$ 3,189,510	\$ 164,341	\$ 814,100	\$ 5,528,382
Employee.....	371,624	135,272	989,266	308,132	-	1,804,294
Transfer in from other plans.....	-	71,127	-	-	50,000	121,127
Total pension contributions.....	1,732,055	206,399	4,178,776	472,473	864,100	7,453,803
Total contributions.....	1,732,055	206,399	4,178,776	472,473	864,100	7,453,803
Investment income:						
Net increase/(decrease) in fair value of investments.....	(216,817)	(10,562)	(160,712)	(154)	1,127	(387,118)
Interest income.....	130,616	25,421	165,912	1,071	141	323,161
Dividend income.....	223,927	-	311,356	-	5,947	541,230
Rental and other income.....	112,270	-	560,487	-	257	673,014
Total investment activity income.....	249,996	14,859	877,043	917	7,472	1,150,287
Less: investment expenses						
Investment activity expense.....	(166,610)	(3,659)	(415,706)	(76)	-	(586,051)
Net investment earnings.....	83,386	11,200	461,337	841	7,472	564,236
Securities lending activities:						
Income.....	5,105	38	13,187	-	-	18,330
Expenses.....	(501)	(2)	(1,318)	-	-	(1,821)
Total securities lending income.....	4,604	36	11,869	-	-	16,509
Total net investment income.....	87,990	11,236	473,206	841	7,472	580,745
<b>TOTAL ADDITIONS.....</b>	<b>1,820,045</b>	<b>217,635</b>	<b>4,651,982</b>	<b>473,314</b>	<b>871,572</b>	<b>8,034,548</b>
<b>DEDUCTIONS:</b>						
Benefit payments.....	3,069,328	82,390	6,337,793	419,252	814,100	10,722,863
Refunds of contributions.....	11,533	-	20,069	-	-	31,602
Transfers to other plans.....	-	106,996	2,463	-	-	109,459
Administrative expenses.....	22,072	276	45,118	35,113	3	102,582
Other expenses.....	-	3,753	-	-	307	4,060
<b>TOTAL DEDUCTIONS.....</b>	<b>3,102,933</b>	<b>193,415</b>	<b>6,405,443</b>	<b>454,365</b>	<b>814,410</b>	<b>10,970,566</b>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>						
Pension benefits.....	(1,282,888)	-	(1,753,461)	-	-	(3,036,349)
Postemployment healthcare benefits.....	-	-	-	18,949	57,162	76,111
Employee salary deferrals.....	-	24,220	-	-	-	24,220
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST.....</b>	<b>(1,282,888)</b>	<b>24,220</b>	<b>(1,753,461)</b>	<b>18,949</b>	<b>57,162</b>	<b>(2,936,018)</b>
Net position, July 1, 2015.....	27,337,778	2,960,131	51,585,521	299,553	225,967	82,408,950
Net position, June 30, 2016.....	\$ 26,054,890	\$ 2,984,351	\$ 49,832,060	\$ 318,502	\$ 283,129	\$ 79,472,932



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# Private-Purpose Trust Funds

**PRIVATE-PURPOSE TRUST FUNDS  
DESCRIPTION**

Private-purpose trust funds are used to report assets held in a trustee capacity where the principal and income benefit individuals, private organizations or other governments.

***Tuition Account Investment Program*** – provides for the advanced purchase of tuition credits for beneficiaries who will attend institutions of higher learning. Contributors enter into a Tuition Account Program Investment contract that authorizes the Treasury to invest funds to pay for future tuition expenses.

***Monetary Penalty Endowments Trust*** – accounts for monetary penalties assessed to higher education institutions. Fund expenditures are made by the Pennsylvania Commission on Crime and Delinquency to support abuse treatment and prevention programs within the Commonwealth.

There are two private-purpose trust funds.

**Commonwealth of Pennsylvania**  
**Combining Statement of Fiduciary Net Position**  
Private-Purpose Trust Funds  
June 30, 2016

(Amounts in thousands)

	<b>Tuition Account Investment Program</b>	<b>Monetary Penalty Endowments Trust</b>	<b>Total</b>
<b>ASSETS</b>			
Cash.....	\$ 3,206	\$ -	\$ 3,206
Temporary investments.....	-	8,796	8,796
Long-term investments.....	2,039,267	41,788	2,081,055
Accounts.....	162	-	162
Investment income.....	-	4	4
<b>TOTAL ASSETS.....</b>	<b>2,042,635</b>	<b>50,588</b>	<b>2,093,223</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities.....	1,046	519	1,565
Investment purchases payable.....	1,170	-	1,170
Securities lending obligations.....	-	1,107	1,107
Due to political subdivisions.....	-	46	46
<b>TOTAL LIABILITIES.....</b>	<b>2,216</b>	<b>1,672</b>	<b>3,888</b>
<b>NET POSITION</b>			
Restricted and held in trust for:			
Tuition Account Program participants.....	2,040,419	-	2,040,419
Other.....	-	48,916	48,916
<b>TOTAL NET POSITION.....</b>	<b>\$ 2,040,419</b>	<b>\$ 48,916</b>	<b>\$ 2,089,335</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Net Position**  
Private-Purpose Trust Funds  
For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	<b>Tuition Account Investment Program</b>	<b>Monetary Penalty Endowments Trust</b>	<b>Total</b>
<b>ADDITIONS:</b>			
Contributions:			
Other.....	\$ -	\$ 12,018	\$ 12,018
Investment income:			
Net increase in fair value of investments.....	(1,539)	-	(1,539)
Interest income.....	42,663	1,858	44,521
Total net investment income.....	41,124	1,858	42,982
Share transactions (at net asset value of \$1.00 per share):			
Net increase in net assets from share transactions.....	129,242	-	129,242
<b>TOTAL ADDITIONS.....</b>	<b>170,366</b>	<b>13,876</b>	<b>184,242</b>
<b>DEDUCTIONS:</b>			
Administrative expenses.....	6,276	-	6,276
Other expenses.....	-	997	997
<b>TOTAL DEDUCTIONS.....</b>	<b>6,276</b>	<b>997</b>	<b>7,273</b>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>			
Tuition Account Investment Program participants.....	164,090	-	164,090
Other.....	-	12,879	12,879
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST.....</b>	<b>164,090</b>	<b>12,879</b>	<b>176,969</b>
<b>Net position, July 1, 2015.....</b>	<b>1,876,329</b>	<b>36,037</b>	<b>1,912,366</b>
<b>Net position, June 30, 2016.....</b>	<b>\$ 2,040,419</b>	<b>\$ 48,916</b>	<b>\$ 2,089,335</b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# 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.

**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 ten individual agency funds.

There are a total of seventeen individual agency funds.

Commonwealth of Pennsylvania  
 Combining Statement of Fiduciary Assets and Liabilities  
 Agency Funds  
 June 30, 2016

(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.....	\$ -	\$ 700	\$ 83	\$ -	\$ -	\$ -	\$ 11,531	\$ 3,340	\$ 15,654
Cash with fiscal agents.....	65,975	-	-	-	-	-	-	-	65,975
Temporary investments.....	117,078	90,032	15,749	30,197	278,452	80,362	23,146	49,447	684,463
Long-term investments.....	2,335,346	22,557	-	208,829	-	-	-	-	2,566,732
Receivables (net):									
Taxes.....	-	-	17,843	-	238	1	-	29,437	47,519
Accounts.....	19,281	-	-	14,591	-	-	4,672	-	38,544
Investment income.....	10,201	57	4	894	140	-	-	15	11,311
Investment sale proceeds.....	-	-	-	1,420	-	-	-	-	1,420
Advances to other funds.....	-	-	-	67,500	-	-	-	-	67,500
Other assets.....	4,634,108	-	-	-	-	-	912	-	4,635,020
<b>TOTAL ASSETS.....</b>	<b>\$ 7,181,989</b>	<b>\$ 113,346</b>	<b>\$ 33,679</b>	<b>\$ 323,431</b>	<b>\$ 278,830</b>	<b>\$ 80,363</b>	<b>\$ 40,261</b>	<b>\$ 82,239</b>	<b>\$ 8,134,138</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities.....	\$ -	\$ 112,742	\$ 595	\$ 18,134	\$ 102	\$ -	\$ 13,289	\$ 784	\$ 145,646
Investment purchases payable.....	610	-	-	3,075	-	-	-	-	3,685
Securities lending obligations.....	1,896	598	-	16,578	-	-	-	-	19,072
Due to political subdivisions.....	-	-	33,084	-	278,728	80,363	-	77,196	469,371
Due to other governments.....	-	6	-	2	-	-	-	-	8
Other liabilities.....	7,179,483	-	-	285,642	-	-	26,972	4,259	7,496,356
<b>TOTAL LIABILITIES.....</b>	<b>\$ 7,181,989</b>	<b>\$ 113,346</b>	<b>\$ 33,679</b>	<b>\$ 323,431</b>	<b>\$ 278,830</b>	<b>\$ 80,363</b>	<b>\$ 40,261</b>	<b>\$ 82,239</b>	<b>\$ 8,134,138</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
 Agency Funds  
 For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>STATUTORY LIQUIDATOR FUND</b>				
<b><u>ASSETS</u></b>				
Cash with fiscal agents.....	\$ 49,563	\$ 1,588,064	\$ 1,571,652	\$ 65,975
Temporary investments.....	111,968	117,078	111,968	117,078
Long-term investments.....	2,900,385	592,691	1,157,730	2,335,346
Receivables (net):				
Accounts.....	19,223	19,281	19,223	19,281
Investment income.....	12,914	50,177	52,890	10,201
Investment sale proceeds.....	618	25,928	26,546	-
Other assets.....	4,275,016	501,987	142,895	4,634,108
<b>TOTAL ASSETS</b> .....	<u>\$ 7,369,687</u>	<u>\$ 2,895,206</u>	<u>\$ 3,082,904</u>	<u>\$ 7,181,989</u>
<b><u>LIABILITIES</u></b>				
Investment purchases payable.....	\$ 6,502	\$ 49,918	\$ 55,810	\$ 610
Securities lending obligations.....	1,287	1,896	1,287	1,896
Net pension liability.....	2,641	-	2,641	-
Other liabilities.....	7,359,257	7,179,483	7,359,257	7,179,483
<b>TOTAL LIABILITIES</b> .....	<u>\$ 7,369,687</u>	<u>\$ 7,231,297</u>	<u>\$ 7,418,995</u>	<u>\$ 7,181,989</u>
<b>MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 155	\$ 4,422,792	\$ 4,422,247	\$ 700
Temporary investments.....	222,827	7,349,441	7,482,236	90,032
Long-term investments.....	61,890	22,564	61,897	22,557
Receivables (net):				
Accounts.....	-	1	1	-
Investment income.....	35	115	93	57
<b>TOTAL ASSETS</b> .....	<u>\$ 284,907</u>	<u>\$ 11,794,913</u>	<u>\$ 11,966,474</u>	<u>\$ 113,346</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 146,501	\$ 1,065,081	\$ 1,098,840	\$ 112,742
Securities lending obligations.....	1,146	598	1,146	598
Due to other funds.....	-	106	106	-
Due to other governments.....	5	14	13	6
Compensated absence liability.....	456	-	456	-
Self insurance liabilities.....	160	-	160	-
Other postemployment benefit obligations.....	1,392	-	1,392	-
Net pension liability.....	5,920	-	5,920	-
Other liabilities.....	129,327	31,835	161,162	-
<b>TOTAL LIABILITIES</b> .....	<u>\$ 284,907</u>	<u>\$ 1,097,634</u>	<u>\$ 1,269,195</u>	<u>\$ 113,346</u>

(continued)

