



Commonwealth of Pennsylvania

---

# Comprehensive Annual Financial Report

For the Fiscal Year  
Ended June 30, 2017

---

Governor  
Tom Wolf

---



**- THIS PAGE INTENTIONALLY LEFT BLANK -**

# *Commonwealth of Pennsylvania*

## Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2017

*Tom Wolf, Governor*



Prepared By:

*Randy Albright, Secretary*  
Office of the Budget

*Brenda Warburton, Executive Deputy Secretary*  
Office of the Budget

*Anna Maria Kiehl, CPA*  
Chief Accounting Officer

This document is available on the Office of the Budget homepage at: [www.budget.pa.gov](http://www.budget.pa.gov)  
Click on Publications & Reports for access to the current and previous reports.

**Commonwealth of Pennsylvania  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INTRODUCTORY SECTION</b>	
Title Page .....	1
Table of Contents .....	2
Letter of Transmittal .....	5
Commonwealth of Pennsylvania Organization Chart .....	9
Office of the Budget-Office of Comptroller Operations Organization Chart .....	10
Principal Leadership .....	11
Certificate of Achievement .....	12
<b>FINANCIAL SECTION</b>	
<b>REPORT OF INDEPENDENT AUDITORS</b> .....	14
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	18
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position .....	44
Statement of Activities .....	46
<b>Fund Financial Statements:</b>	
Balance Sheet-Governmental Funds .....	48
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Position .....	50
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds .....	52
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds to the Statement of Activities .....	53
Statement of Net Position-Proprietary Funds .....	54
Statement of Revenues, Expenses and Changes in Net Position-Proprietary Funds .....	56
Statement of Cash Flows-Proprietary Funds .....	58
Statement of Fiduciary Net Position-Fiduciary Funds .....	60
Statement of Changes in Fiduciary Net Position-Fiduciary Funds .....	61
Statement of Net Position-Discretely Presented Component Units .....	62
Statement of Activities-Discretely Presented Component Units .....	64
<b>Notes To The Financial Statements</b> .....	65
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Pension Amounts-Commonwealth's Proportionate Share of the Net Pension Liability ....	184
Schedule of Pension Amounts-Commonwealth's Schedule of Contributions .....	185
Schedule of OPEB Amounts-Funding Progress and Employer Contributions .....	186
Schedule of OPEB Amounts-Changes in the Net OPEB Liability and Related Ratios .....	187
Schedule of OPEB Amounts-Contributions and Investment Returns .....	188
Budgetary Comparison Schedule-Budgeted Major Funds-General Fund .....	189
Budgetary Comparison Schedule-Budgeted Major Funds-Special Revenue Fund-Motor License .....	190
Notes To The Required Supplementary Information .....	191
<b>COMBINING FINANCIAL STATEMENTS (including Nonmajor Budgetary Comparison Schedules):</b>	
<b>Governmental Funds-Combining Financial Statements:</b>	
Combining Balance Sheet-Nonmajor Governmental Funds .....	196
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds .....	197

<b>Special Revenue Funds-Combining Financial Statements (including Nonmajor Budgetary Comparison Schedules):</b>	
Special Revenue Funds-Description-Nonmajor Funds .....	200
Combining Balance Sheet-Nonmajor Governmental Funds-Special Revenue Funds .....	201
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Special Revenue Funds.....	202
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Banking Fund .....	203
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Milk Marketing .....	204
Budgetary Comparison Schedule-Budgeted Nonmajor Funds-Special Revenue Fund- Workers' Compensation Administration.....	205
<b>Debt Service Funds-Combining Financial Statements:</b>	
Debt Service Funds-Description-Nonmajor Funds .....	208
Combining Balance Sheet-Nonmajor Governmental Funds-Debt Service Funds .....	209
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Debt Service Funds.....	210
<b>Capital Projects Funds-Combining Financial Statements:</b>	
Capital Projects Funds-Description-Nonmajor Funds .....	212
Combining Balance Sheet-Nonmajor Governmental Funds-Capital Projects Funds.....	213
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Nonmajor Governmental Funds-Capital Projects Funds.....	214
<b>Proprietary Funds-Combining Financial Statements-Enterprise Funds:</b>	
Enterprise Funds-Description-Nonmajor Funds.....	216
Combining Statement of Net Position-Nonmajor Proprietary Funds-Enterprise Funds.....	218
Combining Statement of Revenues, Expenses and Changes in Net Position- Nonmajor Proprietary Funds-Enterprise Funds .....	220
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Enterprise Funds.....	222
<b>Proprietary Funds-Combining Financial Statements-Internal Service Funds:</b>	
Internal Service Funds-Description .....	226
Combining Statement of Net Position-Nonmajor Proprietary Funds-Internal Service Funds .....	227
Combining Statement of Revenues, Expenses and Changes in Net Position- Nonmajor Proprietary Funds-Internal Service Funds.....	228
Combining Statement of Cash Flows-Nonmajor Proprietary Funds-Internal Service Funds .....	229
<b>Fiduciary Funds-Combining Financial Statements-Pension (and Other Employee Benefit) Trust Funds:</b>	
Pension (and Other Employee Benefit) Trust Funds-Description .....	232
Combining Statement of Fiduciary Net Position-Pension (and Other Employee Benefit) Trust Funds .	234
Combining Statement of Changes in Fiduciary Net Position- Pension (and Other Employee Benefit) Trust Funds .....	236
<b>Fiduciary Funds-Combining Financial Statements-Private-Purpose Trust Funds:</b>	
Private-Purpose Trust Funds-Description .....	238
Combining Statement of Fiduciary Net Position-Private-Purpose Trust Funds .....	239
Combining Statement of Changes in Fiduciary Net Position-Private-Purpose Trust Funds.....	240

**Fiduciary Funds-Combining Financial Statements-Agency Funds:**

Agency Funds-Description .....	242
Combining Statement of Fiduciary Assets and Liabilities – Agency Funds.....	243
Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds.....	244

**Discretely Presented Component Units:**

Nonmajor Discretely Presented Component Units-Description .....	250
Combining Statement of Net Position-Nonmajor Discretely Presented Component Units.....	252
Combining Statement of Activities-Nonmajor Discretely Presented Component Units.....	254

**STATISTICAL SECTION**

<b>Statistical Section Table of Contents .....</b>	<b>258</b>
Table 1-Net Position by Component.....	260
Table 2-Changes in Net Position.....	262
Table 3-Governmental Fund Type Fund Balances .....	264
Table 4-Revenues by Source and Expenditures by Function-All Governmental Fund Types .....	266
Table 5-Personal Income Tax-Personal Income by Industry.....	267
Table 6-Personal Income Tax-Personal Income Tax Filers and Liability by Income Level.....	268
Table 7-Sales Tax-Estimated Taxable Sales by Industry Classification of the Vendor .....	269
Table 8-Sales Tax-Sales Tax Remittances by Major Industry Classification .....	270
Table 9-Corporate Tax-Corporate Net Income Tax.....	271
Table 10-Corporate Tax-Capital Stock/Foreign Franchise Tax.....	272
Table 11-Outstanding Debt and Outstanding Debt Ratios .....	273
Table 12-Ratios of General Obligation Bonded Debt Outstanding.....	274
Table 13-Computation of Legal Debt Margin .....	275
Table 14-Employment by Nonfarm Related Industry.....	276
Table 15-Population and Per Capita Personal Income .....	277
Table 16-Employment Information .....	277
Table 17-Commonwealth Employees by Function and Agency.....	278
Table 18-Operating Indicators by Function and Agency.....	280
Table 19-Capital Asset Information by Function and Agency.....	282

**Appendix**

Legend of Abbreviations .....	284
-------------------------------	-----



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

RANDY ALBRIGHT  
SECRETARY  
OFFICE OF THE BUDGET

December 13, 2017

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, 2017. 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, 2017 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, 2017 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, 2017 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, 2017. 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 89.1% 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, 2017.



**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>
2017	\$ (1,539)	\$ (1,544)
2016 (revised)	5	(252)
2015 (revised)	257	173
2014 (revised)	84	(463)
2013 (revised)	547	(126)

During the fiscal year ended June 30, 2017, General Fund expenditures exceeded General Fund revenues and other sources by \$1,544, and at June 30, 2017, the Commonwealth reported a budgetary basis deficit of \$1,539 in the General Fund. The budgetary basis results for the fiscal year ended June 30, 2017 include revenue collections totaling \$61,364, less appropriation authorizations totaling \$62,986, plus other net financing sources totaling \$78. Included in the \$62,986 appropriation authorizations are \$398 of state supplemental appropriations and \$182 in federal supplemental appropriations authorized for the fiscal year ended June 30, 2017 (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 continue to benefit from the Marcellus Shale natural gas deposit. The buildout of infrastructure to move gas to the market will continue with the construction of pipelines, compressing stations, and processing facilities. Eventually the Utica Shale will 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. The current growth phase in the Marcellus Shale production continues to mostly involve building infrastructure to service existing wells. Royal Dutch Shell is moving forward with its proposed processing plant in Beaver County. The plant will process ethane from nearby natural gas wells in Pennsylvania, Ohio, and West Virginia into ethylene, which is the building block of plastics. The plant will provide hundreds of jobs and ensure market access for locally produced natural gas liquids.

The Pittsburgh area continues to attract high-tech jobs such as software development. This, along with 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 0.7% between 2016 and 2020. The health care sector continues to be a reliable source for new jobs. 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 improve its overall financial condition with a particular emphasis on improving the strength of its General Fund. As part of its Fiscal Year 2017-18 budget, the Commonwealth enacted Act 43 of 2017 (a package of tax increases and other provisions) and Act 40 of 2017 (a package of augmentation and fee increases and other fiscal administration improvements) that will both improve the Commonwealth's fiscal administration and provide significant, recurring revenues to the General Fund. The combined effects of these tax law changes are expected to increase state General Fund revenues by \$289.2 million in fiscal year 2017-18.

The Commonwealth also enacted a substantial expansion of its gaming laws via Act 42 of 2017. Act 42 is expected to benefit the General Fund's Fiscal Year 2017-18 revenues by \$200.0 million, primarily through one-time license fees, and the General Fund's future fiscal year recurring revenues via taxes on newly authorized video game terminals, table games, internet gaming, and fantasy sports.

In addition to enacting recurring revenues, the Commonwealth is also working to shrink its long-term cost drivers. For example, the Commonwealth enacted Act 5 of 2017 to fundamentally change retirement options for most newly hired state employees beginning January 1, 2019. Act 5 also permits current state employees to make an irrevocable choice to opt-in to one of the three new retirement options between January 1, 2019, and March 31, 2019 that will go into effect on July 1, 2019. The Commonwealth continues to closely monitor all state agency expenditures, and is restricting hiring and spending to only those areas which are necessary to maintain the Commonwealth's health and safety programs and other core functions.

Updated projections of the Commonwealth's financial activity and expenditures will be included in the Governor's Fiscal Year 2018-19 Executive Budget request which will be available on February 6, 2018 via the Office of the Budget's website ([www.budget.pa.gov](http://www.budget.pa.gov)).

## CERTIFICATE OF ACHIEVEMENT

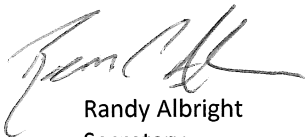
The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its CAFR as of and for the fiscal year ended June 30, 2016. This represents the thirty-first 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, 2017 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

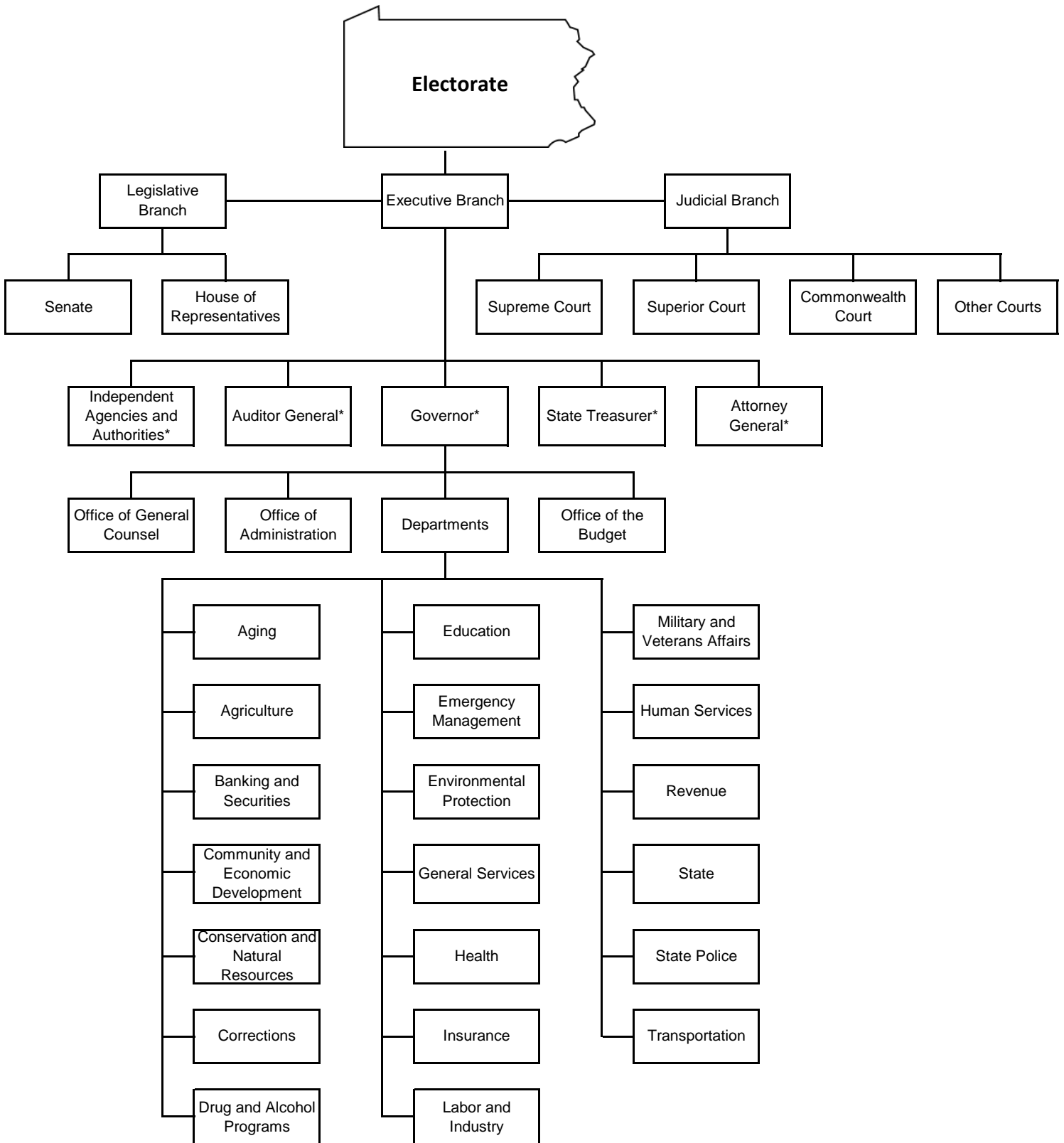


Brenda Warburton  
Executive Deputy Secretary  
Office of the Budget



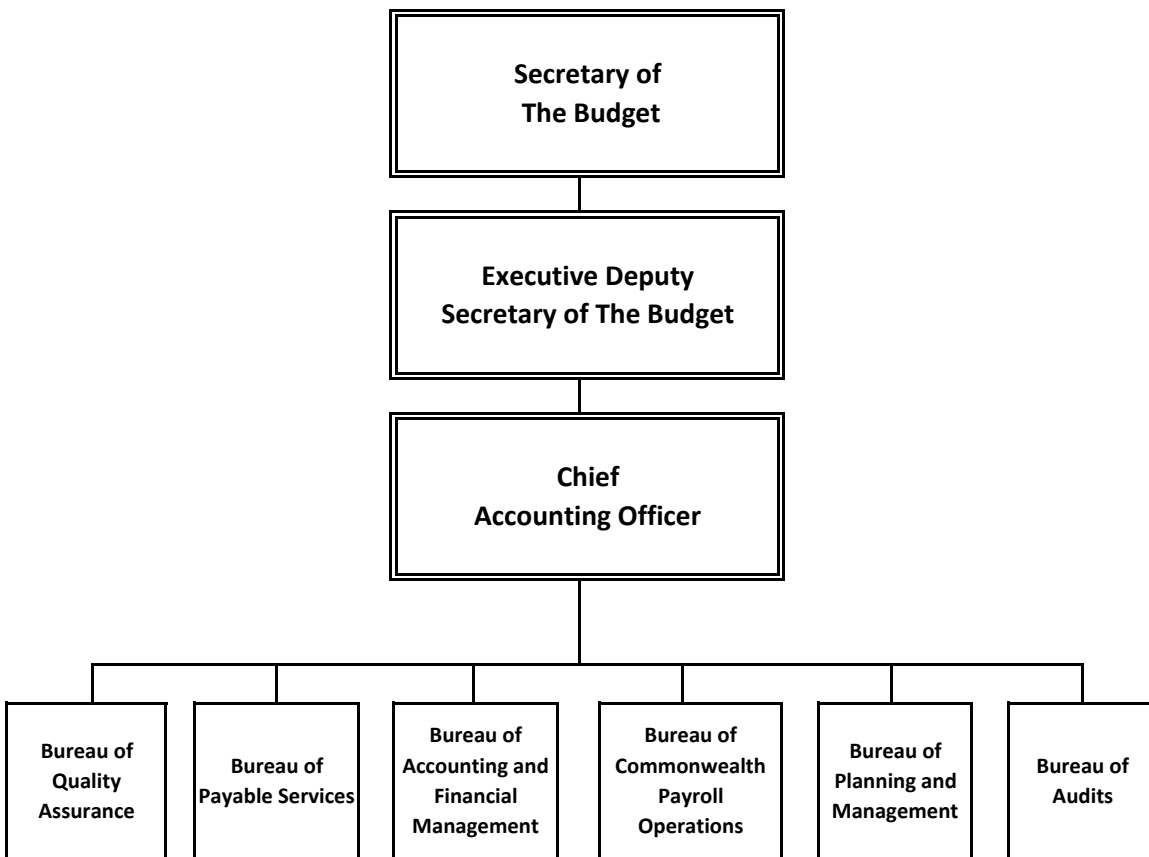
Anna Maria Kiehl, CPA  
Chief Accounting Officer  
Office of the Budget

**COMMONWEALTH OF PENNSYLVANIA  
ORGANIZATION CHART  
June 30, 2017**



\* Independently Elected

**Office of the Budget  
Office of  
Comptroller Operations  
Organization Chart  
June 30, 2017**



Principal Leadership

Commonwealth Elected and Selected Appointed Officials as of June 30, 2017

Tom Wolf, Governor

Mike Stack, Lieutenant Governor

Joe Torsella, Treasurer

Eugene DePasquale, Auditor General

Josh Shapiro, 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, 2016**

Executive Director/CEO



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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, 2017, 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.

	<b>Percentage Audited Separately by</b>				<b>Percent Audited by</b>	
	<b>Department of the Auditor General</b>		<b>CliftonLarsonAllen LLP</b>		<b>Other Auditors</b>	
	<b>Total Assets &amp; Deferred Outflows of Resources</b>	<b>Total Revenue</b>	<b>Total Assets &amp; Deferred Outflows of Resources</b>	<b>Total Revenue</b>	<b>Total Assets &amp; Deferred Outflows of Resources</b>	<b>Total Revenue</b>
<b>Government-Wide</b>						
Business-type Activities	6%	21%	20%	4%	17%	1%
Component Units	0%	0%	19%	43%	81%	57%
<b>Fund statements</b>						
Enterprise Funds	6%	21%	20%	4%	17%	1%
Fiduciary Funds	1%	1%	0%	0%	90%	94%
<b>Discretely Presented Component Units</b>	0%	0%	19%	43%	81%	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, 2017, 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 16). 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 18-40, and the schedules of pension amounts – Commonwealth's proportionate share of the net pension liability and Commonwealth's schedule of contributions, schedules of OPEB amounts - funding progress and employer contributions, changes in the Net OPEB liability and related ratios and contributions and investment returns and the budgetary comparison schedules and notes to the required supplementary information on pages 184-193 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial

The Honorable Tom Wolf, Governor  
Commonwealth of Pennsylvania

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*

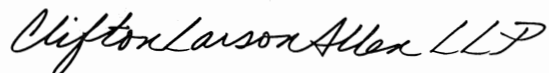
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major 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 13, 2017



Baltimore, Maryland  
December 13, 2017



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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, 2017 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 5 of this report, and with the Commonwealth's financial statements, which follow.

**Table of Contents**

*Section A: Understanding Government Financial Stmts..... 18*  
*Section B: Commonwealth's Overall Financial Activity..... 20*  
*Section C: Condensed Financial Information ..... 22*  
*Section D: Individual Fund Analysis ..... 26*  
*Section E: Budget Analysis Overview..... 36*  
*Section F: Capital Asset and Long-term Debt Activity..... 37*  
*Section G: Currently Known Facts..... 39*

**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 Component Units	Governmental Funds (see note 1)	Proprietary Funds (see note 2)	Fiduciary Funds (see note 3)
<b>Scope of Report and Fund Types</b>	Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues	Activities financed in whole or part by fees charged to external parties for goods and services	Legally separate organizations for which the elected officials of the primary government are financially accountable or it would be misleading to exclude them	<ul style="list-style-type: none"> <li>• General Fund</li> <li>• Special Revenue Funds</li> <li>• Debt Service Funds</li> <li>• Capital Projects Funds</li> </ul> Generally used to account for tax-supported activities	<ul style="list-style-type: none"> <li>• Enterprise Funds</li> <li>• Internal Service Funds</li> </ul> Activities that focus on the determination of operating income, changes in net position (cost recovery), financial position and cash flow	<ul style="list-style-type: none"> <li>• Agency Funds</li> <li>• Pension Trust Funds</li> <li>• Investment Trust Funds</li> <li>• Private-purpose Trust Funds</li> </ul> Activities held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs
<b>Required Financial Statements</b>	<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 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 1 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

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

### 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, wine and spirits, 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, 2017 and 2016

(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Assets:</b>						
Cash and investments.....	\$ 8,972	\$ 8,767	\$ 7,498	\$ 7,278	\$ 16,470	\$ 16,045
Capital assets (net).....	37,466	36,451	567	547	38,033	36,998
All other assets.....	10,932	10,318	1,693	1,714	12,625	12,032
<b>Total assets.....</b>	<b>57,370</b>	<b>55,536</b>	<b>9,758</b>	<b>9,539</b>	<b>67,128</b>	<b>65,075</b>
<b>Total deferred outflows.....</b>	<b>3,457</b>	<b>3,020</b>	<b>151</b>	<b>134</b>	<b>3,608</b>	<b>3,154</b>
<b>Liabilities:</b>						
Accounts payable.....	8,768	8,101	783	766	9,551	8,867
All other current liabilities.....	4,146	4,107	1,226	1,646	5,372	5,753
Bonds payable, non-current.....	12,223	11,762	3,459	3,298	15,682	15,060
All other long-term liabilities.....	22,429	21,175	3,687	3,514	26,116	24,689
<b>Total liabilities.....</b>	<b>47,566</b>	<b>45,145</b>	<b>9,155</b>	<b>9,224</b>	<b>56,721</b>	<b>54,369</b>
<b>Total deferred inflows.....</b>	<b>832</b>	<b>377</b>	<b>29</b>	<b>9</b>	<b>861</b>	<b>386</b>
<b>Net position:</b>						
Net investment in capital assets.....	31,541	30,525	556	528	32,097	31,053
Restricted.....	2,164	1,917	2,444	1,307	4,608	3,224
Unrestricted.....	(21,276)	(19,408)	(2,275)	(1,395)	(23,551)	(20,803)
<b>Total net position.....</b>	<b>\$ 12,429</b>	<b>\$ 13,034</b>	<b>\$ 725</b>	<b>\$ 440</b>	<b>\$ 13,154</b>	<b>\$ 13,474</b>

Statement of Net Position Variance Analysis Year-Over-Year

(A discussion of significant activities)

Cash and investments net increase:

- Governmental Activities total cash and investments increased \$205 largely from an increase in the Capital Facilities Fund of \$595 primarily from remaining bond proceeds, offset by a decrease in the General Fund of \$358 due to lower than anticipated revenues.
- Business-Type Activities total cash and investments increased \$220 primarily due to the Unemployment Compensation Fund's cash and investment increase of \$600 related to decreased benefit payments from continued low unemployment throughout the Commonwealth. This was partially offset by decreases in the Tuition Payment Fund, the Lottery Fund, and the State Stores Fund of \$294, \$70, and \$66, respectively. See Section D for further information.

Capital assets net increase:

- The \$1,015 increase in Governmental Activities Capital Assets was due to the Commonwealth's continued goal to invest in transportation infrastructure throughout Pennsylvania. The Motor License Fund's capital assets net of depreciation increased \$1,026 over the prior year.

**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 \$614 largely from General Fund amounts due from the federal government, particularly for the



Department of Human Services for expanded Medicaid. These increases are discussed further in Section D's General Fund analysis.

**Deferred outflows of resources** net increase:

The total increase of \$454 is the result of the Commonwealth's employer share of the increases in pension related deferred outflows of resources for the State Employees' Retirement System (SERS) pension plan. The most significant cause of the increase was changes in the actuarial assumptions that lowered the discount rate from 7.5% to 7.25% and the inflation rate from 2.75% to 2.60%

- Governmental Activities increased \$437.
- Business-Type Activities increased \$17.

**Accounts Payable** net increase:

- Governmental Activities increase of \$667 was caused by the Department of Human Services increased payables for expanded Medicaid services. This increase corresponds to the increase due from the federal government for these services, which is discussed under the All other assets heading, and is further explained in Section D's General Fund analysis.

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

- Business-Type Activities decrease of \$420 is largely attributable to the Tuition Payment Fund decrease in securities lending obligations. This decrease is discussed further in Section D's Tuition Payment Fund analysis.

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

- Governmental Activities non-current bonds payable increased \$461 primarily because of new general obligation bond issuance for Capital Facilities of \$1,200, offset by the portion of bonds payable that became current during the year.
- Business-Type Activities increased \$161 largely as a result of new revenue bond issuance by the Commonwealth Financing Authority of \$754 to fund the new PlanCon program designed to assist school districts with investing in construction projects to improve facilities, offset by an early bond redemption by the Unemployment Compensation Fund of \$93 and the portion of bonds payable that became current during the year.

**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 (OPEB) and other long-term liabilities.)

- Governmental Activities increased \$1,254 largely due to the increase in Commonwealth's employer share of SERS net pension liability of \$786 and OPEB of \$665.
- Business-Type Activities increased \$173 because of increases in tuition benefits payable of \$99. Commonwealth's employer share of SERS net pension liability and OPEB also increased \$36 and \$24, respectively.

**Deferred inflows of resources** net increase:

The total increase of \$475 is the result of the Commonwealth's employer share of the increases in pension related deferred inflows of resources for the SERS pension plan. The most significant cause of the increase is related to reported experience gains for the plan and changes to the Commonwealth agencies' proportionate share of the plan.

- Governmental Activities deferred inflows of resources increased \$455. In addition to the pension related deferred inflows of resources increase of \$450, the Commonwealth reported a deferred inflow of resources of \$5 related to refunding of debt.
- Business-Type Activities deferred inflows of resources increased \$20 as the result of the changes to the pension plan.

**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 net position decreased \$605 overall, however the unassigned net position decreased \$1,868, which was offset by increases in net investment of capital assets of \$1,016 and total restricted funds of \$247.
- Business Activities net position increased \$285 overall. Net investment in capital assets and total restricted funds increased \$1,165, with the largest increase for Unemployment Compensation restricted balances of \$1,061. This increase was offset by the unassigned net position decrease of \$880.

Statement of Activities for the Fiscal Years Ended June 30, 2017 and 2016  
(Amounts in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Program Revenues						
Charges for sales and services	\$ 6,631	\$ 5,545	\$ 9,603	\$ 9,693	\$ 16,234	\$ 15,238
Operating grants and contributions	30,208	26,947	361	111	30,569	27,058
Capital grants and contributions	78	62	-	-	78	62
Total program revenues	36,917	32,554	9,964	9,804	46,881	42,358
General revenues: taxes and investment income	36,108	34,942	-	-	36,108	34,942
<b>Total revenues</b>	<b>73,025</b>	<b>67,496</b>	<b>9,964</b>	<b>9,804</b>	<b>82,989</b>	<b>77,300</b>
<b>Expenses:</b>						
Governmental Activities						
Direction and supportive services	1,255	1,367	-	-	1,255	1,367
Protection of persons and property	7,012	6,750	-	-	7,012	6,750
Public education	16,427	14,915	-	-	16,427	14,915
Health and human services	41,335	36,621	-	-	41,335	36,621
Economic development	1,007	883	-	-	1,007	883
Transportation	6,366	5,944	-	-	6,366	5,944
Recreation and cultural enrichment	626	607	-	-	626	607
Interest	436	512	-	-	436	512
Business-Type Activities						
State lottery	-	-	3,982	3,968	3,982	3,968
State workers' insurance	-	-	221	287	221	287
Tuition payment	-	-	336	231	336	231
Unemployment compensation	-	-	2,089	2,322	2,089	2,322
Commonwealth financing	-	-	218	189	218	189
Liquor control	-	-	1,947	1,855	1,947	1,855
Economic development and other	-	-	52	54	52	54
<b>Total expenses</b>	<b>74,464</b>	<b>67,599</b>	<b>8,845</b>	<b>8,906</b>	<b>83,309</b>	<b>76,505</b>
Excess/(deficiency) before transfers and special items	(1,439)	(103)	1,119	898	(320)	795
Transfers	834	(50)	(834)	50	-	-
<b>Increase (decrease) in net position</b>	<b>(605)</b>	<b>(153)</b>	<b>285</b>	<b>948</b>	<b>(320)</b>	<b>795</b>
<b>Net position-beginning</b>	<b>13,034</b>	<b>13,187</b>	<b>440</b>	<b>(508)</b>	<b>13,474</b>	<b>12,679</b>
<b>Net position-ending</b>	<b>\$ 12,429</b>	<b>\$ 13,034</b>	<b>\$ 725</b>	<b>\$ 440</b>	<b>\$ 13,154</b>	<b>\$ 13,474</b>

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

### Revenues

**Charges for sales and services** net increase:

- Governmental Activities increased \$1,086 largely related to Act 92 of 2015's creation of Human Services new assessments on managed care organizations, effective July 1, 2016. Further information is provided in Section D's General Fund analysis.
- Charges for sales and services is the primary revenue category for Business-Type activities. The revenues include among many things lottery sales, wine & spirit sales, and unemployment compensation revenues. The State Stores Fund increased \$91, which was offset by decreases in the Lottery and Unemployment Compensation Funds of \$132 and \$41. Overall the category decreased \$90. Further information is provided in the individual fund analysis in Section D.

**Operating grants and contributions** net increase:

- The majority of the increase was the Governmental Activities increase of \$3,261, primarily as a result of the expansion of the Medicaid program. The expansion was 100% federally funded through December 31, 2016, and 95% federally funded starting January 1, 2017. Rises in participation and medical inflation resulted in a 14% increase in federal funding. Expenses for Health and Human Services also increased correspondingly.
- Business Activities increased \$250 most significantly from Tuition Payment Fund investment income increases of \$165. Additionally, State Workers' Insurance Fund experienced \$51 more investment income.

More information is provided in the individual fund analysis in Section D.

**Taxes and investment income** net increase of \$1,166 in Governmental Activities includes \$432 increases in cigarette taxes due to Act 84 of 2016 raising the cigarette tax per pack as well as expanding taxes on smokeless tobacco, roll your own tobacco, and electronic cigarettes. Sales taxes also increased \$482 due in part to expansion of sales tax on digital downloads and a cap on vendor sales tax discounts of three hundred dollars per year instead of 1% of all taxes collected. Liquid fuels taxes, personal income taxes, and corporate income taxes also increased over the prior year.

### Expenses: Governmental Activities

**Public education** expenses increased \$1,512, with the majority of expense for grants and subsidies to schools which include the PlanCon grants to schools for construction projects of \$585, increases in pension contributions reimbursements for schools of \$389, and increased funding for basic education programming, early intervention programs, and food and nutrition programs.

**Health and human services** expenses increased \$4,714 primarily due to the expansion of the federal Medicaid program to newly eligible physical and behavioral health recipients as well as increases in medical inflation. This increase corresponds with the increase in federal funding for the expansion described under operating grants and contributions. Additional details related of the expansion of Medicaid can be found in the General Fund analysis.

**Transportation** expenses increased \$422 largely as a result of funding provided by Act 89 of 2013 used to repair and restructure local roads and bridges. The significant increase in capitalized assets referred to prior, also increased depreciation expense by \$102. Additionally, there was an increase in debt service expenses of \$184.

### Expenses: Business-Type Activities

**Unemployment Compensation (UC)** program expenses decreased \$233 due to continued low unemployment reducing the need for benefit payments. Refer to the Unemployment Compensation Fund analysis in Section D for additional detail.

**Liquor Control Board (LCB)** expenses increased \$92 largely from a cost of goods sold increase that is correlated to the growth in wine and spirit sales. Additionally, employee expenses grew due to higher negotiated salary and wages, increased overtime from expanded store hours, and increased pension and OPEB expenses. The State Stores Fund analysis provides further explanations in Section D.

### Transfers

**Transfers** between the Governmental Activities and Business-Type Activities increased \$884, caused by the transfer of the PlanCon bond proceeds and an \$116 increase in State Stores Fund's transfers to the General Fund.

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 81% of the total governmental fund type expenditures and

other financing uses. The General Fund collects approximately 84% of the total tax revenues and is the primary funding source for most Commonwealth expenditures.

	2017	2016
<b>Assets:</b>		
Cash and investments.....	\$ 2,922	\$ 3,074
Receivables, net.....	4,952	5,348
Due from other funds/governments/advances/other.....	4,868	4,204
<b>Total assets.....</b>	<b>\$ 12,742</b>	<b>\$ 12,626</b>
<b>Liabilities:</b>		
Accounts payable and tax refunds payable.....	\$ 8,274	\$ 7,575
Securities lending obligations.....	7	5
Due to other funds/governments/advances/other.....	2,245	1,988
Unearned revenue.....	23	29
<b>Total liabilities.....</b>	<b>10,549</b>	<b>9,597</b>
Total deferred Inflows of resources.....	2,891	2,939
<b>Fund Balance:</b>		
Total fund balance.....	(698)	90
<b>Total liabilities, deferred inflows of resources and fund balance.....</b>	<b>\$ 12,742</b>	<b>\$ 12,626</b>

**Receivables, net** decreased \$396 primarily due to a decrease in Medicaid drug rebates, partially offset by an increase in taxes receivable. Sales and use tax receivable increased significantly due to the expansion of sales tax to digital downloads and a cap on vendor sales tax discounts.

**Due from other funds/governments/advances/other** increased \$664 largely due to an increase in the number of participants in the federally funded Medicaid program and an increase in medical inflation, partially offset by a decrease in interfund receivables and the receipt of repayments on interfund loans. The increase in amounts due from the federal government for Medicaid correlates to an increase in accounts payable for the program.

**Accounts payable** and **tax refunds payable** increased \$699. The increase is primarily due to an increase in accounts payable from increased participation in the federal Medicaid program and medical inflation. The

increase correlates to an increased amount due from the federal government.

**Due to other funds/governments/advances/other** increased \$257 primarily due to increases in contributions for school employee pension costs and education subsidies owed to political subdivisions, as well as the receipt of a \$165 interfund loan from the Workers' Compensation Security Fund to meet cash flow needs, partially offset by a decrease in escheat liabilities caused by changes in claims activity.

**Total fund balance** decreased \$788 primarily due to increases in health and human services and public education expenditures, partially offset by increases in total revenues and transfers in. 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)

	2017	2016
<b>Revenues:</b>		
<b>Taxes, net of refunds</b>		
Personal income.....	\$ 12,096	\$ 11,855
Sales and use.....	9,955	9,685
Corporation.....	4,313	4,381
Inheritance.....	918	944
Cigarette.....	1,381	951
Realty transfer.....	477	480
Gaming.....	122	102
Other.....	811	1,231
<b>Total taxes, net of refunds.....</b>	<b>30,073</b>	<b>29,629</b>
Intergovernmental.....	26,965	24,405
Charges for sales and services.....	2,749	1,808
Licenses/fees/investment/other income.....	952	899
<b>Total revenues.....</b>	<b>60,739</b>	<b>56,741</b>
<b>Expenditures:</b>		
Direction and supportive services.....	670	629
Protection of persons and property.....	4,540	4,242
Health and human services.....	39,689	36,117
Public education.....	15,706	14,233
Recreation and cultural enrichment.....	306	291
Economic development.....	487	426
Transportation.....	28	66
Capital outlay.....	158	117
Other expenditures.....	23	15
<b>Total expenditures.....</b>	<b>61,607</b>	<b>56,136</b>
Revenues over expenditures.....	(868)	605
<b>Other financing sources (uses):</b>		
Transfers in.....	1,343	480
Transfers out.....	(1,263)	(1,269)
<b>Net other financing uses.....</b>	<b>80</b>	<b>(789)</b>
Net change in fund balance.....	(788)	(184)
Fund balance, beginning.....	90	274
<b>Fund balance (deficit), ending.....</b>	<b>\$ (698)</b>	<b>\$ 90</b>

**Total taxes, net of refunds** increased \$444 primarily due to an increase in cigarette taxes attributable to the enactment of Act 84 of 2016, which prescribed a \$1.00 per pack tax increase effective on August 1, 2016, as well as the imposition of taxes on smokeless tobacco, roll-your-own tobacco, and electronic cigarettes. Increases in personal income, sales and use, and gaming taxes were nearly entirely offset by decreases in corporation, inheritance, realty transfer, and other taxes. The tax increases largely resulted from improvements to tax system data attained during preparation for a tax amnesty program, which included a significant reduction in unprocessed tax returns. The largest decrease, in other taxes, is primarily due to the enactment of Act 92 of 2015, which prescribed assessments, rather than gross receipts taxes, on Medicaid managed care organizations. The decrease in other taxes was partially offset by collections from a tax amnesty program implemented during the

fiscal year, increased liquor sales, and larger tax revenue offset adjustments for certain economic development programs.

**Intergovernmental revenues** increased \$2,560 primarily due to an increase of \$2,448 in federal revenues collected by the Department of Human Services as the result of Medicaid expansion. Medicaid was a 100% federally funded program through December 31, 2016 and 95% federally funded beginning January 1, 2017. Therefore, the increase in Medicaid revenues correlates to an increase in related Medicaid expenditures. Additional information is included in the discussion of health and human services expenditures.

**Charges for sales and services** increased \$941 primarily due to new assessments on managed care organizations, as prescribed by Act 92 of 2015 that amended the Public

Welfare Code. Act 92 repealed gross receipts taxes on Medical Assistance managed care organizations, and established a monthly, per member assessment of \$13.48, effective July 1, 2016. In addition, Act 92 expanded the assessments to other managed care organizations.

**Total expenditures** increased \$5,471. 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 \$3,572 primarily due to an increase in expenditures related to the Department of Human Services. Increased expenditures for the Medicaid program comprise most of the increase. Enrollment in Medicaid increased by approximately 82,000 persons from July 2016 to June 2017, which represents a 2.96% increase in enrollment during the fiscal year. This increase in enrollment follows a 22.8% enrollment increase during the period January 2015 to June 2016, in conjunction with the Medicaid expansion that began in January 2015. Within the Medicaid program, the appropriation for capitation payments increased significantly. In addition to the larger number of persons receiving Medicaid benefits, medical inflation, including pharmaceutical inflation, contributed to the increased expenditures.

**Public education** expenditures increased \$1,473. The increase is largely due to budgeted funding increases for basic education programs, special education programs, early intervention programs, and food and nutrition programs, as well as increased contributions for school employee pension costs and social security taxes. \$578 of the increase pertains to school construction project costs financed by the transfer of bond proceeds from the Commonwealth Financing Authority (CFA) under Act 25 of 2016.

**Protection of persons and property** expenditures increased \$298 largely due to the rising costs of operating the Commonwealth's correctional institutions, increased expenditures for economic development programs related to neighborhood improvement and city revitalization improvement zones, the Winter Storm Jonas and October 2016 flooding disasters, and employee benefit costs.

**Transfers in** increased \$863 primarily due to a \$735 transfer of bond proceeds from the Commonwealth Financing Authority (CFA) as authorized by Act 25 of 2016, a \$116 increase in liquor stores profits transfers, and increases in non-reoccurring transfers authorized by amendments to the Fiscal Code under Act 85 of 2016.

**Motor License Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2017	2016
Cash and investments.....	\$ 1,234	\$ 1,170
Other assets.....	732	651
<b>Total assets.....</b>	<b>\$ 1,966</b>	<b>\$ 1,821</b>
Accounts payable.....	\$ 759	\$ 749
Securities lending obligations.....	20	14
Other liabilities.....	178	173
<b>Total liabilities.....</b>	<b>957</b>	<b>936</b>
<b>Total fund balance.....</b>	<b>1,009</b>	<b>885</b>
<b>Total liabilities and fund balance.....</b>	<b>\$ 1,966</b>	<b>\$ 1,821</b>
Tax revenues.....	\$ 3,548	\$ 3,268
Licenses and fees.....	1,006	963
Intergovernmental.....	1,896	1,884
Other revenues.....	139	100
<b>Total revenues.....</b>	<b>6,589</b>	<b>6,215</b>
Direction and supportive services.....	39	23
Protection of persons and property.....	964	943
Transportation.....	2,912	2,646
Capital outlay.....	2,633	2,838
Other expenditures.....	7	7
<b>Total expenditures.....</b>	<b>6,555</b>	<b>6,457</b>
Net other financing sources.....	90	138
<b>Net change in fund balances.....</b>	<b>\$ 124</b>	<b>\$ (104)</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** increased \$64 which is due to an increase in Long-Term Investments. Favorable market conditions allowed share value to increase \$40 over prior year.

**Other Assets**—which is comprised of several types of receivables—increased \$81 over the prior year. The increase stems from two main sources—one is a \$44 increase in liquid fuels tax receivable which is directly related to an increase in tax revenues. The other is a \$31 increase in federal funds receivable, for Highway & Safety

(\$24), Highway Bridge (\$5), and Engineering Highway Construction (\$2) projects.

**Tax revenues** increased \$280 primarily due to the increase in the liquid fuels tax rate pursuant to Act 89 of 2013. Effective January 1, 2017, rates for gasoline increased from 50.3 cents per gallon to 58.2 cents per gallon. Rates for diesel fuel also increased on January 1, 2017 from 64.0 cents per gallon to 74.7 cents per gallon.

**Licenses and fees revenues** saw an increase of \$43 primarily due to a mid-year option change for vehicle registration fees. Beginning December 31, 2016, motorists were given the option of being able to renew vehicle registrations for two years instead of the standard one-year renewal. The two-year option doubles the amount of a one-year registration fee and does not incorporate a discount.

**Other revenues** increased \$39—primarily due to an increase in investment income. This growth was driven by

improvements in market conditions of long-term investments over the prior year.

**Transportation Expenditures** increased by \$266. Although this was the net result of many factors, a major influence was \$184 in additional Debt Service costs which resulted from increased bond activity over the prior year. Additionally, there was a \$60 increase in grants and subsidies attributed to payments to municipalities for transportation-related projects and bridge construction.

**Capital outlay** decreased \$205. Due to the increased funding of Act 89 of 2013, the Commonwealth continues to strongly invest in infrastructure projects, however the timing of projects created a decrease in capital outlay expenditures.

The \$48 decrease in **Net other financing sources (uses)** was caused by a \$30 increase in transfers to the Capital Debt Fund as well as a \$20 increase in transfers to the Boat Fund.

**Unemployment Compensation Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2017	2016
Cash and investments.....	\$ 2,132	\$ 1,532
Unemployment assessments receivable.....	744	745
Other assets.....	552	550
<b>Total assets.....</b>	<b>3,428</b>	<b>2,827</b>
Accounts payable.....	73	57
Other liabilities.....	1,609	2,085
<b>Total liabilities.....</b>	<b>1,682</b>	<b>2,142</b>
<b>Total net position.....</b>	<b>\$ 1,746</b>	<b>\$ 685</b>
Total operating revenues: Sales and services.....	\$ 3,107	\$ 3,148
Total operating expenses: Cost of sales and services.....	2,059	2,284
<b>Operating income.....</b>	<b>1,048</b>	<b>864</b>
Nonoperating revenues.....	65	36
<b>Income before transfers.....</b>	<b>1,113</b>	<b>900</b>
Transfers.....	(52)	(60)
<b>Increase in net position.....</b>	<b>\$ 1,061</b>	<b>\$ 840</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 \$600 primarily due to the continued low unemployment rate and the solvency of the Unemployment Insurance Trust account. Current year contributions exceeded benefit payments. In addition, there was an overall decrease in benefit payments over the prior year.

**Other liabilities** decreased \$476 as a result of UC bond redemptions throughout the year.

**Sales and services** decreased \$41 primarily due to decreased contributions made to the UC Trust fund related to refunds made at the end of the fiscal year.

**Cost of sales and services** expense decreased \$225 primarily due to the overall decline in unemployment benefit payments and claims correlating to a decreased unemployment rate.

**Nonoperating revenues** increased \$29 due to increased funding levels in the Subsistence Allowance – Trade Readjustment Allowance Program, which provides employment training for displaced workers through federal reimbursements. Performance data for the trade program as of 2015 reports that 78.8% of displaced workers receiving training through the program were employed during the following quarter.



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

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

Description	2016	2015
Cash and short-term investments.....	\$ 117	\$ 124
Long-term investments.....	1,353	1,363
Other assets.....	71	85
Total assets.....	1,541	1,572
Total deferred outflows of resources.....	8	7
Securities lending obligations.....	53	60
Unearned revenue.....	68	78
Insurance loss liability.....	1,563	1,604
Other liabilities.....	97	91
Total liabilities.....	1,781	1,833
Total deferred inflows of resources.....	2	1
<b>Net position.....</b>	<b>\$ (234)</b>	<b>\$ (255)</b>
Total operating revenues: Sales and services.....	\$ 184	\$ 212
Total operating expenses: Cost of sales and services.....	217	283
Operating loss.....	(33)	(71)
Investment income.....	58	8
Investment expense.....	(4)	(4)
Net nonoperating revenue.....	54	4
<b>Increase (decrease) in net position.....</b>	<b>\$ 21</b>	<b>\$ (67)</b>

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

**Insurance loss liability** decreased \$41 due to a reduction in the current portion of the liability attributable to an increased use of Compromise and Release (C&R) claim agreements. In PA Workers' Compensation, any case can be resolved by an agreement between the injured worker and their employer/insurance carrier called a C&R agreement.

**Sales and services** decreased \$28 due to premiums written decreasing from \$216 million to \$187 million. The

decrease is attributable to increased competition in the private workers' compensation insurance market. As a result, insureds obtained more coverage from commercial insurance companies.

**Cost of sales and services** decreased \$66 due to favorable claims activity for accident year 2016, and favorable development of 2016 accident year loss reserves.

**Investment income** includes the cumulative effect of changes in Net Asset Value of SWIF investments and realized gain / loss on sales of investments. Due to positive market conditions, investment income increased \$50.

State Lottery Fund

Condensed, comparative, financial information (amounts in millions)

Description	2017	2016
Cash and short-term investments.....	\$ 162	\$ 232
Other assets.....	85	77
Total assets.....	247	309
Total deferred outflows of resources.....	14	13
Accounts payable.....	379	386
Other liabilities.....	202	166
Total liabilities.....	581	552
Total deferred inflows of resources.....	3	1
<b>Net position.....</b>	<b>\$ (323)</b>	<b>\$ (231)</b>
Total operating revenues: Sales and services.....	\$ 4,003	\$ 4,135
Other revenues.....	-	-
Total operating revenues.....	4,003	4,135
Cost of sales and services.....	3,978	3,899
Other expenses.....	4	69
Total operating expenses.....	3,982	3,968
Operating income.....	21	167
Nonoperating revenues, net.....	4	3
Income before transfers.....	25	170
Transfers in.....	148	167
Transfers out.....	(265)	(271)
Transfers, net.....	(117)	(104)
<b>Increase (decrease) in net position.....</b>	<b>\$ (92)</b>	<b>\$ 66</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** decreased \$70, attributed predominantly to the repayment of a \$50 loan received from the General Fund in the prior year. Authorized in accordance with 72 P.S. § 3611 and 3612,

this loan ensured sufficient cash resources to meet the June 30, 2016 Property Tax Rent Rebate payments.

**Other liabilities** increased \$36, mainly attributed to an outstanding current year transfer of \$95 to the Public Transportation Trust Fund. This increase was offset in part by the aforementioned loan repayment of \$50 to the General Fund.

**Total operating revenues: Sales and services** decreased \$132, largely attributed to the prior year's world-record Powerball jackpot of nearly \$1.6 billion which drove sales upward in 2015. Powerball sales revenues decreased \$105. Scratch-Off sales also experienced a decrease of \$66 due to a similar spike in sales that occurred in the prior year in relation to the extraordinary Powerball jackpot. While Scratch-Offs with ten-dollar and below price points experienced a decline in sales totaling \$119, twenty- and thirty-dollar price points experienced an increase of \$53. In February 2017, the Pennsylvania Lottery created a new category of games called Fast Play, with current year sales revenues totaling \$55.

**Total Operating Expenses** increased \$14 primarily due to the current year General Bill enactment (Act 16-A) which appropriated a \$17 increase in funding for the PENNCARE program.

**Transfers In** decreased \$19 relative to an appropriated decrease in the authorized transfer from the Property Tax Relief Fund. This transfer is authorized in accordance with Act 1 of Special Session 1 of 2006.

**Tuition Payment Fund**

Condensed, comparative, financial information (amounts in millions)

Description	2017	2016
Cash and short-term investments.....	\$ 147	\$ 689
Long-term investments.....	1,821	1,573
Other assets.....	8	8
Total assets.....	1,976	2,270
Securities lending obligations.....	42	500
Tuition benefits payable.....	1,641	1,542
Other liabilities.....	10	10
Total liabilities.....	1,693	2,052
<b>Net position.....</b>	<b>\$ 283</b>	<b>\$ 218</b>
Total operating revenues: Sales and services.....	\$ 207	\$ 192
Total operating expenses: Cost of sales and services.....	334	228
Operating loss.....	(127)	(36)
Nonoperating revenues, net.....	192	27
<b>Increase (decrease) in net position.....</b>	<b>\$ 65</b>	<b>\$ (9)</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** decreased \$294 attributable to an increase in tuition benefit withdrawals and a decrease in current assets available for securities lending due to portfolio changes. This decrease was offset partially by increased market returns on the long-term investments. The portfolio's return was 10.28% for the fiscal year ended June 30, 2017 and 2.7% for the fiscal year ended June 30, 2016.

**Total liabilities** decreased \$359. The primary source of this decrease is the change in securities lending obligation of \$458. The securities lending obligation mirrors the assets available for securities lending, and has a neutral impact on the net position. This was offset by an increase in the tuition benefits payable of \$99 caused by actuarial changes to long-term liabilities.

**Operating loss** rose \$91. Tuition benefit expenses increased \$105 due to the actuarial valuation increases and providing for an additional 18,537 (as stated) college credits. Enrollment in the program increased to 8,084 from 7,207 (as stated) which generated an additional \$15 in revenue. Salaries, other administrative expenses, and tuition credit refunds increased a combined \$1.

**Non-operating revenues, net** increased \$165 largely due to a higher investment income from favorable market conditions.

**Net position** increased \$65 over the prior year. At \$283, the plan is currently 116% funded.

State Stores Fund

Condensed, comparative, financial information (amounts in millions)

Description	2017	2016
Cash and investments.....	\$ 229	\$ 295
Inventory.....	255	245
Other assets.....	43	42
Total assets.....	527	582
Total deferred outflows of resources.....	115	102
Accounts payable.....	296	287
Pension and OPEB liabilities.....	636	589
Other liabilities.....	91	88
Total liabilities.....	1,023	964
Total deferred inflows of resources.....	22	6
<b>Net position.....</b>	<b>\$ (403)</b>	<b>\$ (286)</b>
Total operating revenues: Sales and services.....	\$ 2,047	\$ 1,956
Other revenue.....	-	-
Total operating revenues.....	2,047	1,956
Cost of sales and services.....	1,936	1,846
Other expenses.....	11	10
Total operating expenses.....	1,947	1,856
Operating income.....	100	100
Nonoperating revenues, net.....	2	1
Income before transfers.....	102	101
Transfers out.....	(219)	(103)
<b>Decrease in net position.....</b>	<b>\$ (117)</b>	<b>\$ (2)</b>

**Fund Description:** The State Stores Fund serves as the operating fund for the Pennsylvania Liquor Control Board (PLCB). With over 600 state run stores throughout the Commonwealth, the PLCB generates revenue from the sale of wine and spirits, lottery commissions, various licensing fees, and fines. In addition, Act 39 of 2016 allows the PLCB to be a wine wholesaler to holders of wine expanded permits which allows the convenience of wine sales to take place at private retailers. Profits from the State Stores Fund are used to fund the Pennsylvania State Police for their liquor law enforcement authority; support the Department of Drug and Alcohol Programs which provides funding to several local governments to offer drug and alcohol education; and to provide additional funding to the General Fund.

**Cash and investments** decreased \$66 primarily due to legislatively mandated transfers to the General Fund, contributions to the Department of Drug and Alcohol Programs, and funding of the Pennsylvania State Police to enforce liquor laws.

**Pension and OPEB liabilities** increased \$47 due to the difference of actual experience and actuarial assumptions.

Major factors in the actuarial assumptions are the interest rate, inflation rate, and pay increases.

**Sales and Services** increased \$91 which is attributed to legislation changes of Acts 39, 85, and 166 of 2016. The liquor reforms allowed for the adoption of flexible pricing, expanded wine sales to licensed retailers, auction of expired restaurant licenses, expanded store hours of operations on Sundays and holidays, authority to sell Pennsylvania Lottery tickets, and the authority for licensed wine producers to ship directly to residents.

**Cost of Sales and Services** increased \$90 which correlates to the increase in Sales and Services. Salaries and wages increased due to negotiated rate increases, higher overtime associated with expanded store hours of operations, and greater Pension and OPEB liabilities over the prior year. Additionally, store rent and credit and debit card service fees increased.

**Transfers out** increased \$116 due to the \$217 contribution to the General Fund which supports commonwealth-wide operations.

**Commonwealth Financing Authority**

Condensed, comparative, financial information (amounts in millions)

Description	2017	2016
Current assets.....	\$ 830	\$ 834
Long-term assets.....	275	272
<b>Total assets.....</b>	<b>1,105</b>	<b>1,106</b>
Total deferred outflows of resources.....	2	2
Current liabilities.....	85	77
Long-term liabilities.....	2,260	1,575
<b>Total liabilities.....</b>	<b>2,345</b>	<b>1,652</b>
<b>Total net position.....</b>	<b>\$ (1,238)</b>	<b>\$ (544)</b>
Operating revenues, net of uncollectibles.....	\$ 6	\$ 10
Operating expenses.....	110	107
Operating loss.....	(104)	(97)
Nonoperating expenses, net.....	(96)	(79)
Loss before transfers.....	(200)	(176)
Transfers in (out).....	(494)	255
<b>Increase (decrease) in net position.....</b>	<b>\$ (694)</b>	<b>\$ 79</b>

**Fund Description:** The purpose of the Commonwealth Financing Authority (CFA) is to provide financial assistance through bond issuance proceeds distributed 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.

CFA is a blended component unit of the Commonwealth, and since inception, the CFA has issued 12 revenue bonds totaling \$2.7 billion to promote economic growth in the Commonwealth. Payments of principal and interest due on outstanding debt are appropriated and transferred from the primary government annually.

**Total Assets** consist of \$776 in cash and cash equivalents (a \$14 increase), loan and related interest receivables of \$295 (a \$2 increase) and due from other funds of \$34 (a decrease of \$17).

**Total liabilities** increased \$693 over the prior year due to a 2016 revenue bond issuance of \$758 for the Department of Education's PlanCon program for the purpose of

reimbursing school districts for construction projects. The bond issuance was partially offset by \$69 in principal maturity payments.

**Operating expenses** consist of the grant, loan, and administrative expenses at \$100, \$6, and \$4, respectively, which remained relatively steady over the prior year.

**Nonoperating expenses** increased \$17 overall because of a \$20 increase in bond interest expense offset by a \$3 increase in investment income.

**Transfers** include the transfers out to the primary government for PlanCon bond proceeds less the issuance costs for a total of \$747. Additionally, CFA received transfers in from other funds of \$254 for debt service and other Commonwealth approved projects remaining consistent with the prior year.

**Net Position:** CFA's business purpose may result in continued losses from operations due to the disbursement of grant awards and transfer of bond proceeds to promote economic growth.

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, 2017 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 anticipated to be insufficient to fund all 2016-2017 original and supplemental appropriation requests.

The difference in total state program revenues from the original to the final budget was due to a reduction of \$670 in tax revenues and a \$50 increase in refunds offset by an increase of \$295 in non-tax revenues, resulting in a net decrease of \$425.

Final federal revenues and corresponding expenditures were \$245 more than originally budgeted primarily due to an increases of \$182 in the Department of Human Services, \$27 in the Department of Drug and Alcohol Programs, \$22 in the Emergency Management Agency, \$6 in the Department of Health, \$4 in the Department of Aging, \$3 in the Department of Community & Economic Development and \$2 combined in the Departments of Education, Conservation & Natural Resources, Insurance and Judiciary offset by a \$1 decrease in the State Police.

**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. Total revenues were insufficient to fund all 2016-2017 original appropriations and the supplemental appropriations passed on July 11, 2017 by Act 1-A, with supplemental appropriations effective as of the fiscal year ended June 30, 2017.

Actual total state revenues were \$733 less than the final budgeted state revenues due almost equivalently to decreases in both tax (\$368) and non-tax (\$365) revenues actually received. The \$54 decrease in departmental services is mainly attributable to decreases received in the State Police and the Departments of Revenue, Human

Services, Environmental Protection and other agencies offset by increases in Judiciary, Executive Offices, Conservation & Natural Resources, General Services and other agencies resulting in the net decrease of \$786 in state program revenues.

The difference of \$54 in actual state program expenditures is the result of the \$54 decrease available from departmental services.

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

Note 4 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, 2017.

**Long-term Debt Overview – fiscal year ended June 30, 2017**

(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 \$67.0 billion as of August 31, 2017 with net debt outstanding after credit for refunded debt of \$10.6 billion for a remaining legal debt margin of \$56.4 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, 2017, the Commonwealth had total General Obligation Bond principal outstanding of \$12.0 billion for the following purposes:

\$7,459	Capital Facilities Bonds
\$3,871	Refunding Bonds
\$ 685	Electorate Approved Debt (various)

During the fiscal year ended June 30, 2017, total debt service fund transfers were paid from the General Fund of \$1,074, the Motor License Fund of \$103 and the Gaming Economic Development and Tourism Fund of \$27 to make principal and interest payments to bondholders.

Note 6 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, 2018**

(Amounts in millions)

During the fiscal year ending June 30, 2018, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to \$1,200. This is a decrease of \$9 when compared to actual new money bond issuances of \$1,209, which excludes refunding issuance of \$605, during the fiscal year ended June 30, 2017. This plan represents the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation infrastructure.

Debt principal retirements of \$725 are currently planned for the fiscal year ending June 30, 2018.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. On November 16, 2017, the Commonwealth issued \$970 in refunding bonds to refund nearly \$1,000 in outstanding Commonwealth bonds.

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 November 30, 2017 but, instead, has drawn \$750, \$700, and \$1,200 from three separate short-term investment line of credit agreements with the Pennsylvania Treasury Department. The first two lines of credit were repaid within eight days; \$600 of the third line of credit was repaid in five days and \$600 remains outstanding as of November 30, 2017. All amounts drawn using the lines 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, 2017 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2018.



## Section G: Currently Known Facts

(Amounts in whole dollars)

### 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 Postemployment 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 postemployment benefits other than pensions. The statement is effective for the fiscal years beginning after June 15, 2017, and the Commonwealth will be implementing in the fiscal year ending June 30, 2018. The Commonwealth participates in five OPEB plans, and the statement will require the Commonwealth to report in the Statement of Net Position a significant OPEB liability. As of the issuance date of this report, the Commonwealth is still preparing an estimate for liabilities associated with all five plans in accordance with GASB Statement No. 75 and the impact that reporting this OPEB liability will have on its financial statements.

### Bond Ratings

On September 20, 2017, Standard & Poor's (S&P) lowered the Commonwealth's general obligation bond rating to 'A+' from 'AA', Commonwealth's appropriation debt to 'A' from 'A+', the departmental appropriation to 'A-' from 'A', and the departmental and moral obligation rating to 'BBB+' from 'A-'. S&P reports the outlook as stable. S&P cited the reasons for the downgrade to include the Commonwealth's chronic structural budget imbalance, a history of late budget adoption, a weakened liquidity due in part to stress from a reliance on one-time revenues, and the delay or non-payment of scheduled expenditures.

Bond ratings and outlooks are based upon current information furnished by the Commonwealth or obtained from other sources considered reliable by the rating

agencies. There is no audit performed in connection with any rating and may, on occasion, rely on unaudited financial information.

### Gambling Revenue Expansion

Enacted on October 30, 2017, Act 42 of 2017 expanded gambling opportunities within the Commonwealth in an effort to provide a balanced budget for the 2017 fiscal year and to increase reoccurring gambling license fees and tax revenues. The act authorized new video gaming terminals at truck stops, online fantasy sport contest licenses, and allows licensed casinos to expand to airports with interactive simulated gambling parlors if agreed to by the airport authority, as well as allowing the licensed casinos to provide online gambling. Licensing of sports wagering is also authorized if it became permitted under federal law. Additionally, the legislation allows for an auction of 10 new smaller casino licenses within the Commonwealth, with restrictions on proximity to other casinos or within municipalities that opt out. Minimum bids for the casinos start at \$7.5 million. Current eligible casinos are also provided an opportunity to increase the number of slot machines and table games onsite for additional licensing fees. The Pennsylvania Lottery is also authorized to institute the iLottery, which will provide internet instant games, and to create a retail incentive program to reward lottery sales agents who participate in best sales practices. At the time of issuance, the financial impact of this Act on the Commonwealth's revenues is still being determined, but are anticipated to be material.

### Authorized Borrowing Funds Against the Future Tobacco Fund Settlement Payments

On October 30, 2017, Act 43 of 2017 authorized the Commonwealth Finance Authority (CFA) to issue bonds or enter into a sales agreement pledging a portion of the future annual payments from the 1998 Tobacco Master Settlement Agreement in order to provide proceeds of \$1.5 billion. All proceeds are to be deposited into the General Fund to provide budgetary relief necessary for the protection of the health, safety, and general welfare of the people of the Commonwealth. Bond or sales agreement obligations will be paid from the pledged future Tobacco Fund Settlement payments. Sales agreement terms may not exceed 10 years, and bond terms may not exceed 30 years. On November 14, 2017, the CFA board approved the borrowing, and will assess the most-cost effective methodology. As of the issuance of this report, the methodology of borrowing has not been determined.

**Pension Reform**

On June 12, 2017, the Commonwealth enacted Act 5 of 2017 to reform pension benefits for new employees in order to lower the Commonwealth's pension costs and risk in the future. Beginning January 1, 2019, Commonwealth new, non-hazardous duty employees eligible for the State Employees' Retirement System (SERS) benefits must elect one of three new plan options. Unlike prior plans which only offered defined benefit plans, each new plan contains a defined contribution element. Two options are hybrid plans with both defined benefit and defined contribution components, and the third is a defined contribution plan only. The contribution rates, benefit rates, and vesting time-frames vary by plan. Current members have a one-time opportunity to opt into one of the new plans. The addition of defined contribution components transfers a portion of investment risk to the employees, however it also provides the employees options of contributing additional amounts up to the federal maximum. In addition to the plan changes, Act 5 also created a Public Pension Management and Asset Investment Review Commission to recommend investment cost reductions. The Pennsylvania Independent Fiscal Office (IFO) estimates

cash-basis reductions in the Commonwealth's costs in the billions over the next 30 years. The impact on the Commonwealth's financial statements has not yet been fully assessed at the time of issuance, but is anticipated to decrease the Commonwealth's net pension liability and expense over time.

Additionally, Act 5 also created three new plans with defined contribution components for the Public School Employees' Retirement System (PSERS). Effective July 1, 2019, new Pennsylvania public-school employees eligible for the PSERS retirement benefits must elect one of the three new plans. The three plan options are similar in design to the options available with the SERS, but the contribution rates required differ. Annually the Commonwealth reimburses public schools 50% of their employer contributions, however the Commonwealth is responsible for only a small portion of the PSERS net pension liability.

More information regarding the new plans and estimated cost-reductions under Act 5 may be found at [www.ifo.state.pa.us](http://www.ifo.state.pa.us).



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# Basic Financial Statements

**- THIS PAGE INTENTIONALLY LEFT BLANK -**



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# Government-wide Financial Statements

**Commonwealth of Pennsylvania**

**Statement of Net Position**

June 30, 2017

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash—Note 2, 16.....	\$ 190,237	\$ 884,839	\$ 1,075,076	\$ 1,586,725
Cash with fiscal agents—Note 2.....	11,101	2,082,918	2,094,019	-
Temporary investments—Note 2, 16.....	6,269,664	714,037	6,983,701	4,042,775
Receivables (net):				
Taxes—Note 3.....	2,768,066	-	2,768,066	-
Unemployment assessments.....	-	744,455	744,455	-
Accounts.....	1,440,672	161,306	1,601,978	164,429
Investment income.....	8,505	14,053	22,558	7,198
Interest on notes and loans.....	-	10,522	10,522	98,195
Loans—Note 3, 16.....	11,094	43,176	54,270	1,148,621
Lease rentals.....	-	583	583	-
Investment sale proceeds.....	5,452	3,778	9,230	-
Other.....	194,353	11	194,364	71,898
Due from pension trust funds—Note 5.....	15,613	-	15,613	-
Due from primary government—Note 5.....	-	-	-	21,493
Due from component units—Note 5.....	24,798	517	25,315	249
Due from Federal government.....	4,959,207	9,138	4,968,345	44,085
Due from political subdivisions.....	10,122	4,986	15,108	-
Due from other governments.....	369	9,804	10,173	-
Inventory.....	120,279	255,279	375,558	28,799
Prepaid expenses.....	-	3,644	3,644	26,801
Other assets.....	9,010	18,141	27,151	65,769
Total current assets.....	<u>16,038,542</u>	<u>4,961,187</u>	<u>20,999,729</u>	<u>7,307,037</u>
Noncurrent assets:				
Restricted cash—Note 2.....	-	454,248	454,248	1,792
Long-term investments—Note 2, 16.....	2,500,684	3,361,836	5,862,520	2,243,870
Receivables (net):				
Taxes—Note 3.....	1,136,250	-	1,136,250	-
Loans—Note 3, 16.....	64,034	403,475	467,509	9,999,198
Due from primary government—Note 5.....	-	-	-	15,000
Due from component units—Note 5.....	165,099	-	165,099	-
Non-depreciable capital assets—Note 4, 16:				
Land.....	3,005,638	209,130	3,214,768	436,289
Construction in progress.....	4,870,036	14,124	4,884,160	1,590,481
Depreciable or amortizable capital assets—Note 4, 16:				
Land improvements.....	1,024,706	69,830	1,094,536	429,304
Buildings and building improvements.....	7,747,542	432,859	8,180,401	5,477,861
Machinery and equipment.....	1,578,572	187,074	1,765,646	1,440,782
Turnpike infrastructure.....	-	-	-	8,380,745
Highway infrastructure.....	30,343,763	-	30,343,763	-
Bridge infrastructure.....	14,955,131	-	14,955,131	-
Waterway infrastructure.....	31,755	-	31,755	-
Infrastructure-other.....	218,202	-	218,202	-
Library books.....	-	-	-	81,087
Intangible assets.....	656,222	23,121	679,343	58,342
Less: accumulated depreciation and amortization.....	(26,965,763)	(368,857)	(27,334,620)	(8,453,873)
Net depreciable or amortizable capital assets.....	<u>29,590,130</u>	<u>344,027</u>	<u>29,934,157</u>	<u>7,414,248</u>
Other assets.....	-	9,959	9,959	351,205
Total non-current assets.....	<u>41,331,871</u>	<u>4,796,799</u>	<u>46,128,670</u>	<u>22,052,083</u>
<b>TOTAL ASSETS.....</b>	<u><b>57,370,413</b></u>	<u><b>9,757,986</b></u>	<u><b>67,128,399</b></u>	<u><b>29,359,120</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note 3, 6, 9, 16</b>	<u><b>\$ 3,457,120</b></u>	<u><b>\$ 151,304</b></u>	<u><b>\$ 3,608,424</b></u>	<u><b>\$ 950,286</b></u>

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

**Commonwealth of Pennsylvania**

**Statement of Net Position**

June 30, 2017

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 8,760,210	\$ 776,222	\$ 9,536,432	\$ 612,160
Investment purchases payable.....	8,037	6,582	14,619	-
Tax refunds payable.....	703,545	-	703,545	-
Tuition benefits payable—Note 6.....	-	256,974	256,974	-
Securities lending obligations.....	90,574	102,328	192,902	40,600
Internal balances—Note 5.....	(46,239)	46,733	494	-
Due to pension trust funds—Note 5.....	152,314	2,542	154,856	-
Due to primary government—Note 5.....	-	-	-	25,112
Due to component units—Note 5.....	24,710	48	24,758	249
Due to political subdivisions.....	1,489,326	10,182	1,499,508	-
Due to other governments.....	26,754	19,258	46,012	6
Interest payable.....	176,799	48,588	225,387	275,013
Unearned revenue.....	154,044	79,560	233,604	135,885
Notes payable—Note 16.....	-	-	-	213,005
General obligation bonds payable—Note 6.....	743,375	-	743,375	-
Bonds payable—Note 16.....	-	-	-	70,605
Revenue bonds payable—Note 6, 16.....	-	434,050	434,050	506,592
Capital lease/installment purchase obligations.....	3,497	-	3,497	3,867
Self insurance liabilities—Note 6, 8.....	172,271	7,959	180,230	8,665
Compensated absence liability—Notes 6, 16.....	172,209	8,235	180,444	19,973
Insurance loss liability—Note 6.....	-	185,746	185,746	-
Other financing obligations—Note 16.....	-	-	-	4,055
Other liabilities—Note 6.....	282,516	24,042	306,558	369,212
Total current liabilities.....	<u>12,913,942</u>	<u>2,009,049</u>	<u>14,922,991</u>	<u>2,284,999</u>
Noncurrent liabilities:				
Tuition benefits payable—Note 6.....	-	1,383,795	1,383,795	-
Due to primary government—Note 5.....	-	-	-	165,099
Due to component units—Note 5.....	15,000	-	15,000	-
Unearned revenue.....	-	-	-	4,335
Student loan auction rate security bonds payable—Note 16.....	-	-	-	173,150
Insurance loss liability—Note 6.....	-	1,377,640	1,377,640	-
Notes payable—Note 16.....	-	-	-	4,936,725
General obligation bonds payable—Note 6.....	12,223,115	-	12,223,115	-
Bonds payable—Note 16.....	-	-	-	1,915,452
Revenue bonds payable—Note 6, 16.....	-	3,459,343	3,459,343	15,131,791
Capital lease/installment purchase obligations—Note 6.....	96,557	-	96,557	71,347
Other financing obligations—Note 7, 16.....	285,740	-	285,740	26,099
Compensated absence liability—Note 6, 16.....	563,448	27,638	591,086	142,601
Self insurance liabilities—Note 6, 8.....	918,687	49,899	968,586	55,955
Other postemployment benefit obligations—Note 10, 16.....	4,221,298	151,780	4,373,078	1,156,187
Nonexchange financial guarantees—Note 14.....	-	16,814	16,814	-
Net pension liability—Note 9.....	15,493,800	677,145	16,170,945	1,936,234
Other liabilities—Note 6.....	834,578	2,345	836,923	723,889
Total non-current liabilities.....	<u>34,652,223</u>	<u>7,146,399</u>	<u>41,798,622</u>	<u>26,438,864</u>
<b>TOTAL LIABILITIES.....</b>	<u>47,566,165</u>	<u>9,155,448</u>	<u>56,721,613</u>	<u>28,723,863</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note 3, 6, 9, 16.....</b>	<u>832,274</u>	<u>28,641</u>	<u>860,915</u>	<u>294,060</u>
<b>NET POSITION—Note 15</b>				
Net investment in capital assets.....	31,540,865	556,457	32,097,322	1,186,153
Restricted for:				
General government operations.....	75	-	75	-
Health-related programs.....	13,918	-	13,918	-
Transportation.....	724,063	140,676	864,739	-
Capital projects.....	-	149	149	4,018,914
Debt service.....	-	4,200	4,200	557,035
Unemployment/worker's compensation.....	529,416	1,746,563	2,275,979	-
Environmental and conservation programs.....	370,188	-	370,188	-
Economic development.....	6,862	6,373	13,235	85,971
Gaming/horse racing regulation.....	400,131	-	400,131	-
Correctional industries and procurement.....	26,422	-	26,422	-
Emergency support.....	93,002	127,464	220,466	-
Higher education.....	-	282,773	282,773	772,931
Other purposes.....	-	135,536	135,536	645,757
Unrestricted.....	(21,275,848)	(2,274,990)	(23,550,838)	(5,975,278)
<b>TOTAL NET POSITION.....</b>	<u>\$ 12,429,094</u>	<u>\$ 725,201</u>	<u>\$ 13,154,295</u>	<u>\$ 1,291,483</u>

**Commonwealth of Pennsylvania**  
**Statement of Activities**  
For the Fiscal Year Ended June 30, 2017  
(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.....	\$ 1,255,507	\$ 428,813	\$ 71,329	\$ -	\$ (755,365)	\$ -	\$ (755,365)	\$ -
Protection of persons and property.....	7,011,983	1,571,915	617,762	8,301	(4,814,005)	-	(4,814,005)	-
Public education.....	16,426,756	6,059	2,008,429	-	(14,412,268)	-	(14,412,268)	-
Health and human services.....	41,335,304	2,994,241	24,578,476	-	(13,762,587)	-	(13,762,587)	-
Economic development.....	1,006,641	6,221	411,520	-	(588,900)	-	(588,900)	-
Transportation.....	6,365,693	1,365,419	2,441,932	69,695	(2,488,647)	-	(2,488,647)	-
Recreation and cultural enrichment.....	626,195	258,709	77,924	149	(289,413)	-	(289,413)	-
Interest.....	435,877	-	-	-	(435,877)	-	(435,877)	-
<b>Total governmental activities.....</b>	<b>74,463,956</b>	<b>6,631,377</b>	<b>30,207,372</b>	<b>78,145</b>	<b>(37,547,062)</b>	<b>-</b>	<b>(37,547,062)</b>	<b>-</b>
<b>Business-type activities:</b>								
State lottery.....	3,982,011	4,002,543	4,676	-	-	25,208	25,208	-
State workers' insurance.....	221,245	184,205	58,469	-	-	21,429	21,429	-
Tuition payment.....	336,445	206,893	194,170	-	-	64,618	64,618	-
Unemployment compensation.....	2,088,543	3,122,318	79,597	-	-	1,113,372	1,113,372	-
Commonwealth financing.....	217,680	10,497	6,928	-	-	(200,255)	(200,255)	-
Liquor control.....	1,947,038	2,046,869	2,225	-	-	102,056	102,056	-
Economic development and other.....	52,211	29,211	15,335	-	-	(7,665)	(7,665)	-
<b>Total business-type activities.....</b>	<b>8,845,173</b>	<b>9,602,536</b>	<b>361,400</b>	<b>-</b>	<b>-</b>	<b>1,118,763</b>	<b>1,118,763</b>	<b>-</b>
Total primary government.....	\$ 83,309,129	\$ 16,233,913	\$ 30,568,772	\$ 78,145	(37,547,062)	1,118,763	(36,428,299)	-
<b>Component units:</b>								
Total component units.....	\$ 6,359,946	\$ 3,539,088	\$ 2,018,287	\$ 312,272	-	-	-	(490,299)
		<b>General revenues:</b>						
		Taxes:						
					12,072,378	-	12,072,378	-
					10,714,383	-	10,714,383	-
					4,406,000	-	4,406,000	-
					3,583,153	-	3,583,153	-
					1,402,207	-	1,402,207	-
					988,569	-	988,569	-
					1,406,189	-	1,406,189	-
					564,030	-	564,030	-
					948,200	-	948,200	-
					36,085,109	-	36,085,109	-
					22,977	-	22,977	-
					36,108,086	-	36,108,086	-
					833,714	(833,714)	-	-
					36,941,800	(833,714)	36,108,086	-
					(605,262)	285,049	(320,213)	(490,299)
					13,034,356	440,152	13,474,508	1,781,782
					\$ 12,429,094	\$ 725,201	\$ 13,154,295	\$ 1,291,483

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





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# Fund Financial Statements

Commonwealth of Pennsylvania

Balance Sheet

Governmental Funds

June 30, 2017

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
Cash—Note 2.....	\$ 151,327	\$ 10,060	\$ 23,855	\$ 185,242
Cash with fiscal agents—Note 2.....	11,101	-	-	11,101
Temporary investments—Note 2.....	2,556,915	656,359	3,031,005	6,244,279
Long-term investments—Note 2.....	202,997	567,523	1,708,295	2,478,815
Receivables (net):				
Taxes—Note 3.....	3,546,958	321,269	36,089	3,904,316
Accounts.....	1,216,928	32,064	191,277	1,440,269
Investment income.....	1,560	462	6,460	8,482
Loans—Note 3.....	75,128	-	-	75,128
Investment sale proceeds.....	-	-	5,452	5,452
Other.....	111,400	20,299	62,654	194,353
Due from other funds—Note 5.....	65,731	14,514	198,210	278,455
Due from pension trust funds—Note 5.....	8,187	478	2,236	10,901
Due from component units—Note 5.....	178,602	86	11,131	189,819
Due from Federal government.....	4,597,840	339,192	22,175	4,959,207
Due from political subdivisions.....	6,901	3,197	-	10,098
Due from other governments.....	1	368	-	369
Advances to other funds—Note 5.....	7,475	-	174,750	182,225
Other assets.....	3,000	-	-	3,000
<b>TOTAL ASSETS.....</b>	<b>\$ 12,742,051</b>	<b>\$ 1,965,871</b>	<b>\$ 5,473,589</b>	<b>\$ 20,181,511</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 7,573,164	\$ 756,072	\$ 394,870	\$ 8,724,106
Investment purchases payable.....	-	-	8,037	8,037
Tax refunds payable.....	700,594	2,951	-	703,545
Securities lending obligations.....	7,118	19,902	62,787	89,807
Due to other funds—Note 5.....	132,240	58,823	61,746	252,809
Due to component units—Note 5.....	1,642	20,399	17,665	39,706
Due to pension trust funds—Note 5.....	140,771	8,982	2,173	151,926
Due to political subdivisions.....	1,236,746	61,760	190,818	1,489,324
Due to other governments.....	11,330	14,858	508	26,696
Unearned revenue—Note 3.....	23,475	10,836	119,733	154,044
Advances from other funds—Note 5.....	233,250	2,175	12,000	247,425
Other liabilities.....	488,503	-	-	488,503
<b>TOTAL LIABILITIES.....</b>	<b>10,548,833</b>	<b>956,758</b>	<b>870,337</b>	<b>12,375,928</b>
<b>Deferred inflows of resources:</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES - Note 3...</b>	<b>2,890,786</b>	<b>-</b>	<b>176,821</b>	<b>3,067,607</b>
<b>Fund balances—Note 15:</b>				
Nonspendable.....	218,343	-	-	218,343
Restricted.....	78	1,009,113	3,122,650	4,131,841
Committed.....	2,321,358	-	1,345,858	3,667,216
Unassigned deficit.....	(3,237,347)	-	(42,077)	(3,279,424)
<b>TOTAL FUND BALANCES.....</b>	<b>(697,568)</b>	<b>1,009,113</b>	<b>4,426,431</b>	<b>4,737,976</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 12,742,051</b>	<b>\$ 1,965,871</b>	<b>\$ 5,473,589</b>	<b>\$ 20,181,511</b>

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

**- THIS PAGE INTENTIONALLY LEFT BLANK -**

**Commonwealth of Pennsylvania**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
**June 30, 2017**

(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..... \$ 4,737,976**

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 4)

These assets consist of:

Land.....	\$ 3,005,638	
Land improvements.....	1,024,514	
Buildings and building improvements.....	7,741,305	
Machinery and equipment.....	1,474,782	
Infrastructure.....	45,548,851	
Intangible.....	656,222	
Construction in progress.....	4,870,036	
Accumulated depreciation.....	<u>(26,897,313)</u>	
Net general capital assets.....		37,424,035

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..... 3,067,607

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..... (198,657)

Other miscellaneous adjustments that are not reported in the governmental funds balance sheet but are reported in the statement of net position..... 73,507

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 ..... 29,510

The statement of net position includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources..... 103,950

**Commonwealth of Pennsylvania**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
**June 30, 2017**

(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 Notes 3 and 9)..... (12,623,901)

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 Notes 6 and 7)  
 These liabilities are:

Bonds payable.....	\$ (12,966,490)	
Accrued bond interest payable.....	(176,800)	
Capital lease and installment purchase obligations.....	(98,510)	
Compensated absence liability.....	(732,869)	
Self-insurance liabilities.....	(1,086,876)	
Other post employment benefits.....	(4,209,057)	
Other financing obligations.....	(285,740)	
Other liabilities.....	<u>(628,591)</u>	
		<u>(20,184,933)</u>

**Total Net Position--Governmental Activities.....** \$ 12,429,094

- 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, 2017**

(Amounts in thousands)

	General Fund	Motor License Fund	Nonmajor Funds	Total
<b>REVENUES:</b>				
Taxes, net of refunds.....	\$ 30,072,951	\$ 3,548,156	\$ 2,183,513	\$ 35,804,620
Licenses and fees.....	586,815	1,005,954	1,184,788	2,777,557
Intergovernmental.....	26,964,688	1,895,792	874,191	29,734,671
Charges for sales and services.....	2,749,478	89,076	260,634	3,099,188
Investment income.....	29,702	44,100	144,681	218,483
Interest on notes and loans.....	1,132	-	-	1,132
Other.....	334,160	4,994	399,099	738,253
<b>TOTAL REVENUES.....</b>	<b>60,738,926</b>	<b>6,588,072</b>	<b>5,046,906</b>	<b>72,373,904</b>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	669,491	38,814	442,503	1,150,808
Protection of persons and property.....	4,540,329	963,705	704,485	6,208,519
Health and human services.....	39,688,917	-	689,785	40,378,702
Public education.....	15,705,958	252	639,023	16,345,233
Recreation and cultural enrichment.....	305,531	6,695	220,899	533,125
Economic development.....	487,300	378	495,680	983,358
Transportation.....	28,400	2,911,619	1,580,844	4,520,863
Capital outlay.....	158,177	2,632,571	129,447	2,920,195
Debt service:				
Principal retirement.....	-	-	768,551	768,551
Interest and fiscal charges.....	22,794	-	559,274	582,068
<b>TOTAL EXPENDITURES.....</b>	<b>61,606,897</b>	<b>6,554,034</b>	<b>6,230,491</b>	<b>74,391,422</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES.....</b>	<b>(867,971)</b>	<b>34,038</b>	<b>(1,183,585)</b>	<b>(2,017,518)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	1,208,725	1,208,725
Refunding bonds issued.....	-	-	605,170	605,170
Premium on bonds/refunding bonds.....	-	-	242,927	242,927
Discount on bonds issued.....	-	-	(2,286)	(2,286)
Transfers in—Note 5.....	1,342,969	223,349	1,592,424	3,158,742
Transfers out—Note 5.....	(1,262,763)	(133,016)	(929,249)	(2,325,028)
Payment to refunded bond escrow agent.....	-	-	(683,084)	(683,084)
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>80,206</b>	<b>90,333</b>	<b>2,034,627</b>	<b>2,205,166</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(787,765)</b>	<b>124,371</b>	<b>851,042</b>	<b>187,648</b>
<b>FUND BALANCES, JULY 1, 2016—Note 18.....</b>	<b>90,197</b>	<b>884,742</b>	<b>3,575,389</b>	<b>4,550,328</b>
<b>FUND BALANCES, JUNE 30, 2017.....</b>	<b>\$ (697,568)</b>	<b>\$ 1,009,113</b>	<b>\$ 4,426,431</b>	<b>\$ 4,737,976</b>

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

**Commonwealth of Pennsylvania**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances-Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2017**

(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, 2017. 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..... \$ 187,648**

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 4) The current amounts were:

Capital asset acquisitions .....	\$ 2,920,195	
Depreciation expense and losses on retirement or sale of assets.....	(1,946,115)	
Capital lease, installment purchase and related payments.....	<u>3,802</u>	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		977,882

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 \$162,547 and a discount of \$2,286.....	\$ (1,368,986)	
Refunding bonds, including a premium of \$80,381.....	(685,551)	
Capital lease and installment purchase acquisitions.....	<u>(671)</u>	
Total bond proceeds and capital lease and installment purchase acquisitions.....		(2,055,208)

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.....	\$ 768,551	
Payments to refunded bond escrow agent.....	<u>683,084</u>	
Total bond principal retirement and payment to refunded bond escrow agent.....		1,451,635

Internal service funds charge the costs of certain goods and services to individual funds. The net gain of the internal service funds is reported as part of governmental activities expenses..... 3,544

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..... 645,917

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..... (1,816,680)

**Net change in governmental net position in the statement of activities..... \$ (605,262)**

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

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

Proprietary Funds  
 June 30, 2017

(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2016)	State Lottery Fund	Tuition Payment Fund	State Stores	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>ASSETS</b>									
Current assets:									
Cash—Note 2.....	\$ 44,058	\$ 1,418	\$ 118	\$ 6,099	\$ 40,012	\$ 775,699	\$ 17,435	\$ 884,839	\$ 4,995
Cash with fiscal agents.....	2,082,917	-	-	-	-	-	1	2,082,918	-
Temporary investments—Note 2.....	4,728	115,492	162,220	141,321	189,403	-	100,873	714,037	25,385
Receivables (net):									
Unemployment assessments.....	744,455	-	-	-	-	-	-	744,455	-
Accounts.....	73,243	60,897	23,950	-	2,107	-	1,109	161,306	404
Investment income.....	8	9,436	156	4,372	-	-	81	14,053	23
Interest on loans.....	7,505	-	-	-	-	2,361	656	10,522	-
Loans—Note 3.....	-	-	-	-	-	17,593	25,583	43,176	-
Lease rental.....	-	-	-	-	-	-	583	583	-
Investment sale proceeds.....	-	-	-	3,778	-	-	-	3,778	-
Other.....	-	-	-	8	-	-	3	11	-
Due from other funds—Note 5.....	4,584	-	12,931	-	30	33,871	10,470	61,886	21,341
Due from pension trust funds—Note 5.....	-	-	-	-	-	-	-	-	4,712
Due from component units—Note 5.....	517	-	-	-	-	-	-	517	78
Due from Federal government.....	1,750	-	7,345	-	-	-	43	9,138	-
Due from political subdivisions.....	4,986	-	-	-	-	-	-	4,986	24
Due from other governments.....	9,708	-	-	-	-	-	96	9,804	-
Inventory.....	-	-	-	-	255,275	-	4	255,279	16,329
Prepaid expenses.....	-	-	-	-	3,083	-	561	3,644	-
Other assets.....	-	927	16,320	-	-	400	494	18,141	-
<b>Total current assets</b> .....	<b>2,978,459</b>	<b>188,170</b>	<b>223,040</b>	<b>155,578</b>	<b>489,910</b>	<b>829,924</b>	<b>157,992</b>	<b>5,023,073</b>	<b>73,291</b>
Noncurrent assets:									
Restricted cash.....	449,723	-	-	-	-	-	4,525	454,248	-
Long-term investments—Note 2.....	-	1,352,762	3	1,820,577	-	-	188,494	3,361,836	21,869
Receivables (net):									
Loans—Note 3.....	-	-	-	-	-	274,544	128,931	403,475	-
Non-depreciable capital assets—Note 4:									
Land.....	-	-	-	-	323	-	208,807	209,130	-
Construction in progress.....	-	-	-	-	-	-	14,124	14,124	-
Depreciable or amortizable capital assets—Note 4:									
Land improvements.....	-	-	-	-	-	-	69,830	69,830	192
Buildings and building improvements.....	-	-	-	-	20,399	-	412,460	432,859	6,237
Machinery and equipment.....	-	1,512	83,622	-	56,801	-	45,139	187,074	103,790
Intangible assets.....	-	-	-	-	23,121	-	-	23,121	-
Less: accumulated depreciation and amortization.....	-	(1,512)	(59,669)	-	(63,390)	-	(244,286)	(368,857)	(68,450)
Net depreciable or amortizable capital assets.....	-	-	23,953	-	36,931	-	283,143	344,027	41,769
Other assets.....	-	-	-	-	-	-	9,959	9,959	-
<b>Total noncurrent assets</b> .....	<b>449,723</b>	<b>1,352,762</b>	<b>23,956</b>	<b>1,820,577</b>	<b>37,254</b>	<b>274,544</b>	<b>837,983</b>	<b>4,796,799</b>	<b>63,638</b>
<b>TOTAL ASSETS</b> .....	<b>3,428,182</b>	<b>1,540,932</b>	<b>246,996</b>	<b>1,976,155</b>	<b>527,164</b>	<b>1,104,468</b>	<b>995,975</b>	<b>9,819,872</b>	<b>136,929</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>									
<b>TOTAL DEFERRED OUTFLOWS</b>									
<b>OF RESOURCES—Note 3, 6, 9</b> .....	<b>-</b>	<b>7,852</b>	<b>14,174</b>	<b>-</b>	<b>115,283</b>	<b>1,760</b>	<b>12,235</b>	<b>151,304</b>	<b>12,675</b>



Commonwealth of Pennsylvania  
Statement of Net Position

Proprietary Funds  
June 30, 2017

(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2016)	State Lottery Fund	Tuition Payment Fund	State Stores	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>LIABILITIES</b>									
Current liabilities:									
Accounts payable and accrued liabilities.....	\$ 73,030	\$ 12,067	\$ 378,726	\$ 3,327	\$ 296,416	\$ -	\$ 12,656	\$ 776,222	\$ 36,102
Investment purchases payable.....	-	-	-	6,582	-	-	-	6,582	-
Tuition benefits payable—Note 6.....	-	-	-	256,974	-	-	-	256,974	-
Securities lending obligations.....	-	53,225	-	42,494	-	-	6,609	102,328	767
Due to other funds—Note 5.....	383	-	96,172	2	8,614	689	410	106,270	3,047
Due to pension trust funds—Note 5.....	93	-	225	-	2,072	-	152	2,542	388
Due to component units—Note 5.....	-	-	-	-	-	-	48	48	4
Due to political subdivisions.....	-	-	10,154	-	-	-	28	10,182	2
Due to other governments.....	10,244	-	6,206	-	518	-	2,290	19,258	58
Interest payable.....	36,552	-	-	-	-	11,757	279	48,588	-
Unearned revenue.....	-	68,263	7,873	-	-	-	3,424	79,560	-
Revenue bonds payable—Note 6.....	357,780	-	-	-	-	72,205	4,065	434,050	-
Capital lease/installment purchase obligations—Note 6.....	-	-	-	-	-	-	-	-	509
Self insurance liabilities—Note 8.....	10	196	303	-	7,194	-	256	7,959	562
Compensated absences—Note 6.....	-	475	661	-	6,451	-	648	8,235	641
Insurance loss liability—Note 6.....	-	185,746	-	-	-	-	-	185,746	-
Advances from other funds—Note 5.....	-	2,349	-	-	-	-	-	2,349	-
Other liabilities.....	149	23,153	-	-	-	-	740	24,042	-
Total current liabilities.....	478,241	345,474	500,320	309,379	321,265	84,651	31,605	2,070,935	42,080
Noncurrent liabilities:									
Tuition benefits payable—Note 6.....	-	-	-	1,383,795	-	-	-	1,383,795	-
Insurance loss liability—Note 6.....	-	1,377,150	-	-	-	-	490	1,377,640	-
Revenue bonds payable—Note 6.....	1,203,295	-	-	-	-	2,242,790	13,258	3,459,343	-
Installment purchase obligation—Note 6.....	-	-	-	-	-	-	-	-	1,035
Compensated absences—Note 6.....	-	1,590	2,211	70	21,597	-	2,170	27,638	2,147
Self insurance liabilities—Note 8.....	62	1,227	1,900	-	45,105	-	1,605	49,899	3,520
Other postemployment benefit obligations—Note 10.....	21	10,451	13,816	138	116,208	-	11,146	151,780	12,241
Nonexchange financial guarantees—Note 14.....	-	-	-	-	-	16,814	-	16,814	-
Net pension liability—Note 9.....	-	44,793	63,418	-	519,595	-	49,339	677,145	56,718
Other liabilities.....	-	-	-	-	-	-	2,345	2,345	-
Total noncurrent liabilities.....	1,203,378	1,435,211	81,345	1,384,003	702,505	2,259,604	80,353	7,146,399	75,661
<b>TOTAL LIABILITIES</b> .....	<b>1,681,619</b>	<b>1,780,685</b>	<b>581,665</b>	<b>1,693,382</b>	<b>1,023,770</b>	<b>2,344,255</b>	<b>111,958</b>	<b>9,217,334</b>	<b>117,741</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>									
<b>TOTAL DEFERRED INFLOWS</b>									
<b>OF RESOURCES—Note 3, 6, 9</b> .....	-	1,859	2,632	-	21,567	-	2,583	28,641	2,353
<b>NET POSITION—Note 15</b>									
Net investment in capital assets.....	-	-	23,953	-	37,254	-	495,250	556,457	40,225
Restricted for:									
Transportation.....	-	-	-	-	-	-	140,676	140,676	-
Capital projects.....	-	-	-	-	-	-	149	149	-
Debt service.....	-	-	-	-	-	-	4,200	4,200	-
Unemployment/workers' compensation.....	1,746,563	-	-	-	-	-	-	1,746,563	-
Economic development.....	-	-	-	-	-	-	6,373	6,373	-
Correctional industries and procurement.....	-	-	-	-	-	-	-	-	9,541
Emergency support.....	-	-	-	-	-	-	127,464	127,464	-
Higher Education.....	-	-	-	282,773	-	-	-	282,773	-
Other purposes.....	-	-	-	-	-	-	135,536	135,536	-
Unrestricted.....	-	(233,760)	(347,080)	-	(440,144)	(1,238,027)	(15,979)	(2,274,990)	(20,256)
<b>TOTAL NET POSITION</b> .....	<b>\$ 1,746,563</b>	<b>\$ (233,760)</b>	<b>\$ (323,127)</b>	<b>\$ 282,773</b>	<b>\$ (402,890)</b>	<b>\$ (1,238,027)</b>	<b>\$ 893,669</b>	<b>\$ 725,201</b>	<b>\$ 29,510</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, 2017**

(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2016)	State Lottery Fund	Tuition Payment Fund	State Stores	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>OPERATING REVENUES:</b>									
Sales and services—Note 3.....	\$ 3,107,121	\$ 183,501	\$ 4,002,543	\$ 206,893	\$ 2,046,869	\$ 524	\$ 24,505	\$ 9,571,956	\$ 92,444
Interest on loans.....	-	-	-	-	-	9,738	2,966	12,704	-
Other.....	-	704	1	-	-	235	138	1,078	-
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>3,107,121</b>	<b>184,205</b>	<b>4,002,544</b>	<b>206,893</b>	<b>2,046,869</b>	<b>10,497</b>	<b>27,609</b>	<b>9,585,738</b>	<b>92,444</b>
Provision for uncollectible accounts.....	-	-	-	-	-	(4,711)	(1,902)	(6,613)	-
<b>NET OPERATING REVENUES.....</b>	<b>3,107,121</b>	<b>184,205</b>	<b>4,002,544</b>	<b>206,893</b>	<b>2,046,869</b>	<b>5,786</b>	<b>25,707</b>	<b>9,579,125</b>	<b>92,444</b>
<b>OPERATING EXPENSES:</b>									
Cost of sales and services.....	2,058,775	217,274	3,978,049	334,150	1,936,147	109,539	22,630	8,656,564	76,330
Depreciation and amortization.....	-	-	3,923	-	10,891	-	20,905	35,719	13,828
Other.....	-	-	39	-	-	-	2,252	2,291	-
<b>TOTAL OPERATING EXPENSES.....</b>	<b>2,058,775</b>	<b>217,274</b>	<b>3,982,011</b>	<b>334,150</b>	<b>1,947,038</b>	<b>109,539</b>	<b>45,787</b>	<b>8,694,574</b>	<b>90,158</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>1,048,346</b>	<b>(33,069)</b>	<b>20,533</b>	<b>(127,257)</b>	<b>99,831</b>	<b>(103,753)</b>	<b>(20,080)</b>	<b>884,551</b>	<b>2,286</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income.....	11,259	58,469	1,308	194,170	2,225	6,928	15,335	289,694	1,753
Interest expense.....	(29,484)	-	-	-	-	(102,484)	-	(131,968)	-
Investment expense.....	-	(3,971)	-	(2,295)	-	-	-	(6,266)	-
Grants and other revenues.....	83,535	-	3,367	-	-	-	1,602	88,504	-
Other expenses.....	(284)	-	-	-	-	(946)	(4,522)	(5,752)	(495)
<b>NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>65,026</b>	<b>54,498</b>	<b>4,675</b>	<b>191,875</b>	<b>2,225</b>	<b>(96,502)</b>	<b>12,415</b>	<b>234,212</b>	<b>1,258</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>1,113,372</b>	<b>21,429</b>	<b>25,208</b>	<b>64,618</b>	<b>102,056</b>	<b>(200,255)</b>	<b>(7,665)</b>	<b>1,118,763</b>	<b>3,544</b>
<b>TRANSFERS:</b>									
Transfers in—Note 5.....	-	-	148,000	-	-	253,700	57,083	458,783	-
Transfers out—Note 5.....	(52,000)	-	(264,907)	-	(219,196)	(747,394)	(9,000)	(1,292,497)	-
<b>TRANSFERS, NET.....</b>	<b>(52,000)</b>	<b>-</b>	<b>(116,907)</b>	<b>-</b>	<b>(219,196)</b>	<b>(493,694)</b>	<b>48,083</b>	<b>(833,714)</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN NET POSITION.....</b>	<b>1,061,372</b>	<b>21,429</b>	<b>(91,699)</b>	<b>64,618</b>	<b>(117,140)</b>	<b>(693,949)</b>	<b>40,418</b>	<b>285,049</b>	<b>3,544</b>
<b>TOTAL NET POSITION, JULY 1, 2016.....</b>	<b>685,191</b>	<b>(255,189)</b>	<b>(231,428)</b>	<b>218,155</b>	<b>(285,750)</b>	<b>(544,078)</b>	<b>853,251</b>	<b>440,152</b>	<b>25,966</b>
<b>TOTAL NET POSITION, JUNE 30, 2017.....</b>	<b>\$ 1,746,563</b>	<b>\$ (233,760)</b>	<b>\$ (323,127)</b>	<b>\$ 282,773</b>	<b>\$ (402,890)</b>	<b>\$(1,238,027)</b>	<b>\$ 893,669</b>	<b>\$ 725,201</b>	<b>\$ 29,510</b>

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

**- THIS PAGE INTENTIONALLY LEFT BLANK -**

Commonwealth of Pennsylvania  
**Statement of Cash Flows**  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2017  
(Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2016)	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>									
Receipts from employers.....	\$ 3,125,516	\$ 184,852	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,310,368	\$ -
Receipts from customers and participants.....	-	-	4,000,444	206,893	2,046,406	-	21,560	6,275,303	91,918
Receipts from borrowers for fees and loan repayments.....	-	-	-	-	-	36,181	30,490	66,671	-
Receipt of premiums.....	-	-	-	-	-	-	5,858	5,858	-
Payments to programs for the elderly.....	-	-	(1,016,930)	-	-	-	-	(1,016,930)	-
Payments to prize winners.....	-	-	(2,587,899)	-	-	-	-	(2,587,899)	-
Payments to participants.....	-	-	-	(227,668)	-	-	-	(227,668)	-
Payments to claimants.....	(2,035,034)	(190,461)	-	-	-	-	-	(2,225,495)	-
Payments to borrowers.....	-	-	-	-	-	(31,809)	(23,973)	(55,782)	-
Payments for vendors, employees and other costs.....	-	(68,160)	(293,781)	(6,992)	(1,889,034)	(3,984)	(17,965)	(2,279,916)	(69,465)
Payments of grants and loan guarantees.....	-	-	-	-	-	(100,801)	-	(100,801)	-
Other receipts.....	-	704	1	-	-	(25)	31	711	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>1,090,482</b>	<b>(73,065)</b>	<b>101,835</b>	<b>(27,767)</b>	<b>157,372</b>	<b>(100,438)</b>	<b>16,001</b>	<b>1,164,420</b>	<b>22,453</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>									
Net borrowings under advances from other funds.....	-	27	-	-	-	-	-	27	-
Net repayments under advances from other funds.....	-	-	(50,000)	-	-	-	-	(50,000)	-
Proceeds from other non-capital borrowings.....	-	-	-	-	-	754,409	-	754,409	-
Principal payments on other non-capital debt.....	(404,290)	-	-	-	-	(69,085)	-	(473,375)	-
Interest payments on other non-capital debt.....	(86,109)	-	-	-	-	(100,848)	-	(186,957)	-
Transfers in.....	-	-	148,000	-	-	271,435	1,500	420,935	-
Transfers out.....	(52,000)	-	(264,907)	-	(217,749)	(747,394)	(9,000)	(1,291,050)	-
Grants and other revenues.....	67,719	-	110	-	-	-	1,307	69,136	-
Other payments for non-capital financing uses.....	(280)	-	-	-	-	(946)	(7,132)	(8,358)	-
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(474,960)</b>	<b>27</b>	<b>(166,797)</b>	<b>-</b>	<b>(217,749)</b>	<b>107,571</b>	<b>(13,325)</b>	<b>(765,233)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>									
Acquisition and construction of capital assets.....	-	-	(6,255)	-	(7,824)	-	(42,952)	(57,031)	(13,054)
Proceeds from disposal of capital assets.....	-	-	-	-	32	-	-	32	2,243
Capital lease/installment purchase payments.....	-	-	-	-	-	-	-	-	(569)
Principal payments on other capital debt.....	-	-	-	-	-	-	(3,680)	(3,680)	-
Interest payments on other capital debt.....	-	-	-	-	-	-	(951)	(951)	-
Transfers in.....	-	-	-	-	-	-	55,799	55,799	-
Other receipts for capital and related financing activities.....	-	-	-	-	-	-	4,920	4,920	-
Other payments for capital and related financing uses.....	-	-	-	-	-	-	(6,124)	(6,124)	-
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>(6,255)</b>	<b>-</b>	<b>(7,792)</b>	<b>-</b>	<b>7,012</b>	<b>(7,035)</b>	<b>(11,380)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>									
Purchase of investments.....	(15,216)	(1,398,288)	(1,551,868)	(1,007,762)	(1,549,744)	-	(79,040)	(5,601,918)	(334,731)
Sales and maturities of investments.....	17,693	1,430,088	1,621,805	1,005,716	1,635,736	-	64,277	5,775,315	325,241
Investment income.....	11,254	41,270	1,263	30,933	2,225	6,928	8,675	102,548	627
Investment expense.....	-	-	-	-	-	-	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>13,731</b>	<b>73,070</b>	<b>71,200</b>	<b>28,887</b>	<b>88,217</b>	<b>6,928</b>	<b>(6,088)</b>	<b>275,945</b>	<b>(8,863)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>629,253</b>	<b>32</b>	<b>(17)</b>	<b>1,120</b>	<b>20,048</b>	<b>14,061</b>	<b>3,600</b>	<b>668,097</b>	<b>2,210</b>
<b>CASH AT JULY 1, 2016.....</b>	<b>1,947,445</b>	<b>1,386</b>	<b>135</b>	<b>4,979</b>	<b>19,964</b>	<b>761,638</b>	<b>18,361</b>	<b>2,753,908</b>	<b>2,785</b>
<b>CASH AT JUNE 30, 2017 (including \$454,248 included in restricted assets).....</b>	<b>\$ 2,576,698</b>	<b>\$ 1,418</b>	<b>\$ 118</b>	<b>\$ 6,099</b>	<b>\$ 40,012</b>	<b>\$ 775,699</b>	<b>\$ 21,961</b>	<b>\$ 3,422,005</b>	<b>\$ 4,995</b>

Commonwealth of Pennsylvania  
**Statement of Cash Flows**  
 Proprietary Funds  
 For the Fiscal Year Ended June 30, 2017  
 (Amounts in thousands)

	Enterprise Funds								
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2016)	State Lottery Fund	Tuition Payment Fund	State Stores Fund	Commonwealth Financing Authority	Nonmajor Funds	Total	Internal Service Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>									
Operating income (loss).....	\$ 1,048,346	\$ (33,069)	\$ 20,533	\$ (127,257)	\$ 99,831	\$ (103,753)	\$ (20,080)	\$ 884,551	\$ 2,286
Depreciation and amortization of capital assets.....	-	-	3,923	-	10,891	-	20,905	35,719	13,828
Amortization of other assets.....	-	-	-	-	-	-	2,252	2,252	-
Loss from disposals of capital assets.....	-	-	-	-	106	-	-	106	-
Provision for uncollectible accounts.....	-	-	-	-	-	4,711	1,902	6,613	-
Other adjustments.....	-	-	-	-	-	-	-	-	(2,243)
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:									
Unemployment assessments receivable.....	292	-	-	-	-	-	-	292	-
Accounts receivable.....	21,426	11,096	(1,859)	-	(626)	-	(31)	30,006	523
Interest on loans receivable.....	107	-	-	-	-	(646)	108	(431)	-
Loans receivable.....	-	-	-	-	-	(5,079)	3,941	(1,138)	-
Lease rental receivable.....	-	-	-	-	-	-	155	155	-
Other receivables.....	-	-	-	(8)	-	-	4	(4)	-
Due from other funds.....	(2,019)	-	(11)	-	57	-	1,607	(366)	17,151
Due from pension trust funds.....	-	-	-	-	-	-	-	-	1,020
Due from component units.....	4	-	-	-	-	-	-	4	71
Due from political subdivisions.....	(982)	-	-	-	-	-	-	(982)	16
Due from other governments.....	8,133	-	-	-	-	-	(30)	8,103	-
Inventory.....	-	-	-	-	(10,624)	-	-	(10,624)	3,864
Prepaid expenses.....	-	-	-	-	(3,083)	-	160	(2,923)	-
Other current and noncurrent assets.....	-	-	56	-	-	(400)	(2,025)	(2,369)	-
Deferred outflows.....	-	(804)	(1,691)	-	(13,295)	-	(2,003)	(17,793)	(1,578)
Accounts payable and accrued liabilities.....	15,594	(2,514)	(7,490)	829	9,779	-	1,085	17,283	(20,246)
Tuition benefits payable.....	-	-	-	98,646	-	-	-	98,646	-
Due to other funds.....	(1,984)	-	79,444	-	(1,600)	39	89	75,988	329
Due to pension trust funds.....	92	-	(10)	-	323	-	(88)	317	214
Due to component units.....	-	-	-	-	-	-	26	26	1
Due to political subdivisions.....	-	-	2,040	-	-	-	(14)	2,026	(4)
Due to other governments.....	1,397	-	(206)	-	7	-	(28)	1,170	13
Unearned revenue.....	-	(9,745)	(229)	-	-	-	(230)	(10,204)	-
Self insurance liabilities.....	63	152	255	-	2,873	-	211	3,554	194
Compensated absences.....	-	(69)	(57)	(65)	529	-	(241)	97	44
Insurance loss liability.....	-	(41,208)	-	-	-	-	(90)	(41,298)	-
Other postemployment benefit obligations.....	13	1,437	2,190	88	18,911	-	1,629	24,268	2,213
Nonexchange financial guarantees.....	-	-	-	-	-	4,690	-	4,690	-
Net pension liability.....	-	2,246	3,072	-	27,896	-	3,239	36,453	3,077
Other current and noncurrent liabilities.....	-	(1,912)	-	-	-	-	2,418	506	-
Deferred inflows.....	-	1,325	1,875	-	15,397	-	1,130	19,727	1,680
<b>Total Adjustments.....</b>	<b>42,136</b>	<b>(39,996)</b>	<b>81,302</b>	<b>99,490</b>	<b>57,541</b>	<b>3,315</b>	<b>36,081</b>	<b>279,869</b>	<b>20,167</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....</b>	<b>\$ 1,090,482</b>	<b>\$ (73,065)</b>	<b>\$ 101,835</b>	<b>\$ (27,767)</b>	<b>\$ 157,372</b>	<b>\$ (100,438)</b>	<b>\$ 16,001</b>	<b>\$ 1,164,420</b>	<b>\$ 22,453</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>									
Increase in fair value of investments during the fiscal year.....	\$ -	\$ 16,629	\$ -	\$ 162,972	\$ -	\$ -	\$ 6,611	\$ 186,212	\$ 1,111
Increase in investments from changes in investment sale proceeds receivable.....	-	1,907	-	445	-	-	-	2,352	-
Increase (decrease) in investments from changes in investment purchases payable.....	-	6,367	-	(513)	-	-	-	5,854	-
Increase (decrease) in investments from changes in securities lending obligations.....	-	(7,270)	-	(457,702)	-	-	1,478	(463,494)	229
Decrease in investments from accretion/amortization of investment income.....	-	(3,550)	-	(349)	-	-	-	(3,899)	-
Increase in investments from other investment income adjustments (net).....	-	-	-	103	-	-	-	103	-
Capital assets acquired through installment purchases.....	-	-	-	-	-	-	-	-	671
Capital asset acquisitions that pertain to changes in accounts payable.....	-	-	-	-	-	-	36	36	(51)
Disposals of capital assets.....	-	-	-	-	-	-	(1,407)	(1,407)	(586)
Amortization of bond premium/discount (net).....	(46,862)	-	-	-	-	3,440	(195)	(43,617)	-
Transfers from other funds (accruals).....	-	-	-	-	-	(17,735)	(216)	(17,951)	-
Transfers to other funds (accruals).....	-	-	-	-	(1,447)	-	-	(1,447)	-
Amortization of deferred refunding loss.....	-	-	-	-	-	(220)	-	(220)	-
Gain on bond redemptions.....	15,197	-	-	-	-	-	-	15,197	-
Internal activity elimination for capital financing activities.....	-	-	-	-	-	-	(4,546)	(4,546)	-

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, 2017

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund		Agency Funds
		INVEST Program for Local Governments (December 31, 2016)	Private Purpose Trust Funds	
<b>ASSETS</b>				
Cash—Note 2.....	\$ 139,381	\$ 698	\$ 3,643	\$ 13,172
Cash with fiscal agents.....	-	-	-	75,152
Temporary investments—Note 2.....	52,299	651,220	6,758	706,137
Long-term investments—Note 2.....	467,676	-	2,444,892	2,909,884
Short-term funds—Note 2.....	7,382,154	-	-	-
Corporate obligations—Note 2.....	2,865,130	-	-	-
Collective trust funds—Note 2.....	13,423,571	-	-	-
Real estate—Note 2.....	7,831,869	-	-	-
Alternative—Note 2.....	18,105,806	-	-	-
Securities lending collateral—Note 2.....	2,291,671	-	-	-
Asset-backed securities—Note 2.....	1,749,117	-	-	-
Derivatives—Note 2.....	1,399	-	-	-
Domestic equities—Note 2.....	14,389,138	-	-	-
International equities—Note 2.....	10,633,707	-	-	-
International private debt securities—Note 2.....	74,040	-	-	-
International public debt securities—Note 2.....	621,156	-	-	-
Mortgage-backed securities—Note 2.....	753,135	-	-	-
Private placements—Note 2.....	515,019	-	-	-
Repurchase agreements—Note 2.....	129,996	-	-	-
U.S. Treasury obligations—Note 2.....	3,259,708	-	-	-
U.S. government agency debt securities—Note 2.....	120,534	-	-	-
Receivables (net):				
Taxes—Note 3.....	-	-	-	76,404
Accounts.....	-	-	336	49,178
Investment income.....	211,488	-	5	10,365
Interest on notes and loans.....	330	298	-	-
Pension contributions.....	1,446,871	-	-	-
Investment sale proceeds.....	1,071,754	45,000	-	3,316
Other.....	31,018	-	-	-
Due from other funds—Note 5.....	16,064	-	38	-
Due from pension trust funds—Note 5.....	1,727	-	-	-
Due from component units—Note 5.....	65,202	-	-	-
Due from political subdivisions.....	42,231	-	-	-
Due from other governments.....	46,975	-	-	-
Advances to other funds—Note 5.....	-	-	-	67,500
Depreciable or amortizable capital assets:				
Machinery and equipment.....	12,689	-	-	-
Intangible assets.....	41,285	-	-	-
Less: accumulated depreciation and amortization.....	(29,973)	-	-	-
Net depreciable or amortizable capital assets.....	24,001	-	-	-
Other assets.....	-	-	-	4,563,672
<b>TOTAL ASSETS.....</b>	<b>87,764,167</b>	<b>697,216</b>	<b>2,455,672</b>	<b>\$ 8,474,780</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note 3, 9.....</b>	<b>16,695</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities.....	171,274	49	1,818	\$ 159,825
Investment purchases payable.....	1,190,216	45,641	674	4,186
Securities lending obligations.....	2,327,194	-	1,579	7,244
Due to other funds—Note 5.....	610	-	-	-
Due to pension trust funds—Note 5.....	907	-	-	-
Due to political subdivisions.....	-	-	66	480,556
Due to other governments.....	-	-	-	8
Interest payable.....	-	371	-	-
Net pension liability—Note 9.....	64,116	-	-	-
Other liabilities.....	586,851	-	-	7,822,961
<b>TOTAL LIABILITIES.....</b>	<b>4,341,168</b>	<b>46,061</b>	<b>4,137</b>	<b>\$ 8,474,780</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note 3, 9.....</b>	<b>2,442</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>				
Restricted and held in trust for:				
Pension benefits.....	79,543,225	-	-	-
Postemployment healthcare benefits.....	727,705	-	-	-
Employee salary deferrals.....	3,166,322	-	-	-
INVEST Program participants.....	-	651,155	-	-
Tuition Account Investment Program participants.....	-	-	2,401,845	-
Other.....	-	-	49,690	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 83,437,252</b>	<b>\$ 651,155</b>	<b>\$ 2,451,535</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, 2017**

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund INVEST Program for Local Governments (December 31, 2016)	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Pension:			
Employer.....	\$ 6,366,242	\$ -	\$ -
Employee.....	1,860,892	-	-
Transfer in from other plans.....	115,984	-	-
Total contributions.....	<u>8,343,118</u>	<u>-</u>	<u>-</u>
Investment income:			
Net increase in			
fair value of investments.....	5,641,166	-	172,564
Interest income.....	379,766	2,495	59,619
Dividend income.....	577,461	-	-
Rental and other income.....	846,890	-	-
Total investment activity income.....	<u>7,445,283</u>	<u>2,495</u>	<u>232,183</u>
Less: investment expenses			
Investment activity expense.....	(645,904)	(601)	-
Net investment earnings.....	<u>6,799,379</u>	<u>1,894</u>	<u>232,183</u>
Securities lending activities:			
Income.....	26,306	-	-
Expenses.....	(10,081)	-	-
Total securities lending income.....	<u>16,225</u>	<u>-</u>	<u>-</u>
Total net investment income.....	<u>6,815,604</u>	<u>1,894</u>	<u>232,183</u>
Share transactions (at net asset value of \$1.00 per share):			
Shares issued in lieu of cash distributions.....	-	1,366	-
Shares purchased/redeemed (net).....	-	182,092	139,520
Net increase in net position from share transactions.....	<u>-</u>	<u>183,458</u>	<u>139,520</u>
<b>TOTAL ADDITIONS.....</b>	<u>15,158,722</u>	<u>185,352</u>	<u>371,703</u>
<b>DEDUCTIONS:</b>			
Benefit payments.....	10,927,142	-	-
Refunds of contributions.....	34,036	-	-
Transfers to other plans.....	113,377	-	-
Administrative expenses.....	115,725	-	6,819
Other expenses.....	4,122	-	2,684
Distributions to participants.....	-	1,897	-
<b>TOTAL DEDUCTIONS.....</b>	<u>11,194,402</u>	<u>1,897</u>	<u>9,503</u>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>			
Pension benefits.....	3,656,275	-	-
Postemployment healthcare benefits.....	126,074	-	-
Employee salary deferrals.....	181,971	-	-
INVEST program participants.....	-	183,455	-
Tuition Account Investment Program participants.....	-	-	361,426
Other.....	-	-	774
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST...</b>	<u>3,964,320</u>	<u>183,455</u>	<u>362,200</u>
<b>Net position, July 1, 2016.....</b>	<u>79,472,932</u>	<u>467,700</u>	<u>2,089,335</u>
<b>Net position, June 30, 2017.....</b>	<u>\$ 83,437,252</u>	<u>\$ 651,155</u>	<u>\$ 2,451,535</u>

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

**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Discretely Presented Component Units  
June 30, 2017

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2017)	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 16.....	\$ 917,790	\$ 409,835	\$ 32,791	\$ 22,612	\$ 173,553	\$ 30,144	\$ 1,586,725
Temporary investments—Note 16.....	371,185	92,674	1,064,367	1,411,638	741,640	361,271	4,042,775
Receivables (net):							
Accounts .....	69,181	-	31,695	-	60,509	3,044	164,429
Investment income.....	4,781	2,113	212	-	-	92	7,198
Interest on notes and loans.....	-	19,788	72,685	5,128	-	594	98,195
Loans—Note 16.....	-	133,044	788,882	164,208	9,032	53,455	1,148,621
Other .....	-	-	-	-	63,832	8,066	71,898
Due from primary government—Note 5.....	16,686	17	69	2,429	2,237	55	21,493
Due from component units—Note 5.....	-	166	-	83	-	-	249
Due from Federal government.....	-	-	18,931	1,218	23,194	742	44,085
Inventory.....	18,973	-	-	-	9,030	796	28,799
Prepaid expenses.....	-	-	8,873	-	15,373	2,555	26,801
Other assets.....	-	2,470	60,657	-	2,642	-	65,769
Total current assets .....	<u>1,398,596</u>	<u>660,107</u>	<u>2,079,162</u>	<u>1,607,316</u>	<u>1,101,042</u>	<u>460,814</u>	<u>7,307,037</u>
Noncurrent assets:							
Restricted cash.....	-	-	-	-	25	1,767	1,792
Long-term investments—Note 16.....	843,616	265,178	-	-	1,107,488	27,588	2,243,870
Receivables (net):							
Loans—Note 16.....	-	3,110,883	4,224,277	2,340,972	31,810	291,256	9,999,198
Due from primary government—Note 5.....	-	-	-	15,000	-	-	15,000
Non-depreciable capital assets—Note 16							
Land.....	359,210	2,454	8,038	-	65,432	1,155	436,289
Construction in progress.....	1,356,951	2,136	-	-	224,209	7,185	1,590,481
Depreciable or amortizable capital assets—Note 16							
Land improvements.....	121,137	-	-	-	305,541	2,626	429,304
Buildings and building improvements.....	978,186	32,079	76,068	-	3,619,668	771,860	5,477,861
Machinery and equipment.....	638,300	9,905	41,875	-	560,143	190,559	1,440,782
Turnpike infrastructure.....	8,380,745	-	-	-	-	-	8,380,745
Library books.....	-	-	-	-	80,734	353	81,087
Intangible assets.....	-	-	58,309	-	-	33	58,342
Less: accumulated depreciation and amortization.....	(6,105,647)	(14,336)	(96,052)	-	(1,886,579)	(351,259)	(8,453,873)
Net depreciable or amortizable capital assets.....	<u>4,012,721</u>	<u>27,648</u>	<u>80,200</u>	<u>-</u>	<u>2,679,507</u>	<u>614,172</u>	<u>7,414,248</u>
Other assets.....	159,666	47,524	-	-	131,320	12,695	351,205
Total noncurrent assets .....	<u>6,732,164</u>	<u>3,455,823</u>	<u>4,312,515</u>	<u>2,355,972</u>	<u>4,239,791</u>	<u>955,818</u>	<u>22,052,083</u>
<b>TOTAL ASSETS.....</b>	<b>8,130,760</b>	<b>4,115,930</b>	<b>6,391,677</b>	<b>3,963,288</b>	<b>5,340,833</b>	<b>1,416,632</b>	<b>29,359,120</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES—Note 16</b>	<b>534,504</b>	<b>19,555</b>	<b>134,810</b>	<b>1,685</b>	<b>241,108</b>	<b>18,624</b>	<b>950,286</b>



**Commonwealth of Pennsylvania**  
**Statement of Net Position**  
Discretely Presented Component Units  
June 30, 2017

(Amounts in thousands)

	Pennsylvania Turnpike Commission (May 31, 2017)	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.....	198,025	4,431	189,264	3,511	202,830	14,099	612,160
Securities lending obligations.....	-	-	-	39,454	-	1,146	40,600
Due to primary government—Note 5.....	-	3	323	13,379	3,180	8,227	25,112
Due to component units—Note 5.....	-	83	-	166	-	-	249
Due to other governments.....	-	-	-	4	-	2	6
Interest payable.....	238,193	20,738	3,609	-	8,779	3,694	275,013
Unearned revenue.....	72,674	-	72	21	61,169	1,949	135,885
Notes payable—Note 16.....	-	3,000	200,000	10,005	-	-	213,005
Bonds payable—Note 16.....	-	-	-	-	70,605	-	70,605
Revenue bonds payable—Note 16.....	391,375	86,997	-	2,240	-	25,980	506,592
Capital lease/installment purchase obligations.....	-	-	-	-	3,778	89	3,867
Self insurance liabilities.....	4,360	-	-	-	4,305	-	8,665
Compensated absences.....	8,723	-	-	113	10,620	517	19,973
Other financing obligations—Note 16.....	-	-	4,055	-	-	-	4,055
Other liabilities.....	-	100,004	60,657	-	208,516	35	369,212
Total current liabilities.....	913,350	215,256	457,980	68,893	573,782	55,738	2,284,999
Non-current liabilities:							
Due to primary government—Note 5.....	-	-	-	165,099	-	-	165,099
Unearned revenue.....	1,160	-	-	-	3,175	-	4,335
Student loan auction rate security bonds payable—Note 16.....	-	-	173,150	-	-	-	173,150
Notes payable—Note 16.....	-	28,000	4,589,647	-	319,078	-	4,936,725
Bonds payable—Note 16.....	-	-	-	-	1,915,452	-	1,915,452
Revenue bonds payable—Note 16.....	12,177,627	2,722,555	-	66,266	-	165,343	15,131,791
Capital lease/installment purchase obligations.....	-	-	-	-	71,190	157	71,347
Other financing obligations—Note 16.....	-	-	26,099	-	-	-	26,099
Compensated absences.....	7,137	-	23,730	377	108,906	2,451	142,601
Self insurance liabilities.....	39,893	-	-	-	16,062	-	55,955
Other postemployment benefit obligations—Note 16.....	-	-	-	1,250	1,145,088	9,849	1,156,187
Net pension liability—Note 9, 16.....	379,173	26,307	474,743	6,891	1,022,458	26,662	1,936,234
Other liabilities.....	198,706	359,078	-	-	158,391	7,714	723,889
Total non-current liabilities.....	12,803,696	3,135,940	5,287,369	239,883	4,759,800	212,176	26,438,864
<b>TOTAL LIABILITIES.....</b>	<b>13,717,046</b>	<b>3,351,196</b>	<b>5,745,349</b>	<b>308,776</b>	<b>5,333,582</b>	<b>267,914</b>	<b>28,723,863</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED INFLOWS OF RESOURCES—Note 16.....</b>	<b>146,890</b>	<b>4,764</b>	<b>94,106</b>	<b>178</b>	<b>47,274</b>	<b>848</b>	<b>294,060</b>
<b>NET POSITION</b>							
Net investment in capital assets.....	(258,038)	13,333	88,238	-	722,365	620,255	1,186,153
Restricted for:							
Capital projects.....	330,048	-	-	3,656,019	32,847	-	4,018,914
Debt service.....	44,727	149,670	305,780	-	-	56,858	557,035
Economic development.....	-	-	-	-	-	85,971	85,971
Higher education.....	-	-	293,014	-	479,917	-	772,931
Other purposes.....	-	616,522	-	-	-	29,235	645,757
Unrestricted.....	(5,315,409)	-	-	-	(1,034,044)	374,175	(5,975,278)
<b>TOTAL NET POSITION.....</b>	<b>\$ (5,198,672)</b>	<b>\$ 779,525</b>	<b>\$ 687,032</b>	<b>\$ 3,656,019</b>	<b>\$ 201,085</b>	<b>\$ 1,166,494</b>	<b>\$ 1,291,483</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, 2017

(Amounts in thousands)

	<b>Pennsylvania Turnpike Commission (May 31, 2017)</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.....	\$ 1,936,830	\$ 632,164	\$ 1,079,763	\$ 70,994	\$ 2,480,473	\$ 159,722	\$ 6,359,946
Program revenues:							
Charges for goods and services.....	1,134,396	172,423	662,820	37,683	1,462,331	69,435	3,539,088
Operating grants and contributions.....	35,757	451,497	352,264	105,052	986,280	87,437	2,018,287
Capital grants and contributions.....	214,664	-	-	71,263	21,665	4,680	312,272
Investment/interest earnings.....	-	-	-	-	-	-	-
<b>Total program revenues.....</b>	<u>1,384,817</u>	<u>623,920</u>	<u>1,015,084</u>	<u>213,998</u>	<u>2,470,276</u>	<u>161,552</u>	<u>5,869,647</u>
<b>Change in net position.....</b>	(552,013)	(8,244)	(64,679)	143,004	(10,197)	1,830	(490,299)
<b>Net position, July 1, 2016—Note 18.....</b>	(4,646,659)	787,769	751,711	3,513,015	211,282	1,164,664	1,781,782
<b>Net position, June 30, 2017.....</b>	<u>\$ (5,198,672)</u>	<u>\$ 779,525</u>	<u>\$ 687,032</u>	<u>\$ 3,656,019</u>	<u>\$ 201,085</u>	<u>\$ 1,166,494</u>	<u>\$ 1,291,483</u>

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

## INDEX TO NOTES

	<u>Page</u>
<b>Note 1</b> Summary of Significant Accounting Policies.....	66
<b>Note 2</b> Deposits, Investments and Financial Instruments with Off-Balance Sheet Risk.....	82
<b>Note 3</b> Receivables, Unearned Revenue and Deferred Resources.....	109
<b>Note 4</b> Capital Assets .....	113
<b>Note 5</b> Internal/Interfund Balances and Transfers .....	116
<b>Note 6</b> Long-Term Obligations – Governmental and Business Type Activities.....	123
<b>Note 7</b> Short-Term Debt, Notes Payable and Other Financing Obligations .....	130
<b>Note 8</b> Self-Insurance Liabilities.....	132
<b>Note 9</b> Pension.....	134
<b>Note 10</b> Other Postemployment Benefits (OPEB) .....	141
<b>Note 11</b> Certain Agency Fund Claims Liabilities.....	147
<b>Note 12</b> Joint Venture.....	148
<b>Note 13</b> Tax Abatements .....	149
<b>Note 14</b> Commitments and Contingencies .....	153
<b>Note 15</b> Net Position and Fund Balance .....	157
<b>Note 16</b> Discretely Presented Component Units.....	160
<b>Note 17</b> Subsequent Events.....	180
<b>Note 18</b> Change in Reporting Entity .....	182

**NOTE 1 - 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, 2017. 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 1 - 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 nineteen CUs, fifteen 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 16 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 1 - 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, 2016.