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>ALLEGHENY REGIONAL ASSET DISTRICT</b>				
<b>SALES AND USE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 144	\$ 4,447,145	\$ 4,447,206	\$ 83
Temporary investments.....	14,318	3,986,981	3,985,550	15,749
Receivables (net):				
Taxes.....	17,433	31,253	30,843	17,843
Investment income.....	1	10	7	4
<b>TOTAL ASSETS</b> .....	<u>\$ 31,896</u>	<u>\$ 8,465,389</u>	<u>\$ 8,463,606</u>	<u>\$ 33,679</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 220	\$ 595	\$ 220	\$ 595
Due to political subdivisions.....	31,676	2,257	849	33,084
<b>TOTAL LIABILITIES</b> .....	<u>\$ 31,896</u>	<u>\$ 2,852</u>	<u>\$ 1,069</u>	<u>\$ 33,679</u>
<b>UNDERGROUND STORAGE TANK</b>				
<b>INDEMNIFICATION FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 4	\$ 4,053,813	\$ 4,053,817	\$ -
Temporary investments.....	30,848	10,038,201	10,038,852	30,197
Long-term investments.....	191,045	5,542,370	5,524,586	208,829
Receivables (net):				
Accounts.....	14,363	14,592	14,364	14,591
Investment income.....	871	894	871	894
Interest on notes and loans.....	-	1,765	1,765	-
Loans.....	-	1,224	1,224	-
Investment sale proceeds.....	171	1,420	171	1,420
Advances to other funds.....	67,500	-	-	67,500
<b>TOTAL ASSETS</b> .....	<u>\$ 304,802</u>	<u>\$ 19,654,279</u>	<u>\$ 19,635,650</u>	<u>\$ 323,431</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 13,042	\$ 191,547	\$ 186,455	\$ 18,134
Investment purchases payable.....	311	3,075	311	3,075
Securities lending obligations.....	10,700	16,578	10,700	16,578
Due to other funds.....	-	792	792	-
Due to political subdivisions.....	25	180	205	-
Due to other governments.....	1	46	45	2
Compensated absence liability.....	37	-	37	-
Self insurance liabilities.....	33	-	33	-
Other postemployment benefit obligations.....	241	-	241	-
Net pension liability.....	1,284	-	1,284	-
Other liabilities.....	279,128	7,062	548	285,642
<b>TOTAL LIABILITIES</b> .....	<u>\$ 304,802</u>	<u>\$ 219,280</u>	<u>\$ 200,651</u>	<u>\$ 323,431</u>

(continued)

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**  
 Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>MUNICIPAL PENSION AID FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ -	\$ 7,001,685	\$ 7,001,685	\$ -
Temporary investments.....	263,420	6,242,020	6,226,988	278,452
Receivables (net):				
Taxes.....	-	238	-	238
Investment income.....	46	140	46	140
<b>TOTAL ASSETS</b> .....	<u>\$ 263,466</u>	<u>\$ 13,244,083</u>	<u>\$ 13,228,719</u>	<u>\$ 278,830</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 9,878	\$ 514,197	\$ 523,973	\$ 102
Due to political subdivisions.....	253,588	542,271	517,131	278,728
<b>TOTAL LIABILITIES</b> .....	<u>\$ 263,466</u>	<u>\$ 1,056,468</u>	<u>\$ 1,041,104</u>	<u>\$ 278,830</u>
<b>FIRE INSURANCE TAX FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ -	\$ 2,384,514	\$ 2,384,514	\$ -
Temporary investments.....	80,940	2,161,913	2,162,491	80,362
Receivables (net):				
Taxes.....	-	1	-	1
<b>TOTAL ASSETS</b> .....	<u>\$ 80,940</u>	<u>\$ 4,546,428</u>	<u>\$ 4,547,005</u>	<u>\$ 80,363</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 133,071	\$ 133,071	\$ -
Due to political subdivisions.....	80,940	147,681	148,258	80,363
<b>TOTAL LIABILITIES</b> .....	<u>\$ 80,940</u>	<u>\$ 280,752</u>	<u>\$ 281,329</u>	<u>\$ 80,363</u>
<b>AGENCY CUSTODIAL ACCOUNTS</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 12,929	\$ 224	\$ 1,622	\$ 11,531
Temporary investments.....	22,676	858	388	23,146
Receivables (net):				
Accounts.....	4,712	2	42	4,672
Other assets.....	886	48	22	912
<b>TOTAL ASSETS</b> .....	<u>\$ 41,203</u>	<u>\$ 1,132</u>	<u>\$ 2,074</u>	<u>\$ 40,261</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 12,206	\$ 1,103	\$ 20	\$ 13,289
Other liabilities.....	28,997	204	2,229	26,972
<b>TOTAL LIABILITIES</b> .....	<u>\$ 41,203</u>	<u>\$ 1,307</u>	<u>\$ 2,249</u>	<u>\$ 40,261</u>

(continued)

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Assets and Liabilities**

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>OTHER FUNDS</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 267	\$ 15,489,652	\$ 15,486,579	\$ 3,340
Temporary investments.....	44,867	12,737,441	12,732,861	49,447
Receivables (net):				
Taxes.....	27,799	49,453	47,815	29,437
Accounts.....	1	-	1	-
Investment income.....	5	34	24	15
<b>TOTAL ASSETS</b> .....	<u>\$ 72,939</u>	<u>\$ 28,276,580</u>	<u>\$ 28,267,280</u>	<u>\$ 82,239</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 206	\$ 86,122	\$ 85,544	\$ 784
Due to political subdivisions.....	68,462	72,092	63,358	77,196
Other liabilities.....	4,271	1	13	4,259
<b>TOTAL LIABILITIES</b> .....	<u>\$ 72,939</u>	<u>\$ 158,215</u>	<u>\$ 148,915</u>	<u>\$ 82,239</u>
<b>TOTAL — AGENCY FUNDS</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 13,499	\$ 37,799,825	\$ 37,797,670	\$ 15,654
Cash with fiscal agents.....	49,563	1,588,064	1,571,652	65,975
Temporary investments.....	791,864	42,633,933	42,741,334	684,463
Long-term investments.....	3,153,320	6,157,625	6,744,213	2,566,732
Receivables (net):				
Taxes.....	45,232	80,945	78,658	47,519
Accounts.....	38,299	33,876	33,631	38,544
Investment income.....	13,872	51,370	53,931	11,311
Interest on notes and loans.....	-	1,765	1,765	-
Loans.....	-	1,224	1,224	-
Investment sale proceeds.....	789	27,348	26,717	1,420
Advances to other funds.....	67,500	-	-	67,500
Other assets.....	4,275,902	502,035	142,917	4,635,020
<b>TOTAL ASSETS</b> .....	<u>\$ 8,449,840</u>	<u>\$ 88,878,010</u>	<u>\$ 89,193,712</u>	<u>\$ 8,134,138</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 182,053	\$ 1,991,716	\$ 2,028,123	\$ 145,646
Investment purchases payable.....	6,813	52,993	56,121	3,685
Securities lending obligations.....	13,133	19,072	13,133	19,072
Due to other funds.....	-	898	898	-
Due to political subdivisions.....	434,691	764,481	729,801	469,371
Due to other governments.....	6	60	58	8
Compensated absence liability.....	493	-	493	-
Self insurance liabilities.....	193	-	193	-
Other postemployment benefit obligations.....	1,633	-	1,633	-
Net pension liability.....	9,845	-	9,845	-
Other liabilities.....	7,800,980	7,218,585	7,523,209	7,496,356
<b>TOTAL LIABILITIES</b> .....	<u>\$ 8,449,840</u>	<u>\$ 10,047,805</u>	<u>\$ 10,363,507</u>	<u>\$ 8,134,138</u>

(concluded)

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Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016

# 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, 2015 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 two year degree or nine month certificate, in twenty two different programs of study. The Commonwealth appropriates monies for College operations.

**Pennsylvania Energy Development Authority (PEDA)** – finances clean, advanced energy projects in Pennsylvania. Pennsylvania projects that could potentially qualify for funding from the PEDA include solar energy, wind, low-impact hydropower, geothermal, biomass, landfill gas, fuel cells, IGCC, waste coal, coal-mine methane, and demand management measures. The PEDA 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, 2016

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2015)	Ben Franklin Technology Development Authority	Pennsylvania Higher Educational Facilities Authority	Port of Pittsburgh Commission
<b>ASSETS</b>					
Current assets:					
Cash.....	\$ -	\$ 1,098	\$ -	\$ -	\$ -
Temporary investments.....	4,206	-	16,565	-	2,530
Receivables (net):					
Accounts.....	1	-	-	-	2
Investment income.....	73	-	9	-	-
Interest on notes and loans.....	15	-	-	-	-
Loans.....	1,921	-	-	-	-
Other.....	-	-	-	-	-
Due from primary government.....	-	-	-	-	-
Due from Federal government.....	-	-	-	-	1,034
Inventory.....	-	-	-	-	-
Prepaid and deferred expenses.....	-	16	-	-	-
Total current assets.....	6,216	1,114	16,574	-	3,566
Noncurrent assets:					
Restricted cash.....	-	-	-	-	-
Long-term investments.....	23,818	-	-	-	-
Receivables (net):					
Loans.....	1,966	-	21,714	-	-
Non-depreciable capital assets:					
Land.....	-	161	-	-	-
Construction in progress.....	-	-	-	-	-
Depreciable or amortizable capital assets:					
Land improvements.....	-	-	-	-	-
Buildings and building improvements.....	-	-	-	-	-
Machinery and equipment.....	359	-	-	-	2,060
Library books.....	-	-	-	-	-
Intangible assets.....	-	-	-	-	33
Less: accumulated depreciation and amortization.....	(310)	-	-	-	(1,323)
Net depreciable or amortizable capital assets.....	49	-	-	-	770
Other assets.....	-	10,206	-	-	-
Total noncurrent assets.....	25,833	10,367	21,714	-	770
<b>TOTAL ASSETS.....</b>	<b>32,049</b>	<b>11,481</b>	<b>38,288</b>	<b>-</b>	<b>4,336</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>435</b>	<b>-</b>	<b>89</b>	<b>-</b>	<b>167</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities.....	37	-	21	-	1,058
Securities lending obligations.....	-	-	-	-	-
Due to primary government.....	-	-	3	-	7
Due to other governments.....	-	-	1	-	-
Interest payable.....	-	-	-	-	-
Unearned revenue.....	-	-	-	-	-
Revenue bonds payable.....	-	-	-	-	-
Capital lease/installment purchase obligations.....	-	-	-	-	-
Compensated absences.....	35	-	-	-	-
Other postemployment benefit obligations.....	-	-	-	-	-
Other liabilities.....	41	-	-	-	-
Total current liabilities.....	113	-	25	-	1,065
Non-current liabilities:					
Revenue bond payable.....	-	-	-	-	2,000
Capital lease/installment purchase obligations.....	-	-	-	-	-
Compensated absences.....	86	-	-	-	102
Other postemployment benefit obligations.....	422	-	111	-	191
Net pension liability.....	2,115	-	432	-	836
Other liabilities.....	150	10,206	-	-	-
Total non-current liabilities.....	2,773	10,206	543	-	3,129
<b>TOTAL LIABILITIES.....</b>	<b>2,886</b>	<b>10,206</b>	<b>568</b>	<b>-</b>	<b>4,194</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>25</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>63</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	49	161	-	-	(1,243)
Restricted for:					
Health-related programs.....	-	-	-	-	-
Debt service.....	-	-	-	-	-
Economic development.....	-	1,114	37,804	-	1,489
Other purposes.....	29,524	-	-	-	-
Unrestricted.....	-	-	-	-	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 29,573</b>	<b>\$ 1,275</b>	<b>\$ 37,804</b>	<b>\$ -</b>	<b>\$ 246</b>

Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Pennsylvania eHealth Partnership Authority	Total
\$ 659	\$ 25,233	\$ 9,353	\$ -	\$ -	\$ 36,343
288,277	19,009	-	46	2,230	332,863
-	2,600	13	-	-	2,616
-	-	-	-	1	83
319	-	-	-	-	334
46,757	-	-	-	-	48,678
-	-	669	-	-	669
31	1,233	19	-	-	1,283
-	-	-	-	726	1,760
-	-	688	-	-	688
-	2,821	79	-	-	2,916
336,043	50,896	10,821	46	2,957	428,233
-	-	1,339	-	-	1,339
-	-	2,066	4,775	-	30,659
296,240	-	-	-	-	319,920
-	994	-	-	-	1,155
-	5,873	-	-	-	5,873
-	-	2,493	-	-	2,493
-	769,964	469	-	-	770,433
-	173,259	6,228	-	-	181,906
-	-	349	-	-	349
-	-	-	-	-	33
-	(312,723)	(5,385)	-	-	(319,741)
-	630,500	4,154	-	-	635,473
545	2,613	1,065	-	-	14,429
296,785	639,980	8,624	4,775	-	1,008,848
632,828	690,876	19,445	4,821	2,957	1,437,081
12,730	1,394	3,762	7	1,277	19,861
272	11,060	2,416	215	851	15,930
803	-	-	-	-	803
253	-	1	-	56	320
1	-	-	-	-	2
4,130	-	-	-	-	4,130
-	2,236	102	-	-	2,338
24,595	-	-	-	-	24,595
-	-	87	-	-	87
-	-	412	-	-	447
-	294	-	-	-	294
-	165	-	-	3	209
30,054	13,755	3,018	215	910	49,155
191,624	-	-	-	-	193,624
-	-	247	-	-	247
-	-	2,061	-	77	2,326
345	3,932	3,562	8	111	8,682
1,309	3,545	15,225	35	2,726	26,223
150	720	67	-	-	11,293
193,428	8,197	21,162	43	2,914	242,395
223,482	21,952	24,180	258	3,824	291,550
16	30	179	-	49	367
-	637,367	3,820	-	-	640,154
-	-	-	-	361	361
55,858	-	-	-	-	55,858
-	32,921	-	4,570	-	77,898
-	-	-	-	-	29,524
366,202	-	(4,972)	-	-	361,230
\$ 422,060	\$ 670,288	\$ (1,152)	\$ 4,570	\$ 361	\$ 1,165,025