*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 as a governmental nonemployer contributing entity for the PSERS plan, 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 14 to the Financial Statements, the Commonwealth is contingently liable for \$994,773 of PTC debt at fiscal year-end. The PTC is reported for its fiscal year ended May 31, 2017.

*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, 2017, 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 1 - 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, 2016.

*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 1 - 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, 2017 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.

**Related Organizations**

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

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

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

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

*Insurance Fraud Prevention Authority (IFPA)* assists in the prevention, discovery, investigation, and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties, and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 six funds that qualify as major funds. Major funds are displayed in bold print in the Notes to the Financial Statements.

**Governmental Funds**

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

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

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**, **State Stores 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, 2016.

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

The **State Stores Fund** accounts for the general operations of the Pennsylvania Liquor Control Board. Revenue is derived primarily from the sale of wine and spirits. Expenses include all costs associated with the operation and administration of the liquor store system and enforcement of the Liquor Control Law.

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, 2016.

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, 2016. 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 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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. Except for the INVEST Program, temporary investments are reported at fair value. 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.

The INVEST Program reports all investments at amortized cost, which approximates fair value. The INVEST Program meets the provisions related to portfolio quality, custodial credit risk, and shadow pricing, which are required for an external investment pool to report investments at amortized cost.

**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.

**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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 1 - 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 of resources 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 of resources 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 8 provides disclosures for self-insurance liabilities and property loss coverage.

**Compensated Absences:** Employees earn annual leave, depending on length of credited service, from between 2.7 percent to 10 percent of regular hours paid. Generally, a maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on an agreed upon percentage of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Most retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

<u>Days Available at Retirement</u>	<u>Percentage Payment</u>	<u>Maximum Days Paid</u>
0-100	30%	30
101-200	40%	80
201-300	50%	150
over 300 (in last year of employment)	100% of days over 300	11

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

**Pollution Remediation Obligations:** In the government-wide statement of net position, pollution remediation obligations are reported at the current value of expected outlays to fund remediation costs using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible estimated amounts and uses all expectations about possible cash flows on a site-specific basis. Such ranges are weighted within 'most likely', 'worst case'

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, 2017 and transfers in/out during the fiscal year ended June 30, 2017 are presented in Note 5. 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.

**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 the fiduciary net position of the Pension Plans (Plans) and additions to/deductions from their fiduciary net position have been



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, 2017.

**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, 2017, 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.

**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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 77, "Tax Abatement Disclosures". The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans". The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 80, "Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14". The adoption of this statement had no effect on previously reported amounts.

The Commonwealth adopted GASB Statement No. 82, "Pension Issues". The adoption of this statement had no effect on previously reported amounts.

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

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. 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. 83, "Certain Asset Retirement Obligations" in November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The GASB issued Statement No. 84, "Fiduciary Activities" in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

The GASB issued Statement No. 85, "Omnibus 2017" in March 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The GASB issued Statement No. 86, "Certain Debt Extinguishment Issues" in May 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The GASB issued Statement No. 87, "Leases" in June 2017. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The new standards must be adopted as follows:

GASB Statement No. 75	Effective July 1, 2017 for financial statements for fiscal year ending June 30, 2018.
GASB Statement No. 81	Effective July 1, 2017 for financial statements for fiscal year ending June 30, 2018.
GASB Statement No. 83	Effective July 1, 2018 for financial statements for fiscal year ending June 30, 2019.
GASB Statement No. 84	Effective July 1, 2019 for financial statements for fiscal year ending June 30, 2020.
GASB Statement No. 85	Effective July 1, 2017 for financial statements for fiscal year ending June 30, 2018.
GASB Statement No. 86	Effective July 1, 2017 for financial statements for fiscal year ending June 30, 2018.
GASB Statement No. 87	Effective July 1, 2020 for financial statements for fiscal year ending June 30, 2021.

The effect of these statements has not yet been determined.

**NOTE 2 – 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, 2016 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 2 – 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. The SERS and DCP are reported as of December 31, 2016.

**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 2 – 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, 2017:

Investments by Fair Value Level	Total	Level 1	Level 2	Level 3
<b>Debt Securities</b>				
Corporate obligations.....	\$ 1,696,287	\$ -	\$ 1,485,362	\$ 210,925
U.S. Treasury obligations.....	749,006	749,006	-	-
Mortgage backed securities.....	443,685	-	443,685	-
Private placements.....	252,429	-	252,429	-
State and municipal obligations.....	284,531	-	284,531	-
U.S. government agencies.....	33,858	-	33,858	-
Asset backed securities.....	64,313	-	64,313	-
U.S. government sponsored enterprises.....	569,899	-	569,899	-
Commercial paper.....	5,142,792	-	5,142,792	-
Sovereign debt.....	45,608	3,007	42,601	-
<b>Equity Securities</b>				
Equity.....	2,406,453	2,406,453	-	-
Preferred securities.....	6,499	908	5,591	-
<b>Other Securities</b>				
Treasury group investment (1).....	10,389,065	-	10,389,065	-
<b>Other</b>				
Certificates of deposits.....	1,859,372	-	1,859,372	-
Mutual funds.....	207,124	207,124	-	-
Money market mutual funds.....	3,335,614	3,286,161	49,453	-
<b>Total investments by fair value level.....</b>	<b><u>\$ 27,486,535</u></b>	<b><u>\$ 6,652,659</u></b>	<b><u>\$ 20,622,951</u></b>	<b><u>\$ 210,925</u></b>
<b>Investments by Net Asset Value (NAV)</b>				
Global opportunity alternative managers.....	37,450			
Real estate alternative managers.....	80,143			
Fund of funds alternative managers.....	675,150			
Private equity alternative managers.....	5,441			
Absolute return alternative managers.....	3,472			
<b>Total investments at NAV.....</b>	<b><u>801,656</u></b>			
<b>Total investments measured at fair value.....</b>	<b><u>\$ 28,288,191</u></b>			

(1) The amount is 100% invested in the Treasury Group Consolidated Cash Pool which is made up of 30% Level 1 and 70% 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 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity securities classified in Level 2 valuations are 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.

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 York Stock Exchange (NYSE) on the reporting date (level 1 inputs). Other securities classified in Level 2 of the fair value

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

hierarchy consist of Treasury pooled investments. The underlying investments for the pools consist of 30% Level 1 securities and 70% 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).....	\$ 37,450	\$ -	Monthly	30-60 days
Real estate alternative managers (2).....	80,143	7,785	Monthly	n/a, 30-60 days
Fund of funds alternative managers (3).....	675,150	20,162	Monthly, Quarterly	n/a, 45-90 days
Private equity alternative managers (4).....	5,441	9,675	n/a	n/a
Absolute return alternative managers (5).....	3,472	903	n/a	n/a, 60 days
<b>Total investments at NAV.....</b>	<b>\$ 801,656</b>	<b>\$ 38,525</b>		

(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 \$6,000, 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)**

The SERS categorizes its fair value measurements within the fair value hierarchy that’s broken down into three levels based on inputs that market participants would use in valuing assets and liabilities derived from market data as follows:

- Level 1 inputs: are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs: are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are observable.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

- Level 3 inputs: are unobservable inputs used to measure fair value if relevant observable inputs are not available for the asset or liability at the reporting date.

Common and preferred stocks, commingled equity funds, master limited partnerships (MLPs), real estate investment trusts (REITs), and foreign exchange contracts are valued using prices quoted in active markets for those securities and are categorized as Level 1. They are marked to market daily with changes in fair value recognized as part of investments and investment income. Fixed income securities are valued using a matrix pricing technique and are categorized as Level 2. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices and recently printed security-specific trading levels. Real estate separate accounts and other securities classified in Level 3 reflect prices, which may use several unobservable inputs using assumptions based on market methodologies to determine the fair value of investments.

Derivative instruments, which include foreign exchange contracts, interest rate swaps, and credit default swaps, are included in other investments in the fair value tables.



**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

The SERS has the following fair value measurements as of December 31, 2016:

Investments by Fair Value Level	Total	Level 1	Level 2	Level 3
<b>Fixed Income</b>				
Agencies.....	\$ 80,429	\$ -	\$ 80,429	\$ -
Asset and mortgage backed securities.....	554,952	-	548,438	6,514
Corporates.....	747,509	-	725,878	21,631
Government.....	1,632,961	-	1,632,961	-
Sovereign debt.....	249,606	-	249,606	-
Private placements.....	511,178	-	452,196	58,982
<b>Equity</b>				
Domestic common and preferred stocks.....	6,562,205	6,552,295	9,910	-
Foreign common and preferred stocks.....	5,414,830	5,406,965	-	7,865
Commingled equity funds.....	155,951	155,951	-	-
<b>Real Estate</b>				
Real estate separate accounts.....	1,032,233	-	-	1,032,233
Real estate investment trusts.....	221,501	221,501	-	-
Master limited partnerships.....	245,009	245,009	-	-
<b>Other Investments(1)</b> .....	197	396	(199)	-
<b>Total investments by fair value level</b> .....	<u>\$ 17,408,561</u>	<u>\$ 12,582,117</u>	<u>\$ 3,699,219</u>	<u>\$ 1,127,225</u>
<b>Investments by Net Asset Value (NAV)</b>				
Buyouts private equity.....	2,438,702			
Special situation private equity.....	685,982			
Venture capital private equity.....	1,000,861			
Non-core real estate.....	514,811			
Core real estate.....	328,697			
Timberland real estate.....	149,186			
Funds of hedge funds.....	1,506,618			
Commodities hedge funds.....	368,199			
Direct investment hedge funds.....	105,138			
Absolute return strategies hedge funds.....	39,546			
Commingled fixed income funds.....	275,206			
<b>Total investments at NAV</b> .....	<u>7,412,946</u>			
<b>Total investments measured at fair value</b> .....	<u>\$ 24,821,507</u>			

(1) Represents derivative instruments and other securities where portions of which are reported in various captions on the Statements of Fiduciary Net Position including short-term investments, U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, real estate and private equity.

Private equity limited partnerships are valued at the NAV of the SERS ownership interest in partners' capital, which approximates fair value. The NAV is determined by the general partners using assumptions and estimates that have been reviewed and approved by valuation committees. Since private equity investments in such partnerships are generally illiquid with holding periods lasting seven to 10 years, the value realized by the SERS upon disposition may differ from estimated values reflected in the financial statements. The SERS Private Equity program is categorized into the following strategies:

- Buyouts is characterized chiefly by investments in established private or publicly listed firms that are undergoing a fundamental change in operations or strategy.
- Special Situations is characterized chiefly by investments in funds that acquire distressed companies or companies in need of restructuring, funds from the secondary market, and funds providing mezzanine financing.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

- Venture Capital is characterized chiefly by high-risk investments in new or young companies following a growth path (early, late, and balanced stage funds) in technology and other value-added sectors.

Real estate limited partnerships are valued at the NAV of the SERS ownership percentage in partners' capital. The investment managers use third-party appraisals based on discounted cash flows, recent comparable sales, and current market conditions to arrive at the NAV. For the SERS Non-Core Real Estate (closed-end funds) and open-end Core Real Estate funds, the NAV is updated by independent appraisals typically at least every three years 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.

The real estate partnerships' investments are valued at the NAV, which approximates fair value. Any assumptions and estimates used in developing the NAV have been reviewed and approved by valuation committees. Because the investments in such partnerships are generally illiquid with holding periods lasting seven to 10 years, the value realized by the SERS upon disposition may differ materially from estimated values reflected in the financial statements. The following portions of the SERS Real Estate program are valued at the NAV:

- Non-Core Real Estate utilizes greater leverage and development strategies relative to core strategies, thereby taking higher risks but demand higher returns. Returns are primarily generated from capital appreciation from opportunistic investments. Strategies for this category of investing can include niche opportunities that are typically not available in core-style investing.
- Core Real Estate is a long-term investment in high-quality real estate that generates returns primarily from stable income producing properties.
- Timberland is renewable and derives its return from the biological growth of trees and sale of timber.

Hedge funds are valued on a monthly basis by general partners based on information provided by underlying hedge fund investments (if a fund-of-hedge fund structure), third-party administrators, and brokers. Hedge fund investments in limited partnerships are valued using the NAV of units held at the end of the period based on the fair value of underlying investments. The SERS Hedge Funds program includes investments designed to provide total returns comparable to the total fund return but with lower volatility and correlation to other asset classes. The Hedge Funds program is designed to provide attractive long-term, risk-adjusted returns, diversification from equity markets, low beta to equity markets, and downside protection during prolonged periods of equity market decline. Most investments within this strategy are generally liquid. In general and under normal market conditions, 80% of most strategies should be able to be liquidated within one year of the withdrawal date. The SERS Hedge Funds program is categorized into the following specific strategies:

- Funds-of-Hedge Funds are investments in funds with investment managers who invest in hedge funds. Funds-of-Hedge Funds provide an additional layer of fiduciary oversight (investment, legal, compliance, and monitoring) with similar all-in fees as direct investments in hedge funds. The SERS is the only limited partner and is able to make larger allocations, which lowers fees and improves liquidity terms.
- Commodities include investments in funds with investment managers who invest in commodity hedge funds. SERS is one of several investors in the fund.
- Direct Investments are investments where the SERS and other institutional investors pool their funds with a manager tasked with incorporating hedge strategies.
- Absolute Return Strategies are a legacy Hedge Funds program currently in liquidation. The remaining assets were rebalanced by board-approved mandates to transition the assets into other strategies within the Hedge Funds program or to the SERS cash account.

Commingled fixed income funds are pooled investments in multiple debt-type securities, which are valued at the NAV. Commingled fixed income funds are calculated using the closing price of the underlying investments and apportioned to the SERS based on units of ownership.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

The SERS has the following investments measured at the Net Asset Value (NAV) as of December 31, 2016:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemptions Frequency</u>	<u>Redemption Notice Period</u>
Buyouts private equity.....	\$ 2,438,702	\$ 1,285,052	n/a	n/a
Special situation private equity.....	685,982	379,882	n/a	n/a
Venture capital private equity.....	1,000,861	107,708	n/a	n/a
Non-core real estate.....	514,811	156,699	see note (1)	
Core real estate.....	328,697	-	Quarterly	60 - 90 days
Timberland real estate.....	149,186	-	Daily	None
Funds of hedge funds.....	1,506,618	-	Quarterly	60 - 95 days
Commodities hedge funds.....	368,199	-	Daily, Monthly	30 days
Direct investment hedge funds.....	105,138	-	Monthly, Quarterly, Semiannually	11 - 90 days
Absolute return strategies hedge funds.....	39,546	-	see note (2)	
Commingled fixed income funds.....	275,206	-	Quarterly	30 days
<b>Total investments at NAV.....</b>	<b><u>\$ 7,412,946</u></b>	<b><u>\$ 1,929,341</u></b>		

(1) All funds have no redemption terms except for one requiring 30-days notice, which will be followed by quarterly redemptions.

(2) The assets are to be sold in an orderly fashion as market conditions dictate.

The SERS also has investments that are not measured at fair value or the NAV, which were excluded from the previous tables. The SERS owns a portion of the Pennsylvania Treasury Department’s (Treasury Department) short-term investment fund (STIF). The SERS portion of STIF is valued at cost plus accrued interest, which approximates fair value. The value of the SERS portion of the STIF was \$1,600,000 as of December 31, 2016. Additionally, the SERS had cash, foreign currencies, and other investments that are carried at either cost or liquidation basis values. These other investments totaled \$94,000 as of December 31, 2016, and portions of which are reported in various captions on the Statements of Fiduciary Net Position including short-term investments, U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, hedge funds and real estate.

**Deferred Compensation Program (DCP)**

DCP utilizes the fair value hierarchy, which contains three levels, and is based on the valuation inputs used to measure an asset’s fair value.

- Level 1 inputs: are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs: are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are observable.
- Level 3 inputs: are unobservable inputs used to measure fair value if relevant observable inputs are not available for the asset or liability at the reporting date.

Collective investment funds and self-directed brokerage accounts are reported at fair value based on DCP’s ownership percentage of underlying investments as of the last business day of the calendar year, and are categorized as Level 1. The collective investment funds comprise two U.S. equity funds, one international equity fund, and one bond fund. Using a mix of these funds, DCP offers a balanced fund and three profile funds, which are aggressive, moderate, and conservative.

Debt securities are valued using a matrix pricing technique, and categorized as Level 2. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

DCP also has investments that are not measured at fair value and are excluded from the following fair value hierarchy tables. These investments include cash, Short-Term Money Market Fund, Treasury Department’s short-term investment fund (STIF), and a group annuity contract totaling \$85,000 for December 31, 2016. The Short-Term Money Market Fund and STIF are valued at cost plus accrued interest, which approximates fair value. The group annuity contract, which is no longer offered to participants, is valued at contract value, which approximates fair value. Contract value for the group annuity contract represents contributions made under the contract, plus earnings, less payments made to retirees and terminated participants.

DCP has the following fair value measurements as of December 31, 2016:

Investments by Fair Value Level	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Fixed income</b>			
Asset backed securities.....	\$ 131,470	\$ -	\$ 131,470
Corporate obligations.....	189,085	-	189,085
Mortgage-backed securities.....	225,942	-	225,942
Sovereign debt obligations.....	1,058	-	1,058
U.S. Treasury obligations.....	507,912	-	507,912
U.S. government sponsored enterprises.....	40,105	-	40,105
<b>Self directed brokerage accounts</b>	<b>98,597</b>	<b>98,597</b>	<b>-</b>
<b>Collective investment funds</b>			
Stock index fund.....	1,039,233	1,039,233	-
Extended market fund.....	356,408	356,408	-
Aggregate bond index fund.....	332,218	332,218	-
EAFE equity index fund.....	155,533	155,533	-
<b>Total investments by fair value level.....</b>	<b><u>\$ 3,077,561</u></b>	<b><u>\$ 1,981,989</u></b>	<b><u>\$ 1,095,572</u></b>

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

The 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 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

At June 30, 2017, the 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.....	\$ 5,565,178	\$ 5,565,178	\$ -	\$ -
Other domestic short-term.....	105,174	30,832	74,342	-
International short-term.....	134,000	132,601	1,399	-
<b>Fixed income</b>				
Domestic asset backed and mortgage backed securities .....	1,589,887	-	1,585,156	4,731
U.S. government and agency obligations.....	1,073,883	1,073,883	-	-
Domestic corporate and taxable municipal bonds.....	1,927,373	554,004	1,373,369	-
International fixed income.....	370,141	-	370,141	-
<b>Common and preferred stock</b>				
Domestic common and preferred stock.....	5,649,599	5,609,569	-	40,030
International common and preferred stock.....	5,688,266	5,688,266	-	-
<b>Directly owned real estate</b>	367,078	(132,000)	-	499,078
<b>Total investments by fair value level.....</b>	<u>\$ 22,470,579</u>	<u>\$ 18,522,333</u>	<u>\$ 3,404,407</u>	<u>\$ 543,839</u>
<b>Investments by Net Asset Value (NAV)</b>				
Collective trust funds.....	12,816,147			
Equity real estate.....	4,973,477			
Private equity alternative investments.....	5,883,902			
Private debt alternative investments.....	5,053,043			
Venture capital alternative investments.....	985,995			
<b>Total investments at NAV.....</b>	<u>29,712,564</u>			
<b>Total investments measured at fair value.....</b>	<u>\$ 52,183,143</u>			
<b>Investment derivative instruments</b>				
Futures.....	(10,152)	(10,152)		
Total return type swaps.....	(2,413)	(2,413)		
Foreign exchange contracts.....	(195,195)	(195,195)		
Options.....	12,009	12,009		
<b>Total investment derivative instruments.....</b>	<u>\$ (195,751)</u>	<u>\$ (195,751)</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. At June 30, 2016, \$132,000 in line of credit advances were netted against the related property valuation and classified as Level 1. During FY 2017, the PSERS entered into an open-ended repurchase agreement with another lender and used the proceeds to pay back the line of credit balance. The repurchase agreement, which had a balance of \$132,000 at June 30, 2017, is netted against the related property valuation and classified as Level 1. It is payable at an interest rate equivalent to 1 month LIBOR plus 40 basis points and is collateralized by certain fixed income investments of the PSERS.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

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, 2017:

- PSERS Short-Term Investment Fund of \$63,290 is valued using pricing quoted in active markets for those securities (Level 1 inputs).
- Other domestic short-term investments of \$19,628 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, 2017:

- PSERS Short-Term Investment Fund of \$89,755 is valued using pricing quoted in active markets for those securities (Level 1 inputs).
- Other domestic short-term investments of \$129,996 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, 2017 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).....	\$ 12,816,147	\$ -	see note (1)	0-90 days
Equity real estate (2).....	4,973,477	2,063,824	see note (2)	
Private equity alternative investments (3).....	5,883,902	2,855,180	see note (3)	
Private debt alternative investments (4).....	5,053,043	2,933,173	see note (4)	
Venture capital alternative investments (5).....	985,995	324,830	see note (5)	
<b>Total investments at NAV.....</b>	<b><u>\$ 29,712,564</u></b>	<b><u>\$ 8,177,007</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 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 PSERS’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 U.S. buyout funds and 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 PSERS’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.

(4) Special situations (Private debt) includes 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

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

the NAV per share (or its equivalent) of the PSERS'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 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 PSERS'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.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

The Statutory Liquidator fund has the following recurring fair value measurements as of June 30, 2017:

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.....	\$ 1,244,553	\$ 14,769	\$ 1,229,784	\$ -
U.S. Treasury obligations.....	451,141	407,763	43,378	-
Mortgage backed securities.....	72,978	7,992	64,986	-
Private placements.....	51,494	-	-	51,494
State and municipal obligations.....	19,526	-	19,526	-
U.S. government agencies.....	59,824	396	59,428	-
Asset backed securities.....	157,658	4,671	152,987	-
Commercial paper.....	544	-	544	-
Sovereign debt.....	29,360	-	29,360	-
<b>Equity Securities</b>				
Preferred securities.....	864	864	-	-
<b>Other Securities</b>				
Annuity.....	1,135	-	-	1,135
Negotiable certificates of deposit.....	33,464	33,464	-	-
Treasury group investment(1).....	86,019	-	86,019	-
Mutual Funds.....	55,493	982	5,722	48,789
Money market mutual funds.....	529,310	529,310	-	-
<b>Total investments by fair value level.....</b>	<b><u>\$ 2,793,363</u></b>	<b><u>\$ 1,000,211</u></b>	<b><u>\$ 1,691,734</u></b>	<b><u>\$ 101,418</u></b>

(1) The amount is 100% invested in the Treasury Group Consolidated Cash Pool which are made up of 30% Level 1 and 70% Level 2.

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.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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 30% Level 1 securities and 70% Level 2 securities.

**Deposit Risks**

At June 30, 2017, Commonwealth bank balances of \$15,963 were subject to custodial risk because they were uninsured and uncollateralized. In addition, \$74,697 of Statutory Liquidator Fund deposits were subject to custodial deposit risk because they were uninsured and uncollateralized. The 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 \$129,996 at June 30, 2017 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).



**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

**Cash with Fiscal Agent**

Within the business-type activities cash with fiscal agent, the **Unemployment Compensation Fund** reported \$2,082,917 and within the governmental activities cash with fiscal agent, the **General Fund** reported \$11,101. 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, 2017, the reported carrying amount of the **Unemployment Compensation Fund** and other nonmajor funds restricted cash and cash equivalents were \$449,723 and \$4,525, 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, 2017, the Treasury Department and other investing organizations, excluding Statutory Liquidator, Tuition Account Investment Program, the SERS, DCP and the PSERS, reported a total of \$18,461,082 in investments. Cash equivalents amounting to \$264,818, 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, total investments disclosed amount to \$18,196,264; of this amount, excluding equities and alternative investments (\$2,406,453 and \$801,655 respectively), fixed income investments disclosed amount to \$14,988,156.

**NOTE 2 – 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.....	\$ 801,655
Asset backed securities.....	64,314
Certificates of deposits.....	1,859,372
Commercial paper.....	5,142,792
Corporate obligations.....	1,696,287
Equity.....	2,406,453
Money market mutual funds.....	3,335,614
Mortgage-backed securities.....	443,685
Mutual funds.....	207,124
Preferred securities.....	6,499
Private placements.....	252,429
Securities lending collateral pool.....	297,140
Sovereign debt obligations.....	45,607
State and municipal obligations.....	284,530
U.S. government agencies.....	33,858
U.S. government sponsored enterprises.....	569,899
U.S. Treasury obligations.....	749,006
<b>Total investments</b> .....	<u>18,196,264</u>
Cash equivalents.....	264,818
<b>Total investments and cash equivalents</b> .....	<u><u>\$ 18,461,082</u></u>

In addition, at June 30, 2017, all reported investments of the Tuition Account Investment Program, amounting to \$2,399,875 consist entirely of mutual funds, \$2,344,776, and money market mutual funds, \$55,099.

**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, 2017 \$775,699 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, 2017, only the Statutory Liquidator Fund, an Agency Fund, owned investment securities subject to custodial credit risk, in the amount of \$2,053,700. 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.....	\$ 157,658
Certificates of deposit.....	33,464
Corporate obligations.....	1,109,923
Equities.....	458
Mortgage-backed securities.....	61,016
Preferred securities.....	406
Private placements.....	150,450
Sovereign obligations.....	29,360
U.S. government agencies.....	59,824
U.S. Treasury obligations.....	451,141
<b>Total</b> .....	<u><u>\$ 2,053,700</u></u>

**NOTE 2 – 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 \$18,196,264, no concentrations existed above 5% as of June 30, 2017.

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>
Federated Government Obligations Fund.....	\$ 290,824	10.0%
Dreyfus Treasury and Agency Cash Management.....	\$ 245,440	8.5%

**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, 2017, \$14,988,156 of total Treasury and other investing organization investments of \$18,461,082 are fixed income investments, susceptible to credit quality rating; the remainder is primarily equities \$2,406,453, alternative investments \$801,655, cash equivalents, and various deposit accounts of \$264,818. Of the Treasury amount susceptible to credit quality rating, \$14,093,327 is rated; ratings are not available for \$894,829 of fixed income investments:

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<u>Moody's Investors Service</u>	<u>Amount</u>
P-1.....	\$ 1,050,832
Aaa.....	3,370,816
Aa.....	486,503
A.....	725,211
Baa.....	448,165
Ba.....	99,639
B.....	152,800
Caa.....	25,625
C.....	145
<b>Moody's Investors Service subtotal.....</b>	<b><u>6,359,736</u></b>
<u>Standard and Poor's</u>	
A-1.....	2,590,664
AAA.....	37,226
AA.....	1,847,001
A.....	434,781
BBB.....	141,101
BB.....	47,566
B.....	90,262
CCC.....	7,459
D.....	685
<b>Standard and Poor's subtotal.....</b>	<b><u>5,196,745</u></b>
<u>Fitch Ratings</u>	
F-1.....	2,158,027
AAA.....	2,109
AA.....	19,852
A.....	309,201
BBB.....	41,593
BB.....	3,679
B.....	990
CCC.....	1,310
CC.....	18
C.....	67
<b>Fitch Ratings subtotal.....</b>	<b><u>2,536,846</u></b>
<b>Rated subtotal.....</b>	<b>14,093,327</b>
<b>Unrated subtotal.....</b>	<b><u>894,829</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 14,988,156</u></b>

At June 30, 2017, 3% (\$430,245) of rated fixed income Treasury investments of \$14,093,327 are rated below investment grade. Approximately 6% (\$894,829) 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, 2017. 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 2 – 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. The SERS and DCP fixed income securities (at December 31, 2016), 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.....	\$ 260,391	\$ 133,939
Aa.....	431,878	307,559
A.....	295,557	131,154
Baa.....	625,840	64,235
Ba and below.....	763,270	3,258
Unrated <sup>b</sup> .....	41,593	-
Short-term investments.....	1,577,941	83,869
<b>Total.....</b>	<b>\$ 3,996,470</b>	<b>\$ 724,014</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.

The 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, 2017:

<u>Standard and Poor's Equivalent<sup>a</sup></u>	<u>Amount</u>
AAA.....	\$ 797,203
AA.....	210,405
A.....	414,985
BBB.....	739,916
BB and below.....	431,513
Unrated <sup>b</sup> .....	11,419,428
U.S. government guaranteed <sup>c</sup> .....	1,531,272
<b>Total.....</b>	<b>\$ 15,544,722</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 \$4,476,419 in collective trust funds and \$5,718,223 in PSERS Short-Term Investment Fund assets.
- 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 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

The Statutory Liquidator Fund fixed income securities at June 30, 2017, which are exposed to credit risk, are rated as follows:

<u>Moody's Investors Service</u>	<u>Amount</u>
Aaa.....	\$ 275,130
Aa.....	76,521
A.....	307,122
Baa.....	503,877
Ba.....	18,204
B.....	2,017
Caa.....	369
Ca.....	5,626
P-1.....	7,359
<b>Moody's Investors Service subtotal.....</b>	<b><u>1,196,225</u></b>
<u>Standard and Poor's</u>	
AAA.....	66,996
AA.....	422,267
A.....	86,144
A-1.....	6,322
BBB.....	148,930
BB.....	5,177
B.....	387
CCC.....	4,169
CC.....	330
D.....	3,605
<b>Standard and Poor's subtotal.....</b>	<b><u>744,327</u></b>
<u>Fitch Ratings</u>	
AA.....	399
A.....	30,322
BBB.....	15,615
BB.....	175
<b>Fitch Ratings subtotal.....</b>	<b><u>46,511</u></b>
<b>Rated subtotal.....</b>	<b>1,987,063</b>
<b>Unrated subtotal.....</b>	<b><u>911,837</u></b>
<b>Total fixed income investments.....</b>	<b><u>\$ 2,898,900</u></b>

The \$2,898,900 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, 2017, Treasury and other investing organizations' fixed income

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

portfolio, excluding Statutory Liquidator Fund and Tuition Account Investment Program, had the following option-adjusted durations (in years) by investment type:

<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.....	\$ 51,979	0.903	\$ 12,335	\$ 64,314
Certificates of deposit.....	1,859,372	0.179	-	1,859,372
Commercial paper.....	5,133,792	0.265	9,000	5,142,792
Corporate obligations.....	1,480,155	5.394	216,132	1,696,287
Money market.....	3,286,161	0.083	49,453	3,335,614
Mortgage-backed securities.....	436,535	4.080	7,150	443,685
Mutual funds.....	-	-	207,124	207,124
Preferred securities.....	4,771	5.535	1,728	6,499
Private placements.....	241,369	3.728	11,060	252,429
Securities lending collateral pool.....	297,140	0.083	-	297,140
Sovereign debt obligations.....	38,107	2.580	7,500	45,607
State and municipal obligations.....	83,528	5.294	201,002	284,530
U.S. government agencies.....	25,204	3.996	8,654	33,858
U.S. government sponsored enterprises.....	559,899	1.445	10,000	569,899
U.S. Treasury obligations.....	749,006	6.306	-	749,006
<b>Total.....</b>	<b>\$ 14,247,018</b>		<b>\$ 741,138</b>	<b>\$ 14,988,156</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>Matured</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.....	\$ -	\$ -	\$ 19,432	\$ 22,305	\$ 2,815	\$ -	\$ 3,083	\$ -	\$ -	\$ 47,635
Annuity.....	-	1,135	-	-	-	-	-	-	-	1,135
Asset backed securities.....	-	-	9,137	145,308	3,213	-	-	-	-	157,658
Cash & equivalents.....	-	63,081	-	-	-	-	-	-	-	63,081
Certificates of deposit.....	-	-	31,460	2,005	-	-	-	-	-	33,465
Commercial paper.....	-	-	544	-	-	-	-	-	-	544
Commonwealth investment program..	-	86,019	-	-	-	-	-	-	-	86,019
Corporate obligations.....	-	-	418,122	631,107	37,853	2,865	18,884	1,092	-	1,109,923
Equities.....	-	458	-	-	-	-	-	-	-	458
Money markets.....	-	572,748	-	-	-	-	-	-	-	572,748
Mortgage-backed securities.....	-	-	16	105	13,190	27,905	10,840	8,958	-	61,014
Mutual funds.....	-	54,511	-	-	-	-	-	-	-	54,511
Preferred securities.....	-	-	-	-	-	-	-	-	406	406
Private placements.....	-	51,494	2,813	72,372	4,496	7,388	4,224	6,573	1,092	150,452
Sovereign debts.....	-	-	2,010	14,802	8,571	2,920	540	-	518	29,361
State and municipal obligations.....	-	-	5,024	2,415	2,908	5,760	-	3,418	-	19,525
U.S. government agencies.....	125	-	-	46,341	393	2	12,962	-	-	59,823
U.S. Treasury obligations.....	-	-	160,741	269,946	16,173	-	4,282	-	-	451,142
<b>Total.....</b>	<b>\$ 125</b>	<b>\$ 829,446</b>	<b>\$ 649,299</b>	<b>\$ 1,206,706</b>	<b>\$ 89,612</b>	<b>\$ 46,840</b>	<b>\$ 54,815</b>	<b>\$ 20,041</b>	<b>\$ 2,016</b>	<b>\$ 2,898,900</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.....	\$ 786,013	6.1 years	8.4 years
Vanguard Total Bond Market Index Fund Institutional Shares.....	3,643	6.1 years	8.4 years
Vanguard Short-Term Inflation-Protected Securities Index Fund Institutional Shares.....	52,397	2.6 years	2.6 years
Vanguard Federal Money Market Fund.....	55,099	N/A	49 days

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

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:

<u>SERS Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Asset and mortgage backed securities.....	\$ 554,952	2.70
Commingled investments funds.....	275,206	3.70
Corporate obligations.....	748,672	5.40
Other investments*.....	(730)	n/a
Sovereign debt obligations.....	249,606	7.60
Short term investments.....	38,637	0.10
Treasury investment pool.....	1,539,304	0.10
U.S. Treasury obligations.....	1,645,854	6.30
U.S. government sponsored enterprises.....	80,429	4.50
U.S. private placements.....	515,019	2.70
<b>Total.....</b>	<b><u>\$ 5,646,949</u></b>	

\*Other Investments represents certain SERS securities and the value of swaps and futures agreements as of December 31, 2016, for which the duration is not available.

<u>DCP Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Asset backed securities.....	\$ 131,470	3.50
Collective investment funds.....	332,218	5.90
Corporate obligations.....	189,085	3.20
Mortgage-backed securities.....	225,942	4.70
Sovereign debt obligations.....	1,058	n/a
Treasury investment pool.....	83,869	0.10
U.S. Treasury obligations.....	507,912	3.50
U.S. government sponsored enterprises.....	40,105	0.90
<b>Total.....</b>	<b><u>\$ 1,511,659</u></b>	

<u>PSERS Investment Type</u>	<u>Amount</u>	<u>Option-Adjusted Duration</u>
Domestic asset-backed and mortgage-backed securities....	\$ 1,589,281	1.70
U.S. government and agency obligations.....	1,073,883	9.60
Domestic corporate and taxable municipal bonds.....	1,927,373	1.80
International fixed income.....	370,140	5.90
Collective trust funds.....	4,476,419	3.20
PSERS Short-Term Investment Fund.....	6,262,343	0.10
<b>Total.....</b>	<b><u>\$ 15,699,439</u></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 the PSERS' total portfolio duration upward by 0.1 at June 30, 2017.