**Commonwealth of Pennsylvania**  
**Combining Statement of Activities**  
 Nonmajor Discretely Presented Component Units  
 For the Fiscal Year Ended June 30, 2016

(Amounts in thousands)

	<b>State Public School Building Authority</b>	<b>Philadelphia Shipyards Development Corporation (December 31, 2015)</b>	<b>Ben Franklin Technology Development Authority</b>	<b>Pennsylvania Higher Educational Facilities Authority</b>
Expenses.....	\$ 1,664	\$ 247	\$ 25,126	\$ 1,182
Program revenues:				
Charges for goods and services.....	1,275	-	29,080	1,182
Operating grants and contributions.....	399	3	15,200	-
Capital grants and contributions.....	-	-	-	-
<b>Total program revenues.....</b>	<b>1,674</b>	<b>3</b>	<b>44,280</b>	<b>1,182</b>
<b>Change in net position.....</b>	<b>10</b>	<b>(244)</b>	<b>19,154</b>	<b>-</b>
<b>Net position, July 1, 2015.....</b>	<b>29,563</b>	<b>1,519</b>	<b>18,650</b>	<b>-</b>
<b>Net position, June 30, 2016.....</b>	<b>\$ 29,573</b>	<b>\$ 1,275</b>	<b>\$ 37,804</b>	<b>\$ -</b>

<b>Port of Pittsburgh Commission</b>	<b>Pennsylvania Industrial Development Authority</b>	<b>Pennsylvania Convention Center Authority</b>	<b>Thaddeus Stevens College of Technology</b>	<b>Pennsylvania Energy Development Authority</b>	<b>Pennsylvania eHealth Partnership Authority</b>	<b>Total</b>
\$ 3,017	\$ 11,248	\$ 86,021	\$ 26,088	\$ 1,180	\$ 5,084	\$ 160,857
5	11,654	17,041	9,355	1	-	69,593
3,012	1,915	38,536	15,500	125	3,209	77,899
-	-	14,005	-	-	-	14,005
<u>3,017</u>	<u>13,569</u>	<u>69,582</u>	<u>24,855</u>	<u>126</u>	<u>3,209</u>	<u>161,497</u>
-	2,321	(16,439)	(1,233)	(1,054)	(1,875)	640
246	419,739	686,727	81	5,624	2,236	1,164,385
<u>\$ 246</u>	<u>\$ 422,060</u>	<u>\$ 670,288</u>	<u>\$ (1,152)</u>	<u>\$ 4,570</u>	<u>\$ 361</u>	<u>\$ 1,165,025</u>

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Comprehensive Annual Financial Report  
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# Statistical Section



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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)

	2007	2008 (3)	2009 (3)	2010	2011	2012 (4)	2013 (4)(6)	2014 (6)(7)	2015 (7)(8)	2016
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
Net investment in capital assets.....	\$ 20,015,677	\$ 21,482,118	\$ 22,821,832	\$ 24,102,905	\$ 25,352,588	\$ 26,580,581	\$ 27,774,808	\$ 28,344,818	\$ 29,177,938	\$ 30,524,584
Restricted for:										
General government operations (2)(5).....	N/A	N/A	N/A	N/A	672,834	-	1,739	-	35	47
Health-related programs.....	1,454,502	1,410,932	1,291,318	1,048,684	61,785	18,977	18,830	16,982	15,412	14,294
Transportation.....	1,266,928	1,520,801	1,342,189	1,318,358	1,000,129	670,168	352,317	298,733	481,202	599,545
Capital projects.....	213,556	-	-	11	-	-	-	-	-	-
Debt service.....	20,474	27,458	16,834	46,853	-	-	-	-	-	-
Unemployment/worker's compensation.....	104,579	120,181	125,515	301,372	367,006	427,934	499,547	528,908	405,823	468,215
Elderly programs.....	10,808	38,264	62,183	50,213	-	-	-	-	-	-
Environmental and conservation programs.....	473,210	457,726	529,274	592,672	331,102	565,891	512,807	551,972	365,837	318,622
Economic development.....	16,217	22,530	23,576	25,312	-	-	-	-	-	-
Gaming licensing/regulation.....	299,396	947,145	917,466	771,616	720,578	725,468	709,348	651,467	502,589	426,436
Correctional industries and procurement.....	30,348	46,541	37,701	49,467	62,868	71,095	52,287	38,976	5,498	6,284
Emergency support.....	60,917	58,063	57,324	58,209	51,926	46,793	52,178	50,535	55,044	65,361
Higher education (9).....	N/A	7,023	8,985	7,715	-	-	-	-	-	-
Other purposes (9).....	87,077	88,580	58,842	55,616	40,078	35,614	35,626	57,614	24,019	18,528
Unrestricted.....	343,162	(648,689)	(4,053,146)	(4,881,426)	(4,407,594)	(5,460,053)	(5,685,524)	(7,658,746)	(17,846,863)	(19,407,921)
<b>TOTAL GOVERNMENTAL ACTIVITIES NET POSITION.....</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>22,881,259</b>	<b>13,186,534</b>	<b>13,033,995</b>
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
Net investment in capital assets.....	56,010	72,668	78,561	74,392	84,065	77,259	465,161	489,357	504,790	528,443
Restricted for:										
Health-related programs.....	2,413	1,942	1,059	2,837	2,323	1,340	4,456	5,588	-	-
Transportation.....	58,085	103,274	103,652	110,987	118,938	121,760	126,986	134,364	136,802	139,029
Capital projects.....	-	-	-	-	-	-	-	-	-	2
Debt service.....	-	-	-	-	-	-	4,199	4,199	4,199	4,199
Unemployment/worker's compensation.....	2,547,726	2,378,092	342,098	-	-	-	-	-	-	685,191
Elderly programs.....	340,836	124,351	-	-	-	-	-	-	-	-
Economic development (8).....	288,246	299,924	283,012	295,502	304,767	309,636	325,269	333,821	5,256	5,102
Emergency support.....	129,546	132,837	134,685	138,884	144,834	147,747	151,853	156,951	129,459	132,008
Higher Education.....	N/A	-	-	-	-	-	29,009	155,638	226,767	218,155
Other purposes.....	165,168	126,799	76,573	85,177	94,985	98,203	105,929	147,076	116,825	123,408
Unrestricted.....	-	(73,973)	(403,122)	(1,916,364)	(2,314,339)	(1,913,601)	(2,412,444)	(1,961,503)	(1,632,295)	(1,395,385)
<b>TOTAL BUSINESS-TYPE ACTIVITIES NET POSITION.....</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>	<b>(534,509)</b>	<b>(508,197)</b>	<b>440,152</b>
<b>PRIMARY GOVERNMENT (1)</b>										
Net investment in capital assets.....	20,071,687	21,554,786	22,900,393	24,177,297	25,436,653	26,657,840	28,239,969	28,834,175	29,682,728	31,053,027
Restricted for:										
General government operations (2)(5).....	N/A	N/A	N/A	N/A	672,834	-	1,739	-	35	47
Health-related programs.....	1,456,915	1,412,874	1,292,377	1,051,521	64,108	20,317	23,286	22,570	15,412	14,294
Transportation.....	1,325,013	1,624,075	1,445,841	1,429,345	1,119,067	791,928	479,303	433,097	618,004	738,574
Capital projects.....	213,556	-	-	11	-	-	-	-	-	2
Debt service.....	20,474	27,458	16,834	46,853	-	-	4,199	4,199	4,199	4,199
Unemployment/worker's compensation.....	2,652,305	2,498,273	467,613	301,372	367,006	427,934	499,547	528,908	405,823	1,153,406
Elderly programs.....	351,644	162,615	62,183	50,213	-	-	-	-	-	-
Environmental and conservation programs.....	473,210	457,726	529,274	592,672	331,102	565,891	512,807	551,972	365,837	318,622
Economic development (8).....	304,463	322,454	306,588	320,814	304,767	309,636	325,269	333,821	5,256	5,102
Gaming licensing/regulation.....	299,396	947,145	917,466	771,616	720,578	725,468	709,348	651,467	502,589	426,436
Correctional industries and procurement.....	30,348	46,541	37,701	49,467	62,868	71,095	52,287	38,976	5,498	6,284
Emergency support.....	190,463	190,900	192,009	197,093	196,760	194,540	204,031	207,486	184,503	197,369
Higher education (9).....	N/A	7,023	8,985	7,715	-	-	29,009	155,638	226,767	218,155
Other purposes (9).....	252,245	215,379	135,415	140,793	135,063	133,817	141,555	204,690	140,844	141,936
Unrestricted.....	343,162	(722,662)	(4,456,268)	(6,797,790)	(6,721,933)	(7,373,654)	(8,097,968)	(9,620,249)	(19,479,158)	(20,803,306)
<b>TOTAL PRIMARY GOVERNMENT NET POSITION (1).....</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>	<b>\$ 22,346,750</b>	<b>\$ 12,678,337</b>	<b>\$ 13,474,147</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)

Source: The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2007-2012, 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 2007-2012 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 2007-2012.

(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)-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.

(4)-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 in the June 30, 2013 CAFR provides additional details on this restatement.

(5)-For the 2011 fiscal year, balances in the amount of \$672,834 related to the grant ledgers were reported as restricted. Since the 2012 fiscal year, those balances have been reported as unrestricted/(deficit).

(6)-For the 2014 fiscal year, the Commonwealth implemented GASB Statement 65 requiring the deferral of resources. With the implementation of GASB 65, the beginning net position for governmental activities, business type activities and total primary government net position was restated and decreased by \$31,614, \$34,565, and \$66,179, respectively, as of July 1, 2013. Therefore, the ending net position balance (for governmental activities, business-type activities, and total primary government) shown in this table as of June 30, 2013 plus the change in net position shown in Table 2 for the June 30, 2014 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, 2014. Note B in the notes to the financial statements in the June 30, 2014 CAFR provides additional details on this restatement.

(7)-For the 2015 fiscal year, the Commonwealth implemented GASB Statements 68 and 71, which required the reporting of net pension liability, including the associated deferral of resources. With the implementation of GASB 68 and 71, the beginning net position for governmental activities, business type activities and total primary government net position was restated and decreased by \$10,622,867, \$460,686, and \$11,083,553, respectively, as of July 1, 2014. Therefore, the ending net position balance (for governmental activities, business-type Activities, and total primary government) shown in this table as of June 30, 2014 plus the change in net position shown in Table 2 for the June 30, 2015 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, 2015. Note B in the notes to the financial statements in the June 30, 2015 CAFR provides additional details on this restatement.

(8)-Through the 2014 fiscal year, the net position of the Small Business First Fund and the Machinery and Equipment Loan Fund (both proprietary funds) were included within the economic development restricted net position category. Effective November 1, 2014, their operations were transferred to the Pennsylvania Industrial Development Authority, a discretely presented component unit.

(9)-Since the 2008 fiscal year, the "Higher education" restricted net position category was created to provide a more refined description of the restrictions. This restriction was not applied retroactively and is marked with N/A in the fiscal years prior to its creation. This category was created for funds previously reported in the "Other purposes" category. The most notable funds reported in the "Other purposes" category prior to June 30, 2008 but now in the "Higher education" category are the Educational Assistance Program Fund and the Community College Capital Fund (both components of the General Fund since the June 30, 2011 fiscal year).

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)

	2007	2008	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
<b>Expenses:</b>										
Direction and supportive services.....	\$ 1,208,409	\$ 1,479,962	\$ 1,492,541	\$ 1,950,908	\$ 2,052,743	\$ 2,243,649	\$ 1,528,057	\$ 1,619,894	\$ 1,415,057	\$ 1,366,741
Protection of persons and property .....	4,487,633	4,922,684	5,480,770	5,682,950	5,384,710	5,541,681	6,010,950	6,216,380	6,659,818	6,750,256
Public education.....	12,464,663	13,107,648	14,045,890	14,520,733	14,864,360	13,394,225	13,885,466	14,205,019	14,451,280	14,914,554
Health and human services.....	24,264,933	25,215,388	26,615,566	28,321,389	30,388,529	30,680,717	30,495,970	31,634,286	33,880,187	36,620,781
Economic development.....	1,738,172	1,720,992	1,614,214	1,580,654	1,598,596	1,537,068	1,032,887	1,005,570	977,910	883,046
Transportation.....	3,922,517	4,182,916	4,278,022	4,951,010	4,465,639	4,382,503	4,764,139	5,204,513	5,751,229	5,943,778
Recreation and cultural enrichment.....	569,510	571,009	602,365	559,311	491,082	514,309	519,242	522,662	615,175	607,420
Unallocated depreciation.....	-	-	-	-	-	-	-	-	-	-
Interest.....	344,557	371,249	382,065	395,305	440,428	475,545	489,401	494,177	266,477	512,324
<b>Total expenses.....</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>60,902,501</b>	<b>64,017,133</b>	<b>67,598,900</b>
<b>Program revenues:</b>										
Charges for sales and services:										
Direction and supportive services.....	143,290	143,933	74,320	216,188	252,572	277,492	363,296	256,820	975,506	424,384
Protection of persons and property .....	1,309,256	1,214,038	1,083,889	1,331,281	1,034,481	1,302,020	1,380,582	1,348,469	1,350,043	1,539,295
Public education.....	14,793	17,641	15,756	18,201	14,928	4,776	5,926	5,337	5,102	7,647
Health and human services.....	1,730,965	1,800,212	1,559,638	1,134,144	1,597,599	1,658,657	1,641,534	1,726,322	1,819,309	1,999,519
Economic development.....	12,277	11,379	15,553	12,317	11,812	8,205	13,910	6,373	6,695	7,110
Transportation.....	952,866	945,536	944,486	910,721	976,705	970,026	972,417	1,036,790	1,210,668	1,316,284
Recreation and cultural enrichment.....	162,168	162,013	312,287	416,053	181,373	245,405	304,903	338,954	274,966	251,242
Operating grants and contributions.....	17,229,000	17,936,693	20,370,216	25,620,597	26,071,112	22,816,711	22,792,032	22,859,945	24,083,463	26,946,551
Capital grants and contributions.....	23,495	4,610	47,320	57,628	221,195	67,866	91,603	42,261	32,186	62,360
<b>Total program revenues.....</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>27,621,271</b>	<b>29,757,938</b>	<b>32,554,392</b>
<b>Total governmental activities net program revenues/(expenses).....</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>(33,281,230)</b>	<b>(34,259,195)</b>	<b>(35,044,508)</b>
<b>General revenues and other changes in net position:</b>										
<b>General revenues:</b>										
<b>Taxes:</b>										
Personal income.....	9,951,585	10,438,976	9,553,538	9,414,864	9,771,269	10,022,285	10,798,328	10,817,073	11,678,106	12,025,979
Sales and use.....	8,629,815	8,779,768	8,417,292	8,309,905	8,610,603	8,977,379	9,106,779	9,293,356	9,872,467	10,231,892
Corporation.....	4,985,031	5,157,589	4,209,705	4,146,477	4,469,094	4,504,105	4,781,555	4,314,093	5,195,882	4,134,991
Liquid fuels and motor carriers.....	2,072,442	2,024,045	1,975,678	2,045,505	2,092,645	2,096,222	2,058,226	2,349,982	3,017,991	3,303,273
Gaming (2).....	251,059	769,064	999,247	1,232,829	1,409,388	1,487,729	1,447,796	1,404,277	1,404,195	1,393,508
Inheritance.....	716,788	802,865	733,405	698,980	783,824	803,573	796,007	850,221	976,286	947,699
Cigarette.....	983,580	1,026,125	1,000,987	1,088,405	1,104,355	1,081,587	1,038,605	968,436	954,930	974,267
Realty transfer.....	583,991	500,786	348,003	346,094	328,997	343,015	396,552	439,797	485,275	564,002
Other.....	475,197	592,744	492,420	1,035,935	1,167,804	1,306,395	1,353,566	1,499,745	1,459,063	1,350,437
<b>Total taxes.....</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>	<b>31,936,980</b>	<b>35,044,195</b>	<b>34,926,048</b>
Investment income.....	320,342	128,722	(137,831)	15,099	52,129	14,979	12,876	36,311	16,072	16,297
<b>Total general revenues.....</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>	<b>31,973,291</b>	<b>35,060,267</b>	<b>34,942,345</b>
Transfers from business-type activities.....	257,343	296,931	430,398	218,721	239,925	210,438	17,275	(103,151)	127,071	(50,376)
<b>Net general revenues and transfers.....</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>31,870,140</b>	<b>35,187,338</b>	<b>34,891,969</b>
<b>Total governmental activities change in net position.....</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>	<b>\$ (1,411,090)</b>	<b>\$ 928,143</b>	<b>\$ (152,539)</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)

	2007	2008	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
<b>Expenses</b>										
State lottery.....	\$ 3,100,523	\$ 3,157,593	\$ 3,173,322	\$ 3,079,381	\$ 3,155,903	\$ 3,429,773	\$ 3,732,233	\$ 3,720,574	\$ 4,078,746	\$ 3,967,703
State workers' insurance.....	553,512	616,256	388,424	338,229	306,318	268,388	365,900	267,991	312,856	286,526
Tuition payment.....	267,941	224,791	100,028	235,876	259,069	236,342	248,592	277,139	226,330	231,082
Unemployment compensation (2).....	2,074,382	2,289,977	6,250,213	8,741,990	7,460,707	6,031,968	4,498,001	3,189,395	2,235,297	2,322,278
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	N/A	261,428	189,682	162,358	188,604
Liquor control.....	1,277,871	1,318,503	1,437,168	1,478,971	1,504,517	1,569,868	1,618,065	1,683,185	1,800,698	1,855,594
Economic development and other (1).....	14,470	3,148	14,171	13,706	23,635	16,997	41,199	47,212	57,287	54,089
<b>Total expenses.....</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>9,375,178</b>	<b>8,873,572</b>	<b>8,905,876</b>
<b>Program revenues</b>										
Charges for sales and services:										
State lottery.....	3,076,013	3,100,962	3,088,231	3,052,097	3,206,933	3,476,953	3,671,780	3,786,090	3,810,017	4,135,246
State workers' insurance.....	374,088	384,301	291,677	223,458	173,571	157,579	178,058	207,208	225,660	211,481
Tuition payment.....	151,121	138,361	153,892	157,336	165,157	185,947	182,555	191,766	191,915	192,187
Unemployment compensation (2).....	2,172,900	2,061,780	2,423,125	2,328,099	2,579,252	3,447,659	3,031,318	2,900,976	3,073,915	3,162,555
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	N/A	10,172	8,463	11,083	9,237
Liquor control.....	1,364,524	1,428,638	1,507,512	1,527,998	1,586,394	1,673,027	1,747,060	1,803,367	1,880,256	1,956,129
Economic development and other (1).....	20,068	20,149	19,067	22,254	24,449	17,478	25,816	25,305	36,170	26,463
Operating grants and contributions.....	619,319	350,892	1,760,824	4,970,529	4,858,476	3,211,902	2,166,475	1,048,220	416,322	110,551
Capital grants and contributions.....	-	-	-	-	-	-	1,128	270	232	-
<b>Total program revenues.....</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>9,971,665</b>	<b>9,645,570</b>	<b>9,803,849</b>
<b>Total business-type activities net program revenues/(expenses).....</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>596,487</b>	<b>771,998</b>	<b>897,973</b>
<b>Other changes in net position</b>										
Special item-loss on transfer of operations (5).....	-	-	-	-	-	-	-	-	(157,930)	-
Transfers to governmental activities.....	(257,343)	(296,931)	(430,398)	(218,721)	(239,925)	(210,438)	(17,275)	103,151	(127,071)	50,376
<b>Net special items and transfers.....</b>	<b>(257,343)</b>	<b>(296,931)</b>	<b>(430,398)</b>	<b>(218,721)</b>	<b>(239,925)</b>	<b>(210,438)</b>	<b>(17,275)</b>	<b>103,151</b>	<b>(285,001)</b>	<b>50,376</b>
<b>Total business-type activities change in net position.....</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>699,638</b>	<b>486,997</b>	<b>948,349</b>
<b>Total primary government change in net position.....</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>	<b>\$ (711,452)</b>	<b>\$ 1,415,140</b>	<b>\$ 795,810</b>

Source: The 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 2007-2012.

(2)-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.

(3)-Beginning with the 2014 fiscal year, the Commonwealth implemented GASB Statement 65. As noted in Table 1, the Commonwealth restated its net position for July 1, 2013. Note B in the notes to the financial statements in the June 30, 2014 CAFR provides additional details on this restatement. The primary effect on this table is that beginning with the 2014 fiscal year, certain assets are now reported as expenses. The changes were not made retroactively.

(4)-Beginning with the 2015 fiscal year, the Commonwealth implemented GASB Statements 68 and 71. As noted in Table 1, the Commonwealth restated its net position for July 1, 2014. Details on the restatement can be found in Note B in the notes to the financial statements in the June 30, 2015 CAFR. The primary effect on this table is that beginning with the 2015 fiscal year, expenses associated with net pension liability and associated deferral of resources are now being reported within this table. The changes were not made retroactively.

(5)-Effective November 1, 2014, the operations of the Small Business First Fund and the Machinery and Equipment Loan Fund (both proprietary funds) were transferred to the Pennsylvania Industrial Development Authority, a discretely presented component unit.

**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)

	2007	2008 (6)	2009 (6)	2010	2011	2012 (7)	2013 (7)	2014	2015	2016
<b>GENERAL FUND (1)(2)(3)(4)(8)</b>										
Reserved for:										
Encumbrances.....	\$ 570,027	\$ 568,678	\$ 785,864	\$ 806,181	N/A	N/A	N/A	N/A	N/A	N/A
Advances.....	114,108	114,108	139,108	139,108	N/A	N/A	N/A	N/A	N/A	N/A
Loans receivable.....	11,113	8,358	9,924	9,989	N/A	N/A	N/A	N/A	N/A	N/A
Budget Stabilization Reserve.....	538,764	745,949	745,949	-	N/A	N/A	N/A	N/A	N/A	N/A
Other.....	844,229	1,148,218	1,375,432	764,206	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved:										
Designated for:										
Other.....	923,966	379,169	-	-	N/A	N/A	N/A	N/A	N/A	N/A
Undesignated.....	368,659	9,621	(2,541,099)	(1,434,681)	N/A	N/A	N/A	N/A	N/A	N/A
Nonspendable.....	N/A	N/A	N/A	N/A	123,156	240,975	223,930	265,403	247,216	284,398
Restricted (5).....	N/A	N/A	N/A	N/A	756,141	-	76	45	36	45
Committed.....	N/A	N/A	N/A	N/A	1,063,613	1,276,671	1,334,872	1,119,470	1,289,298	1,486,831
Assigned.....	N/A	N/A	N/A	N/A	-	-	7,132	-	-	-
Unassigned/(deficit) (5).....	N/A	N/A	N/A	N/A	(321,475)	(258,351)	-	(1,950,956)	(1,262,997)	(1,681,165)
<b>TOTAL GENERAL FUND.....</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>(566,038)</b>	<b>273,553</b>	<b>90,109</b>
<b>ALL OTHER GOVERNMENTAL FUNDS (1)(2)(3)(4)(8)</b>										
Reserved for:										
Encumbrances.....	1,927,151	2,057,615	2,085,395	2,329,299	N/A	N/A	N/A	N/A	N/A	N/A
Advances.....	3,000	3,000	3,000	3,000	N/A	N/A	N/A	N/A	N/A	N/A
Loans receivable.....	39,859	73,628	83,100	79,315	N/A	N/A	N/A	N/A	N/A	N/A
Other.....	1,329,707	940,263	916,713	907,005	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved:										
Designated for, reported in:										
Highways.....	235,730	689,288	700,018	768,710	N/A	N/A	N/A	N/A	N/A	N/A
Special Revenue funds.....	11,268	9,341	8,666	2,218	N/A	N/A	N/A	N/A	N/A	N/A
Debt Service funds.....	20,474	27,458	16,834	46,853	N/A	N/A	N/A	N/A	N/A	N/A
Capital Projects funds.....	65,455	54,631	33,527	32,879	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	1,971,829	2,630,277	2,448,383	2,421,257	N/A	N/A	N/A	N/A	N/A	N/A
Capital Projects funds (deficit).....	(449,622)	(629,686)	(721,365)	(524,465)	N/A	N/A	N/A	N/A	N/A	N/A
Restricted reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	3,711,994	3,690,354	3,557,116	3,776,739	3,756,605	3,708,867
Committed reported in:										
Special Revenue funds.....	N/A	N/A	N/A	N/A	426,391	402,207	374,074	373,185	116,314	159,035
Debt Service funds.....	N/A	N/A	N/A	N/A	17,040	48,400	37,041	9,221	11,717	23,446
Capital Projects funds.....	N/A	N/A	N/A	N/A	239,180	509,618	282,094	423,670	1,022,565	566,823
Unassigned reported in:										
Special Revenue funds (deficit).....	N/A	N/A	N/A	N/A	(2,837)	(2,955)	(3,167)	-	(1,936)	-
Capital Projects funds (deficit).....	N/A	N/A	N/A	N/A	(20,711)	-	-	-	-	-
<b>TOTAL ALL OTHER GOVERNMENTAL FUNDS.....</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>	<b>\$ 4,582,815</b>	<b>\$ 4,905,265</b>	<b>\$ 4,458,171</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. In subsequent fiscal years, those balances were reported as part of the unassigned/(deficit) category.
- (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 in the June 30, 2013 CAFR provides additional details on this restatement.
- (8)-The Cigarette Fire Safety & Firefighter Protection Fund was initially created and reported as a component of the General Fund in the June 30, 2013 CAFR. Based on criteria established by GASB Statement 54, it was determined that this fund should have been classified as a special revenue fund. Therefore, this reclassification required the restatement of the General Fund fund balance from the \$1,566,010 shown in this schedule at the end of the 2013 fiscal year to \$1,565,668 which was reported at July 1, 2013. Likewise, the fund balance for all other governmental funds was restated from the \$4,247,158 shown at the end of the 2013 fiscal year to \$4,247,500 at July 1, 2013. Note B in the notes to the financial statements in the June 30, 2014 CAFR 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)