**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:



**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

<u>Foreign Currency</u>	<u>Equities</u>	<u>Preferred Securities</u>	<u>Total</u>
Australian dollar.....	\$ 7,440	\$ -	\$ 7,440
British pound sterling.....	18,183	-	18,183
Canadian dollar.....	9,903	-	9,903
Danish krone.....	1,922	-	1,922
Euro currency unit.....	34,002	559	34,561
Hong Kong dollar.....	11,454	-	11,454
Israeli shekel.....	542	-	542
Japanese yen.....	24,068	-	24,068
Malaysian ringgit.....	1,545	-	1,545
Mexican new peso.....	1,745	-	1,745
New Zealand dollar.....	330	-	330
Philippines peso.....	748	-	748
Singapore dollar.....	2,167	-	2,167
South African rand.....	2,685	-	2,685
Swedish krona.....	3,414	-	3,414
Swiss franc.....	9,226	-	9,226
Thailand baht.....	1,194	-	1,194
<b>Total.....</b>	<b>\$ 130,568</b>	<b>\$ 559</b>	<b>\$ 131,127</b>

Within the Tuition Account Investment Program, equities of \$346,027 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, 2016 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>Private Equity</u>	<u>Total</u>
European Euro.....	\$ 4,411	\$ 19,025	\$ 1,305,642	\$ (164)	\$ 313,416	\$ 1,642,330
Japanese yen.....	12,525	1,860	850,071	(10,607)	-	853,849
British pound sterling.....	5,535	57,845	783,413	(3,063)	8,300	852,030
Swiss franc.....	4,050	-	383,347	-	-	387,397
Hong Kong dollar.....	108	-	318,230	-	-	318,338
Canadian dollar.....	3,678	8,577	290,139	-	-	302,394
Australian dollar.....	1,223	17,406	226,657	-	-	245,286
South Korean won.....	1,552	-	142,467	-	-	144,019
Swedish krona.....	314	12,987	87,130	-	43,118	143,549
New Taiwan dollar.....	20	-	76,608	-	-	76,628
Danish krone.....	575	251	56,012	-	-	56,838
Norwegian krone.....	639	9,192	41,664	-	-	51,495
Mexican peso.....	106	22,095	26,106	552	-	48,859
Singapore dollar.....	223	-	45,715	-	-	45,938
South African rand.....	272	9,313	33,102	-	-	42,687
Brazilian real.....	920	9,523	31,150	-	-	41,593
Indonesian rupiah.....	(900)	8,858	19,084	-	-	27,042
New Zealand dollar.....	98	458	18,040	-	-	18,596
Thai baht.....	13	-	16,279	-	-	16,292
Malaysian ringgit.....	64	7,272	5,637	-	-	12,973
Chilean peso.....	5	9,153	3,137	-	-	12,295
Hungarian forint.....	108	7,308	4,790	-	-	12,206
Other currencies (9).....	1,018	14,849	25,787	-	-	41,654
<b>Total.....</b>	<b>\$ 36,557</b>	<b>\$ 215,972</b>	<b>\$ 4,790,207</b>	<b>\$ (13,282)</b>	<b>\$ 364,834</b>	<b>\$ 5,394,288</b>

a. Includes receivables and payables as of December 31, 2016 for securities sold and purchased.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

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. Since EAFE Equity Index Fund is a collective investment fund, the DCP is indirectly exposed to foreign currency risk through those underlying securities.

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

Foreign Currency	Equities	Fixed income	Alternative Investments and Real Estate	Short-term <sup>a</sup>	Currency Hedge	Total
Euro.....	\$ 1,102,951	\$ 59,764	\$ 1,649,694	\$ 25,326	\$ (2,097,348)	\$ 740,387
British pound sterling.....	868,409	11,755	158,464	31,441	(889,499)	180,570
South Korean won.....	159,331	-	-	(202)	91	159,220
Taiwan new dollar.....	147,406	-	-	87	(50)	147,443
South African rand.....	71,882	11,236	-	137	(1,517)	81,738
Indian rupee.....	72,416	-	-	13	-	72,429
Brazil real.....	63,652	3,170	-	(2,927)	427	64,322
Danish krone.....	132,302	259	-	1,776	(73,854)	60,483
Mexican peso.....	25,532	18,353	-	(2,085)	(4,282)	37,518
Other currencies.....	2,588,546	119,637	-	67,521	(2,996,129)	(220,425)
<b>Total.....</b>	<b>\$ 5,232,427</b>	<b>\$ 224,174</b>	<b>\$ 1,808,158</b>	<b>\$ 121,087</b>	<b>\$ (6,062,161)</b>	<b>\$ 1,323,685</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, 2017, 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 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, 2017, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

At June 30, 2017, 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. Treasury Obligations	U.S. Government		Equities	Exchange Traded
			Sponsored Enterprises	Corporate Obligations		
Deferred Compensation Program.....	\$ 1,955	\$ -	\$ -	\$ 1,955	\$ -	\$ -
State Employees' Retirement System.....	429,486	24,226	1,567	28,797	374,896	-
Public School Employees' Retirement System.....	128	-	-	-	128	-
Underground Storage Tank Indemnification Fund....	2,553	458	-	2,095	-	-
Workers' Compensation Security Trust Fund.....	25,760	4,223	-	12,607	-	8,930
<b>State Workers' Insurance Fund.....</b>	<b>52,065</b>	<b>23,316</b>	<b>617</b>	<b>11,559</b>	<b>10,610</b>	<b>5,963</b>
Other Postemployment Benefits Investment Pool..	34,776	-	-	-	-	34,776
Commonwealth Investment Program.....	120,474	23,379	1,674	15,503	9,684	70,234
<b>Tuition Payment Fund.....</b>	<b>41,627</b>	<b>10,541</b>	<b>238</b>	<b>1,118</b>	<b>-</b>	<b>29,730</b>

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

The PSERS participates in 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. 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, 2017, 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, 2017 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, 2017.

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, 2017. During the fiscal year ended June 30, 2017, 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, 2017, the fair value of loaned securities was \$1,972,488. The fair value of the associated collateral was \$2,016,063, all of which was cash.

**Derivative and Other Similar Investments**

**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, 2016, the SERS' counterparty credit risk was not significant. The SERS mitigates its legal risk on investment holdings including

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

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 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 fair value of the contracts on December 31. At December 31, 2016, the SERS had contracts to purchase and sell, by major foreign currency, as follows:

Foreign Currency	Purchase Contracts	Unrealized Gain/(Loss)	Sell Contracts	Unrealized Gain/(Loss)
Swedish krona.....	\$ 17,995	\$ (130)	\$ 268	\$ -
British pound sterling.....	17,071	(454)	3,638	(35)
European Euro.....	10,508	(2)	34,467	237
Norwegian krone.....	9,200	(445)	-	-
Chilean peso.....	9,153	94	-	-
Indian rupee.....	8,359	10	-	-
Australian dollar.....	3,663	(111)	4,401	54
Japanese yen.....	1,402	(73)	10,857	(78)
Brazilian real.....	1,261	68	13	-
Indonesian rupiah.....	855	(3)	-	-
Canadian dollar.....	623	(14)	3,681	(6)
New Zealand dollar.....	425	5	3,931	130
Swiss franc.....	-	-	14,148	688
Colombian peso.....	-	-	671	(33)
Hong Kong dollar.....	-	-	24	-
<b>Total.....</b>	<b>\$ 80,515</b>	<b>\$ (1,055)</b>	<b>\$ 76,099</b>	<b>\$ 957</b>

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, 2016.

**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 currency forwards, futures, options, and swaps. MCM may take long or short positions in derivative instruments for various purposes. The DCP exposure to these instruments was not significant as of December 31, 2016.

The collective investment funds that the DCP is invested in currently utilize stock index futures and currency forwards. These instruments are used in the investment management of the collective funds to the extent that their use is consistent with the

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

specific collective fund’s objective. Derivatives are viewed within the context of the collective fund’s total portfolio. 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 may take long or short positions in derivative instruments for, but not limited to, the following purposes: to create or hedge required exposure; to create or hedge model-driven recommended exposure; as an adjustment to asset exposures within the parameters set in the collective fund’s investment instructions and guidelines; to achieve transactional efficiency; to adjust the duration of a fixed income portfolio; if applicable, to achieve the appropriate degree of leverage, as stated in the collective fund’s investment instructions and guidelines; and to facilitate meeting the collective fund’s objectives.

**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/or 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, 2017:

<u>Type of Derivative</u>	<u>Notional Value</u>
Futures contracts - long.....	\$ 4,735,337
Futures contracts - short.....	26,160
Foreign exchange forward and spot contracts, gross.....	6,355,027
Options - puts purchased.....	899,648
Swaps - total return type.....	8,638,151

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, 2017 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. During FY 2017, the PSERS purchased over-the-counter put options on the S&P 500 Index. The fair value of these option contracts was \$12,009 at June 30, 2017.

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

**NOTE 2 – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)**

managers generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported primarily include forwards. The \$6,355,027 of foreign currency contracts outstanding at June 30, 2017 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$149,081 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$6,205,946. The unrealized loss on contracts of \$(195,195) at June 30, 2017, 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, 2017, 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 (payable) on the total return type swap contracts of \$(2,413) at June 30, 2017, 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 July 1, 2017 to September 22, 2026.

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, 2017 is \$517,910.

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 3 - RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES

Taxes Receivable: Taxes receivable, by tax type, reported on the statement of net position at June 30, 2017 consisted of the following:

	Statement of Net Position		
	Governmental Activities		
	Current	Noncurrent	Total
Sales and use.....	\$ 940,436	\$ 181,653	\$ 1,122,089
Personal income....	667,110	592,239	1,259,349
Corporation.....	351,195	243,535	594,730
Liquid fuels.....	321,269	-	321,269
Inheritance.....	378,360	118,823	497,183
Cigarette.....	66,197	-	66,197
Other.....	43,499	-	43,499
Total.....	<u>\$ 2,768,066</u>	<u>\$ 1,136,250</u>	<u>\$ 3,904,316</u>

Taxes receivable reported on the governmental funds balance sheet and the statement of fiduciary net position at June 30, 2017 consisted of the following:

	Balance Sheet-Governmental Funds				Statement of Fiduciary Net Position		
	General Fund				Motor License Fund	Nonmajor Governmental Funds	Fiduciary Funds
	Expected to be Collected:						
	By August 31, 2017	through June 30, 2018	After June 30, 2018	Total	Collected by August 31, 2017	Collected by August 31, 2017	Collected by August 31, 2017
Sales and use.....	\$ 712,703	\$ 227,732	\$ 181,654	\$ 1,122,089	\$ -	\$ -	\$ 47,475
Personal income...	383,377	283,734	592,238	1,259,349	-	-	-
Corporation.....	38,620	312,575	243,535	594,730	-	-	-
Liquid fuels.....	-	-	-	-	321,269	-	-
Inheritance.....	147,595	230,765	118,823	497,183	-	-	-
Cigarette.....	66,197	-	-	66,197	-	-	11,327
Other.....	7,410	-	-	7,410	-	36,089	17,602
Total.....	<u>\$ 1,355,902</u>	<u>\$ 1,054,806</u>	<u>\$ 1,136,250</u>	<u>\$ 3,546,958</u>	<u>\$ 321,269</u>	<u>\$ 36,089</u>	<u>\$ 76,404</u>

On the governmental funds balance sheet, the **General Fund** taxes receivable of \$2,191,056 expected to be collected after August 31, 2017 is reported as deferred inflows of resources. The total amount of taxes receivable reported on the governmental funds balance sheet, \$2,768,066 (\$2,410,708 reported in the **General Fund**, \$321,269 reported in the **Motor License Fund**, and \$36,089 reported in nonmajor governmental funds), expected to be collected from July 1, 2017 through June 30, 2018 is also reported as current taxes receivable in governmental activities on the statement of net position. The remaining **General Fund** taxes receivable of \$1,136,250 reported on the governmental funds balance sheet expected to be collected after June 30, 2018 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 3 – RECEIVABLES, UNEARNED REVENUE AND DEFERRED RESOURCES (continued)

Loans Receivable: Loans receivable at June 30, 2017 consisted of the following:

	Governmental	Business Type	
	Activities	Commonwealth	Nonmajor
	General Fund	Financing Authority	Enterprise Funds
Economic development loans.....	\$ 57,556	\$ 307,516	\$ 90,798
Volunteer fire, ambulance and rescue company loans.....	-	-	72,118
Environmental program loans.....	3,146	-	-
School district loans.....	18,265	-	-
Other notes and loans.....	110	-	-
	<u>79,077</u>	<u>307,516</u>	<u>162,916</u>
Less: allowance for uncollectible amounts.....	(3,949)	(15,379)	(8,402)
Loans receivable, net.....	<u>\$ 75,128</u>	<u>\$ 292,137</u>	<u>\$ 154,514</u>

The **General Fund** reported \$64,034 in loans due after June 30, 2018, the **Commonwealth Financing Authority** (a blended component unit) reported \$274,544 in loans due after June 30, 2018, and nonmajor enterprise funds reported \$128,931 in loans due after June 30, 2018.

**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 \$11,151 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 receipts which have not yet been earned as revenue as of June 30, 2017:

	General Fund	Motor License Fund	Nonmajor Funds	Total Governmental Funds
Unearned revenue.....	\$ 23,475	\$ 10,836	\$ 119,733	\$ 154,044

**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, 2017. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2017:

	Total Governmental Activities	Total Business-type Activities
<b>Deferred Outflows of Resources</b>		
Refundings of debt.....	\$ 133	\$ 2,594
Pension related:		
Contributions subsequent to measurement date.....	755,639	29,392
Differences between expected and actual experience.....	219,439	9,774
Net difference between projected and actual earnings on plan investments	1,293,838	56,907
Changes of assumptions.....	939,102	41,361
Changes in proportion.....	219,780	9,976
Differences between employer contributions and proportionate share.....	29,189	1,300
<b>Total deferred outflows of resources.....</b>	<u>\$ 3,457,120</u>	<u>\$ 151,304</u>
<b>Deferred Inflows of Resources</b>		
Refundings of debt.....	\$ 198,790	\$ -
Pension related:		
Differences between expected and actual experience.....	342,560	15,151
Changes in proportion.....	270,900	12,568
Differences between employer contributions and proportionate share.....	20,024	922
<b>Total deferred inflows of resources.....</b>	<u>\$ 832,274</u>	<u>\$ 28,641</u>



NOTE 3 – 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, 2017 which are reported as deferred inflows of resources:

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Expected to be collected after August 31, 2017:</b>			
Taxes receivable.....	\$ 2,191,056	\$ -	\$ 2,191,056
Accounts receivable.....	441,703	176,821	618,524
Due from federal government.....	258,027	-	258,027
<b>Total deferred inflows of resources.....</b>	<b>\$ 2,890,786</b>	<b>\$ 176,821</b>	<b>\$ 3,067,607</b>

On the statement of net position-proprietary funds, the **State Workers' Insurance Fund**, the **State Lottery Fund**, the **State Stores 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, 2017. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2017:

	State Workers' Insurance Fund	State Lottery Fund	State Stores	Commonwealth Financing Authority	Nonmajor Funds	Total Proprietary Funds	Internal Service Funds
<b>Deferred Outflows of Resources</b>							
Refundings of debt.....	\$ -	\$ -	\$ -	\$ 1,760	\$ 834	\$ 2,594	\$ -
Pension related:							
Contributions subsequent to measurement date.....	-	3,057	24,200	-	2,135	29,392	2,734
Differences between expected and actual experience....	647	915	7,500	-	712	9,774	818
Net difference between projected and actual earnings on plan investments.....	3,764	5,330	43,667	-	4,146	56,907	4,766
Changes of assumptions.....	2,736	3,874	31,738	-	3,013	41,361	3,464
Changes in proportion.....	619	876	7,180	-	1,301	9,976	784
Differences between employer contributions and proportionate share.....	86	122	998	-	94	1,300	109
<b>Total deferred outflows of resources.....</b>	<b>\$ 7,852</b>	<b>\$ 14,174</b>	<b>\$ 115,283</b>	<b>\$ 1,760</b>	<b>\$ 12,235</b>	<b>\$ 151,304</b>	<b>\$ 12,675</b>
<b>Deferred Inflows of Resources</b>							
Pension related:							
Differences between expected and actual experience....	\$ 1,002	\$ 1,419	\$ 11,625	\$ -	\$ 1,105	\$ 15,151	\$ 1,269
Changes in proportion.....	798	1,130	9,259	-	1,381	12,568	1,010
Differences between employer contributions and proportionate share.....	59	83	683	-	97	922	74
<b>Total deferred inflows of resources.....</b>	<b>\$ 1,859</b>	<b>\$ 2,632</b>	<b>\$ 21,567</b>	<b>\$ -</b>	<b>\$ 2,583</b>	<b>\$ 28,641</b>	<b>\$ 2,353</b>

**NOTE 3 – 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, 2017. The following chart provides detail about the reported deferred outflows of resources and the deferred inflows of resources, respectively at June 30, 2017:

<u>Deferred Outflows of Resources</u>	<u>Pension (and Other Employee Benefit) Trust Funds</u>
Pension related:	
Contributions subsequent to measurement date.....	\$ 3,011
Differences between expected and actual experience...	925
Net difference between projected and actual earnings on plan investments.....	5,388
Changes of assumptions.....	3,916
Changes in proportion.....	3,384
Differences between employer contributions and proportionate share.....	71
<b>Total deferred outflows of resources.....</b>	<b>\$ 16,695</b>
<u>Deferred Inflows of Resources</u>	
Pension related:	
Differences between expected and actual experience...	\$ 1,435
Changes in proportion.....	939
Differences between employer contributions and proportionate share.....	68
<b>Total deferred inflows of resources.....</b>	<b>\$ 2,442</b>

**NOTE 4 – CAPITAL ASSETS**

Changes in governmental activities capital assets for the fiscal year ended June 30, 2017 are as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 602,165	\$ 3,809	\$ 64	\$ 605,910
Highway right-of-way.....	2,334,491	65,237	-	2,399,728
General construction in progress.....	963,453	212,701	196,131	980,023
Transportation construction in progress.....	3,276,534	2,712,693	2,099,214	3,890,013
Subtotal.....	<u>7,176,643</u>	<u>2,994,440</u>	<u>2,295,409</u>	<u>7,875,674</u>
<b>Depreciable and Amortizable Capital Assets:</b>				
Land improvements.....	956,493	72,440	4,227	1,024,706
Buildings and building improvements.....	7,682,657	92,106	27,221	7,747,542
Machinery and equipment.....	1,477,070	114,236	12,734	1,578,572
Highway infrastructure.....	29,146,147	1,198,563	947	30,343,763
Bridge infrastructure.....	14,238,217	716,914	-	14,955,131
Waterway infrastructure.....	27,297	4,458	-	31,755
Other infrastructure.....	214,277	3,925	-	218,202
Software.....	574,449	81,573	-	656,022
Other intangibles.....	200	-	-	200
Subtotal.....	<u>54,316,807</u>	<u>2,284,215</u>	<u>45,129</u>	<u>56,555,893</u>
<b>Less accumulated depreciation and amortization for:</b>				
Land Improvements.....	393,592	29,197	1,300	421,489
Buildings and building improvements.....	3,196,559	170,128	23,415	3,343,272
Machinery and equipment.....	901,948	118,804	11,697	1,009,055
Highway infrastructure.....	16,326,370	1,187,455	85	17,513,740
Bridge infrastructure.....	3,919,895	386,597	-	4,306,492
Waterway infrastructure.....	4,472	567	-	5,039
Other infrastructure.....	66,220	10,864	-	77,084
Software.....	233,079	56,312	-	289,391
Other intangibles.....	183	18	-	201
Subtotal.....	<u>25,042,318</u>	<u>1,959,942</u>	<u>36,497</u>	<u>26,965,763</u>
Total depreciable and amortizable capital assets, net.....	<u>29,274,489</u>	<u>324,273</u>	<u>8,632</u>	<u>29,590,130</u>
Total governmental activities capital assets, net.....	<u>\$ 36,451,132</u>	<u>\$ 3,318,713</u>	<u>\$ 2,304,041</u>	<u>\$ 37,465,804</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, 2017, the amount of the decreases to construction in progress that resulted in increases to Land and Highway right-of-way totaled \$66,471.

**NOTE 4 – CAPITAL ASSETS (continued)**

Depreciation and amortization expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2017 is as follows:

	<b>Governmental Activities Capital Assets</b>
Direction and supportive services.....	\$ 62,261
Protection of persons and property.....	140,963
Public education.....	45,215
Health and human services.....	24,822
Economic development.....	64
Transportation.....	1,662,948
Recreation and cultural enrichment.....	23,669
Total depreciation and amortization expense.....	<u>\$ 1,959,942</u>

Changes in business-type activities capital assets for the fiscal year ended June 30, 2017 are as follows:

	<b>Balance June 30, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>
<b>Non-Depreciable Capital Assets:</b>				
Land.....	\$ 179,453	\$ 29,688	\$ 11	\$ 209,130
General construction in progress.....	26,383	19,066	31,325	14,124
Subtotal.....	<u>205,836</u>	<u>48,754</u>	<u>31,336</u>	<u>223,254</u>
<b>Depreciable and Amortizable Capital Assets:</b>				
Land Improvements.....	67,559	2,306	35	69,830
Buildings and building improvements.....	411,570	22,500	1,211	432,859
Machinery and equipment.....	185,285	10,139	8,350	187,074
Software.....	13,095	11,343	1,317	23,121
Other intangibles.....	-	-	-	-
Subtotal.....	<u>677,509</u>	<u>46,288</u>	<u>10,913</u>	<u>712,884</u>
<b>Less accumulated depreciation and amortization for:</b>				
Land Improvements.....	12,055	3,430	3	15,482
Buildings and building improvements.....	191,084	16,789	784	207,089
Machinery and equipment.....	132,829	5,058	1,208	136,679
Software.....	481	10,442	1,316	9,607
Other intangibles.....	-	-	-	-
Subtotal.....	<u>336,449</u>	<u>35,719</u>	<u>3,311</u>	<u>368,857</u>
Total depreciable and amortizable capital assets, net.....	<u>341,060</u>	<u>10,569</u>	<u>7,602</u>	<u>344,027</u>
Total business-type activities capital assets, net.....	<u>\$ 546,896</u>	<u>\$ 59,323</u>	<u>\$ 38,938</u>	<u>\$ 567,281</u>

**NOTE 4 – CAPITAL ASSETS (continued)**

Construction in progress included in governmental activities capital assets at June 30, 2017 includes project information as follows:

	<u>Project Authorization</u>	<u>Amounts Expended at June 30, 2017</u>	<u>Authorization Available</u>
General Construction in Progress:			
Capitol Complex.....	\$ 291,997	\$ 71,235	\$ 220,762
Department of Corrections Institutions.....	468,032	395,165	72,867
Educational Institutions.....	517,326	229,445	287,881
Environmental Protection.....	3,906	3,578	328
State Parks and Forests.....	142,255	34,888	107,367
Veterans Homes and Military Armories.....	81,493	23,155	58,338
Department of Human Services Institutions.....	102,131	91,416	10,715
Transportation Facilities.....	112,977	32,331	80,646
Historical and Museum Commission Facilities.....	33,745	3,576	30,169
State Police Facilities.....	27,335	17,084	10,251
Agriculture Facilities.....	872	537	335
Department of Labor and Industry.....	1,919	1,560	359
Other.....	650,697	76,053	574,644
Total general construction in progress.....	<u>2,434,685</u>	<u>980,023</u>	<u>1,454,662</u>
Highway and Bridge Construction in Progress:.....	6,157,856	3,890,013	2,267,843
Total construction in progress.....	<u>\$ 8,592,541</u>	<u>\$ 4,870,036</u>	<u>\$ 3,722,505</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, 2017 the remaining amount of governmental activities capital assets related to the initial June 30, 1986 valuation amounted to \$1,507,900. 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 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Position

Internal Balances

In the statement of net position, reported internal balances of (\$46,239)/\$46,733 for governmental activities/business-type activities differ by \$494 because the **State Workers' Insurance Fund**, an enterprise fund, reports for its fiscal year ended December 31, 2016.

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2017 is as follows, with major fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to \$200,446 and \$11,131; aggregate nonmajor enterprise funds receivables from other funds amount to \$10,470; aggregate internal service funds receivables from other funds and from component units, respectively, amount to \$26,053 and \$78:

FUND TYPE/FUND PRIMARY GOVERNMENT	DUE FROM		DUE TO	
	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
<b>General Fund</b> .....	\$ 73,918	\$ 178,602	\$ 273,011	\$ 1,642
<u>Special Revenue:</u>				
<b>Motor License Fund</b> .....	14,992	86	67,805	20,399
Tobacco Settlement Fund.....	6,718	-	2,569	-
Public Transportation Trust Fund.....	147,870	-	43	-
Gaming Fund.....	10	7,902	2,767	15,066
Environmental Stewardship Fund.....	-	-	326	2,443
Emergency Medical Services Operating Fund.....	2,131	-	-	-
Agricultural Conservation Easement Purchase Fund.....	12,743	-	-	-
Marcellus Shale Fund.....	-	-	6,002	-
Multimodal Transportation Fund.....	3	-	32,980	-
Other Funds.....	11,514	-	12,066	141
Special Revenue subtotal.....	<u>195,981</u>	<u>7,988</u>	<u>124,558</u>	<u>38,049</u>
<u>Debt Service:</u>				
PA Infrastructure Investment Authority Redemption Fund.....	-	355	-	-
Debt Service subtotal.....	<u>-</u>	<u>355</u>	<u>-</u>	<u>-</u>
<u>Capital Projects:</u>				
Capital Facilities Fund.....	328	2,874	6,086	-
Keystone Recreation, Park and Conservation Fund.....	9,256	-	104	15
Public Transportation Assistance Fund.....	9,873	-	976	-
Capital Projects subtotal.....	<u>19,457</u>	<u>2,874</u>	<u>7,166</u>	<u>15</u>
<u>Enterprise:</u>				
<b>Unemployment Compensation Fund</b> .....	4,584	517	476	-
<b>State Lottery Fund</b> .....	12,931	-	96,397	-
<b>Tuition Payment Fund</b> .....	-	-	2	-
<b>State Stores Fund</b> .....	30	-	10,686	-
<b>Commonwealth Financing Authority</b> .....	33,871	-	689	-
Rehabilitation Center Fund.....	3,907	-	410	-
Philadelphia Regional Port Authority.....	6,549	-	59	-
Other Funds.....	14	-	93	48
Enterprise subtotal.....	<u>61,886</u>	<u>517</u>	<u>108,812</u>	<u>48</u>
<u>Internal Service:</u>				
Purchasing Fund.....	20,251	72	2,785	4
Manufacturing Fund.....	5,802	6	650	-
Internal Service subtotal.....	<u>26,053</u>	<u>78</u>	<u>3,435</u>	<u>4</u>

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

FUND TYPE/FUND <u>PRIMARY GOVERNMENT</u>	DUE FROM		DUE TO	
	OTHER	COMPONENT	OTHER	COMPONENT
	FUNDS	UNITS	FUNDS	UNITS
<u>Fiduciary - Pension Trust:</u>				
State Employees' Retirement System.....	11,856	65,202	-	-
Deferred Compensation Fund.....	-	-	203	-
Public School Employees' Retirement System.....	5,935	-	1,314	-
Fiduciary - Pension Trust subtotal.....	<u>17,791</u>	<u>65,202</u>	<u>1,517</u>	<u>-</u>
<u>Fiduciary - Private-Purpose Trust</u>				
Monetary Penalty Endowments Trust Fund.....	38	-	-	-
Fiduciary - Private-Purpose Trust subtotal.....	<u>38</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government.....	<u>\$ 395,124</u>	<u>\$ 255,616</u>	<u>\$ 518,499</u>	<u>\$ 39,758</u>

DISCRETELY PRESENTED <u>COMPONENT UNITS</u>	DUE FROM		DUE TO	
	PRIMARY	COMPONENT	PRIMARY	COMPONENT
	GOVERNMENT	UNITS	GOVERNMENT	UNITS
Pennsylvania Turnpike Commission.....	\$ 16,686	\$ -	\$ -	\$ -
Pennsylvania Housing Finance Agency.....	17	166	3	83
Pennsylvania Higher Education Assistance Agency.....	69	-	323	-
Pennsylvania Infrastructure Investment Authority.....	17,429	83	178,478	166
State System of Higher Education.....	2,237	-	3,180	-
Pennsylvania Industrial Development Authority.....	-	-	318	-
Pennsylvania Convention Center Authority.....	-	-	7,902	-
Other component units.....	55	-	7	-
Total component units.....	<u>\$ 36,493</u>	<u>\$ 249</u>	<u>\$ 190,211</u>	<u>\$ 249</u>

The amount of total reported interfund receivables of \$687,482 does not agree with total reported interfund payables of \$748,717 at June 30, 2017 due to different fiscal year ends and reporting differences for certain funds included in the fund financial statements at June 30, 2017. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2017; 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, 2016. The following presents a reconciliation of interfund balances reported at June 30, 2017 and those amounts that would have been reported if all funds reported at the same fiscal year-end:

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due from other funds.....	\$ 278,455	\$ 83,227	\$ 16,102	\$ -	\$ 377,784
Due from pension trust funds.....	10,901	4,712	1,727	-	17,340
Due from component units.....	189,819	595	65,202	249	255,865
Due from primary government.....	-	-	-	36,493	36,493
Total.....	<u>\$ 479,175</u>	<u>\$ 88,534</u>	<u>\$ 83,031</u>	<u>\$ 36,742</u>	<u>\$ 687,482</u>
Reported Interfund Receivables.....					\$ 687,482
State Employees' Retirement System decrease in receivables from January 1, 2017 through June 30, 2017.....					(49,148)
Pennsylvania Turnpike Commission increase in receivables from June 1, 2017 through June 30, 2017.....					3,265
State Workers' Insurance Fund increase in receivables from January 1, 2017 through June 30, 2017.....					639
Interfund receivables reported as taxes receivable and accounts receivable by fiduciary funds.....					91,534
Payroll accrual at June 30, 2017 - receivables attributable to State Employees' Retirement System.....					45,365
Reconciled Interfund Receivables.....					<u>\$ 779,137</u>

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds.....	\$ 252,809	\$ 109,317	\$ 610	\$ -	\$ 362,736
Due to pension trust funds.....	151,926	2,930	907	-	155,763
Due to component units.....	39,706	52	-	249	40,007
Due to primary government.....	-	-	-	190,211	190,211
Total.....	<u>\$ 444,441</u>	<u>\$ 112,299</u>	<u>\$ 1,517</u>	<u>\$ 190,460</u>	<u>\$ 748,717</u>
Reported Interfund Payables.....					\$ 748,717
State Employees' Retirement System increase in payables from January 1, 2017 through June 30, 2017.....					621
Deferred Compensation Fund decrease in payables from January 1, 2017 through June 30, 2017.....					(45)
Pennsylvania Turnpike Commission increase in payables from June 1, 2017 through June 30, 2017.....					140
State Workers' Insurance Fund increase in payables from January 1, 2017 through June 30, 2017.....					193
Pennsylvania Economic Development Financing Authority - financial statement not reported as disclosed in Note 1.....					128
Interfund payables reported as accounts payable by fiduciary funds.....					29,383
Reconciled Interfund Payables.....					<u>\$ 779,137</u>

Advances – Fund Financial Statements

At June 30, 2017, the **General Fund** reported Advances to Other Funds of \$7,475. Specifically, this amount has been advanced as follows: \$2,300 to the **State Workers' Insurance Fund (SWIF)**, an enterprise fund; \$2,175 to the **Motor License Fund** and \$3,000 to the Medical Marijuana Program 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 \$2,349 at its fiscal year ended December 31, 2016. At June 30, 2017, the Workers' Compensation Security Fund and the Workers' Compensation Administration Fund, special revenue funds, reported Advances to Other Funds of \$165,750 and \$9,000, respectively; these amounts were advanced to the **General Fund** and the Uninsured Employers Guaranty Fund, a special revenue fund. The advances to the Medical Marijuana Program Fund and the **General Fund**, in the amounts \$3,000 and \$165,000, respectively, are expected to be repaid during the fiscal year ending June 30, 2018. The Underground Storage Tank Indemnification Fund, an agency fund, reported a \$67,500 statutory advance to the **General Fund** at June 30, 2017; a \$7,000 repayment is expected to occur during the fiscal year ending June 30, 2018.



**NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)****Transfers**

A summary of transfers reported for the fiscal year ended June 30, 2017 is as follows, with major fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to \$1,592,424 during the fiscal year ended June 30, 2017; aggregate nonmajor governmental fund transfers to other funds amounted to \$929,249. Aggregate nonmajor proprietary fund transfers from other funds amounted to \$57,083, while aggregate nonmajor proprietary fund transfers to other funds amounted to \$9,000.

As authorized by Act 89 of 2013, the Capital Facilities Fund, a capital projects fund, transferred general obligation bond proceeds in the amount \$206,507 to the **Motor License Fund**. The **Commonwealth Financing Authority (CFA)**, a blended component unit enterprise fund, transferred revenue bond proceeds in the amount \$735,394 to the **General Fund**. As prescribed by Act 25 of 2016, the bond proceeds transferred from the **CFA** shall be used by the **General Fund** to reimburse school districts for construction costs.

NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	TRANSFERS	
	IN	OUT
<b>PRIMARY GOVERNMENT</b>		
General Fund.....	\$ 1,342,969	\$ 1,262,763
<u>Special Revenue:</u>		
Motor License Fund.....	223,349	133,016
Tobacco Settlement Fund.....	-	28,500
Public Transportation Trust Fund.....	116,992	30,000
Gaming Fund.....	-	309,516
Environmental Stewardship Fund.....	26,205	40,745
Vocational Rehabilitation Fund.....	47,473	-
Agricultural Conservation Easement Purchase Fund.....	10,878	-
State Farm Products Show Fund.....	5,000	-
Recycling Fund.....	1,000	9,000
Oil and Gas Lease Fund.....	-	62,513
Hazardous Sites Cleanup Fund.....	8,102	5,000
Marcellus Shale Fund.....	25,000	79,805
Insurance Regulation and Oversight Fund.....	-	1,919
State Racing Fund.....	10,949	-
Fish and Boat Fund.....	20,833	247
Multimodal Transportation Fund.....	30,000	58,182
Other Funds.....	360	3,822
Special Revenue subtotal.....	<u>526,141</u>	<u>762,265</u>
<u>Debt Service:</u>		
Capital Debt Fund.....	1,204,212	-
Growing Greener Bond Sinking Fund.....	29,289	-
Water and Sewer Assistance Bond Sinking Fund.....	24,655	-
Water Supply and Wastewater Treatment Sinking Fund.....	12,293	-
Local Criminal Justice Sinking Fund.....	80	-
Persian Gulf Veterans' Compensation Bond Sinking Fund.....	343	-
Other Funds.....	-	84
Debt Service subtotal.....	<u>1,270,872</u>	<u>84</u>
<u>Capital Projects:</u>		
Capital Facilities Fund.....	18,638	275,553
Keystone Recreation, Park and Conservation Fund.....	122	744
Water Supply and Wastewater Treatment Fund.....	-	2,534
Public Transportation Assistance Fund.....	-	21,085
Capital Projects subtotal.....	<u>18,760</u>	<u>299,916</u>
<u>Enterprise:</u>		
Unemployment Compensation Fund.....	-	52,000
State Lottery Fund.....	148,000	264,907
State Stores Fund.....	-	219,196
Commonwealth Financing Authority.....	253,700	747,394
Volunteer Companies Loan Fund.....	-	9,000
Philadelphia Regional Port Authority.....	57,083	-
Enterprise subtotal.....	<u>458,783</u>	<u>1,292,497</u>
Total transfers, fund financial statements.....	3,617,525	3,617,525
Less: net elimination of governmental fund transfers.....	(2,783,811)	(2,783,811)
Total transfers, Statement of Activities.....	<u>\$ 833,714</u>	<u>\$ 833,714</u>

NOTE 5 – 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, 2017 (May 31, 2017 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) .....	\$ 564,243
Pennsylvania Higher Education Assistance Agency (grants) .....	334,695
Pennsylvania Turnpike Commission (capital contributions) .....	151,697
Pennsylvania Housing Finance Agency (program income and fees; other liabilities) .....	25,269
Pennsylvania Infrastructure Investment Authority (operating revenues; capital contributions) .....	21,763

Nonmajor Discretely Presented Component Units

During the fiscal year ended June 30, 2017, 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 .....	13,273
Port of Pittsburgh Commission.....	750

Financial Support Provided to the Commonwealth

During its fiscal year ended May 31, 2017, 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.

Government Merger

As prescribed by Act 121 of 2012, the Pennsylvania eHealth Partnership Authority (eHealth), a discretely presented component unit, expired in July 2017. Further, as enacted in Act 76 of 2016, the eHealth was absorbed into the primary government's Department of Human Services. The principal reasons for the movement of the eHealth's functions were to reduce administrative costs and maximize federal revenues. The following balances were recognized by eHealth at July 1, 2016:

<u>Assets</u>	
Current assets.....	\$ 2,957
<b>Total assets</b> .....	<u>2,957</u>
<u>Deferred outflows of resources</u>	
Total deferred outflows of resources.....	<u>1,277</u>
<u>Liabilities</u>	
Current liabilities.....	910
Non-current liabilities.....	2,914
<b>Total liabilities</b> .....	<u>3,824</u>
<u>Deferred inflows of resources</u>	
Total deferred inflows of resources.....	<u>49</u>
<u>Net position</u>	
Restricted for:	
Health-related programs.....	361
<b>Total net position</b> .....	<u>\$ 361</u>

**NOTE 5 – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)**

The eHealth amounts were recognized in the **General Fund** at July 1, 2016, except current liabilities were modified to \$867 to offset a similar reduction of current assets in the **General Fund**. Reductions to **General Fund** current assets and current liabilities were necessary because \$43 was owed by eHealth to the **General Fund** at July 1, 2016.

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES

**Governmental Activities**

Long-term obligations of the Commonwealth’s governmental activities at June 30, 2017 and changes therein during the fiscal year ended June 30, 2017 are as follows:

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities.....	2007-16	3.00-5.85%	2036	\$ 112,975,374	\$ 7,151,445	\$ 1,200,000	\$ 892,665	\$ 7,458,780
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.....								
	2010-13	3.00-5.85%	2033	51,600	458,905	-	22,445	436,460
Local Criminal Justice.....				3,000	385	-	385	-
Water Supply and Wastewater Treatment.....								
	2007-16	3.00-5.85%	2036		68,485	8,725	16,840	60,370
Growing Greener.....	2007-15	3.00-5.85%	2035	26,000	241,735	-	52,875	188,860
Persian Gulf Conflict Veterans Compensation.....								
				13,000	1,590	-	1,590	-
Refunding Bonds.....	2004-16	4.00-5.38%	2029	-	3,685,040	605,170	419,025	3,871,185
Total principal.....				113,284,682	11,607,585	1,813,895	1,405,825	12,015,655
Unamortized premium on bonds issued.....					916,966	242,928	202,507	957,387
Unamortized discount on bonds issued.....					(6,641)	(2,286)	(2,375)	(6,552)
Total general obligation bonds payable.....					<u>\$ 113,284,682</u>	<u>2,054,537</u>	<u>1,605,957</u>	<u>\$ 12,966,490</u>
Other General Long-Term Obligations Payable From Tax and Other Revenues:								
Installment Purchase Obligations (1).....					2,363	671	1,236	1,798
Capital Lease Obligations (1).....					100,821	-	2,566	98,255
Self-Insurance--Note 8 (1).....					1,089,413	932,092	930,547	1,090,958
Compensated Absences (1).....					738,656	515,374	518,373	735,657
Other (1).....					1,352,169	202,983	438,058	1,117,094
Subtotal.....					<u>3,283,422</u>	<u>1,651,120</u>	<u>1,890,780</u>	<u>3,043,762</u>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>					<u>\$ 15,801,332</u>	<u>\$ 3,705,657</u>	<u>\$ 3,496,737</u>	<u>\$ 16,010,252</u>

Totals may not foot due to rounding.

(1) The reported current liability portion of: Installment Purchase Obligations is \$762; Capital Lease Obligations is \$2,734; Self-Insurance is \$172,271; Compensated Absences is \$172,209; and Other liabilities is \$282,516.

Total principal “Additions” above, amounting to \$1,813,895 are equal to bonds issued of \$1,208,725 and refunding bonds issued of \$605,170 reported in the governmental funds statement of revenues, expenditures, and changes in fund balances for the fiscal year ended June 30, 2017.

The total “Additions” of \$2,054,537 for general obligation bonds payable at June 30, 2017 consists of total bond and refunding bond proceeds of \$1,368,986 and 685,551, respectively, for governmental funds (including a premium of \$242,928 and a discount of \$2,286).

**NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)**

The total “Reductions” of \$1,605,957 for general obligation bonds payable at June 30, 2017 consists of total principal repayments of \$1,405,826 plus \$202,507, of bond premium and \$2,375 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, 2017 is \$957,387, unamortized discount is \$6,552).

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, 2017, these three funds transferred \$1,074,014, \$103,412 and \$26,787 respectively, to the Capital Debt Fund. The Capital Debt Fund reported \$1,239,693 (94 percent) of total Debt Service funds principal and interest expenditures of \$1,323,783. 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, 2017:

Workers' compensation security trust claims.....	\$ 373,927
Catastrophic loss benefits claims.....	72,813
Public Utility Realty Tax Act (PURTA) liability.....	27,579
Litigation liability - Note 14.....	1,200
State Insurance Fund claims.....	4,615
Restricted receipts liability.....	6,212
Escheated property liability.....	482,290
Pollution remediation liability.....	<u>148,458</u>
<b>Total.....</b>	<b><u>\$ 1,117,094</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, 2017 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, 2017. The nature of the remediation activities in such instances is often site assessment, investigation or feasibility studies. Remediation

**NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)**

efforts are typically funded through the Hazardous Sites Cleanup Fund or the **Motor License Fund**, both special revenue funds.

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 \$66,991,778 as of August 31, 2017, with net debt outstanding after credit for refunded debt of \$10,590,276.

The following tables present annual principal and interest payments for long-term debt outstanding at June 30, 2017:

	2018	2019	2020	2021	2022	2023-27	2028-32
<b>GENERAL OBLIGATION BONDS:</b>							
Capital Facilities.....	\$ 745,190	\$ 730,237	\$ 662,696	\$ 661,984	\$ 660,481	\$ 3,295,752	\$ 3,053,127
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.....	34,662	34,528	37,522	37,464	44,586	231,822	191,460
Local Criminal Justice.....	-	-	-	-	-	-	-
Water Supply and Wastewater Treatment.....	9,323	6,053	4,827	4,818	4,824	23,987	22,185
Growing Greener.....	22,167	22,095	20,683	20,670	15,131	77,581	69,787
Persian Gulf Conflict Veterans Compensation.....	-	-	-	-	-	-	-
Refunding Bonds.....	495,064	550,988	567,497	529,896	496,740	1,749,121	165,173
Total Principal and Interest.....	1,306,406	1,343,901	1,293,225	1,254,832	1,221,762	5,378,263	3,501,732
Less: Interest Payments.....	(563,031)	(524,396)	(483,555)	(445,191)	(405,878)	(1,434,239)	(567,837)
Total General Obligation Bonds.....	743,375	819,505	809,670	809,641	815,884	3,944,024	2,933,895
Other General Long-Term Obligations.....	626,995	193,631	200,446	168,468	162,735	656,795	412,576
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS</b>	<b>\$ 1,370,370</b>	<b>\$ 1,013,136</b>	<b>\$ 1,010,116</b>	<b>\$ 978,109</b>	<b>\$ 978,619</b>	<b>\$ 4,600,819</b>	<b>\$ 3,346,471</b>

Totals may not foot due to rounding.

**NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)**

	<u>2033-37</u>	<u>Total</u>
<b>GENERAL OBLIGATION BONDS:</b>		
Capital Facilities.....	\$ 1,195,730	\$ 11,005,197
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.....	8,987	621,031
Local Criminal Justice.....	-	-
Water Supply and Wastewater Treatment.....	8,141	84,158
Growing Greener.....	14,139	262,253
Persian Gulf Conflict Veterans Compensation.....	-	-
Refunding Bonds.....	-	4,554,479
	<hr/>	<hr/>
Total Principal and Interest.....	1,226,997	16,527,118
Less: Interest Payments.....	(87,336)	(4,511,463)
Total General Obligation Bonds.....	1,139,661	12,015,655
Other General Long-Term Obligations.....	622,118	3,043,764
	<hr/>	<hr/>
<b>TOTAL GENERAL LONG-TERM OBLIGATIONS.....</b>	<b>\$ 1,761,779</b>	<b>\$ 15,059,419</b>

Totals may not foot due to rounding.

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, 2017:



NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

Fiscal Year Ending June 30	Capital Lease <u>Obligations</u>	Installment Purchase <u>Obligations</u>
2018.....	\$ 7,400	\$ 833
2019.....	7,426	507
2020.....	7,815	378
2021.....	7,923	201
2022.....	8,028	16
2023-27.....	41,241	-
2028-32.....	43,789	-
2033-37.....	<u>27,181</u>	<u>-</u>
Total minimum lease payments.....	150,803	1,935
Less: amount representing estimated executory cost included in minimum lease payments.....	<u>-</u>	<u>-</u>
Net minimum lease payments and installment purchases.....	150,803	1,935
Less: amount representing interest.....	<u>(52,548)</u>	<u>(137)</u>
<b>Total Capital Lease and Installment Purchase Obligations.....</b>	<b><u>\$ 98,255</u></b>	<b><u>\$ 1,798</u></b>

At June 30, 2017, general capital assets included \$197,000 of buildings and \$1,484 of equipment procured by capital leases. A total of \$23,289 in general capital assets have been procured using vendor-financed installment purchase arrangements.

**Refunded Debt Information**

During the fiscal year ended June 30, 2017 the Commonwealth issued \$605,170 in general obligation bonds, Second Refunding Series of 2016 with an average interest cost of 2.7% to advance refund \$637,275 of previously issued general obligation bonds with average interest rates of 4.8%. The net refunding bond proceeds of \$683,088 after payment of underwriting fees and other issuance costs, which included a bond premium of \$80,381, were deposited in an irrevocable trust 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 \$41,855 and to obtain an economic gain of \$35,294.

A deferred inflow of resources of \$48,302 for net refunding gain was reported in the statement of net position. Bond issuance costs of \$1,967 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, 2017, \$1,439,345 of general obligation bonds outstanding that were previously accounted for in the Commonwealth’s financial statements were defeased through advance refunding.

**NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)**

**Business Type Activities**

**Tuition Benefits Payable**

The reported liability for tuition benefits payable of \$1,640,769 of the **Tuition Payment Fund**, an enterprise fund, at June 30, 2017 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 6.00%.

Changes in tuition benefits payable are as follows:

Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Current	Non Current
				Due within One Year	Due after One Year
\$ 1,542,123	\$ 311,077	\$ 212,431	\$ 1,640,769	\$ 256,974	\$ 1,383,795

**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, 2016 and December 31, 2015. 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, 2016 and 2015, 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	
2016	\$1,604,104	\$174,305	\$14,796	\$34,338	\$195,971	\$1,562,896
2015	\$1,593,984	276,464	(14,287)	48,555	203,502	\$1,604,104

The current portion of the total **SWIF** insurance loss liability is \$185,746 and the noncurrent portion is \$1,377,150. Additionally, nonmajor enterprise funds reported a noncurrent insurance loss liability of \$490 at June 30, 2017. Total reported current insurance loss liability amounts to \$185,746 and total noncurrent insurance loss liability amounts to \$1,377,640 at June 30, 2017.

**Compensated Absences Liability**

The reported compensated absences liability for the enterprise funds totaled \$35,874 at June 30, 2017. Of that amount, the liability is primarily owed by the **State Stores Fund** (\$28,049), the **SWIF** (\$2,065), and the **State Lottery Fund** (\$2,872). The following summary provides aggregated information reported for June 30, 2017 compensated absences liabilities; additions and reductions during the fiscal year ended June 30, 2017 and reported compensated absences liabilities at June 30, 2017:

Liability at June 30, 2016	Additions	Reductions	Liability at June 30, 2017
\$ 35,775	\$ 25,950	\$ 25,851	\$ 35,874

NOTE 6 – LONG-TERM OBLIGATIONS – GOVERNMENTAL AND BUSINESS TYPE ACTIVITIES (continued)

The current portion of the total compensated absences liability for enterprise funds is \$8,235; the noncurrent portion is \$27,639.

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, 2017 and changes during the fiscal year ended June 30, 2017 are as follows:

REVENUE BONDS PAYABLE	Issue	Interest	Maturity	Balance			Balance
	Dates	Rates	Dates Through	July 1, 2016	Additions	Reductions	June 30, 2017
Philadelphia Regional Port Authority.....	2008	3.00-5.00%	2021	\$ 20,385	\$ -	\$ 3,680	\$ 16,705
Unemployment Compensation Fund.....	2012	1.00-5.00%	2024	1,874,390	-	404,290	1,470,100
Commonwealth Financing Authority.....	2005-13	0.55-6.40%	2042	1,571,125	758,185	69,085	2,260,225
Total principal obligations.....				3,465,900	758,185	477,055	3,747,030
Less: unamortized bond discount.....				(851)	(3,776)	(175)	(4,452)
Add: unamortized bond premium.....				216,685	-	65,868	150,817
TOTAL REVENUE BONDS PAYABLE.....				\$ 3,681,734	\$ 754,409	\$ 542,748	\$ 3,893,395

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

	2018	2019	2020	2021	2022	2023-27	2028-32
Philadelphia Regional Port Authority.....	\$ 4,609	\$ 4,605	\$ 4,607	\$ 4,607	\$ -	\$ -	\$ -
Unemployment Compensation Fund.....	423,318	317,554	321,387	322,451	269,362	-	-
Commonwealth Financing Authority.....	182,503	182,311	182,120	180,946	180,724	850,959	794,219
Total Principal and Interest.....	610,430	504,470	508,114	508,004	450,086	850,959	794,219
Less: Interest Payments.....	(176,575)	(157,575)	(140,140)	(121,894)	(102,446)	(402,049)	(294,944)
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 433,855	\$ 346,895	\$ 367,974	\$ 386,110	\$ 347,640	\$ 448,910	\$ 499,275

	2033-37	2038-42	Total
Philadelphia Regional Port Authority.....	\$ -	\$ -	\$ 18,428
Unemployment Compensation Fund.....	-	-	1,654,072
Commonwealth Financing Authority.....	842,318	245,909	3,642,009
Total Principal and Interest.....	842,318	245,909	5,314,509
Less: Interest Payments.....	(151,523)	(20,333)	(1,567,479)
TOTAL PRINCIPAL OBLIGATIONS.....	\$ 690,795	\$ 225,576	\$ 3,747,030

**NOTE 7 - SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS**

**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 (STIP) 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, 2016 for \$1,200,000; and on November 15, 2016 for \$600,000. On March 23, 2017, the **General Fund** initiated the transfer of \$1,200,000 to the appropriate Treasury accounts to retire the September 13 advance. The interest charge for the STIP investment is \$4,750. On April 24, 2017, the **General Fund** initiated the transfer of \$1,000,000 to the appropriate Treasury accounts to retire the August 17 and the November 15 advances. The interest charge for these advances is \$4,087. The Investment Agreement expired on June 30, 2017.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Advance	\$ -	\$ 2,200,000	\$ 2,200,000	\$ -

**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, 2017, as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Principal	\$ 67,500	\$ -	\$ -	\$ 67,500

Based on several contractual agreements between the Commonwealth, the City of Philadelphia (City), and the Pennsylvania Convention Center Authority (PCCA), a discretely presented component unit, the Commonwealth is financially obligated for debt service principal and interest payments for certain bonds issued by a public financing authority in connection with the PCCA premises in Philadelphia, Pennsylvania. Total debt service requirements for the bonds at June 30, 2017 are as follows:

**NOTE 7 – SHORT-TERM DEBT, NOTES PAYABLE AND OTHER FINANCING OBLIGATIONS (continued)**

<u>Fiscal Year Ending June 30</u>	<u>Total Other Financing Obligations</u>
2018.....	\$ 13,956
2019.....	13,956
2020.....	18,726
2021.....	19,483
2022.....	19,396
2023-27.....	70,251
2028-32.....	112,834
2033-37.....	128,734
2038-40.....	50,951
Total principal and interest.....	448,287
Less: interest .....	(230,047)
<b>Total Principal.....</b>	<b>\$ 218,240</b>

Total bond interest payments made during the fiscal year ended June 30, 2017 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 \$315,000; a total of \$85,400 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 \$14,943; and the Commonwealth will appropriate a maximum amount of \$32,944 to be financed by the Gaming Fund under the provisions of Act 53 of 2007 to finance total bond principal and interest payments of \$448,287 at June 30, 2017. 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, 2017.

**NOTE 8 – 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, 2017. 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, 2017. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

At June 30, 2017, none of the \$1,090,958 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** (\$867,680) and the **Motor License Fund** (\$178,932). Business-type activities liabilities are primarily owed by the **State Lottery Fund** (\$2,203), the **State Workers’ Insurance Fund** (\$1,422), and the **State Stores Fund** (\$52,299), all enterprise funds. All accrued self-insurance liabilities at June 30, 2017 are summarized as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>
Employee disability.....	\$ 126,041	\$ 790,235	\$ 7,959	\$ 49,898
Annuitant medical/hospital.....	27,729	-	-	-
Automobile tort.....	3,250	8,609	-	-
Employee tort.....	5,750	58,963	-	-
General tort.....	500	12,268	-	-
Transportation.....	9,000	48,613	-	-
Totals.....	<u>\$ 172,270</u>	<u>\$ 918,688</u>	<u>\$ 7,959</u>	<u>\$ 49,898</u>

**NOTE 8 – SELF-INSURANCE LIABILITIES (continued)**

The following summary provides aggregated information on June 30, 2016 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2017 and reported self-insurance liabilities at June 30, 2017:

	June 30, 2016	Incurred Claims		Payments		June 30, 2017
	<u>Liability</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Liability</u>
Employee disability.....	\$ 970,214	\$ 75,088	\$ 39,002	\$ 9,236	\$ 100,935	\$ 974,133
Annuitant medical/hospital..	32,326	798,438	-	803,035	-	27,729
Automobile tort.....	11,111	3,064	820	725	2,411	11,859
Employee tort.....	52,692	19,163	(4,114)	8	3,020	64,713
General tort.....	11,572	1,243	803	46	804	12,768
Transportation.....	65,803	9,068	(10,483)	407	6,368	57,613
Totals.....	<u>\$ 1,143,718</u>	<u>\$ 906,064</u>	<u>\$ 26,028</u>	<u>\$ 813,457</u>	<u>\$ 113,538</u>	<u>\$ 1,148,815</u>

The following summary provides aggregated information on June 30, 2015 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>

## NOTE 9 - PENSION

## 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 fund component units. 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.pa.gov](http://www.psers.pa.gov), respectively. Written requests for the 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, 2016 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 9 - PENSION (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, 2017 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 \$1,473,131 for the year ended June 30, 2017.

**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 the 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, 2017, the Commonwealth reported a total net pension liability of \$15,879,154 for its participation in the SERS. The net pension liability attributed to participation in the SERS was measured as of December 31, 2016, 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, 2016, the Commonwealth's reported proportionate share of the SERS net pension liability was 82.44%, which was a decrease of .61% from its proportion measured as of December 31, 2015.

**NOTE 9 - PENSION (continued)**

As of June 30, 2017, the Commonwealth recognized pension expense of \$2,298,209, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS (December 31, 2016)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience.....	\$ 229,213	\$ 355,280
Differences between employer contributions and proportionate share.....	30,489	20,899
Net difference between projected and actual earnings on plan investments.....	1,334,482	-
Changes of assumptions.....	969,930	-
Changes in proportion.....	220,037	283,468
Contributions subsequent to measurement date.....	762,209	-
<b>Total.....</b>	<b><u>\$ 3,546,360</u></b>	<b><u>\$ 659,647</u></b>

The \$762,209 reported as deferred outflows of resources related to pensions resulting from Commonwealth contributions to the SERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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, 2016)</u>
2018.....	\$ 691,301
2019.....	691,301
2020.....	596,243
2021.....	135,811
2022.....	9,848

**Actuarial Assumptions**

Every five years, the 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.

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).

The current set of assumptions used in the December 31, 2016 actuarial valuation, with the exception of the discount rate and inflation assumptions, was adopted by the State Employees' Retirement Board (the Board) based upon actual experience of the SERS during the years 2011 through 2015. In addition to the five-year experience study, the SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation. As a result of the review undertaken during March/April of 2017, the Board approved a reduction in the annual discount rate assumption from

**NOTE 9 - PENSION (continued)**

7.50% to 7.25%, a reduction in the annual inflation assumption from 2.75% to 2.60%, and a reduction in the salary growth rate from 3.05% to 2.90%. All changes became effective with the December 31, 2016 actuarial valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2016, 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	7.25% net of expenses including inflation
Projected salary increases	Average of 5.60% with range of 3.7% to 8.9% including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
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 the SERS current and target asset allocation as of December 31, 2016, are summarized in the following table:

<b>SERS (December 31, 2016)</b>		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Alternative investments.....	16.00%	8.00%
Global public equity.....	43.00%	5.30%
Real assets.....	12.00%	5.44%
Diversifying assets.....	12.00%	4.75%
Fixed income.....	14.00%	1.63%
Liquidity reserve.....	3.00%	-0.25%
<b>Total.....</b>	<b>100.00%</b>	

Discount rate

The SERS discount rate used to measure the total pension liability was 7.25%. 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 the SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NOTE 9 - PENSION (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 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate.

	<b>1 Percent Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1 Percent Increase (8.25%)</b>
SERS (December 31, 2016).....	\$ 19,651,192	\$ 15,879,154	\$ 12,648,947

Payables to the Pension Plan

For the fiscal year ended June 30, 2017, the Commonwealth reported an accounts payable for the employer's share of retirement contributions to the SERS in the amount of \$72,471.

**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, 2017 there were 775 participating employers, generally school districts. In relation to the PSERS, the Commonwealth is a non-employer contributor organization that recognizes a less than substantial portion of the PSERS collective net pension liability.

**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 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 PSERS. 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 50% of employer contributions for employers other than school entities directly to the PSERS resulting in a special funding situation. Contributions to the PSERS from the Commonwealth for the employers other than school entities were \$22,822 for the year ended June 30, 2017.

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.

**NOTE 9 - PENSION (continued)**

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, 2017 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, 2017 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 the 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:** The PSERS' investments are reported at fair value. Fair value is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale.

Short-term securities are 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, 2017 \$132,000 in an open-ended repurchase agreement were netted against the related property valuation. The repurchase agreement is payable at an interest rate equivalent to one month of the LIBOR plus 40 basis points and is collateralized by certain fixed income investments of the 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 the PSERS' ownership interest in partners' capital.

**Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** At June 30, 2017, the Commonwealth reported a liability of \$291,791 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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 the PSERS 50% of the employer contributions for employers other than school entities. At June 30, 2016 the Commonwealth's proportion was .5888%, which was an increase of .008% from its proportion measured as of June 30, 2015.

**NOTE 9 - PENSION (continued)**

As a result of its requirement to contribute to the PSERS, the Commonwealth recognized expense of \$33,529 for the year ended June 30, 2017. At June 30, 2017 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, 2016)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience.....	\$ -	\$ 2,431
Differences between employer contributions and proportionate share.....	-	47
Net difference between projected and actual earnings on plan investments.....	16,263	-
Changes of assumptions.....	10,533	-
Changes in proportion.....	9,719	-
Contributions subsequent to measurement date.....	22,822	-
<b>Total.....</b>	<b><u>\$ 59,337</u></b>	<b><u>\$ 2,478</u></b>

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Other Postemployment Benefits**

**Plan Administration:** 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) and both are established as trust equivalent arrangements. 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 that include Commonwealth agencies and some component units. The REHP is provided 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. All policy decisions and types and levels of benefits for the REHP and RPSPP fall under the purview of the Commonwealth’s Executive Board, Secretary of Administration, and for the RPSPP the collective bargaining agreement with the Pennsylvania State Troopers Association. Neither the REHP nor the RPSPP have a governing board.

The Pennsylvania Judiciary (Judiciary), Pennsylvania House of Representatives (House), and the Pennsylvania Senate (Senate) have established and sponsor their own OPEB plans. A trust or equivalent arrangement meeting the requirements of GASB 74 has not been established for these plans.

**Plan Membership:** At June 30, 2017, the REHP and the RPSPP OPEB plan membership consisted of the following (actual number of plan members):

	<u>REHP</u>	<u>RPSPP</u>
Inactive plan members or beneficiaries currently receiving benefit payments...	63,974	4,907
Inactive plan members entitled to but not yet receiving benefit payments.....	12,912	-
Active plan members.....	<u>71,681</u>	<u>4,299</u>
<b>Total all plan members.....</b>	<b><u>148,567</u></b>	<b><u>9,206</u></b>

**Benefits Provided:** 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. RPSPP benefits are provided in accordance with the collective bargaining agreement that was in effect at the time of retirement. Among the different OPEB plans, the REHP is the largest of such plans and provides only postemployment healthcare benefits. None of the OPEB plans issue a stand-alone financial report or are included in the financial statements of a public employee retirement system.

**Contributions:** REHP employer contribution requirements are established by the Office of Administration and the Office of the Budget. All participating agencies and certain plan members must contribute specified amounts to the REHP. During the fiscal year ended June 30, 2017, almost all REHP participating agencies contributed \$362 (whole dollars) for each current, active REHP eligible employee per biweekly pay period to fund the REHP. Several participating agencies contribute under different but comparable payment arrangements. For employees who retired after June 30, 2005 and before July 1, 2007 the retiree contribution is set at 1% of 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 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 salary or final average salary, whichever applies.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

RPSPP employer contribution requirements are established by the Office of Administration and the Office of the Budget. During the fiscal year ended June 30, 2017 participating agencies contributed \$1,140 (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, 2017, the Commonwealth funded \$603,720 (estimated) and \$122,870 (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, 2017, 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. Determinations of advance funding amounts are evaluated annually.

GASB 45 Employer Reporting:

Annual OPEB cost and actual contributions of participating employers:

As of and for the fiscal year ended June 30, 2017	REHP	RPSPP	Judiciary	House	Senate	Total
Annual required contributions.....	\$ 1,098,431	\$ 322,954	\$ 44,808	\$ 52,039	\$ 19,989	\$ 1,538,221
Interest on net OPEB obligation.....	116,664	49,817	8,048	11,021	4,402	\$ 189,952
Adjustment to annual required contribution.....	(107,805)	(46,034)	(7,130)	(15,036)	3,053	\$ (172,952)
Total Annual OPEB cost (expense).....	1,107,290	326,737	45,726	48,024	27,444	\$ 1,555,221
Qualifying contributions.....	(653,720)	(123,870)	(28,603)	(18,692)	(8,248)	\$ (833,133)
Increase in net OPEB obligation.....	453,570	202,867	17,123	29,332	19,196	\$ 722,088
Net OPEB obligation, July 1, 2016.....	2,333,280	996,340	160,963	244,918	125,778	\$ 3,861,279
<b>Net OPEB obligation, June 30, 2017.....</b>	<b>2,786,850</b>	<b>1,199,207</b>	<b>178,086</b>	<b>274,250</b>	<b>144,974</b>	<b>\$ 4,583,367</b>

The net OPEB obligation attributable to REHP at June 30, 2017 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, 2017, 2016 and 2015 is as follows:

	REHP	RPSPP	Judiciary	House	Senate	Total
<b>For the fiscal year ended June 30, 2017</b>						
Annual OPEB cost.....	\$ 1,107,290	\$ 326,737	\$ 45,726	\$ 48,024	\$ 27,444	\$ 1,555,221
Percentage of annual OPEB cost contributed.....	59%	38%	63%	39%	30%	54%
Net OPEB obligation.....	\$ 2,786,850	\$ 1,199,207	\$ 178,086	\$ 274,250	\$ 144,974	\$ 4,583,367
<b>For the fiscal year ended June 30, 2016</b>						
Annual OPEB cost.....	\$ 1,169,880	\$ 257,890	\$ 43,647	\$ 42,620	\$ 26,130	\$ 1,540,167
Percentage of annual OPEB cost contributed.....	70%	35%	48%	40%	31%	62%
Net OPEB obligation.....	\$ 2,333,280	\$ 996,340	\$ 160,963	\$ 244,918	\$ 125,778	\$ 3,861,279
<b>For the fiscal year ended June 30, 2015</b>						
Annual OPEB cost.....	\$ 1,136,810	\$ 246,650	\$ 41,495	\$ 43,065	\$ 17,394	\$ 1,485,414
Percentage of annual OPEB cost contributed.....	70%	33%	58%	37%	39%	62%
Net OPEB obligation.....	\$ 1,979,110	\$ 829,030	\$ 138,305	\$ 219,397	\$ 107,869	\$ 3,273,711



NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Funded status of the OPEB plans as of the most recent valuation is as follows:

	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, 2017	\$ 313,226	\$ 16,546,732	\$ 16,233,506	1.89%	\$ 4,485,281	362%
RPSPP.....	January 1, 2017	88,297	4,875,372	4,787,075	1.81%	411,026	1165%
Judiciary.....	July 1, 2016	-	586,100	586,100	-	204,500	287%
House.....	July 1, 2016	-	493,897	493,897	-	92,898	532%
Senate.....	July 1, 2015	-	317,614	317,614	-	46,113	689%
<b>Total.....</b>		<b>\$ 401,523</b>	<b>\$ 22,819,715</b>	<b>\$ 22,418,192</b>		<b>\$ 5,239,818</b>	<b>428%</b>

The REHP and RPSPP data in the preceding charts was obtained from an actuarial valuation, prepared by an independent actuary, as of January 1, 2017 using census data collected as of December 2016 and health care claims costs for calendar year 2016. 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, 2017. 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.

GASB 74 Plan Reporting:

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:	5.00%
Inflation rate assumption:	2.60%

Healthcare cost trend increases:	Initial Rate		Ultimate Rate	
	REHP	RPSPP	REHP	RPSPP
<b>Medicare-Retiree</b>				
Medical benefits (REHP)	6.0	--	3.9	--
<b>Non-Medicare Retiree</b>				
Medical benefits (REHP)	6.0	--	3.9	--
Medical benefits (RPSPP)	--	6.0	--	3.9
Pharmacy benefits	6.0	6.0	3.9	3.9
Dental benefits (RPSPP)	--	6.0	--	3.9
Part B premiums	--	6.0	--	3.9

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

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

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.

**Investments:** The assets of both the REHP and RPSPP are managed by the Commonwealth's Treasury in an investment pool. The OPEB investments are made based upon an interagency agreement, dated June 17, 2008, and the prudent investor standard set forth in the Commonwealth of Pennsylvania's fiscal code 72P.S. §30.1, amendment to the fiscal code, the principles of Prudent Investors Standards.

Asset Class	<u>REHP</u> Target Allocation	<u>RPSPP</u> Target Allocation
US Equity.....	47.00%	47.00%
Non-US Equity.....	20.00%	20.00%
US Fixed Income.....	25.00%	25.00%
Real Estate.....	8.00%	8.00%
Cash.....	0.00%	0.00%
<b>Total .....</b>	<b>100.00%</b>	<b>100.00%</b>

**Concentration:** Based on a portfolio value of \$282,429 for the REHP and \$93,666 for the RPSPP, the following investment concentrations existed as of June 30, 2017. In order to achieve the target return and to keep costs low, asset classes have been populated with Exchange-Traded Funds (ETFs) and low cost mutual funds.

Issuer Name	<u>REHP</u>		<u>RPSPP</u>	
	Amount	% of Total Portfolio	Amount	% of Total Portfolio
ISHARES.....	\$ 115,202	40.81%	\$ 38,207	40.81%
VANGUARD.....	\$ 68,900	24.41%	\$ 22,851	24.41%
SPDR S&P 500.....	\$ 35,051	12.42%	\$ 11,625	12.42%
MACQUARIE.....	\$ 26,335	9.33%	\$ 8,734	9.33%
POWERSHARES.....	\$ 24,187	8.57%	\$ 8,022	8.57%

**Rate of Return:** For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense was 13.27%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts invested.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Net OPEB Liability:** The components of the net OPEB liability for the Commonwealth at June 30, 2017 were as follows:

	REHP	RPSPP
Total OPEB liability.....	\$ 20,336,764	\$ 6,209,658
Plan fiduciary net position.....	(282,429)	(93,666)
<b>Plan net OPEB liability.....</b>	<b>\$ 20,054,335</b>	<b>\$ 6,115,992</b>
 Plan fiduciary net position as a percentage of the total OPEB liability.....	1.39%	1.51%

**Actuarial assumptions:** The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	REHP	RPSPP
Inflation.....	2.60%	2.60%
Salary increases.....	2.90%	2.90%
Investment rate of return.....	5.00%	5.00%
Healthcare cost trend rates.....	6.00%	6.00%

Mortality rates were based on the RP-2000 Male and Female Combined Health Mortality Tables projected (using Projection Scale AA) to 2016 for males and to 2020 for females, and then further adjusted to ensure sufficient margin improvement in certain age ranges. Disabled participants mortality rates were based on the RP-2000 Male and Female Disabled Retiree Mortality Tables projected (using Projection Scale AA) to 2021 for males and to 2017 for females. Each table includes a margin for future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2017 valuation were based on the State Employees' Retirement System (SERS) experience study that covered the years 2011 through 2015. The approved recommendations from that study were used to determine the assumptions for this valuation, where applicable. The inflation assumption was selected by the SERS Board during an April 2017 meeting based on a review of actual plan experience and the prevalent economic outlook. Consistent with prior valuations, these demographic assumptions assume beginning of year decrements (retirement, withdrawal, death, disability, etc.).

The long-term expected rate of return on OPEB plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	REHP	RPSPP
International equity.....	8.50%	8.50%
Domestic equity.....	7.50%	7.50%
Real estate.....	7.50%	7.50%
Fixed income.....	3.00%	3.00%
Cash and cash equivalents.....	1.00%	1.00%

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Discount rate:** The discount rate used to measure the total OPEB liability was 3.58% as of June 30, 2017. This single discount rate was based on the 20-year Bond Buyer GO Index municipal bond rate as of the end of June 2017. Since REHP and RPSPP have insufficient assets to meet next year's projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each fiscal year end assumed that employer contributions will be made based on the current funding policy for future years.

**Sensitivity of the net OPEB liability to changes in the discount rate:** The following presents the net OPEB liability of the Commonwealth, as well as what the Commonwealth's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current discount rate:

Net OPEB Liability	Discount Rate		
	1% Decrease 2.58%	3.58%	1% Increase 4.58%
REHP.....	\$ 23,510,588	\$ 20,054,335	\$ 17,751,889
RPSPP.....	\$ 7,360,657	\$ 6,115,992	\$ 5,301,271

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates:** The following presents the net OPEB liability of the Commonwealth, as well as what the Commonwealth's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates.

Net OPEB Liability	Healthcare Cost Trend Rates		
	1% Decrease 5.0% decreasing to 2.9%	6.0% decreasing to 3.9%	1% Increase 7.0% decreasing to 4.9%
REHP.....	\$ 17,378,880	\$ 20,054,335	\$ 24,046,862
RPSPP.....	\$ 5,261,807	\$ 6,115,992	\$ 7,413,819

**PSERS OPEB Plans:**

The Public School Employees Retirement System (PSERS) provides two voluntary postemployment healthcare programs for all eligible retired public school employees (annuitants) who qualify and elect to participate. The Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP).

Under the Premium Assistance employer contribution rates are established to provide reserves that are sufficient for the Premium Assistance benefits for each succeeding year. For June 30, 2017, the employer contribution to the Premium Assistance was 0.83% of the total employer contribution to the PSERS. Participating eligible annuitants are entitled to receive the lesser of \$100 per month or their out-of-pocket monthly health insurance premium

The HOP is a voluntary health insurance program for the sole benefit of annuitants, spouses of annuitants, survivor annuitants and their dependents. The HOP is funded exclusively by the premiums paid by its participants. Participants may select among two self-funded Medicare supplement plans, three Medicare Rx plans, and multiple Medicare Advantage plans. Participants not eligible for Medicare have a choice of a self-funded high deductible indemnity plan and multiple managed care plans. The HOP maintains reserves for claims that are Incurred But Not Reported (IBNR) and for claim fluctuation for the self-funded benefit plans. At June 30, 2017, the PSERS recorded \$16,329 in IBNR.

**NOTE 11 - 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 \$105,049 at June 30, 2017. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled \$973,612 at June 30, 2017. 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 \$376,255 and \$1,370,585 respectively, at June 30, 2017. 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, 2017. The USTIF has assets of \$340,165 at June 30, 2017. Owners and operators will be assessed for any claims exceeding assets and no financial liability is reported for those claims.

**NOTE 12 - 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 REHP and the RPSPP. 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, 2017 total employer contributions for active employees amounted to approximately \$980,008; active employee contributions amounted to approximately \$122,211. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2017, for the active employees benefit program, the PEBTF reported total assets of \$577,254, total liabilities of \$3,085, total benefit obligations of \$103,945, and an excess of net assets over benefit obligations of \$470,224. During the fiscal year ended June 30, 2017 the PEBTF reported an increase in net assets over benefit obligations of \$85,595 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, 2017. 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 13 – TAX ABATEMENTS

## Tax Abatements

A tax abatement is an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. As of June 30, 2017, the Commonwealth of Pennsylvania provided tax abatements through the following programs listed in alphabetical order:

- The Education Tax Credit, previously known as the Educational Improvement Tax Credit (EITC), is administered by DCED under Article XX-B of the Public School Code of 1949 to provide an incentive for Pennsylvania businesses to make contributions to a list of pre-approved Scholarship Organizations (SO), Educational Improvement Organizations (EIO), or Pre-Kindergarten Scholarship Organizations (PKSO). For both SOs and EIOs, businesses may apply to DCED for a tax credit equal to 75% of the contribution for a one-year pledge, or 90% of the contribution for a two-year pledge, up to \$750 thousand annually. For PKSOs, businesses may apply for a tax credit equal to 100% of the first \$10 thousand, and 90% of any additional amount up to \$200 thousand. After receiving the approved application from DCED, the business must make the contribution within 60 days, and provide DCED a written acknowledgement with proof within 90 days. If proof is not received, the tax credit approval is void. For two-year applications, if the second year contribution is not made, the prior year credit is reduced to 75%. Applications are approved first come/first served. Tax credits are applied against the tax liability in the year of the contribution or the following year if a pass-through entity. Credits may not be carried forward or sold, and total credits for the program cannot exceed \$125 million annually (\$75 million for SOs, \$37.5 million for EIOs, and \$12.5 million for PKSOs). If EITC's total program credits have been met, an applicant may elect to have the application be considered for the Opportunity Scholarship Tax Credit program instead. Tax credits may be utilized against the following taxes: corporate net income, personal income, insurance premiums, bank and trust company shares, mutual thrift institutions, title insurance company shares, malt beverage, and surplus lines tax for retaliatory fees. For the fiscal year ended June 30, 2017, \$116.8 million in taxes were abated.
- The Film Production Tax Credit is administered by DCED under Article XVII-D of the Tax Reform Code of 1971, and encourages production of films, television commercials, or television shows within the Commonwealth. To be eligible, the productions must be for a national audience, and production companies must spend a minimum of 60% of their total budgets on qualified Pennsylvania expenses. The budget must be approved by DCED. Tax credits are calculated at 25% of qualified Pennsylvania expenses, with an option of an additional 5% if filming is at a qualified facility within the Commonwealth. The total tax credits for an individual project are capped at 20% of the total annual program budget of \$60 million. The taxpayer also agrees to submit monthly progress reports and an independently audited report of expenses upon completion of the project. If the agreed upon qualified film production expenses are not incurred, the taxpayer must repay the Commonwealth the amount of tax credit claimed. Tax credits may be carried forward three years, and after the initial filing may be sold to an approved business. Tax credits may be utilized against the following taxes: corporate net income, personal income, insurance premiums, bank and trust company shares, mutual thrift institutions, and title insurance company shares. For the fiscal year ended June 30, 2017, \$60 million in taxes were abated.
- The Keystone Innovation Zone Program (KIZ) is administered by the Ben Franklin Technology Development Authority (BFTDA) and DCED under Article XIX-F of the Tax Reform Code of 1971, and fosters entrepreneurial opportunities for young companies to grow in designated geographic areas. Each KIZ has a keystone innovation zone partnership and coordinator that develops a strategic plan for the targeted industry segments they are promoting. To be eligible for the tax credit a business must be located within a designated KIZ geographic area, must be in operation less than eight

## NOTE 13 - TAX ABATEMENTS (continued)

years, and must be within the specific KIZ's targeted industry sectors. Businesses must work with the KIZ coordinator prior to applying for the KIZ tax credit. Tax credits are awarded for 50% of the increase of revenues within the KIZ between the first and second year after application, up to \$100 thousand. If a business has operations outside the zone, the revenues are attributed based on property and payroll factors. If there is no payroll within the KIZ, the tax credit may be reduced. If there is no property or payroll within the KIZ, the business is ineligible. Businesses must report semi-annually through the KIZ Force reporting tool. If tax credits awarded exceed the \$15 million annual program cap, tax credits are prorated between recipients. Tax credits may be carried forward four years, and may be sold to an approved buyer after the initial year's filed taxes. Tax credits may be utilized against the following taxes: corporate net income and personal income. For the fiscal year ended June 30, 2017, \$21.1 million in taxes were abated. Total taxes abated may exceed the annual cap of tax credits issued due to timing of redemption.

- The Keystone Opportunity Zone Program (KOZ) is administered by DCED under Chapter 16B of PS 73 Trade and Commerce and Article XIX-D of the Tax Reform Code of 1971, and is designed to create economic development in designated zones within the Commonwealth by providing tax abatements to businesses and residents located within the zones. While zones are in effect, qualified applicants within the zone are eligible to have tax liabilities waived for corporate net income tax, personal income tax, sales and use tax, mutual thrift institutions tax, bank and trust company shares tax, and insurance premiums tax. Businesses that cease operations in a KOZ within five years of first receiving tax benefits must repay a prorated percentage of the taxes abated; 66% if within three years or 33% if within four to five years. Existing Pennsylvania businesses relocating to the zone must satisfy one of the following relocation requirements to be eligible: increase full-time employment by at least 20% in the first year of operating within the KOZ; make a capital investment of at least 10% of the business' gross revenues of the year prior to relocating to the KOZ; or enter a lease agreement for the duration of the KOZ with aggregate lease payments of at least 5% of gross revenues of the year prior to relocating to the KOZ. Additionally, qualified businesses who are in the transportation, pipeline, gas, or insurance industries are eligible to apply for a tax credit of \$1,250 for each new full-time job created. Tax credits may be applied up to 50% of their tax liability, and if tax credits exceed the annual program cap of \$1 million the tax credits will be allocated on a pro-rated basis. Insurance companies may apply the tax credits against their insurance premium tax liability. The qualified transportation, pipeline, and gas business are specifically excluded from eligibility to waive corporate net income and personal income, and instead may apply the tax credits against their corporate net income and personal income liabilities. KOZ applicants may not claim or accumulate the Tax Credit for New Jobs, the Research and Development tax credit, or the Neighborhood Assistance Program tax credit. Qualified businesses must also be fully compliant with all state and local taxes and building codes, and within their annual renewal should include reporting on the jobs and private investment created within the KOZ. For residents to be eligible for tax waiver of personal income tax they must reside 184 consecutive days in the zone during each tax year, and comply with all state and local tax laws. In conjunction with the KOZ, the Commonwealth also at times committed to providing other economic growth opportunities in the form of grants and training reimbursements. For the fiscal year ended June 30, 2017, \$78 million in taxes were abated.
- The Neighborhood Assistance Programs are administered by DCED under Article XIX-A of the Tax Reform Code of 1971, and provides an incentive for Pennsylvania business to contribute to approved neighborhood organizations' projects or otherwise provide qualified assistance to impoverished areas. There are five subset programs to Neighborhood Assistance Program tax credit program: the Neighborhood Assistance Program (NAP) is for contributions for projects to improve distressed communities, the Special Program Priorities (SPP) targets Commonwealth designated priority problems or projects within a distressed area, the Neighborhood Partnership Program (NPP) works holistically on multiple projects and contributions must be for five or more years, the Charitable Food Program (CFP) supports nonprofit regional food banks, and the Enterprise Zone Program (EZP) allows businesses in distressed areas to receive tax credits for investing directly in the construction costs of rehabilitating or improving buildings or land. The eligibility



## NOTE 13 - TAX ABATEMENTS (continued)

requirements and tax credit awards vary by subset program. In order to be eligible for the NAP, SPP, NPP and CFP tax credits, a business must provide to DCED a letter of commitment on corporate letterhead to contribute to an approved neighborhood organization's project in one of these subset programs. Upon approval, the contribution must be made within 12 months, and the business must submit proof of contribution to DCED within 18 months to receive the tax credit certificate. The neighborhood organization must use the donation on the approved project within 15 months of the donation. Tax credits are awarded at 55% of the contribution for NAPs, 75% of the contribution for SPPs, 75-80% for Neighborhood Partnership Programs, and 55% for Charitable Food Programs. The tax credit per business is capped at \$500 thousand for contributions to three or fewer projects or \$1.25 million for four or more projects. In order to be eligible for the EZP, a business must invest in the rehabilitation, expansion, improvement, engineering, architecture or acquisition of a building or land within a designated Enterprise Zone distressed community. The business must additionally provide full-time employment opportunities with benefits at a defined family sustainable wage. The tax credits are awarded at 25% of the investment up to a \$500 thousand limit per business. The Neighborhood Assistance Programs combined annual cap is \$18 million. Tax credits must be applied against the business' tax liability, can be carried forward five years, and after the initial filing may be sold to an approved business. The tax credits may be utilized against the following taxes: corporate net income, personal income, bank and trust company shares, mutual thrift institutions, insurance premiums, and title insurance. For the fiscal year ended June 30, 2017, \$18 million in taxes were abated.