	2007	2008	2009	2010	2011	2012	2013 (1)	2014	2015	2016
<b>REVENUES BY SOURCE</b>										
Taxes, net of refunds.....	\$ 28,548,280	\$ 29,909,880	\$ 27,773,110	\$ 28,229,235	\$ 30,007,455	\$ 30,775,017	\$ 31,722,661	\$ 31,696,451	\$ 35,049,415	\$ 35,062,564
Licenses and fees.....	1,954,788	1,913,154	1,674,804	1,951,683	1,806,751	2,070,914	2,149,402	2,212,222	2,414,048	2,711,573
Intergovernmental.....	16,891,212	17,911,839	20,619,848	25,256,164	26,029,290	22,804,215	22,683,124	22,543,458	24,083,157	27,130,356
Charges for sales and services.....	1,598,564	1,641,937	1,597,751	1,501,109	1,688,449	1,763,586	1,839,507	1,920,911	2,793,311	2,129,846
Investment income.....	769,820	166,522	(306,524)	344,936	326,021	116,945	155,845	270,607	93,756	85,338
Other (2).....	607,201	752,308	715,425	686,069	632,670	709,810	767,463	486,992	441,176	702,830
<b>TOTAL REVENUES</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>59,130,641</b>	<b>64,874,863</b>	<b>67,822,507</b>
<b>EXPENDITURES BY FUNCTION</b>										
Direction and supportive services.....	1,104,793	1,385,760	1,375,399	1,779,748	1,622,374	1,578,240	1,557,306	1,535,593	1,329,707	1,124,931
Protection of persons and property.....	4,621,119	4,861,363	5,169,377	5,359,792	5,307,198	5,089,854	5,668,261	5,753,876	5,936,010	5,884,950
Health and human services.....	24,293,011	25,141,836	26,549,790	28,340,751	30,435,510	30,662,493	30,371,117	31,773,484	33,920,750	36,729,441
Public education.....	12,439,920	13,076,308	14,019,470	14,492,845	14,836,658	13,363,316	13,858,078	14,108,944	14,414,312	14,867,677
Recreation and cultural enrichment.....	544,117	557,387	570,177	506,737	463,501	482,065	474,966	484,137	544,326	536,873
Economic development.....	1,736,388	1,721,634	1,605,513	1,582,097	1,596,548	1,405,895	1,028,828	1,000,607	970,286	858,890
Transportation.....	3,089,544	3,292,279	3,321,647	3,833,745	3,129,306	3,264,969	3,342,421	3,467,088	4,096,439	4,275,308
Capital outlay.....	2,121,632	2,273,290	2,812,788	3,144,349	3,248,174	3,389,801	2,915,982	2,836,086	2,961,404	3,186,397
Debt service:										
Principal retirement.....	521,773	555,337	598,850	626,090	697,510	711,875	769,390	761,345	762,425	757,455
Interest and fiscal charges.....	361,088	388,722	402,653	406,414	477,751	510,783	531,564	554,574	563,326	578,463
<b>TOTAL EXPENDITURES</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>62,275,734</b>	<b>65,498,985</b>	<b>68,800,385</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>										
<b>OVER (UNDER) EXPENDITURES.....</b>	<b>(463,520)</b>	<b>(958,276)</b>	<b>(4,351,250)</b>	<b>(2,103,372)</b>	<b>(1,323,894)</b>	<b>(2,218,804)</b>	<b>(1,199,911)</b>	<b>(3,145,093)</b>	<b>(624,122)</b>	<b>(977,878)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>										
Bonds issued.....	1,008,104	913,119	1,064,103	1,900,401	650,000	1,600,303	950,300	1,295,000	1,460,000	355,000
Refunding bonds issued.....	250,557	194,471	155,642	695,945	-	161,272	361,760	289,946	782,425	633,175
Premium on bonds/refunding bonds issued.....	58,166	61,277	88,921	203,601	37,739	259,314	216,416	203,088	318,957	173,671
Discount on bonds issued.....	(157)	-	-	(2,924)	(4,724)	-	-	-	(1,441)	(780)
Transfers in.....	1,463,620	1,614,938	1,693,343	2,251,986	2,344,796	1,777,033	1,914,421	1,956,242	2,242,290	2,265,296
Transfers out.....	(1,188,779)	(1,318,226)	(1,257,945)	(1,888,368)	(2,062,410)	(1,580,564)	(1,888,173)	(2,059,393)	(2,115,219)	(2,315,672)
Payment to refunded bond escrow agent.....	(253,892)	(203,633)	(166,978)	(795,844)	-	(192,390)	(444,364)	(336,896)	(900,849)	(763,350)
Capital lease and installment purchase obligations.....	1,736	529	3,638	-	111	108,263	1,965	715	-	-
<b>TOTAL OTHER FINANCING SOURCES/(USES).....</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>1,348,702</b>	<b>1,786,163</b>	<b>347,340</b>
<b>NET CHANGE IN FUND BALANCES.....</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>	<b>\$ (1,796,391)</b>	<b>\$ 1,162,041</b>	<b>\$ (630,538)</b>
Debt Service as a Percentage of Noncapital Expenditures (3).....	1.81%	1.85%	1.87%	1.81%	2.01%	2.14%	2.26%	2.21%	2.12%	2.04%

**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)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>TOTAL PERSONAL INCOME BY INDUSTRY (1)(2)</b>										
<b>Workplace Earnings:</b>										
Farm Earnings.....	\$ 1,108	\$ 1,284	\$ 1,210	\$ 787	\$ 1,181	\$ 1,656	\$ 1,834	\$ 2,259	\$ 2,700	\$ 1,573
<b>Nonfarm Earnings:</b>										
<b>Private earnings:</b>										
Forestry, fishing/hunting, agriculture.....	477	439	424	413	494	451	527	528	567	876
Mining.....	2,506	2,269	3,332	2,247	3,044	4,434	5,122	5,556	6,073	4,563
Utilities.....	2,846	2,929	3,137	2,875	2,959	3,260	3,103	3,188	3,273	3,621
Construction.....	23,670	23,321	22,341	20,109	20,253	21,279	22,492	22,906	24,433	25,604
Manufacturing.....	43,168	43,219	43,658	39,101	39,605	41,332	42,213	42,163	43,664	44,853
Wholesale trade.....	18,039	19,079	19,217	18,187	18,520	19,730	20,174	20,540	21,621	21,818
Retail trade.....	22,128	22,315	21,517	21,363	21,864	22,601	23,114	23,366	23,694	24,509
Transportation and warehousing.....	12,378	12,835	12,704	12,436	12,710	13,769	14,309	14,683	15,308	18,378
Broadcasting/publishing/internet technology.....	11,286	12,247	14,835	14,878	14,978	14,334	15,144	15,660	16,015	23,158
Finance and insurance.....	23,677	24,076	23,692	24,165	24,938	25,567	26,673	27,181	28,742	26,726
Real estate and rental and leasing.....	5,351	4,496	4,853	4,325	4,811	5,742	6,287	7,408	7,839	8,257
Professional and technical services.....	31,072	33,149	36,044	34,639	34,335	36,216	38,033	38,793	40,226	42,952
Management of companies and enterprises.....	10,659	13,108	13,037	13,409	13,671	15,383	16,862	17,747	18,173	18,617
Administrative services.....	10,884	11,424	11,691	11,017	11,661	12,581	12,865	13,350	13,961	14,642
Educational services.....	9,503	9,934	10,569	11,419	11,887	12,372	12,863	13,098	13,609	14,087
Health care and social assistance.....	43,821	45,720	48,950	50,909	52,904	54,573	55,889	57,283	59,175	61,835
Arts, entertainment, and recreation.....	3,447	3,506	3,578	3,622	3,859	4,222	4,438	4,539	4,641	4,773
Accommodation and food services.....	8,296	8,780	8,738	8,524	8,806	9,332	9,982	10,442	10,886	11,422
Other services, except public administration.....	13,780	13,499	13,213	13,179	13,382	13,584	14,277	14,604	15,324	15,918
<b>Total private earnings.....</b>	<b>296,988</b>	<b>306,345</b>	<b>315,530</b>	<b>306,817</b>	<b>314,681</b>	<b>330,762</b>	<b>344,367</b>	<b>353,035</b>	<b>367,224</b>	<b>386,609</b>
<b>Government:</b>										
Federal, civilian.....	8,645	8,911	9,136	9,479	9,915	9,906	9,775	9,536	9,731	10,032
Military.....	1,528	1,493	1,577	1,693	1,676	1,547	1,508	1,457	1,398	1,368
State government.....	11,208	11,921	12,179	12,547	12,999	13,094	13,072	13,281	13,600	14,162
Local government.....	29,028	30,016	31,275	32,063	33,538	33,239	32,467	33,755	34,007	34,650
<b>Total government earnings.....</b>	<b>50,409</b>	<b>52,341</b>	<b>54,167</b>	<b>55,782</b>	<b>58,128</b>	<b>57,786</b>	<b>56,822</b>	<b>58,029</b>	<b>58,736</b>	<b>60,212</b>
<b>Total nonfarm earnings.....</b>	<b>347,397</b>	<b>358,686</b>	<b>369,697</b>	<b>362,599</b>	<b>372,809</b>	<b>388,548</b>	<b>401,189</b>	<b>411,064</b>	<b>425,960</b>	<b>446,821</b>
<b>Total workplace earnings.....</b>	<b>348,505</b>	<b>359,970</b>	<b>370,907</b>	<b>363,386</b>	<b>373,990</b>	<b>390,204</b>	<b>403,023</b>	<b>413,323</b>	<b>428,660</b>	<b>448,394</b>
<b>Other earnings/deductions (3).....</b>	<b>129,434</b>	<b>143,641</b>	<b>154,716</b>	<b>153,237</b>	<b>158,827</b>	<b>170,767</b>	<b>181,607</b>	<b>174,973</b>	<b>181,019</b>	<b>188,463</b>
<b>Total personal income.....</b>	<b>\$ 477,939</b>	<b>\$ 503,611</b>	<b>\$ 525,623</b>	<b>\$ 516,623</b>	<b>\$ 532,817</b>	<b>\$ 560,971</b>	<b>\$ 584,630</b>	<b>\$ 588,296</b>	<b>\$ 609,679</b>	<b>\$ 636,857</b>
<b>Total personal income subject to the direct personal income tax rate (4)(5).....</b>	<b>\$ 266,800</b>	<b>\$ 288,043</b>	<b>\$ 317,393</b>	<b>\$ 314,872</b>	<b>\$ 294,893</b>	<b>\$ 255,040</b>	<b>\$ 263,659</b>	<b>269,373</b>	<b>N/A</b>	<b>N/A</b>
<b>Direct personal income tax rate.....</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>	<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 2016. Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2013 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-December 2014 (Fiscal Year 2013-14). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2014. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.pa.gov](http://www.revenue.pa.gov).