- The Opportunity Scholarship Tax Credit (OSTC) is administered by DCED under Article XX-B of the Public School Code of 1949, and allows for businesses to receive tax credits for contributions to a list of pre-approved scholarship organizations. Businesses may apply to DCED for a tax credit equal to 75% of the contribution for a one-year pledge, or 90% of the contribution for a two-year pledge, up to \$750 thousand annually. After receiving the approved application from DCED, the business must make the contribution within 60 days, and provide DCED a written acknowledgement with proof within 90 days of the approved application. If proof is not received, the tax credit approval is void. Applications are approved first come/first served. Tax credits may not be sold, and total credits for the program cannot exceed \$50 million annually. If program thresholds are not met in a given year, the remaining balance will be available to the waiting list of the Education Tax Credit Program for Scholarship Organizations and Pre-Kindergarten Organizations, but not for Educational Improvement Organizations. Tax credits may be utilized against the following taxes: corporate net income, personal income, insurance premiums, bank and trust company shares, mutual thrift institutions, title insurance company shares, malt beverage, and retaliatory fees. For the fiscal year ended June 30, 2017, \$32.6 million in taxes were abated.
- The Resource Enhancement and Protection Tax Credit (REAP) is administered by the State Conservation Commission (SCC) under Article XVII-E of the Tax Reform Code of 1971 and provides an incentive for farmers and agricultural businesses to institute "Best Management Practices" (BMP) to protect Pennsylvania natural resources. Pennsylvania farmers or businesses must apply to the SCC with a qualified proposed or completed BMP project; and must agree to maintain the BMP for the life span of the practice as defined by the SCC. Tax credits are awarded at 50% - 75% of eligible implementation costs, dependent on the type of BMP, up to \$150 thousand per agricultural operation. The program is first come/first served up to the annual program cap of \$10 million. The tax credit must be first applied against the tax liability in the year of issuance, may be carried forward 15 years, and after the initial filing may be sold to an approved business. If the BMP is not maintained for the entire defined life span, all tax credits must be refunded. Tax credits may be utilized against the following taxes: corporate net income, personal income, bank and trust company shares, mutual thrift institutions, insurance premiums, and title insurance company shares. For the fiscal year ended June 30, 2017, \$5.4 million in taxes were abated.

**NOTE 13 - TAX ABATEMENTS (continued)**

- The Tax Credit for New Jobs, formerly and more commonly known as the Job Creation Tax Credit (JCTC) is administered by the Department of Community and Economic Development (DCED) under Article XVIII-B of the Tax Reform Code of 1971, and promotes economic growth through the expansion of jobs at existing or new Pennsylvania businesses. To be eligible to receive the JCTC, the business must apply to DCED with a plan of the anticipated number of jobs to be created. At a minimum, a business must agree to create 25 or more new full-time jobs or increase employment by 20% in Pennsylvania, and once approved by DCED the business has three years after an assigned start date to create the full-time jobs. To qualify as a full-time position, the employee must earn an hourly wage of at least 150% of the federal minimum wage. Additionally, the business must demonstrate financial stability, leadership in business technology or innovation, and that the business decision to expand or locate within the Commonwealth was based in part on the JCTC opportunity. Businesses must also agree to maintain operations for five years from the start date. Although businesses do not receive the tax credit until after the jobs are created, if businesses do not maintain operations for five years all tax credits must be refunded. If a business does not create the required promised number of jobs, penalties may be assessed. The tax credit is awarded at \$1 thousand per full-time job or \$2.5 thousand if the job is filled by a veteran or unemployed individual. The JCTC is awarded first come/first served, up to the annual program cap of \$10.1 million. Additionally, a minimum of 25% of all credits must be awarded to small businesses with 100 or less employees. Tax credits can be applied up to 100% of the business' tax liability, must be claimed within five years of the tax credit certificate, and may not be sold. Tax credits may be utilized against the following taxes: corporate net income, personal income, bank and trust company shares, mutual thrift institutions, gross receipts, gross premiums, and title insurance company shares. In conjunction with the JCTC, the Commonwealth also at times committed to providing other economic growth opportunities in the form of grants, loans, and training reimbursements. For the fiscal year ended June 30, 2017, \$10.1 million in taxes were abated.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

**Construction and Other Commitments:** At June 30, 2017 the Department of Transportation (DOT) had contractual commitments of approximately \$1,271,240 for various DOT highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately \$5,632,818 at June 30, 2017. 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.....	\$ 489,822
Motor License Fund.....	320,058
Capital Facilities Fund.....	1,297,722
Other nonmajor funds.....	<u>397,633</u>
Total.....	<u>\$ 2,505,235</u>

**Investment Commitments:** At June 30, 2017, the Treasury Commonwealth Investment Program had capital commitments of \$261,624 to fund alternative investments, of which \$10,579 was unfunded. At June 30, 2017, the **Tuition Payment Fund** had capital commitments of \$350,992 to fund alternative investments, of which \$27,948 was unfunded.

**Loan and Grant Commitments:** At June 30, 2017 primary government funds had approved \$5,160 in loans that had not been disbursed. Also at June 30, 2017 the **Commonwealth Financing Authority (CFA)**, a blended component unit, had approved loans and grants that had not been disbursed of \$296,534.

**Operating Lease Commitments:** As of June 30, 2017, the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2017 were as follows:

Fiscal year ending June 30:	
2018.....	\$ 218,707
2019.....	169,631
2020.....	144,276
2021.....	121,477
2022.....	107,621
2023-27.....	377,143
2028-32.....	163,128
2033-37.....	<u>18,835</u>
Total Minimum Lease Payments.....	<u>\$ 1,320,818</u>

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2017 amounted to \$327,315.

**Child Support Payments:** At June 30, 2017, the Commonwealth was contingently liable for approximately \$19,066 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, 2017 with respect to torts as described in Note 8 for probable losses, and, separately, other general long-term obligations with respect to litigation cases in the amount of \$1,200 for which the likelihood of an unfavorable outcome is probable.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)**

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible and may impair future revenue sources. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately \$17,000 to \$1,000,000 for the **General Fund**; \$0 to \$178,000 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 \$0 to \$1,000,000. The liability for these cases has not been recorded as of June 30, 2017.

**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 \$314,000 at June 30, 2017. 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, 2017, the amount of future payments owed to prizewinners was \$553,519. 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, 2017, prizewinners had voluntarily assigned future payments of \$572,573.

**Pennsylvania Turnpike Commission (PTC):** The PTC, a discretely presented component unit, had \$994,773 of Special Revenue Bonds outstanding at May 31, 2017. 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, 2017, total interest and principal due on the \$994,773 of special revenue bonds outstanding at May 31, 2017 will amount to \$41,895 and \$3,255, respectively. Disclosures related to the PTC's special revenue bonds payable as of May 31, 2017 are provided in Note 16 to the basic financial statements.

**Loan Guarantees:** The **CFA**, through various economic development programs, provided loan guarantees as of June 30, 2017 as follows:

First Industries Loan Guarantees	\$ 24,386
Tax Increment Financing Guarantees	21,758
New Pennsylvania Venture Guarantees	<u>56,365</u>
Total loan guarantees	<u>\$ 102,509</u>

**NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)**

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 the New Pennsylvania Venture Guarantee Program extend throughout the life of the investment portfolio. The guarantees related to the Tax Increment Financing Guarantee and First Industries programs extend through July 1, 2032 and July 15, 2035, respectively, as of June 30, 2017.

**Nonexchange Financial Guarantees:** As of June 30, 2017, the Commonwealth, in accordance with Act 52 of 2013 as amended by Act 84 of 2016, has guaranteed the 26-year, \$6,080 December 2015 general obligation bond issuance of the Lancaster City Revitalization and Improvement Zone (CRIZ) Authority, a legally separate authority operating as a component unit of the City of Lancaster. The bonds mature in varying annual installments, plus interest, beginning December 2017 through December 2041. The Commonwealth has also guaranteed the five-year, \$2,600 note payable of the Lancaster CRIZ Authority, payable to the Lancaster County Convention Center Authority. The note matures in 2020, with varying annual installments, carrying a 0% interest rate. In the event the Lancaster CRIZ Authority is unable to make payment on these obligations, the Commonwealth will be required to make that payment on behalf of the Lancaster CRIZ Authority under a borrowing provision within the CRIZ law.

The **CFA** has recognized a liability for nonexchange financial guarantees at June 30, 2017 of \$16,814 and has made cumulative payments of \$8,805 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.

<u>Balance</u>			<u>Balance</u>
<u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>
\$ 12,124	\$ 5,618	\$ 928	\$ 16,814

**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, 2017 the primary government paid a service fee in the amount of \$151,888. Disclosures related to the **CFA**'s \$2,260,225 of revenue bonds payable are provided in Note 6 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

**NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)**

revenues are currently projected to be adequate to pay all debt service on the Arena Bonds, to the extent such revenues in any year are 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, 2017 the actual amount appropriated to support the SEA debt service was \$5,410.

**NOTE 15 – 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, 2017, governmental and business-type activities, respectively, reported net investment in capital assets of \$31,540,865 and \$556,457.

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, 2017, governmental and business-type activities, respectively, reported \$2,164,077 and \$2,443,734 of restricted net position. Net position restricted for other purposes of \$135,536 for business-type activities at June 30, 2017 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, 2017, governmental and business-type activities, respectively, reported unrestricted net position deficits of \$21,275,848 and \$2,274,990.

**Governmental Funds Fund Balance:** Reported fund balance within individual governmental funds is categorized between nonspendable and spendable categories. At June 30, 2017 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, 2017, 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, 2017:

NOTE 15 – 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.....	\$ 7,475	\$ -	\$ -	\$ 7,475
Long-term loans receivable.....	45,769	-	-	45,769
Due from component unit.....	165,099	-	-	165,099
<b>Total nonspendable.....</b>	<b>218,343</b>	<b>-</b>	<b>-</b>	<b>218,343</b>
<b>Restricted for:</b>				
General government operations.....	78	-	-	78
Health-related programs.....	-	-	14,127	14,127
Transportation.....	-	1,009,113	732,670	1,741,783
Unemployment/worker's compensation.....	-	-	991,159	991,159
Environmental and conservation programs.....	-	-	640,755	640,755
Economic development.....	-	-	16,015	16,015
Gaming/horse racing regulation.....	-	-	561,368	561,368
Correctional industries and procurement.....	-	-	71,313	71,313
Emergency support.....	-	-	95,243	95,243
<b>Total restricted.....</b>	<b>78</b>	<b>1,009,113</b>	<b>3,122,650</b>	<b>4,131,841</b>
<b>Committed for:</b>				
General government operations.....	1,851,073	-	-	1,851,073
Health-related programs.....	-	-	119,486	119,486
Transportation.....	-	-	45,966	45,966
Capital projects.....	-	-	1,133,278	1,133,278
Debt service.....	-	-	7,240	7,240
Elderly programs.....	65,110	-	-	65,110
Environmental and conservation programs.....	118,841	-	39,888	158,729
Economic development.....	122,711	-	-	122,711
Higher education.....	163,623	-	-	163,623
<b>Total committed.....</b>	<b>2,321,358</b>	<b>-</b>	<b>1,345,858</b>	<b>3,667,216</b>
<b>Unassigned:</b>				
Deficit.....	(3,237,347)	-	(42,077)	(3,279,424)
<b>Total fund balances.....</b>	<b>\$ (697,568)</b>	<b>\$ 1,009,113</b>	<b>\$ 4,426,431</b>	<b>\$ 4,737,976</b>

A portion of the nonspendable fund balance reported by the **General Fund**, \$7,475, is applicable to advances to other funds at June 30, 2017 as follows: \$2,300 to the **State Workers' Insurance Fund**, an enterprise fund; \$2,175 to the **Motor License Fund** and \$3,000 to the Medical Marijuana Program Fund, both special revenue funds, respectively.

**Governmental Funds Fund Balance Deficit:** In addition to the **General Fund**, the Uninsured Employers' Guaranty Fund and the Medical Marijuana Program Fund, both special revenue funds, reported fund balance deficits of \$4,766 and \$37,311, respectively, at June 30, 2017.

**Proprietary Funds Net Position:** Nonmajor enterprise funds reported total restricted net position for "other purposes" of \$135,536 at June 30, 2017 for the following programs: mine subsidence insurance, \$123,206; vocational rehabilitation,



**NOTE 15 – NET POSITION AND FUND BALANCE (continued)**

\$1,911; maintain historical properties, \$5,195; restaurant maintenance in state facilities, \$969; and local government loans, \$4,255.

**Proprietary Funds Unrestricted Net Position Deficits:** In addition to unrestricted net position deficits reported in four of the six major enterprise funds (**State Workers' Insurance Fund**, **State Lottery Fund**, **State Stores Fund** and the **Commonwealth Financing Authority**, a blended component unit), two 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, 2017. These enterprise funds reported the following unrestricted net position deficits at June 30, 2017: the Rehabilitation Center Fund, \$14,913; and the Philadelphia Regional Port Authority (a blended component unit), \$1,066.

The Purchasing Fund, an internal service fund, reported an unrestricted net position deficit of \$20,256 at June 30, 2017. 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 16 – 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.

**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 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

<u>Investment Type/Fair Value</u>	<u>PTC</u>	<u>PHFA</u>	<u>PHEAA</u>	<u>PENNVEST</u>	<u>SSHE</u>
Asset backed securities.....					
Level 2.....	\$ -	\$ -	\$ -	\$ -	\$ 103,492
Bond mutual funds.....					
Level 1.....	-	-	-	-	1,058
Level 2.....	-	-	-	-	1,321
NAV.....	-	-	-	-	11,457
Commercial paper.....					
Level 2.....	-	-	39,475	-	218,032
Common stock.....					
Level 1.....	-	-	-	-	2,489
Commonwealth investment pool.....					
Level 2.....	-	-	-	1,372,184	-
Level 3.....	-	-	573,637	-	-
Corporate obligations.....					
Level 2.....	555,789	-	-	-	262,660
Debt securities.....					
Level 2.....	-	-	-	-	80
Equity balanced mutual funds.....					
Level 1.....	-	-	-	-	5,932
Level 2.....	-	-	-	-	5,993
Level 3.....	-	-	-	-	9,361
NAV.....	-	-	-	-	21,692
Federal agency discount notes.....					
Level 2.....	-	-	49,054	-	-
GNMA mortgages.....					
Level 2.....	2,340	-	-	-	-
Investment derivatives.....					
Level 2.....	9,820	-	-	-	-
Money market mutual funds.....					
Level 1.....	-	-	303,846	-	-
Level 2.....	-	-	98,355	-	141,939
Mortgage-backed securities.....					
Level 2.....	-	184,152	-	-	199,721
Municipal bonds.....					
Level 2.....	99,557	-	-	-	-
U.S. Government agency obligations.....					
Level 2.....	164,276	82,076	-	-	362,556
U.S. Treasury obligations.....					
Level 1.....	<u>383,019</u>	<u>91,624</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal Level 1.....	383,019	91,624	303,846	-	9,479
Subtotal Level 2.....	831,782	266,228	186,884	1,372,184	1,295,794
Subtotal Level 3.....	-	-	573,637	-	9,361
Subtotal NAV.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,149</u>
Total.....	<u>\$ 1,214,801</u>	<u>\$ 357,852</u>	<u>\$1,064,367</u>	<u>\$1,372,184</u>	<u>\$ 1,347,783</u>

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)****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.

At May 31, 2017, \$32,500 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 \$63,103 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 \$15,500 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 Pennsylvania State System of Higher Education (SSHE) held \$13,670 of uninsured and uncollateralized deposits of which \$13,149 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

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

its deposit and investment policies, diversifying the investment portfolio and prequalifying firms with which PHFA administers its investment activities.

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

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 person” 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, 2017 (May 31, 2017 for the PTC) are as follows:

<b>Investment Type</b>	<b>PTC</b>	<b>PHFA</b>	<b>PHEAA</b>	<b>PENNVEST</b>	<b>SSHE</b>
Asset-backed securities.....	\$ -	\$ -	\$ -	\$ -	\$ 103,492
Bond mutual funds.....	-	-	-	-	13,836
Commercial paper.....	-	-	39,475	-	218,032
Common stock.....	-	-	-	-	2,489
Corporate obligations.....	555,789	-	-	-	262,660
Debt securities.....	-	-	-	-	80
Derivatives.....	9,820	-	-	-	-
Equity/balanced mutual funds.....	-	-	-	-	42,978
Federal agency discount notes.....	-	-	49,054	-	-
GNMA mortgages.....	2,340	-	-	-	-
Money market mutual funds.....	-	-	402,201	-	141,939
Mortgage backed securities.....	-	184,152	-	-	199,721
Municipal bonds.....	99,557	-	-	-	-
Securities lending collateral.....	-	-	-	39,454	-
Commonwealth Investment Program.....	-	-	573,637	1,372,184	-
U.S. Government and agency obligations.....	164,276	82,076	-	-	362,556
U.S. Treasury obligations.....	383,019	91,624	-	-	-
<b>Total investments.....</b>	<b>1,214,801</b>	<b>357,852</b>	<b>1,064,367</b>	<b>1,411,638</b>	<b>1,347,783</b>
Certificates of deposit.....	-	-	-	-	14
<b>Total investments and certificates of deposits...</b>	<b>\$ 1,214,801</b>	<b>\$ 357,852</b>	<b>\$ 1,064,367</b>	<b>\$ 1,411,638</b>	<b>\$ 1,347,797</b>

Note: Total investments by type does not include \$501,331 of investments reported by component units of the SSHE.

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**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, 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, 2017, 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, 2017, the PHEAA had investments in federal agency discount notes (Federal Home Loan Bank) that were less than 5% of their total cash equivalents and 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, 2017:

<u>Issuer Name</u>	<u>PHFA</u>
Government National Mortgage Association.....	\$ 99,831
Tennessee Valley Authority.....	65,259
Federal Farm Credit Bank.....	30,383
Federal Home Loan Bank.....	42,907
U.S. Treasury Department.....	91,624
	<u>\$ 330,004</u>

**NOTE 16 – 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, 2017 (May 31, 2017 for the PTC):

Moody's Investors Service	PTC	PHFA	PHEAA	PENNVEST	SSHE
Aaa.....	\$ -	\$ 156,020	\$ -	\$ -	\$ 813,619
Aa.....	2,243	-	-	-	29,856
A.....	2,108	-	-	-	164,647
Baa.....	5,469	-	-	-	59,086
Ba.....	-	-	-	-	3,140
P1.....	-	-	-	-	218,032
<b>Moody's Investors Service subtotal.....</b>	<b>9,820</b>	<b>156,020</b>	<b>-</b>	<b>-</b>	<b>1,288,380</b>
<b>Standard and Poor's</b>					
AAA.....	105,457	-	402,201	-	-
AA.....	614,754	-	-	-	-
A.....	99,029	-	39,475	-	-
Below A.....	382	-	-	-	-
<b>Standard and Poor's subtotal.....</b>	<b>819,622</b>	<b>-</b>	<b>441,676</b>	<b>-</b>	<b>-</b>
<b>Rated Subtotal.....</b>	<b>829,442</b>	<b>156,020</b>	<b>441,676</b>	<b>-</b>	<b>1,288,380</b>
<b>Unrated</b>					
Bond mutual funds.....	-	-	-	-	13,836
Debt securities.....	-	-	-	-	-
Federal agency discount notes.....	-	-	49,054	-	-
Mortgage backed securities.....	-	99,831	-	-	-
Commonwealth Investment Program.....	-	-	573,637	1,372,184	-
U.S. Government agency obligations.....	2,340	10,377	-	-	100
U.S. Treasury obligations.....	383,019	91,624	-	-	-
<b>Unrated subtotal.....</b>	<b>385,359</b>	<b>201,832</b>	<b>622,691</b>	<b>1,372,184</b>	<b>13,936</b>
<b>Total Fixed income investments.....</b>	<b>1,214,801</b>	<b>357,852</b>	<b>1,064,367</b>	<b>1,372,184</b>	<b>1,302,316</b>
<b>Variable income investments</b>					
Equity/balanced mutual funds.....	-	-	-	-	42,978
Common stock.....	-	-	-	-	2,489
<b>Variable income investments subtotal.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,467</b>
<b>Total investments.....</b>	<b>\$ 1,214,801</b>	<b>\$ 357,852</b>	<b>\$ 1,064,367</b>	<b>\$ 1,372,184</b>	<b>\$ 1,347,783</b>

Note: Total investments do not include \$501,331 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 16 – 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, 2017 and the SSHE at June 30, 2017:

Investment Type	PTC		SSHE		
	Amount	Option-Adjusted Duration	Amount	Option-Adjusted Duration	Securities with no Duration
Asset backed securities.....	\$ -	-	\$ 103,492	0.85	\$ -
Bond mutual funds.....	-	-	13,836	4.96	-
Certificates of deposit.....	-	-	-	-	14
Commercial paper.....	-	-	218,032	0.15	-
Corporate obligations.....	555,789	1.50	261,934	1.47	726
Debt securities.....	-	-	80	1.99	-
GNMA mortgages.....	2,340	3.63	-	-	-
Money market mutual funds.....	-	-	-	-	141,939
Mortgage-backed securities.....	-	-	199,721	2.29	-
Municipal bonds.....	99,557	2.34	-	-	-
U.S. Government agency obligations.....	164,276	2.26	362,556	2.10	-
U.S. Treasury obligations.....	383,019	2.53	-	-	-
<b>Total.....</b>	<b>\$1,204,981</b>		<b>\$ 1,159,651</b>		<b>\$ 142,679</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, 2017:

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.....	\$ -	\$ 84,181	\$ 99,971	\$ 184,152
U.S. Government agency obligations...	50	16,767	65,259	82,076
U.S. Treasury obligations.....	91,624	-	-	91,624
<b>Total.....</b>	<b>\$ 91,674</b>	<b>\$ 100,948</b>	<b>\$ 165,230</b>	<b>\$ 357,852</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.....	\$ 39,475	\$ -	\$ -	\$ 39,475
Money market mutual funds.....	402,201	-	-	402,201
Commonwealth Investment Program..	573,637	-	-	573,637
Federal agency discount notes.....	49,054	-	-	49,054
<b>Total.....</b>	<b>\$ 1,064,367</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,064,367</b>



**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**Derivatives**

As of May 31, 2017, the PTC in its separately-issued financial statements reported noncurrent hedging derivative instrument liabilities of \$104,125 which were offset by reported deferred outflow of resources of \$106,825 and a deferred inflow of resources of \$2,700. Changes in the net fair value of the hedging derivative instruments during the fiscal year ended May 31, 2017 (\$29,666) were deferred.

As of June 30, 2017, the PHFA, in its separately-issued financial statements, reported a noncurrent hedging derivative instrument liability of \$11,084. Changes in the fair value of the hedging derivatives of \$3,458 were deferred.

Further information regarding the nature and notional value of the hedging and investment derivative instruments of the PTC (as of May 31, 2017) and the PHFA (as of June 30, 2017) are available within their separately audited and issued financial statements.

**Loans Receivable**

Loans receivable at June 30, 2017 consisted of the following:

	<u>PHFA</u>	<u>PHEAA</u>	<u>PENNVEST</u>
Mortgage loans.....	\$ 3,424,153	\$ -	\$ -
Student loans.....	-	5,019,805	-
Drinking water, storm water and sewer system loans.....	-	-	2,545,290
<b>Subtotal.....</b>	<b>3,424,153</b>	<b>5,019,805</b>	<b>2,545,290</b>
Less: allowance for uncollectible amounts.....	180,226	6,646	40,110
<b>Loans receivable, net.....</b>	<b><u>\$ 3,243,927</u></b>	<b><u>\$ 5,013,159</u></b>	<b><u>\$ 2,505,180</u></b>

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

**Capital Assets**

A summary of capital assets by category at May 31, 2017 for PTC and June 30, 2017 for SSHE is as follows:

<b>PTC</b>	<b>Balance May 31, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance May 31, 2017</b>
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 333,934	\$ 25,276	\$ -	\$ 359,210
Construction in progress.....	1,330,627	560,091	533,767	1,356,951
<b>Subtotal.....</b>	<b>1,664,561</b>	<b>585,367</b>	<b>533,767</b>	<b>1,716,161</b>
<b>Depreciable capital assets:</b>				
Buildings.....	968,902	9,284	-	978,186
Improvements other than buildings.....	119,256	1,881	-	121,137
Equipment.....	619,779	23,077	4,556	638,300
Infrastructure.....	7,908,360	535,156	62,771	8,380,745
<b>Subtotal.....</b>	<b>9,616,297</b>	<b>569,398</b>	<b>67,327</b>	<b>10,118,368</b>
<b>Accumulated depreciation:</b>				
Buildings.....	377,111	22,720	-	399,831
Improvements other than buildings.....	78,579	4,405	-	82,984
Equipment.....	481,056	36,575	4,182	513,449
Infrastructure.....	4,826,786	290,643	8,046	5,109,383
<b>Total accumulated depreciation.....</b>	<b>5,763,532</b>	<b>354,343</b>	<b>12,228</b>	<b>6,105,647</b>
<b>Total capital assets being depreciated, net....</b>	<b>3,852,765</b>	<b>215,055</b>	<b>55,099</b>	<b>4,012,721</b>
<b>Total capital assets.....</b>	<b>\$ 5,517,326</b>	<b>\$ 800,422</b>	<b>\$ 588,866</b>	<b>\$ 5,728,882</b>
<b>SSHE</b>	<b>Balance June 30, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>
<b>Non-depreciable capital assets:</b>				
Land and intangibles.....	\$ 32,360	\$ -	\$ -	\$ 32,360
Construction in progress.....	80,012	140,455	37,164	183,303
<b>Subtotal.....</b>	<b>112,372</b>	<b>140,455</b>	<b>37,164</b>	<b>215,663</b>
<b>Depreciable capital assets:</b>				
Buildings.....	2,213,463	219,252	-	2,432,715
Improvements other than buildings.....	285,136	13,061	-	298,197
Equipment.....	470,347	25,208	7,582	487,973
Library books.....	81,314	731	1,311	80,734
<b>Subtotal.....</b>	<b>3,050,260</b>	<b>258,252</b>	<b>8,893</b>	<b>3,299,619</b>
<b>Accumulated depreciation:</b>				
Buildings.....	916,706	90,456	11,118	996,044
Improvements other than buildings.....	139,286	10,526	100	149,712
Equipment.....	379,315	29,563	13,182	395,696
Library books.....	74,036	1,723	1,311	74,448
<b>Total accumulated depreciation.....</b>	<b>1,509,343</b>	<b>132,268</b>	<b>25,711</b>	<b>1,615,900</b>
<b>Total capital assets being depreciated, net....</b>	<b>1,540,917</b>	<b>125,984</b>	<b>(16,818)</b>	<b>1,683,719</b>
<b>Total capital assets.....</b>	<b>\$ 1,653,289</b>	<b>\$ 266,439</b>	<b>\$ 20,346</b>	<b>\$ 1,899,382</b>

Note: Capital assets do not include \$1,232,488 and \$1,069,766 reported by the component units of the SSHE as of June 30, 2016 and 2017, respectively.

**NOTE 16 – 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, 2017, the PTC had capitalized \$119,400 in capital assets representing 16 service plazas that had fully completed construction and recorded deferred inflows of resources of \$91,000 related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2017 and in accordance with GASB Statement No. 60, the PTC recognized a receivable and deferred inflow of resources in the amount of \$31,700 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 October 2016, PENNVEST issued short term obligations to finance the issuance of loans to program participants. These obligations are issued in the form of bonds, and bear interest, which is due upon maturity. During the fiscal year ended June 30, 2017, PENNVEST issued two of these bonds in the aggregate principal amount of \$10,005. Interest rates on these bonds ranged from .85% to .91 % with no maturity being greater than 120 days. As of June 30, 2017, \$10,005 of these obligations remained outstanding. A schedule of changes in the short-term obligations follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>
Notes Payable.....	\$ -	10,005	-	\$ 10,005

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The PHEAA has reported \$173,150 of auction rate security bonds payable, \$4,789,647 of notes payable (consisting of student loan financings of \$200,000 and student loan floating rate notes of \$4,589,647), and \$30,154 of other obligations (consisting of capital acquisition refunding bonds of \$23,874 and term financings of \$6,280) at June 30, 2017 as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
<b>Bonds payable:</b>				
Student loan auction rate security bonds, due 2042-2044, at weighted-average rates of 2.29 % as of June 30, 2017 and 1.65 % as of June 30, 2016.....	\$ 218,200	\$ -	\$ (45,050)	\$ 173,150
<b>Notes payable:</b>				
Student loan floating rate notes, due 2028-2065 at weighted average rates of 1.95 % as of June 30, 2017 and 1.17 % as of June 30, 2016.....	4,545,443	928,223	(873,723)	4,599,943
Less: discount on student loan floating rate notes.....	(11,802)	(2,655)	4,161	(10,296)
<b>Subtotal.....</b>	<b>4,533,641</b>	<b>925,568</b>	<b>(869,562)</b>	<b>4,589,647</b>
Student loan financings, due on demand at weighted-average rates of 1.73 % as of June 30, 2017 and 1.20 % as of June 30, 2016 .....	200,000	-	-	200,000
Student loan financing warehouse facilities.....	738,213	-	(738,213)	-
<b>Total notes payable.....</b>	<b>\$ 5,471,854</b>	<b>\$ 925,568</b>	<b>\$ (1,607,775)</b>	<b>\$ 4,789,647</b>
Capital acquisition refunding bonds, Series of 2012, due 2017-2022, at weighted-average rates of 4.15 % as of June 30, 2017 and June 30, 2016.....	\$ 26,195	\$ -	\$ (3,895)	\$ 22,300
Term financings, due 2029, at 0 % interest as of June 30, 2017 and 2016.....	6,280	-	-	6,280
<b>Subtotal.....</b>	<b>32,475</b>	<b>-</b>	<b>(3,895)</b>	<b>28,580</b>
<b>Plus: unamortized premium.....</b>	<b>2,154</b>	<b>-</b>	<b>(580)</b>	<b>1,574</b>
<b>Total capital and other financing obligations</b>	<b>\$ 34,629</b>	<b>\$ -</b>	<b>\$ (4,475)</b>	<b>\$ 30,154</b>

The note and bond indentures, among other things, require the PHEAA to comply with various covenants. Student loans and investments collateralize all student loan financings. As of June 30, 2017, \$5,100,000 of student loan principal and related interest receivable and \$309,000 of cash equivalents collateralized the \$5,000,000 of student loan financings.

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 \$22,300 of capital acquisition refunding bonds, Series of 2012, which are borrowings from the Commonwealth’s Treasury Department.

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The PHEAA reported debt service requirements subsequent to June 30, 2017, based upon stated maturities for student loan bonds and estimated interest payments for variable-rate debt after considering terms renegotiated after June 30, 2017 are as follows:

<u>Year of maturity</u>	<u>Student Loan Bonds and Notes</u>		<u>Other Financing Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018.....	\$ 200,000	\$ 93,985	\$ 4,055	\$ 833
2019.....	-	93,701	4,230	661
2020.....	-	93,701	4,415	482
2021.....	-	93,701	4,595	295
2022.....	-	93,701	4,795	100
2023-27.....	-	468,505	210	4
2028-32.....	230,266	455,551	6,280	-
2033-37.....	810,955	437,468	-	-
2038-42.....	1,821,202	300,947	-	-
2043-47.....	910,950	127,034	-	-
2048-52.....	-	109,330	-	-
2053-57.....	200,284	108,971	-	-
2058-62.....	-	91,644	-	-
2063-67.....	799,436	60,516	-	-
<b>Total.....</b>	<b>\$ 4,973,093</b>	<b>\$ 2,628,755</b>	<b>\$ 28,580</b>	<b>\$ 2,375</b>

**Reported as:**

Total principal owed on student loan

auction rate security bonds payable.....	\$ 173,150	\$ -
Notes payable - current.....	200,000	-
Notes payable - non-current.....	4,589,647	-
Discount on student loan floating rate notes.....	10,296	-
Other financing obligations, current.....	-	4,055
Other financing obligations, non-current.....	-	26,099
Unamortized premium.....	-	(1,574)
<b>Total principal .....</b>	<b>\$ 4,973,093</b>	<b>\$ 28,580</b>

The PHEAA reported \$5,000,000 of its total \$5,100,000 of student loan bonds, notes, and financings as variable-rate debt, of which, interest rates on \$173,150 reset based upon auctions every 28 days, \$4,800,000 is indexed to the one-month or three-month LIBOR (London interbank offered 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 \$200,000 at June 30, 2017. Also, the PHEAA reported non-current notes payable of \$4,589,647 at June 30, 2017 and Component Unit (CU) organizations of the SSHE reported non-current notes payable of \$319,078.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Long-Term Obligations

Significant revenue bond obligations of the PTC (as of May 31, 2017) and the PHFA (as of June 30, 2017), changes during the fiscal year and annual principal and interest payments for long-term debt outstanding are as follows:

<b>REVENUE BONDS PAYABLE</b>	<b>Issue Dates</b>	<b>Interest Rates</b>	<b>Maturity Dates Through</b>	<b>Balance June 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance May 31, 2017</b>
PTC.....	2003-17	various	2049	\$ 11,180,153	\$ 2,574,473	\$ 1,993,655	\$ 11,760,971
Less: unamortized bond discount.....				(3,225)	-	(2,332)	(893)
Add: unamortized bond premium.....				517,621	339,637	48,334	808,924
<b>TOTAL .....</b>				<b>\$ 11,694,549</b>	<b>\$ 2,914,110</b>	<b>\$ 2,039,657</b>	<b>\$ 12,569,002</b>

<b>Year of Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018.....	\$ 391,375	\$ 494,655	\$ 886,030
2019.....	350,075	508,224	858,299
2020.....	319,080	500,774	819,854
2021.....	585,265	491,175	1,076,440
2022.....	375,335	473,811	849,146
2023-27.....	1,343,494	2,234,669	3,578,163
2028-32.....	1,677,910	1,929,339	3,607,249
2033-37.....	2,548,898	1,416,136	3,965,034
2038-42.....	2,681,292	893,217	3,574,509
2043-47.....	1,285,082	242,291	1,527,373
2048-52.....	203,165	22,868	226,033
<b>Total.....</b>	<b>\$ 11,760,971</b>	<b>\$ 9,207,159</b>	<b>\$ 20,968,130</b>

<b>REVENUE BONDS &amp; NOTES PAYABLE</b>	<b>Issue Dates</b>	<b>Interest Rates</b>	<b>Maturity Dates Through</b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>
PHFA.....	1999-2017	various	2046	2,774,645	977,135	938,646	2,813,134
Add: unamortized bond premium.....				10,911	18,048	1,541	27,418
<b>TOTAL .....</b>				<b>\$ 2,785,556</b>	<b>\$ 995,183</b>	<b>\$ 940,187</b>	<b>\$ 2,840,552</b>

<b>Year of Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018.....	\$ 89,997	\$ 77,725	\$ 167,722
2019.....	115,962	77,056	193,018
2020.....	119,657	74,044	193,701
2021.....	118,595	71,187	189,782
2022.....	117,500	68,408	185,908
2023-27.....	538,901	302,892	841,793
2028-32.....	580,632	230,211	810,843
2033-37.....	619,015	144,260	763,275
2038-42.....	305,985	66,598	372,583
2043-47.....	206,890	18,065	224,955
<b>Total.....</b>	<b>\$ 2,813,134</b>	<b>\$ 1,130,446</b>	<b>\$ 3,943,580</b>

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

The table below presents significant bond obligations of SSHE at June 30, 2017 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 Dates</b>	<b>Interest Rates</b>	<b>Maturity Dates Through</b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>
SSHE.....	2007-16	various	2055	\$ 842,590	\$ 298,110	\$ 67,785	\$ 1,072,915

<b>Year of Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018.....	\$ 70,605	\$ 47,403	\$ 118,008
2019.....	75,360	44,096	119,456
2020.....	83,055	40,605	123,660
2021.....	67,165	36,768	103,933
2022.....	66,665	33,731	100,396
2023-27.....	283,415	121,775	405,190
2028-32.....	186,885	67,642	254,527
2033-37.....	140,410	32,013	172,423
2038-42.....	83,235	10,120	93,355
2043-47.....	10,720	1,996	12,716
2048-52.....	3,340	1,032	4,372
2053-57.....	2,060	192	2,252
<b>Total.....</b>	<b>\$ 1,072,915</b>	<b>\$ 437,373</b>	<b>\$ 1,510,288</b>

Note: The total principal obligations outstanding do not include \$913,142 in bonds payable and \$319,078 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, 2017, the PHFA had \$324,242 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, 2017, the SPSBA had \$2,828,301 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, 2017, the PHEFA had \$5,920,765 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, 2017, the PEDFA had \$6,129,484 of debt outstanding of which \$4,204,694 represented

**NOTE 16 – 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 2016, the PTC issued \$140,590 2016 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2016 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt which included the PTC's 2012 Series B Variable Rate Revenue Bonds (\$70,060), the PTC's 2014 Series B-1 Variable Rate Revenue Bonds (\$35,050) and the PTC's 2014 Series B-2 Variable Rate Revenue Bonds (\$34,950). The bonds were also issued for payment of the costs of issuance for the 2016 Series A-2 Senior Bonds.

In June 2016, the PTC issued \$649,545 2016 Second Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2039. The 2016 Second Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the PTC's 2008 Series A-1 Subordinate Revenue Bonds (\$105,065), 2008 Series B-1 Subordinate Revenue Bonds (\$50,665), 2009 Series A Subordinate Revenue Bonds (\$43,355), 2009 Series B Subordinate Revenue Bonds (\$288,185), 2009 Series D Subordinate Revenue Bonds (\$16,575), 2010 Series B-1 Subordinate Revenue Bonds (\$11,850), 2010 Series B-2 Subordinate Revenue Bonds (\$87,475), 2010 Series C-2 Subordinate Revenue Bonds (\$17,670), 2011 Series A Subordinate Revenue Bonds (\$53,375), and for paying the cost of issuing the 2016 Second Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, 2009 Series D Subordinate Bonds, 2010 Series B-1 Subordinate Bonds, 2010 Series B-2 Subordinate Bonds, 2010 Series C-2 Subordinate Bonds, and 2011 Series A Subordinate Bonds allowed the PTC to reduce its debt service by approximately \$113,500. The transaction resulted in an economic gain of approximately \$74,400.

In October 2016, the PTC issued \$255,455 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2041. The 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2009 Series A Subordinate Revenue Bonds (\$20,990), 2009 Series B Subordinate Revenue Bonds (\$112,560), 2009 Series D Subordinate Revenue Bonds (\$75,700), 2010 Series B-2 Subordinate Revenue Bonds (\$35,545), 2011 Series A Subordinate Revenue Bonds (\$7,925), and for paying the cost of issuing the 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds. The advance refunding of the 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, 2009 Series D Subordinate Bonds, 2010 Series B-2 Subordinate Bonds, and 2011 Series A Subordinate Bonds allowed the PTC to reduce its debt service by approximately \$43,600. The transaction resulted in an economic gain of approximately \$30,400.

In October 2016, the PTC issued \$75,755 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2025. The 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2008 Series A-2 Subordinate Revenue Bonds (\$18,905), 2008 Series B-2 Subordinate Revenue Bonds (\$47,785) and for paying the cost of issuing the 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-2 Subordinate Revenue Bonds and 2008 Series B-2 Subordinate Revenue Bonds allowed the PTC to reduce its debt service by approximately \$8,700. The transaction resulted in an economic gain of approximately \$8,000.

In October 2016, the PTC issued \$79,865 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2036. The 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds (\$16,520), 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds (\$9,705), 2011 Series



**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

A Motor License Fund-Enhanced Subordinate Revenue Bonds (\$56,860) and for paying the cost of issuing 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The advanced refunding of the 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds, 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds and 2011 Series A Motor License Fund-Enhanced Subordinate Revenue Bonds allowed the PTC to reduce its debt service by approximately \$13,000. The transaction resulted in an economic gain of approximately \$9,500.