**Notes:**

- (1)-Various calendar years differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2015. 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 2015. These estimates have subsequently been revised (as provided in the September 2016 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 2014 and 2015 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 the applicable calendar year.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Personal Income Tax**

Table 6

Personal Income Tax Filers and Liability by Income Level  
 2004 and 2013 Tax Years

Liability amounts in thousands									
2004 Tax Year (1)(2)(3)					2013 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability (4)	Percentage of Total (6)	Taxable Income Level	Number of Filers	Percentage of Total (6)	Personal Income Tax Liability (4)	Percentage of Total (6)
\$0	85,100	1.50%	\$ -	0.00%	\$0	204,767	3.35%	\$ -	0.00%
\$1-999	410,015	7.24%	152	0.06%	\$1-999	406,458	6.66%	1,544	0.02%
\$1,000-2,999	418,962	7.40%	765	0.32%	\$1,000-2,999	363,787	5.96%	13,225	0.16%
\$3,000-4,999	314,283	5.55%	1,173	0.50%	\$3,000-4,999	282,023	4.62%	24,011	0.29%
\$5,000-6,999	252,227	4.45%	1,418	0.60%	\$5,000-6,999	237,753	3.89%	32,019	0.39%
\$7,000-8,999	210,303	3.71%	1,579	0.67%	\$7,000-8,999	202,890	3.32%	37,686	0.46%
\$9,000-10,999	181,442	3.20%	1,707	0.72%	\$9,000-10,999	188,661	3.09%	43,753	0.53%
\$11,000-12,999	167,445	2.96%	1,891	0.80%	\$11,000-12,999	170,257	2.79%	49,021	0.59%
\$13,000-14,999	155,060	2.74%	2,044	0.86%	\$13,000-14,999	162,221	2.66%	54,925	0.66%
\$15,000-16,999	149,055	2.63%	2,246	0.95%	\$15,000-16,999	151,396	2.48%	60,178	0.73%
\$17,000-18,999	143,605	2.54%	2,436	1.03%	\$17,000-18,999	139,716	2.29%	64,212	0.78%
\$19,000-21,999	209,511	3.70%	4,047	1.71%	\$19,000-21,999	200,600	3.28%	107,413	1.30%
\$22,000-24,999	199,842	3.53%	4,424	1.87%	\$22,000-24,999	192,519	3.15%	120,624	1.46%
\$25,000-29,999	307,911	5.44%	7,965	3.37%	\$25,000-29,999	299,886	4.91%	223,468	2.70%
\$30,000-34,999	270,966	4.79%	8,285	3.50%	\$30,000-34,999	271,987	4.45%	242,046	2.93%
\$35,000-39,999	236,982	4.19%	8,363	3.54%	\$35,000-39,999	242,519	3.97%	251,118	3.04%
\$40,000-49,999	396,348	7.00%	16,734	7.08%	\$40,000-49,999	404,732	6.63%	503,885	6.09%
\$50,000-74,999	682,958	12.06%	39,504	16.70%	\$50,000-74,999	704,662	11.54%	1,208,439	14.61%
\$75,000-99,999	374,536	6.61%	30,398	12.85%	\$75,000-99,999	443,514	7.26%	1,070,561	12.95%
\$100,000-149,999	289,397	5.11%	32,669	13.81%	\$100,000-149,999	440,339	7.21%	1,461,908	17.68%
\$150,000 or more	206,506	3.65%	68,689	29.05%	(5) \$150,000-249,999	246,694	4.04%	1,181,751	14.29%
				(5)	\$250,000 or more	149,740	2.45%	1,517,953	18.36%
Total (6)	<u>5,662,454</u>	100.00%	<u>\$ 236,491</u>	100.00%	Total	<u>6,107,121</u>	100.00%	<u>\$ 8,269,741</u>	100.00%

**Sources:**

For the 2004 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2013 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-December 2014 (Fiscal Year 2013-14). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for December 2014. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.pa.gov](http://www.revenue.pa.gov).

**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 2004 or 2013 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 2014 and 2015 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 2004 and 2013 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. 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 2004 tax year are reported within the original caption; whereas the amounts reported in the 2013 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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(3)
<b>Estimated Taxable Sales by Industry (1)(2)</b>										
Manufacturing.....	\$ 7,107,483	\$ 7,083,150	\$ 7,199,717	\$ 6,952,853	\$ 6,310,433	\$ 7,182,245	\$ 7,426,068	\$ 7,391,732	\$ 7,555,033	\$ 6,866,437
Public utilities.....	4,667,117	4,816,533	4,763,633	4,832,233	4,750,250	5,002,202	4,680,907	4,492,653	4,761,067	4,624,260
Wholesale trade.....	11,407,750	12,320,033	12,239,917	10,215,170	10,492,100	11,590,333	12,419,575	12,316,835	12,792,633	14,385,888
Building materials.....	9,607,267	9,263,467	8,908,483	8,422,183	8,140,533	8,714,365	8,878,250	9,039,222	9,158,683	9,515,812
General merchandise.....	18,766,300	19,275,267	18,959,267	19,171,045	18,601,350	19,740,610	19,354,965	19,879,167	19,969,650	20,713,098
Food and beverage stores.....	5,859,017	6,090,033	6,023,083	6,197,422	6,416,383	6,437,433	6,440,322	6,580,377	6,575,817	6,605,795
Automotive dealers.....	3,761,500	3,865,533	3,834,950	3,709,158	3,753,567	3,997,238	4,157,458	4,122,673	4,367,833	4,775,440
Furniture and appliances.....	6,148,383	6,334,000	6,018,133	5,572,460	4,931,917	5,336,590	5,376,648	5,285,463	5,176,483	5,836,548
Other retail stores.....	5,529,683	5,802,417	5,764,733	5,598,740	5,580,450	6,095,245	6,408,673	6,447,917	6,414,917	6,228,017
Agriculture and mining.....	717,950	726,367	666,967	685,577	773,133	838,863	930,587	934,048	906,617	1,178,700
Construction.....	3,010,383	3,077,033	3,050,933	2,880,480	2,595,217	2,953,357	3,203,795	3,175,267	3,270,033	3,590,792
Service.....	39,336,950	41,230,817	41,914,783	40,875,482	40,899,250	43,579,387	43,694,423	45,039,627	46,338,883	47,927,008
Transportation, delivery, and warehousing.....	420,617	363,450	374,133	356,542	365,150	371,315	420,053	472,217	490,583	518,767
Government.....	294,600	289,767	211,100	285,217	383,150	411,452	362,387	305,027	342,117	281,192
Unclassified.....	1,442,950	1,532,250	1,627,583	2,036,060	1,363,333	1,254,633	1,042,267	1,132,720	1,194,517	755,647
Motor vehicle.....	19,484,594	19,481,964	18,346,914	15,992,425	16,595,200	17,714,378	19,343,573	19,459,690	20,626,333	22,103,607
Liquor sales.....	1,341,449	1,627,333	1,704,846	1,808,735	1,868,083	1,950,641	2,064,488	2,153,927	2,219,167	2,311,442
<b>Total sales tax estimated base (4).....</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>\$ 148,228,560</b>	<b>\$ 152,160,367</b>	<b>\$ 158,218,450</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 2015 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-December 2014 (Fiscal Year 2013-14). The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for December 2014. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.pa.gov](http://www.revenue.pa.gov).

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 2016 fiscal year. Therefore, fiscal years 2006 through 2015 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, 2006 and June 30, 2015

(Amounts in thousands)

June 30, 2006 (1)(2)			June 30, 2015 (1)(2)		
Industry (4)	Sales (3) Tax Remittances Liability	Percentage of Total	Industry (4)	Sales (3) Tax Remittances Liability	Percentage of Total
Manufacturing.....	\$ 426,449	5.12%	Manufacturing.....	\$ 411,986	4.34%
Public utilities.....	\$ 280,027	3.36%	Public utilities.....	\$ 277,456	2.92%
Wholesale trade.....	\$ 684,465	8.21%	Wholesale trade.....	\$ 863,153	9.09%
Building materials.....	\$ 576,436	6.92%	Building materials.....	\$ 570,949	6.01%
General merchandise.....	\$ 1,125,978	13.51%	General merchandise.....	\$ 1,242,786	13.09%
Food and beverage stores.....	\$ 351,541	4.22%	Food and beverage stores.....	\$ 396,348	4.18%
Automotive dealers.....	\$ 225,690	2.71%	Automotive dealers.....	\$ 286,526	3.02%
Furniture and appliances.....	\$ 368,903	4.43%	Furniture and appliances.....	\$ 350,193	3.69%
Other retail stores.....	\$ 331,781	3.98%	Other retail stores.....	\$ 373,681	3.94%
Agriculture and mining.....	\$ 43,077	0.52%	Agriculture and mining.....	\$ 70,722	0.74%
Construction.....	\$ 180,623	2.17%	Construction.....	\$ 215,448	2.27%
Service.....	\$ 2,360,217	28.32%	Service.....	\$ 2,875,621	30.29%
Transportation, delivery, and warehousing.....	\$ 25,237	0.30%	Transportation, delivery, and warehousing.....	\$ 31,126	0.33%
Government.....	\$ 17,676	0.21%	Government.....	\$ 16,872	0.18%
Unclassified.....	\$ 86,577	1.04%	Unclassified.....	\$ 45,339	0.48%
Motor vehicle.....	\$ 1,169,076	14.03%	Motor vehicle.....	\$ 1,326,216	13.97%
Liquor sales.....	\$ 80,487	0.97%	Liquor sales.....	\$ 138,687	1.46%
Total (5).....	<u>\$ 8,334,240</u>	100.00%	Total (5).....	<u>\$ 9,493,107</u>	100.00%
Sales Tax Licenses (6).....	237,971		Sales Tax Licenses (6).....	224,688	

**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 2015 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-December 2014 (Fiscal Year 2013-14). This publication was obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.pa.gov](http://www.revenue.pa.gov).

**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 2016 fiscal year. Therefore, fiscal years 2006 and 2015 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

	2004	2005	2006	2007	2008	2009	2010	2011 (6)	2012 (6)	2013 (6)
<b>ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)</b>										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 17,648,755	\$ 20,312,660	\$ 23,247,419	\$ 20,787,641	\$ 19,652,968	\$ 17,631,632	\$ 19,219,761	\$ 18,084,820	\$ 23,746,437	\$ 22,574,912
<b>NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)</b>										
\$0.....	95,306	94,827	94,119	97,811	79,113	77,698	72,996	85,406	81,108	84,408
\$1-300.....	10,096	9,830	8,668	8,152	7,492	6,978	7,133	6,959	6,681	6,237
\$301-500.....	2,660	2,662	2,319	2,235	2,035	1,925	1,980	1,932	1,850	1,700
\$501-1,000.....	4,119	3,981	3,417	3,375	3,119	2,868	2,950	2,963	2,910	2,756
\$1,001-5,000.....	10,355	10,277	8,577	8,367	7,742	7,051	7,202	6,964	7,287	7,090
\$5,001-10,000.....	3,596	3,600	3,334	3,168	2,803	2,490	2,566	2,655	2,757	2,758
\$10,001-25,000.....	2,863	3,022	2,884	2,894	2,594	2,338	2,440	2,445	2,677	2,682
\$25,001-50,000.....	1,489	1,550	1,582	1,519	1,424	1,291	1,429	1,387	1,523	1,602
\$50,001-100,000.....	1,086	1,208	1,244	1,190	1,157	1,020	1,082	1,138	1,215	1,265
\$100,001-250,000.....	954	1,005	1,082	1,050	992	865	956	1,030	1,214	1,186
\$250,001-500,000.....	443	475	520	499	471	448	448	450	559	545
\$500,001-1,000,000.....	264	294	344	311	278	279	297	307	369	328
>\$1,000,000.....	262	307	341	326	304	267	289	273	401	402
<b>Total corporate net income tax filers (4)(5).....</b>	<b>133,493</b>	<b>133,038</b>	<b>128,431</b>	<b>130,897</b>	<b>109,524</b>	<b>105,518</b>	<b>101,768</b>	<b>113,909</b>	<b>110,551</b>	<b>112,959</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 direct corporate net income tax rate was obtained from the Pennsylvania Tax Compendium for December 2014. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.pa.gov](http://www.revenue.pa.gov).

**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 2015 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 2014 and 2015 tax years. Therefore, tax years 2004 through 2013 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 2004 through 2011, the amounts presented are actual. The amounts presented for the 2011 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, 2015 fiscal year, since that amount was an estimate. For the 2012 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2015 CAFR. And for the 2013 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

	2004	2005	2006	2007	2008	2009	2010	2011 (6)	2012 (6)	2013 (6)
<b>CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)</b>										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$ 157,310,000	\$ 167,566,590	\$ 189,755,093	\$ 207,628,892	\$ 230,292,556	\$ 248,089,965	\$ 261,854,671	\$ 306,098,458	\$ 322,325,870	\$ 359,192,060
<b>NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)</b>										
\$0-300.....	250,253	262,888	278,843	301,231	309,482	316,168	323,099	328,516	328,440	360,394
\$301-500.....	7,973	8,853	10,198	10,497	11,397	11,431	11,377	11,888	12,866	12,484
\$501-1,000.....	13,730	14,778	15,754	15,688	15,935	16,168	15,796	16,235	16,453	13,474
\$1,001-5,000.....	30,487	30,883	30,246	28,604	25,974	25,903	26,594	27,825	24,042	16,707
\$5,001-10,000.....	7,519	7,435	7,293	6,617	5,694	5,786	6,006	6,159	5,158	3,143
\$10,001-25,000.....	5,876	5,708	5,401	5,015	4,165	4,218	4,389	4,659	3,693	2,272
\$25,001-50,000.....	2,402	2,284	2,196	2,020	1,691	1,714	1,768	1,957	1,489	832
\$50,001-100,000.....	1,305	1,264	1,213	1,113	887	951	1,040	1,070	835	462
\$100,001-250,000.....	838	816	769	675	515	552	605	652	497	275
\$250,001-500,000.....	312	282	278	225	176	195	190	207	179	104
\$500,001-1,000,000.....	144	142	126	113	81	87	104	125	81	43
>\$1,000,000.....	106	101	93	81	73	83	81	99	66	22
<b>Total capital stock and franchise tax filers (4)(5).....</b>	<b>320,945</b>	<b>335,434</b>	<b>352,410</b>	<b>371,879</b>	<b>376,070</b>	<b>383,256</b>	<b>391,049</b>	<b>399,392</b>	<b>393,799</b>	<b>410,212</b>
<b>Total direct capital stock and franchise tax rate.....</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>	<b>2.89 mills</b>	<b>1.89 mills</b>	<b>0.89 mills</b>

**Sources:**  
 Information provided by the Pennsylvania Department of Revenue. The direct capital stock/foreign franchise tax rate was obtained from the Pennsylvania Tax Compendium for December 2014. Both of these publications were obtained from the Pennsylvania Department of Revenue's website which is located at [www.revenue.pa.gov](http://www.revenue.pa.gov).

**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 2015 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 2014 and 2015 tax years. Therefore, tax years 2004 through 2013 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 2004 through 2011, the amounts presented are actual. The amounts presented for the 2011 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, 2015 fiscal year, since that amount was an estimate. For the 2012 tax year, the amounts presented are revised estimates from the amounts presented in the June 30, 2015 CAFR. And for the 2013 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>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Governmental activities:</b>										
General obligation bonds.....	\$ 8,245,673	\$ 8,632,609	\$ 9,150,362	\$ 10,498,794	\$ 10,443,190	\$ 11,538,799	\$ 11,821,622	\$ 12,674,929	\$ 12,976,531	\$ 12,517,909
Capital leases/installment purchase obligations.....	40,649	37,646	36,730	31,958	26,907	129,757	125,020	117,961	110,208	103,183
Other financing obligations.....	76,500	70,500	67,500	67,500	67,500	334,230	324,860	315,620	285,740	285,740
<b>Total governmental .....</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>13,108,510</b>	<b>13,372,479</b>	<b>12,906,832</b>
<b>Business-type activities:</b>										
Demand revenue bonds payable.....	-	-	-	-	-	-	300,000	166,635	9,565	-
Notes payable.....	-	-	-	-	-	-	199	-	-	-
Revenue bonds payable.....	-	-	-	-	-	-	4,635,760	4,381,432	4,182,896	3,681,734
Capital leases/installment purchase obligations.....	17,375	5,939	-	-	-	-	-	-	-	-
<b>Total business-type .....</b>	<b>17,375</b>	<b>5,939</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,935,959</b>	<b>4,548,067</b>	<b>4,192,461</b>	<b>3,681,734</b>
<b>TOTAL PRIMARY GOVERNMENT.....</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>\$ 17,656,577</b>	<b>\$ 17,564,940</b>	<b>\$ 16,588,566</b>
<b>Debt as a Percentage of Personal Income (4)(5)....</b>	<b>1.76%</b>	<b>1.73%</b>	<b>1.75%</b>	<b>2.06%</b>	<b>1.97%</b>	<b>2.14%</b>	<b>2.94%</b>	<b>3.00%</b>	<b>2.86%</b>	<b>2.60%</b>
<b>Amount of Debt per Capita (4)(5).....</b>	<b>\$ 670</b>	<b>\$ 696</b>	<b>\$ 734</b>	<b>\$ 837</b>	<b>\$ 829</b>	<b>\$ 942</b>	<b>\$ 1,347</b>	<b>\$ 1,381</b>	<b>\$ 1,373</b>	<b>\$ 1,296</b>

**Source:** The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2007-2012, 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 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, 2016 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, 2015 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, 2015 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)

<u>Fiscal Year</u>	<u>(1) General Obligation Bonds</u>	<u>(2) Percentage of Actual Tax Revenues</u>	<u>(3) Per Capita</u>
2007	\$ 8,245,673	28.78%	\$ 657
2008	8,632,609	28.69%	685
2009	9,150,362	33.00%	724
2010	10,498,794	37.07%	825
2011	10,443,190	35.12%	820
2012	11,538,799	37.68%	902
2013	11,821,622	37.20%	923
2014	12,674,929	39.69%	991
2015	12,976,531	37.03%	1,013
2016	12,517,909	35.84%	976

**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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 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	\$ 35,048,322,844	\$ 36,290,613,411	\$ 37,326,634,317
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
<b>Constitutional debt limit for debt incurred without the approval of the electors (A)..</b>	<b>51,275,711,636</b>	<b>54,404,553,021</b>	<b>56,077,116,135</b>	<b>57,058,717,616</b>	<b>58,160,309,190</b>	<b>59,049,213,802</b>	<b>59,804,115,320</b>	<b>61,334,564,977</b>	<b>63,508,573,469</b>	<b>65,321,610,054</b>
Less outstanding net debt (non-electorate approved).....	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	9,960,500,105	10,640,300,242	11,423,804,500
<b>Legal debt margin (B).....</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>\$ 51,374,064,872</b>	<b>\$ 52,868,273,227</b>	<b>\$ 53,897,805,554</b>
<b>Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....</b>	<b>13.34%</b>	<b>12.99%</b>	<b>13.37%</b>	<b>14.99%</b>	<b>14.65%</b>	<b>15.57%</b>	<b>15.60%</b>	<b>16.24%</b>	<b>16.75%</b>	<b>17.49%</b>

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Employment by nonfarm related industry (1)(2)(3):</b>										
<b>Total nonfarm:</b>										
<b>Private earnings:</b>										
<b>Goods producing:</b>										
Natural resources and mining.....	20,400	21,100	22,200	22,300	26,600	33,800	37,000	36,000	37,700	33,900
Construction.....	261,000	262,100	254,200	224,000	214,900	221,500	224,300	223,800	228,900	233,600
Manufacturing.....	670,400	659,100	643,800	574,100	560,000	565,000	567,200	564,600	567,500	568,300
<b>Total goods producing.....</b>	<b>951,800</b>	<b>942,300</b>	<b>920,200</b>	<b>820,400</b>	<b>801,500</b>	<b>820,300</b>	<b>828,500</b>	<b>824,400</b>	<b>834,100</b>	<b>835,800</b>
<b>Service providing:</b>										
Trade.....	1,123,400	1,131,200	1,122,900	1,078,200	1,077,100	1,089,200	1,097,800	1,099,500	1,109,700	1,123,200
Information.....	108,200	107,500	105,900	99,600	93,300	91,100	90,300	87,800	85,400	85,200
Financial Activities.....	335,000	332,800	329,800	318,400	311,000	308,600	309,500	313,200	315,300	316,300
Professional and business services.....	685,300	705,700	709,400	674,800	689,900	716,800	733,100	748,000	761,600	774,300
Education and health services.....	1,048,300	1,068,900	1,094,700	1,112,900	1,127,800	1,144,000	1,156,300	1,162,700	1,180,000	1,192,800
Leisure and hospitality.....	491,800	499,900	503,300	494,300	500,600	511,200	524,100	532,200	537,600	546,400
Other services.....	258,400	255,800	254,300	249,900	250,300	253,000	254,000	252,200	253,500	256,600
<b>Total service providing.....</b>	<b>4,050,400</b>	<b>4,101,800</b>	<b>4,120,300</b>	<b>4,028,100</b>	<b>4,050,000</b>	<b>4,113,900</b>	<b>4,165,100</b>	<b>4,195,600</b>	<b>4,243,100</b>	<b>4,294,800</b>
<b>Total private earnings.....</b>	<b>5,002,200</b>	<b>5,044,100</b>	<b>5,040,500</b>	<b>4,848,500</b>	<b>4,851,500</b>	<b>4,934,200</b>	<b>4,993,600</b>	<b>5,020,000</b>	<b>5,077,200</b>	<b>5,130,600</b>
<b>Government.....</b>	<b>755,000</b>	<b>754,800</b>	<b>759,700</b>	<b>768,200</b>	<b>770,600</b>	<b>751,400</b>	<b>732,300</b>	<b>720,700</b>	<b>711,400</b>	<b>705,400</b>
<b>Total nonfarm.....</b>	<b>5,705,200</b>	<b>5,759,400</b>	<b>5,801,700</b>	<b>5,803,500</b>	<b>5,619,900</b>	<b>5,625,200</b>	<b>5,688,800</b>	<b>5,729,100</b>	<b>5,743,900</b>	<b>5,790,100</b>

Source: Information obtained from the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis website (www.paworkstats.pa.gov).

- 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, 2015 CAFR, as a result of revised data provided on the Center for Workforce Information & Analysis website.
  - (3)-Totals may not foot due to rounding.

**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 thousands)			Per Capita (3) Personal Income			Pennsylvania rate percentage above/(below) U.S.
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States		
2006	12,511	298,380	4.19%	476,163	11,381,350	4.18%	38,060	38,144	(0.22)%	
2007	12,564	301,231	4.17%	506,358	11,995,419	4.22%	40,302	39,821	1.21%	
2008	12,612	304,094	4.15%	528,854	12,492,705	4.23%	41,932	41,082	2.07%	
2009	12,667	306,772	4.13%	515,486	12,079,444	4.27%	40,696	39,376	3.35%	
2010	12,712	309,347	4.11%	533,930	12,459,613	4.29%	42,002	40,277	4.28%	
2011	12,745	311,719	4.09%	561,012	13,233,436	4.24%	44,018	42,453	3.69%	
2012	12,773	314,103	4.07%	585,852	13,904,485	4.21%	45,867	44,267	3.61%	
2013	12,784	316,427	4.04%	589,492	14,068,960	4.19%	46,113	44,462	3.71%	
2014	12,794	318,907	4.01%	613,524	14,801,624	4.14%	47,955	46,414	3.32%	
2015	12,803	321,419	3.98%	636,857	15,463,981	4.12%	49,745	48,112	3.39%	

**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, 2015 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, 2015 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, 2015 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				Pennsylvania rate percentage above/(below) U.S.
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	
2006	6,295	6,007	288	4.6%	151,428	144,427	7,001	4.6%	0.00%
2007	6,343	6,064	279	4.4%	153,124	146,047	7,078	4.6%	(4.35)%
2008	6,452	6,110	342	5.3%	154,287	145,362	8,924	5.8%	(8.62)%
2009	6,400	5,885	515	8.0%	154,142	139,877	14,265	9.3%	(13.98)%
2010	6,381	5,841	540	8.5%	153,889	139,064	14,825	9.6%	(11.46)%
2011	6,396	5,889	507	7.9%	153,617	139,869	13,747	8.9%	(11.24)%
2012	6,464	5,957	507	7.8%	154,975	142,469	12,506	8.1%	(3.70)%
2013	6,440	5,965	476	7.4%	155,389	143,929	11,460	7.4%	0.00%
2014	6,391	6,016	376	5.9%	155,922	146,305	9,616	6.2%	(4.84)%
2015	6,424	6,094	330	5.1%	157,130	148,834	8,296	5.3%	(3.77)%

**Sources:** Information was obtained from the Center for Workforce Information & Analysis, Pennsylvania Department of Labor and Industry website at [www.paworkstats.pa.gov](http://www.paworkstats.pa.gov).

**Notes:**

(1)-Various calendar years may differ from the totals presented in the same table in the June 30, 2015 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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Direction and supportive services</b>										
Legislative.....	3,339	3,346	3,327	3,133	2,959	2,844	2,784	2,749	2,716	2,596
Revenue.....	2,385	2,374	2,254	2,058	1,965	1,934	1,883	1,867	1,902	1,869
Executive Offices.....	1,966	2,012	2,004	1,906	1,767	1,715	1,612	1,554	1,496	1,429
General Services.....	1,305	1,251	1,244	1,145	1,115	1,030	993	950	926	863
Auditor General.....	711	730	708	670	606	598	475	475	472	463
Treasurer.....	565	552	492	420	408	396	386	373	353	345
Other.....	327	327	281	274	270	273	268	256	248	239
<b>Total direction and supportive services.....</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>8,224</b>	<b>8,113</b>	<b>7,804</b>
<b>Protection of persons and property</b>										
Corrections.....	15,441	15,722	16,139	16,232	15,740	15,751	15,398	15,177	15,197	15,340
State Police.....	6,272	6,249	6,193	5,989	6,015	5,978	5,938	6,139	6,344	6,372
Liquor Control Board.....	4,704	4,835	5,031	5,082	4,847	4,952	5,007	5,086	5,093	5,166
Environmental Protection.....	2,799	2,793	2,786	2,590	2,609	2,648	2,616	2,522	2,491	2,412
Judiciary.....	2,130	2,136	2,141	2,197	2,154	2,176	2,150	2,171	2,160	2,179
Transportation.....	1,253	1,235	1,185	1,125	1,129	1,194	1,191	1,188	1,189	1,193
Agriculture.....	1,056	1,187	1,112	995	962	919	952	914	921	884
Probation and Parole Board.....	967	1,084	1,141	1,114	1,105	1,162	1,199	1,217	1,228	1,267
Attorney General.....	935	985	955	897	814	821	810	836	840	836
Public Utility Commission.....	485	519	535	547	506	508	497	492	475	472
Military and Veterans Affairs.....	517	538	529	478	450	468	467	486	474	486
Other.....	2,088	2,085	2,014	1,955	1,850	1,905	1,839	1,824	1,792	1,736
<b>Total protection of persons and property.....</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>38,052</b>	<b>38,204</b>	<b>38,343</b>
<b>Public education</b>										
Education.....	665	693	578	544	503	521	514	499	488	474
Other.....	18	18	16	15	15	-	-	-	-	-
<b>Total public education.....</b>	<b>683</b>	<b>711</b>	<b>594</b>	<b>559</b>	<b>518</b>	<b>521</b>	<b>514</b>	<b>499</b>	<b>488</b>	<b>474</b>
<b>Health and human services</b>										
Human Services.....	18,786	19,082	18,399	18,300	17,169	16,995	16,504	16,643	16,829	17,164
Labor and Industry.....	4,277	3,960	4,740	4,887	4,632	4,599	4,140	4,037	3,785	3,674
Military and Veterans Affairs.....	2,095	2,128	1,965	2,033	2,049	2,023	1,924	1,961	1,949	1,959
Health.....	1,465	1,511	1,490	1,384	1,364	1,461	1,331	1,281	1,236	1,249
Other.....	107	102	98	193	206	220	252	284	301	290
<b>Total health and human services.....</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>24,206</b>	<b>24,100</b>	<b>24,336</b>
<b>Economic development</b>										
Labor and Industry.....	927	911	930	934	912	942	919	897	903	908
Community and Economic Development.....	346	349	352	334	311	302	321	313	307	299
<b>Total economic development.....</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>1,210</b>	<b>1,210</b>	<b>1,207</b>
<b>Transportation</b>										
Transportation.....	10,509	10,770	10,655	10,626	10,486	10,696	10,695	10,609	10,480	10,490
<b>Total transportation.....</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>10,609</b>	<b>10,480</b>	<b>10,490</b>
<b>Recreation and cultural enrichment</b>										
Conservation and Natural Resources.....	2,573	2,632	2,493	2,279	2,219	2,335	2,392	2,407	2,425	2,387
Game Commission.....	734	725	706	734	735	774	769	797	781	725
Fish and Boat Commission.....	514	508	485	486	486	481	448	433	416	432
Historical and Museum Commission.....	419	399	347	228	213	231	214	222	218	205
Other.....	113	111	92	56	50	51	43	41	42	41
<b>Total recreation and cultural enrichment.....</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>3,900</b>	<b>3,882</b>	<b>3,790</b>
<b>Total Commonwealth Employees.....</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>	<b>86,700</b>	<b>86,477</b>	<b>86,444</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

	2007	2008	2009	2010	2011	2012	2013	2014	2015(5)	2016(5)
<b>Direction and supportive services:</b>										
<b>Executive Offices</b>										
<b>Juvenile Court Judges' Commission</b>										
Children Referred to Court.....	43,939	44,000	43,753	41,561	38,978	33,089	31,000	28,955	25,568	25,057
<b>Protection of persons and property:</b>										
<b>Attorney General</b>										
Local drug task force arrests .....	6,260	6,888	6,521	6,585	5,950	6,198	6,781	7,388	8,472	9,000
Consumer complaints concerning business practices investigated and mediated.....	42,437	47,663	47,299	44,582	38,211	37,920	34,382	36,473	26,591	26,600
<b>Corrections</b>										
Inmates (1).....	44,365	46,028	49,307	51,321	51,638	51,184	51,382	51,118	50,366	50,032
Inmates enrolled in academic educational programs (1).....	14,453	15,017	14,551	13,152	12,064	12,871	11,259	11,050	9,052	8,700
<b>Military and Veterans Affairs</b>										
Pennsylvania National Guard End Strength Ceiling	18,964	19,094	19,785	19,253	19,181	19,244	19,301	19,708	19,442	20,200
Personnel receiving training at Fort Indiantown Gap	123,876	142,102	114,542	135,072	125,373	122,846	126,427	136,801	126,722	129,940
<b>Revenue</b>										
Taxpayer Services and Information Center calls answered.....	373,996	451,326	398,564	345,675	369,974	406,468	401,739	411,284	498,452	400,000
Households provided property tax or rent assistance.....	310,155	531,165	562,838	579,754	604,130	603,726	598,075	588,021	578,790	582,000
<b>State Police</b>										
Traffic citations issued.....	506,844	500,820	564,582	567,116	560,063	600,986	566,440	593,721	582,169	592,000
<b>Background Checks:</b>										
Firearms checks conducted for the purchase of a firearm.....	503,013	505,500	681,516	596,879	688,564	849,329	1,202,156	926,157	909,598	920,000
<b>Judiciary</b>										
Caseload (cases filed/reopened/appeals) (1).....	3,816,270	3,768,167	3,884,107	3,825,045	3,761,142	3,614,627	3,514,214	3,495,265	3,288,440	3,270,178
<b>Public education:</b>										
<b>Education</b>										
<b>PreK-12 EDUCATION (BASIC EDUCATION):</b>										
Public school enrollment (preK-12).....	1,810,430	1,797,520	1,800,314	1,780,413	1,781,206	1,765,327	1,764,000	1,764,000	1,763,000	1,762,000
<b>HIGHER EDUCATION:</b>										
<b>Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:</b>										
State System of Higher Education.....	102,445	103,356	105,566	109,636	112,030	109,738	107,012	104,458	102,322	100,521
Community Colleges.....	91,161	92,526	98,988	106,270	106,164	103,971	97,981	94,051	89,807	89,623
State-Related Universities.....	144,993	148,272	152,678	156,435	157,939	156,517	160,589	161,442	164,075	165,907
Non-State Related Universities and Colleges.....	48,078	48,607	49,532	888	840	809	806	858	842	925
<b>Health and human services:</b>										
<b>Aging and Long Term Living</b>										
<b>Comprehensive PACE/PACENET Program:</b>										
Older Pennsylvanians enrolled (average).....	390,207	313,643	312,916	309,329	307,585	298,137	288,645	275,390	268,805	260,065
Total prescriptions per year.....	13,025,489	11,173,934	11,605,980	10,773,967	10,341,180	10,288,430	9,739,080	9,040,508	8,386,716	8,065,305
<b>Health</b>										
Vital events (births, deaths, fetal deaths) registered.....	275,261	280,928	273,381	268,788	270,194	273,522	272,054	271,697	269,203	269,500
<b>Human Services</b>										
<b>MEDICAL ASSISTANCE</b>										
Persons participating in Medical Assistance (monthly average).....	1,883,235	1,907,396	1,972,559	2,072,461	2,135,477	2,225,011	2,123,710	2,147,889	2,354,542	2,705,150
Persons receiving cash assistance (monthly average).....	250,687	225,846	221,744	240,650	248,173	248,298	180,235	165,794	160,490	148,815
Children participating in subsidized child care (unduplicated).....	212,112	239,550	234,899	251,347	257,735	220,530	207,571	198,742	205,343	211,360
Total persons provided mental health services.....	517,440	525,991	525,136	530,387	649,375	655,577	720,079	696,834	705,154	711,175
Persons receiving Intellectual Disability services during fiscal year.....	50,139	51,375	53,284	53,399	53,455	53,569	53,613	53,618	54,362	55,090
<b>Economic development:</b>										
<b>Labor and Industry</b>										
Total public health and safety inspections performed.....	80,408	75,223	76,253	76,136	77,142	87,913	81,718	82,800	74,778	75,500
Vocational Rehabilitation-Eligible participants with active plans (2).....	N/A	N/A	41,316	43,644	48,652	45,471	52,354	52,000	52,500	50,000
<b>Transportation:</b>										
<b>Transportation</b>										
Miles of State maintained highways(3).....	39,843	39,872	39,861	39,845	39,793	39,797	39,792	39,760	40,000	40,000
Passengers carried by State-assisted operators (millions annually).....	390	427	434	423	432	441	435	427	430	431
<b>Highway and Bridge Construction/Reconstruction/Maintenance</b>										
Total miles of state maintained highways improved	6,304	5,864	6,150	5,712	5,792	5,976	4,956	3,954	5,059	5,230
Bridges replaced/repared	186	219	589	658	442	315	291	270	278	265
Bridges preserved	582	459	371	569	345	230	193	200	234	220
<b>Recreation and cultural enrichment:</b>										
<b>Conservation and Natural Resources</b>										
State park attendance (visitor days per calendar year).....	35,800,000	33,200,000	37,000,000	38,400,000	37,600,000	37,600,000	36,400,000	38,000,000	38,000,000	38,100,000
<b>Fish and Boat Commission</b>										
Fishing licenses sold.....	864,416	905,806	839,172	883,932	810,050	876,233	852,944	859,863	841,418	837,324

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2007	2008	2009	2010	2011	2012	2013	2014	2015(5)	2016(5)
<b>Game Commission</b>										
Hunting licenses sold.....	945,892	924,448	926,892	946,497	927,527	931,060	925,000	952,989	943,836	953,888
<b>Historical and Museum Commission</b>										
Records maintained by the State Records Center (in thousands) (4).....	791,553	812,175	811,000	811,000	239,540	239,772	239,002	249,000	249,000	231,000
Annual visits to commission historical sites and museums (in thousands).....	1,420	1,450	1,425	1,425	1,283	1,045	1,060	1,070	616	700

Sources: Governor's Office of the Budget, Comptroller Offices, various agencies

Notes:

(1)-Amounts are presented as of December 31.

(2)-Data not available before 2009.

(3)-Beginning with the 2015 fiscal year this figure is a rounded estimate.

(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 2016 fiscal year, a majority of the indicators presented are estimates. For the 2015 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2015 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2015 CAFR.



Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>GOVERNMENTAL ACTIVITIES</b>										
<b>Direction and Supportive Services</b>										
<b>Department of General Services</b>										
Number of buildings .....	85	87	85	119	116	116	116	115	115	115
Total pieces of machinery and equipment.....	139	133	148	394	139	155	134	141	147	138
Capital and Agency projects in design and/or construction(1).....	440	385	425	638	725	764	799	767	647	315
Vehicles in fleet.....	16,384	16,307	16,307	15,808	16,353	15,821	14,704	14,542	14,253	14,555
<b>Protection of persons and property</b>										
<b>Department of Corrections</b>										
State Correctional Institutions (2).....	26	27	27	27	27	27	26	26	26	26
<b>State Police</b>										
Patrol vehicles.....	2,173	2,189	2,189	2,182	2,182	2,182	2,182	2,182	2,182	2,182
Police stations and/or troop headquarters (2).....	23	23	24	25	25	25	26	26	26	26
<b>Department of Military and Veterans Affairs</b>										
Number of National Guard readiness centers.....	117	117	117	100	100	99	99	85	84	87
<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 Human Services</b>										
Total number of hospital or treatment center complexes (2).....	19	19	18	19	17	17	17	17	17	17
<b>Transportation</b>										
<b>Department of Transportation</b>										
Total pieces of equipment .....	7,923	7,316	7,969	7,707	7,722	7,792	8,128	8,242	8,388	8,559
Total lane miles of highways (state or locally maintained)(4).....	116,716	116,998	117,187	117,385	117,499	117,588	117,681	117,760	118,000	118,000
<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	2.5	2.5	2.5	2.5
<b>Game Commission</b>										
Acres of game lands (in millions).....	1.40	1.40	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50
<b>Fish Commission</b>										
Public boat launches.....	153	153	271	271	271	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.....	25	25	25	23	23	23	23	23	23	24
<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	469,065	469,065	469,065	469,065

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.

Notes:

(1)-Beginning with the 2016 fiscal year, only projects that are actively being designed and/or constructed are included.

(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) Beginning with the 2014 fiscal year, the estimated miles have been rounded to the nearest thousand.