In May 2017, the PTC issued \$291,850 2017 First Series Subordinate Revenue Refunding Bonds at a variable rate with a maturity date of December 1, 2041. The 2017 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the PTC's 2009 Series A Subordinate Revenue Bonds (\$71,475) and 2009 Series D Subordinate Revenue Bonds (\$215,130) and for paying the cost of issuing the 2017 First Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2009 Series A Subordinate Revenue Bonds and 2009 Series D Subordinate Revenue Bonds allowed the PTC to reduce its debt service by approximately \$125,600. The transaction resulted in an economic gain of approximately \$66,500.

**PHFA**

On July 21, 2016, the PHFA issued Series 2016-120 single family mortgage revenue bonds in the amount of \$214,265. A portion of the proceeds of this issuance and a PHFA contribution were used to refund \$158,770 of Series 2009-107A bonds. This refunding resulted in an economic gain equal to \$8,062 and a reduction of future debt service payments equal to \$2,559.

On October 3, 2016, the PHFA issued Series 2016-121 single family mortgage revenue bonds in the amount of \$254,835. A portion of the proceeds of this issuance and a PHFA contribution were used to refund \$131,440 of Series 2009-107B bonds. This refunding resulted in an economic gain equal to \$2,896 and a reduction of future debt service payments equal to \$1,936.

On February 1, 2017, the PHFA issued Series 2017-122 single family mortgage revenue bonds in the amount of \$239,645. A portion of the proceeds of this issuance and a PHFA contribution were used to refund \$169,660 of Series 2009-107C bonds. This refunding resulted in an economic gain equal to \$2,249 and an increase of future debt service payments equal to \$6,681.

On June 20, 2017, the PHFA issued Series 2017-123 single family mortgage revenue bonds in the amount of \$261,390. A portion of the proceeds of this issuance and a PHFA contribution were used to refund \$71,940 of Series 2006-96A bonds, \$79,550 of Series 2007-97A bonds and \$13,110 of Series 2007-98A bonds. This refunding resulted in an economic gain equal to \$4,817 and a reduction of future debt service payments equal to \$2,427.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Other Postemployment 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, 2017 and the PHFA and SSHE at June 30, 2017 as follows:

As of and for the fiscal year ended June 30, 2017	PTC (May 31, 2017)	PHFA	SSHE
Annual required contributions.....	\$ 11,121	\$ 7,405	\$ 97,652
Interest on net OPEB obligation.....	(7,405)	1,598	47,032
Adjustment to annual required contribution.....	15,848	(2,181)	(66,999)
Annual OPEB cost (expense).....	19,564	6,822	77,685
Qualifying contributions.....	(28,176)	(1,247)	(39,240)
Increase in net OPEB obligation/(asset).....	(8,612)	5,575	38,445
Net OPEB obligation/(asset), July 1, 2016.....	(113,930)	35,765	1,106,643
Net OPEB obligation/(asset), June 30, 2017....	\$ (122,542)	\$ 41,340	\$ 1,145,088

As of and for the fiscal year ended June 30, 2017	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, 2017).....	\$ 331,568	\$ 330,395	\$ (1,173)	100.4%	\$ 124,458	-0.9%
PHFA.....	\$ -	\$ 65,976	\$ 65,976	0.0%	\$ 18,523	356.2%
SSHE.....	\$ -	\$ 1,106,763	\$ 1,106,763	0.0%	\$ 592,245	186.9%

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

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, 2017 (May 31, 2017 for the PTC), these entities reported a net pension liability, proportionate share percentage and pension expense as follows:

SERS

Fiscal year ended June 30, 2017	PTC (May 31, 2017)	PHEAA	PENNVEST	SSHE
Net pension liability.....	\$ 379,173	\$ 474,743	\$ 6,891	\$ 931,620
Proportionate share percentage.....	1.97%	2.46%	0.04%	4.84%
Pension expense.....	\$ 53,500	\$ 79,651	\$ 1,078	\$ 130,551

PSERS

Fiscal year ended June 30, 2017	SSHE
Net pension liability.....	\$ 90,838
Proportionate share percentage.....	0.18%
Pension expense.....	\$ 20,223

The PHFA’s full time employees participate in two defined benefit single employer plans. For the fiscal year ended June 30, 2017, the PHFA reported a net pension liability of \$26,307 and a pension expense of \$4,489.

NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

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, 2017 the PTC has paid PennDOT \$5,650,000; the Motor License Fund received \$2,250,000 and the Public Transportation Trust Fund received \$3,400,000.

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). The outstanding principal related to these Special Revenue Bonds was \$994,773 at May 31, 2017.

Deferred Outflows and Inflows of Resources

The following table discloses the deferred outflows of resources and deferred inflows of resources at June 30, 2017 (May 31, 2017 for the PTC):

	PTC	PHFA	PHEAA	PENNVEST	SSHE
<b>Deferred Outflows of Resources</b>					
Hedge derivatives.....	\$ 106,825	\$ -	\$ -	\$ -	\$ -
Pensions					
Difference between expected and actual experience.....	5,473	3,481	6,853	99	13,448
Net difference between projected and actual investment earnings...	31,866	2,852	39,897	579	83,356
Changes in proportions.....	7,560	-	35,291	243	17,054
Changes in assumptions.....	23,161	5,982	28,998	421	60,184
Difference between employer contributions and proportionate share of total contributions.....	-	-	-	-	555
Contributions after the measurement date.....	16,299	2,050	22,930	343	58,639
Deferred loss on bond refundings.....	343,320	5,190	841	-	7,872
	<u>\$ 534,504</u>	<u>\$ 19,555</u>	<u>\$ 134,810</u>	<u>\$ 1,685</u>	<u>\$ 241,108</u>
<b>Deferred Inflows of Resources</b>					
Deferred gain on bond refundings.....	\$ 3,207	\$ -	\$ 82,247	\$ -	\$ 934
Deferred gain on sales leaseback.....	-	-	258	-	-
Hedge derivatives.....	2,700	3,458	-	-	-
Pensions					
Difference between expected and actual experience.....	8,484	463	10,622	154	21,601
Net difference between projected and actual investment earnings...	-	-	-	-	-
Changes in proportions.....	8,751	-	-	9	20,416
Changes in assumptions.....	-	843	-	-	-
Difference between employer contributions and proportionate share of total contributions.....	1,054	-	979	15	4,323
Service concession arrangements.....	122,694	-	-	-	-
Total.....	<u>\$ 146,890</u>	<u>\$ 4,764</u>	<u>\$ 94,106</u>	<u>\$ 178</u>	<u>\$ 47,274</u>

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)****Subsequent Events****PTC**

On July 27, 2017, the PTC issued \$750,510 2017 Series B Subordinate Revenue Bonds consisting of \$379,115 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds, \$371,395 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds and \$45,390 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds were issued to finance a portion of the costs of making payments to PennDOT in accordance with Act 44 and Act 89, to fund necessary reserves to the extent required for the 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds and to pay the costs of issuing the 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds. The 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds were issued to provide funds to finance the costs of advance refunding various PTC outstanding bonds and to pay the cost of issuing the 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds. The 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds to finance the costs of advance refunding various PTC outstanding bonds and to pay the cost of issuing the 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds.

On August 24, 2017, the PTC received its first bond rating from Kroll Bond Rating Agency (KBRA). KBRA assigned a long-term credit rating of AA- and a Stable outlook to the PTC's upcoming 2017 Series A-1 Senior Revenue Bonds and 2017 Series A-2 Senior Revenue Refunding Bonds, which are expected to be issued during the third quarter of calendar year 2017. KBRA also assigned a long-term credit rating of AA- and a Stable outlook to all the PTC's outstanding Senior Revenue Bonds on a parity basis.

On October 11, 2017, the PTC issued \$498,955 Turnpike Revenue Bonds Series A of 2017 consisting of Series A-1 and A-2 at a fixed rate with a final maturity of December 1, 2047. The 2017 A Bonds were issued to finance the costs of various capital expenditures set forth in the PTC's current or any prior ten year capital plan, to provide funds to finance the advance refunding of a portion of the PTC's outstanding senior bonds, for making a required deposit to the Debt Service Reserve Fund and for paying the costs of issuing the 2017 A Bonds.

On October 12, 2017, the PTC issued \$140,320 Turnpike Revenue Bonds Series B of 2017 consisting of B-1 and B-2 at a variable rate with a final maturity of December 1, 2021. The 2017 B Bonds were issued to current refund a portion of the PTC's outstanding variable rate senior bonds and for paying the cost of issuing the 2017 B Bonds.

On October 26, 2017, the PTC received its first bond rating for its Turnpike Subordinate Revenue Bonds and its Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Bonds from Kroll Bond Rating Agency (KBRA). KBRA assigned a long-term credit rating of A+ and a Stable outlook to the PTC's Turnpike Subordinate Revenue Refunding Bonds, Second Series of 2017 and also assigned a long-term credit rating of A+ and a Stable outlook to all the PTC outstanding Turnpike Subordinate Revenue Bonds on a parity basis. Additionally, KBRA assigned a long-term credit rating of AA- and a Stable outlook to the PTC's Motor License Fund-Enhanced Turnpike Subordinate Revenue Refunding Bonds, Second Series of 2017 and also assigned a long-term credit rating of AA- and a Stable outlook to all the PTC's outstanding Motor License Fund-Enhanced Turnpike Subordinate Revenue Bonds on a parity basis.

On November 21, 2017, the PTC authorized the issuance of the PTC's variable or fixed rate Subordinate Revenue Bonds in an aggregate initial principal amount not to exceed \$500,000 (based on par amount), for the purpose of financing the advance refunding of a portion of the PTC's outstanding Subordinate and Motor License Fund-Enhanced bonds and for paying the costs of issuing the bonds.

On November 30, 2017, the PTC issued \$150,425 Turnpike Subordinate Revenue Refunding Bonds, Second Series of 2017 and \$243,675 Motor License Fund-Enhanced Turnpike Subordinate Special Revenue Refunding Bonds, Second Series of 2017 at a fixed rate with a final maturity of December 1, 2041. The 2017 Second Series Bonds

**NOTE 16 – DISCRETELY PRESENTED COMPONENT UNITS (continued)**

were issued to finance the advance refunding of a portion of the PTC’s outstanding Subordinate and Motor License Fund-Enhanced bonds and for paying the costs of issuing the 2017 Second Series Bonds.

On December 5, 2017, the PTC authorized the issuance of the PTC’s variable or fixed rate Revenue Bonds in an aggregate initial principal amount not to exceed \$300,000 (based on par amount), for the purpose of financing the advance refunding of a portion of the PTC’s outstanding Revenue bonds and for paying the costs of issuing the bonds.

**PENNVEST**

The Pennsylvania Infrastructure Investment Authority issued several debt instruments in the form of commercial paper, Series 2016A, for the purpose of short term funding of construction projects as part of the PENNVEST/Commonwealth Funded Loan Pool. Details are as follows:

<b>COMMERCIAL PAPER</b>	<b>Issue Dates</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Par Amount</b>	<b>Maturity Amount</b>	<b>Interest Amount</b>
Bank of America.....	7/3/2017	0.98	10/3/2017	\$ 5,034	\$ 5,046	\$ 12
Bank of America.....	9/5/2017	0.87	11/14/2017	5,043	5,051	8
Bank of America.....	10/3/2017	1.00	1/3/2018	5,047	5,060	13
Bank of America.....	11/14/2017	0.99	1/8/2018	5,052	5,060	8
Bank of America.....	11/27/2017	1.05	1/22/2018	7,500	7,512	12
Morgan Stanley.....	8/17/2017	0.82	10/3/2017	3,000	3,003	3
Morgan Stanley.....	9/29/2017	0.95	11/2/2017	6,000	6,005	5
Morgan Stanley.....	10/3/2017	0.93	12/4/2017	3,004	3,009	5
Morgan Stanley.....	11/2/2017	0.98	2/6/2018	6,006	6,021	15
<b>Total .....</b>				<b>\$ 45,686</b>	<b>\$ 45,767</b>	<b>\$ 81</b>

**PHFA**

On September 28, 2017, the PHFA issued Single Family Mortgage Revenue Bonds Series 2017-124 totaling \$206,965. Proceeds included a portion to be used for refunding certain Single Family Mortgage Revenue Bonds previously issued by the PHFA equal to \$85,650; the remainder is to be used to purchase new single family mortgage loans.

From July 1, 2017 through October 2, 2017, the effective date of these basic financial statements, the PHFA has entered into construction contracts totaling \$15,958. These are in addition to the construction contracts in place as of June 30, 2017. As of October 2, 2017, \$19,725 of construction contracts totaling \$24,366 is still outstanding.

**SSHE**

In September 2017, PHEFA issued Series AU-1 tax exempt revenue bonds in the amount of \$36,625, Series AU-2 tax-exempt revenue bonds in the amount of \$76,490, and Series AU-3 taxable revenue bonds in the amount of \$15,145. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The net proceeds from the Series AU-2 and AU-3 revenue bonds were used to advance refund a portion of the Series AH revenue bonds. The refunding was performed to reduce debt service by approximately \$12,700 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$12,000. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

## NOTE 17 – SUBSEQUENT EVENTS

## Short Term Debt

On August 14, 2017, the Commonwealth initiated a Short-Term Investment Agreement (Investment Agreement) between the Treasury Department's Short-Term Investments Pool (STIP) and the Office of the Budget for \$750,000. 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. The Investment Agreement expired on August 23, 2017. On August 23, 2017, the principal of \$750,000 was repaid. Additionally, per the Investment Agreement the interest calculated of \$142 was repaid along with the principal. The Investment Agreement expired on August 23, 2017.

On August 24, 2017, the Department of Transportation entered into a Memorandum of Understanding (MOU) with the Office of the Budget establishing a line of credit (LOC) for \$241,000 between the **Motor License Fund (MLF)** and the **General Fund**. The LOC is a revolving line of credit that permits the General Fund to borrow monies only to be used to pay expenditures of state monies from the **General Fund** during fiscal year 2017-18. None of the borrowed monies may be used for federal expenditures. The LOC establishes an interest rate based on the monthly rate of return earned by the Department of Treasury's Short-Term Investment Pool (Pool 999) and will be calculated on a daily basis by multiplying the principal amount of the LOC outstanding by the Pool 999 Average Weighted Yield month-to-date rate applicable to each day of the period from the date of the first draw through the date of repayment. Pursuant to the terms of the MOU the **General Fund** received \$241,000 from the **MLF** on August 24, 2017. According to the terms of the MOU, the principal and interest must be repaid by the July 30, 2018 expiration date of the MOU.

On October 13, 2017, the Commonwealth initiated an Investment Agreement between the Treasury Department's STIP and the Office of the Budget for \$700,000. 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. On October 18, 2017, the principal of \$700,000 was repaid. Additionally, per the Investment Agreement the interest calculated of \$99 was repaid along with the principal. The Investment Agreement expired on October 20, 2017.

On October 26, 2017, the Commonwealth initiated an Investment Agreement between the Treasury Department's STIP and the Office of the Budget for \$1,800,000. 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**. Advances to the **General Fund** related to the Investment Agreement occurred on October 27, 2017 for \$100,000 and on November 1 for \$200,000. On November 6, 2017, the principal of \$300,000 was repaid. Additionally, per the Investment Agreement the interest calculated of \$51 was repaid along with the principal. On November 15, 2017 the Treasury advanced \$1,200,000 to the **General Fund** related to the October 26<sup>th</sup> Investment Agreement. The Office of the Budget authorized the transfer of \$600,000 in funds on November 20, 2017 to retire \$600,000 of the outstanding advance on the November 15<sup>th</sup> STIP investment. In addition to the \$600,000 principal repayment, \$76 of interest was also paid. The Investment Agreement will expire on April 2, 2018.

## General Obligation Bonds

On November 8, 2017 the Commonwealth sold \$970,030 General Obligation Bonds, First Refunding Series of 2017 to refund \$999,565 of prior issued Commonwealth general obligation bonds. Anticipated debt service savings from this refunding is \$63,720.

## Bond Redemption

In July 2017, the Department of Labor & Industry, through the Pennsylvania Economic Development Financing Authority, called a total of \$114,745 Series 2012 B Unemployment Compensation Revenue Bonds for early redemption at face value.

**NOTE 17 – SUBSEQUENT EVENTS (continued)**

The bonds carried an interest rate of 5%. The amounts and their respective maturity dates were as follows: \$61,650 originally maturing on July 1, 2022 and \$53,095 originally maturing on January 1, 2022.

**Workers' Compensation**

On June 20, 2017, the Pennsylvania Supreme Court issued its decision in *Protz v. WCAB*, ruling that Section 306(a.2) of the Workers' Compensation Act (77 P.S. 511.2), pertaining to the method of conducting impairment rating examinations based on American Medical Association guidelines, is an unconstitutional delegation of legislative authority which effectively ends partial disability determinations and eliminates the 500 week cap on partial disability indemnity payments. In response, the Pennsylvania Compensation Rating Bureau submitted a filing to the Pennsylvania Insurance Department which proposed a 6.06% increase in loss costs with a proposed effective date of November 1, 2017. The filing remains under review and potentially affects the State Workers Insurance Fund (SWIF). The effect of this ruling on the SWIF's and the Commonwealth's workers' compensation insurance loss liability has not been determined, but it is expected to result in a future increase to the SWIF liability. The Pennsylvania legislature is currently evaluating options to address the Supreme Court's concerns regarding the method for updating standards for evaluating a worker's degree of impairment.

**NOTE 18 – CHANGE IN REPORTING ENTITY**

Effective July 1, 2016, the Commonwealth had the following changes in reporting entity.

**Continuing Government Merger:**

As enacted by Act 76 of 2016, the previously legally separate Pennsylvania eHealth Partnership Authority (eHealth) was absorbed by the primary government’s Department of Human Services. For GAAP reporting purposes under GASB Statement 69: Government Combinations and Disposals of Government Operations, this is considered a continuing government merger, which is required to be effective the first day of the reported period. Prior to July 1, 2016, eHealth was reported as a discretely presented component unit (DPCU). Effective July 1, 2016, eHealth’s net position/fund balance and activities are reported in the **General Fund**. The asset and liability balances of eHealth reported in the **General Fund** are disclosed in Note 5.

**Fund Reclassification:**

Periodically the Commonwealth assesses all special revenue and general fund component classifications to ensure that they continue to meet the GASB Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions requirements for revenue streams. For the fiscal year ended June 30, 2017, the Veterans’ Trust Fund was reclassified from a general fund component to a special revenue fund.

The effects of the changes in reporting entity on the basic financial statements are displayed below:

**Governmental Funds Balance Sheet**

	General Fund	Motor License Fund	Nonmajor Funds	Total
Fund balances, as previously reported, at June 30, 2016.	\$ 90,109	\$ 884,742	\$ 3,573,429	\$ 4,548,280
Reclassification of fund per GASB 54:				
Veterans' Trust Fund.....	(1,960)	-	1,960	-
Continuing Government Merger:				
e-Health.....	2,048	-	-	2,048
<b>Fund balances as of July 1, 2016.....</b>	<b>\$ 90,197</b>	<b>\$ 884,742</b>	<b>\$ 3,575,389</b>	<b>\$ 4,550,328</b>

**Government-wide Statement of Net Position**

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net position, as previously reported, at June 30, 2016....	\$ 13,033,995	\$ 440,152	\$ 13,474,147	\$ 1,782,143
Continuing Government Merger:				
e-Health.....	361	-	361	(361)
<b>Net position as of July 1, 2016.....</b>	<b>\$ 13,034,356</b>	<b>\$ 440,152</b>	<b>\$ 13,474,508</b>	<b>\$ 1,781,782</b>

**Discretely Presented Component Units Statement of Net Position**

	Pennsylvania						nonmajor Discretely Presented Component Units	Total
	Pennsylvania Turnpike Commission	Housing Finance Agency	Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education			
Net position, as previously reported, at June 30, 2016....	\$ (4,646,659)	\$ 787,769	\$ 751,711	\$ 3,513,015	\$ 211,282	\$ 1,165,025	\$ 1,782,143	
Continuing Government Merger:								
e-Health.....	-	-	-	-	-	(361)	(361)	
<b>Net position as of July 1, 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>\$ 1,164,664</b>	<b>\$ 1,781,782</b>	





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# Required Supplementary Information

**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)	2017	2016 (2)	2015
<b>SERS as of 12/31</b>			
Commonwealth's portion of the net pension liability.....	82.44%	83.05%	82.94%
Commonwealth's proportionate share of the net pension liability .....	\$ 15,879,154	\$ 15,097,007	\$ 12,318,240
Commonwealth's covered payroll.....	\$ 4,801,482	\$ 4,883,069	\$ 4,668,334
Commonwealth's proportionate share of the net pension liability as a percentage of its covered payroll.....	330.71%	309.17%	263.87%
Plan fiduciary net position as a percentage of the total pension liability.....	57.80%	58.90%	64.80%
<b>PSERS as of 6/30</b>			
<b>Non-employer contributing entity</b>			
Commonwealth's proportionate share of the net pension liability .....	\$ 291,791	\$ 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 three 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>2017 (2)</u>	<u>2016</u>	<u>2015</u>
<b>SERS as of 12/31</b>			
Contractually required contribution.....	\$ 1,338,517	\$ 1,119,266	\$ 900,733
Contributions in relation to the contractually required contribution.....	\$ 1,338,517	\$ 1,119,266	\$ 900,733
Contribution deficiency (excess).....	\$ -	\$ -	\$ -
Commonwealth's covered payroll.....	\$ 4,801,482	\$ 4,883,069	\$ 4,668,334
Contributions as a percentage of its covered payroll.....	27.88%	22.92%	19.29%
 <b>PSERS as of 6/30</b>			
<b>Non-employer</b>			
Contributions to the plan.....	\$ 22,822	\$ 18,732	\$ 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 three years are presented in the above schedule.

(2) Contributions to the PSERS plan as of June 30, 2017 are based on an accrued estimate, and are revised annually to the Commonwealth's proportionate share of contributions reported by PSERS.

**Commonwealth of Pennsylvania**  
**Schedule of OPEB Amounts**  
**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, 2017  
(Amounts in thousands)

<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, 2017</b>						
Actuarial Valuation Date.....	January 1, 2017	January 1, 2017	July 1, 2016	July 1, 2016	July 1, 2015	
Actuarial Value of Assets.....	\$ 313,226	\$ 88,297	\$ -	\$ -	\$ -	\$ 401,523
Actuarial Accrued Liability (AAL).....	\$ 16,546,732	\$ 4,875,372	\$ 586,100	\$ 493,897	\$ 317,614	\$ 22,819,715
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 16,233,506	\$ 4,787,075	\$ 586,100	\$ 493,897	\$ 317,614	\$ 22,418,192
Funded Ratio (assets as % of AAL).....	1.9%	1.8%	0.0%	0.0%	0.0%	1.8%
Estimated Annual Covered Payroll.....	\$ 4,485,281	\$ 411,026	\$ 204,500	\$ 92,898	\$ 46,113	\$ 5,239,818
UAAL as a Percentage of Covered Payroll.....	361.9%	1164.7%	286.6%	531.7%	688.8%	427.8%

<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.....	\$ 144,744	\$ 80,217	\$ -	\$ -	\$ -	\$ 224,961
Actuarial Accrued Liability (AAL).....	\$ 16,134,419	\$ 3,531,015	\$ 562,300	\$ 415,274	\$ 306,524	\$ 20,949,532
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 15,989,675	\$ 3,450,798	\$ 562,300	\$ 415,274	\$ 306,524	\$ 20,724,571
Funded Ratio (assets as % of AAL).....	0.9%	2.3%	0.0%	0.0%	0.0%	1.1%
Estimated Annual Covered Payroll.....	\$ 4,289,099	\$ 394,325	\$ 202,500	\$ 95,298	\$ 46,120	\$ 5,027,342
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.....	\$ 144,744	\$ 80,217	\$ -	\$ -	\$ -	\$ 224,961
Actuarial Accrued Liability (AAL).....	\$ 16,134,419	\$ 3,531,015	\$ 502,600	\$ 415,274	\$ 230,631	\$ 20,813,939
Unfunded Actuarial Accrued Liability (UAAL).....	\$ 15,989,675	\$ 3,450,798	\$ 502,600	\$ 415,274	\$ 230,631	\$ 20,588,978
Funded Ratio (assets as % of AAL).....	0.9%	2.3%	0.0%	0.0%	0.0%	1.1%
Estimated Annual Covered Payroll.....	\$ 4,289,099	\$ 394,325	\$ 200,600	\$ 95,298	\$ 48,548	\$ 5,027,870
UAAL as a Percentage of Covered Payroll.....	372.8%	875.1%	250.5%	435.8%	475.1%	409.5%

<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, 2017</b>						
Annual required contribution.....	\$ 1,098,431	\$ 322,954	\$ 44,808	\$ 52,039	\$ 19,989	\$ 1,538,221
Percentage contributed.....	59.5%	38.4%	63.8%	35.9%	41.3%	54.2%
<b>For the fiscal year ended June 30, 2016</b>						
Annual required contribution.....	\$ 1,158,740	\$ 253,230	\$ 42,858	\$ 46,217	\$ 19,301	\$ 1,520,346
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.....	\$ 1,127,590	\$ 242,910	\$ 40,930	\$ 46,217	\$ 14,370	\$ 1,472,017
Percentage contributed.....	70.6%	33.8%	58.4%	34.5%	46.8%	62.8%

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

Following is a list of assumptions used in the January 2017 valuation for the REHP and RPSPP plans.

**Economic Assumptions** - The discount rate used is 5.0%.

**Healthcare Assumptions** - The healthcare trend rates used updated assumptions for short-term trend based on a review of the Commonwealth's historical trend rates; for long-term trend using Getzen Model version 2016\_a and SERS' inflation assumption.

**Demographic assumptions** - The demographic assumptions used for valuing the liabilities of the postemployment medical plan are consistent with those used for the actuarial valuation of the State Employees' Retirement System (SERS) as of December 31, 2016 and experience study presented to the SERS Board in March 2016. The demographic assumptions include the rate of mortality, the rate of withdrawal, the rate of retirement, and the rate of disability.

**Commonwealth of Pennsylvania**  
**Schedule of OPEB Amounts**  
**Changes in the Net OPEB Liability and Related Ratios**  
Retired Employees Health Program (REHP)  
Retired Pennsylvania State Police Program (RPSPP)  
For the Last Ten Fiscal Years Ended June 30 (1)

(Amounts in thousands)

<b>As of and for the fiscal year ended June 30, 2017</b>	<u>REHP</u>	<u>RPSPP</u>
<b>Total OPEB liability</b>		
Service cost.....	\$ 617,953	\$ 193,336
Interest.....	633,617	196,049
Changes in benefit terms.....	-	-
Differences between expected and actual experience.....	-	-
Changes of assumptions.....	(2,228,187)	(803,662)
Benefit payments.....	(649,705)	(123,595)
Contributions - retiree.....	52,198	1,143
<b>Net change in total OPEB liability</b>	<u>\$ (1,574,124)</u>	<u>\$ (536,729)</u>
<b>Total OPEB liability - beginning</b>	21,910,888	6,746,387
<b>Total OPEB liability - ending (a)</b>	\$ 20,336,764	\$ 6,209,658
 <b>Plan fiduciary net position</b>		
Contributions - employer .....	\$ 653,720	\$ 122,870
Contributions - retiree.....	52,198	1,143
Net investment income.....	31,833	11,133
Benefit payments.....	(649,705)	(123,595)
Administrative expense.....	(6,213)	(417)
<b>Net change in plan fiduciary net position</b>	<u>\$ 81,833</u>	<u>\$ 11,134</u>
<b>Plan fiduciary net position - beginning</b>	200,596	82,532
<b>Plan fiduciary net position - ending (b)</b>	\$ 282,429	\$ 93,666
 <b>Net OPEB liability (a) - (b)</b>	<u>\$ 20,054,335</u>	<u>\$ 6,115,992</u>
 <b>Plan fiduciary net position as a % of total OPEB liability</b>	1.39%	1.51%

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

(1) The Commonwealth adopted GASB 74 on a prospective basis for the fiscal year ended June 30, 2017; therefore only one year is presented in the above schedule.

(2) For the fiscal year ended June 30, 2017, the discount rate applied for the development of the net OPEB liability was 3.58%. The discount rate is based on the 20-year Bond Buyer GO Index. The investment rate of return used was 5.0% and the inflation rate was 2.6%.

**Commonwealth of Pennsylvania**  
**Schedule of OPEB Amounts**  
**Contributions and Investment Returns**  
 Retired Employees Health Program (REHP)  
 Retired Pennsylvania State Police Program (RPSPP)  
 For the Last Ten Fiscal Years Ended June 30 (1)  
 (Amounts in thousands)

**Schedule of Contributions**

	<u>2017</u>
<b>REHP</b>	
Contractually required contribution.....	\$ 734,378
Contributions in relation to the contractually required contribution.....	<u>(653,720)</u>
Contribution deficiency (excess).....	\$ 80,658
<b>RPSPP</b>	
Contractually required contribution.....	\$ 132,201
Contributions in relation to the contractually required contribution.....	<u>(122,870)</u>
Contribution deficiency (excess).....	\$ 9,331

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

(1) The Commonwealth adopted GASB 74 on a prospective basis for the fiscal year ended June 30, 2017; therefore only one year is presented in the above schedule.

(2) Contribution requirements for the REHP and RPSPP are determined annually by the Commonwealth based on projected cash flow requirements and a projected contribution toward pre-funding future cash outlays.

**Investment Returns**

<u>Annual money-weighted rate of return, net of investment expense</u>	<u>2017</u>
REHP.....	13.27%
RPSPP.....	13.27%

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

(1) The Commonwealth adopted GASB 74 on a prospective basis for the fiscal year ended June 30, 2017; therefore only one year is presented in the above schedule.

(2) The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts invested.

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Major Funds  
 General Fund  
 For the Fiscal Year Ended June 30, 2017

(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.....	\$ 5,154,300	\$ (193,000)	\$ 4,961,300	\$ (147,271)	\$ 4,814,029
Consumption taxes.....	11,979,400	(291,100)	11,688,300	47,899	11,736,199
Other taxes.....	14,656,900	(186,100)	14,470,800	(268,710)	14,202,090
<b>TOTAL TAX REVENUE.....</b>	<b>31,790,600</b>	<b>(670,200)</b>	<b>31,120,400</b>	<b>(368,082)</b>	<b>30,752,318</b>
Nontax revenue.....	985,800	295,500	1,281,300	(364,618)	916,682
<b>TOTAL REVENUE STATE.....</b>	<b>32,776,400</b>	<b>(374,700)</b>	<b>32,401,700</b>	<b>(732,700)</b>	<b>31,669,000</b>
less: Refunds.....	(1,300,000)	(50,000)	(1,350,000)	-	(1,350,000)
plus: Departmental services.....	4,243,546	-	4,243,546	(53,721)	4,189,825
<b>TOTAL STATE PROGRAMS.....</b>	<b>35,719,946</b>	<b>(424,700)</b>	<b>35,295,246</b>	<b>(786,421)</b>	<b>34,508,825</b>
Federal programs.....	26,609,846	245,135	26,854,981	-	26,854,981
<b>TOTAL REVENUES.....</b>	<b>62,329,792</b>	<b>(179,565)</b>	<b>62,150,227</b>	<b>(786,421)</b>	<b>61,363,806</b>
<b>EXPENDITURES:</b>					
State programs.....	35,775,268	410,065	36,185,333	(53,721)	36,131,612 *
Federal programs.....	26,609,846	245,135	26,854,981	-	26,854,981
<b>TOTAL EXPENDITURES.....</b>	<b>62,385,114</b>	<b>655,200</b>	<b>63,040,314</b>	<b>(53,721)</b>	<b>62,986,593</b>
<b>REVENUES UNDER EXPENDITURES.....</b>	<b>(55,322)</b>	<b>(834,765)</b>	<b>(890,087)</b>	<b>(732,700)</b>	<b>(1,622,787)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	57,400	57,400	20,913	78,313
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES.....</b>	<b>(55,322)</b>	<b>(777,365)</b>	<b>(832,687)</b>	<b>(711,787)</b>	<b>(1,544,474)</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016, REVISED.....</b>	<b>1,991</b>	<b>(510)</b>	<b>1,481</b>	<b>3,660</b>	<b>5,141</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2017, REVISED.....</b>	<b>\$ (53,331)</b>	<b>\$ (777,875)</b>	<b>\$ (831,206)</b>	<b>\$ (708,127)</b>	<b>\$ (1,539,333)</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, 2017

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Liquid fuels taxes.....	\$ 1,731,500	\$ (3,800)	\$ 1,727,700	\$ 4,960	\$ 1,732,660
Motor licenses and fees.....	991,900	(5,900)	986,000	14,529	1,000,529
Other Motor License Fund revenues *.....	27,600	3,400	31,000	(5,660)	25,340
<b>TOTAL REVENUE STATE</b> .....	<b>2,751,000</b>	<b>(6,300)</b>	<b>2,744,700</b>	<b>13,829</b>	<b>2,758,529</b>
plus: Departmental services *.....	284,082	-	284,082	(7,696)	276,386
<b>TOTAL STATE PROGRAMS</b> .....	<b>3,035,082</b>	<b>(6,300)</b>	<b>3,028,782</b>	<b>6,133</b>	<b>3,034,915</b>
Federal programs.....	2,029,092	-	2,029,092	(346,686)	1,682,406
<b>TOTAL REVENUES</b> .....	<b>5,064,174</b>	<b>(6,300)</b>	<b>5,057,874</b>	<b>(340,553)</b>	<b>4,717,321</b>
<b>EXPENDITURES:</b>					
State programs.....	3,061,786	-	3,061,786	(23,308)	3,038,478
Federal programs.....	2,029,092	-	2,029,092	(346,686)	1,682,406
<b>TOTAL EXPENDITURES</b> .....	<b>5,090,878</b>	<b>-</b>	<b>5,090,878</b>	<b>(369,994)</b>	<b>4,720,884</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>(26,704)</b>	<b>(6,300)</b>	<b>(33,004)</b>	<b>29,441</b>	<b>(3,563)</b>
<b>OTHER FINANCING SOURCES:</b>					
Current year lapses **.....	-	5,000	5,000	(5,000)	-
Prior year lapses.....	-	20,000	20,000	16,585	36,585
<b>TOTAL OTHER FINANCING SOURCES</b> .....	<b>-</b>	<b>25,000</b>	<b>25,000</b>	<b>11,585</b>	<b>36,585</b>
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> .....	<b>(26,704)</b>	<b>18,700</b>	<b>(8,004)</b>	<b>41,026</b>	<b>33,022</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016</b> .....	<b>40,077</b>	<b>-</b>	<b>40,077</b>	<b>-</b>	<b>40,077</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2017</b> .....	<b>\$ 13,373</b>	<b>\$ 18,700</b>	<b>\$ 32,073</b>	<b>\$ 41,026</b>	<b>\$ 73,099</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)

---

### **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:

	<u>General Fund</u>			<u>Motor License Fund</u>
	<u>General Fund (Budgeted)</u>	<u>General Fund Components (Nonbudgeted)</u>	<u>Total</u>	
<b>Budgetary basis</b> – revenues and other sources under expenditures and other uses.....	\$ (1,544,474)	\$ -	\$ (1,544,474)	\$ 33,022
<b>Adjustments:</b>				
<b><u>Basis differences</u></b>				
To adjust revenues, other financing sources and related receivables and unearned revenue.....	(509,394)	-	(509,394)	2,057,137
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	1,054,610	-	1,054,610	(1,965,766)
<b>Basis difference adjustments.....</b>	<b>545,216</b>	<b>-</b>	<b>545,216</b>	<b>91,371</b>
<b><u>Perspective differences</u></b>				
Nonbudgeted statutory funds which are financially reported as part of this fund:				
Revenues.....	-	1,149,170	1,149,170	378
Expenditures.....	-	(937,677)	(937,677)	(400)
<b>Perspective difference adjustments..</b>	<b>-</b>	<b>211,493</b>	<b>211,493</b>	<b>(22)</b>
<b>Net adjustments.....</b>	<b>545,216</b>	<b>211,493</b>	<b>756,709</b>	<b>91,349</b>
<b>Modified accrual basis</b> – net change in governmental fund balance.....	<b>\$ (999,258)</b>	<b>\$ 211,493</b>	<b>\$ (787,765)</b>	<b>\$ 124,371</b>

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)

---

### **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 \$410 of appropriation increases approved for the fiscal year ended June 30, 2017.

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, 2017. 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.

**- THIS PAGE INTENTIONALLY LEFT BLANK -**



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# Combining Financial Statements

Including  
Nonmajor Budgetary Comparison Schedules

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

June 30, 2017

(Amounts in thousands)

	<b>Special Revenue Funds</b>	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>	<b>Total</b>
<b>ASSETS</b>				
Cash.....	\$ 23,855	\$ -	\$ -	\$ 23,855
Temporary investments.....	1,827,834	101,862	1,101,309	3,031,005
Long-term investments.....	1,572,241	-	136,054	1,708,295
Receivables (net):				
Taxes.....	-	-	36,089	36,089
Accounts.....	188,055	3,222	-	191,277
Investment income.....	5,380	94	986	6,460
Investment sale proceeds.....	5,452	-	-	5,452
Other.....	62,654	-	-	62,654
Due from other funds.....	178,753	-	19,457	198,210
Due from pension trust funds.....	2,236	-	-	2,236
Due from component units.....	7,902	355	2,874	11,131
Due from Federal government.....	22,175	-	-	22,175
Advances to other funds.....	174,750	-	-	174,750
<b>TOTAL ASSETS.....</b>	<b>\$ 4,071,287</b>	<b>\$ 105,533</b>	<b>\$ 1,296,769</b>	<b>\$ 5,473,589</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities.....	\$ 232,847	\$ 95,071	\$ 66,952	\$ 394,870
Investment purchases payable.....	8,037	-	-	8,037
Securities lending obligations.....	58,016	-	4,771	62,787
Due to other funds.....	54,587	-	7,159	61,746
Due to component units.....	17,650	-	15	17,665
Due to pension trust funds.....	2,166	-	7	2,173
Due to political subdivisions.....	152,199	-	38,619	190,818
Due to other governments.....	506	-	2	508
Unearned revenue.....	116,511	3,222	-	119,733
Advances from other funds.....	12,000	-	-	12,000
<b>TOTAL LIABILITIES.....</b>	<b>654,519</b>	<b>98,293</b>	<b>117,525</b>	<b>870,337</b>
<b>Deferred inflows of resources:</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>176,821</b>	<b>-</b>	<b>-</b>	<b>176,821</b>
<b>Fund balances:</b>				
Restricted.....	3,122,650	-	-	3,122,650
Committed.....	159,374	7,240	1,179,244	1,345,858
Unassigned deficit.....	(42,077)	-	-	(42,077)
<b>TOTAL FUND BALANCES.....</b>	<b>3,239,947</b>	<b>7,240</b>	<b>1,179,244</b>	<b>4,426,431</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 4,071,287</b>	<b>\$ 105,533</b>	<b>\$ 1,296,769</b>	<b>\$ 5,473,589</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances-Nonmajor Governmental Funds**  
For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
<b>REVENUES:</b>				
Taxes.....	\$ 1,859,177	\$ -	\$ 324,336	\$ 2,183,513
Licenses and fees.....	1,184,788	-	-	1,184,788
Intergovernmental.....	853,467	20,724	-	874,191
Charges for sales and services.....	253,382	-	7,252	260,634
Investment income.....	125,113	272	19,296	144,681
Other.....	385,269	13,830	-	399,099
<b>TOTAL REVENUES</b> .....	<u>4,661,196</u>	<u>34,826</u>	<u>350,884</u>	<u>5,046,906</u>
<b>EXPENDITURES:</b>				
Current:				
Direction and supportive services.....	389,366	-	53,137	442,503
Protection of persons and property.....	702,908	-	1,577	704,485
Health and human services.....	689,785	-	-	689,785
Public education.....	618,188	-	20,835	639,023
Recreation and cultural enrichment.....	174,982	-	45,917	220,899
Economic development.....	269,215	-	226,465	495,680
Transportation.....	1,225,251	-	355,593	1,580,844
Capital outlay.....	10,217	-	119,230	129,447
Debt service:				
Principal retirement.....	-	768,551	-	768,551
Interest and fiscal charges.....	-	555,233	4,041	559,274
<b>TOTAL EXPENDITURES</b> .....	<u>4,079,912</u>	<u>1,323,784</u>	<u>826,795</u>	<u>6,230,491</u>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<u>581,284</u>	<u>(1,288,958)</u>	<u>(475,911)</u>	<u>(1,183,585)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued.....	-	-	1,208,725	1,208,725
Refunding bonds issued.....	-	604,667	503	605,170
Premium on bonds/refunding bonds.....	-	80,381	162,546	242,927
Discount on bonds issued.....	-	-	(2,286)	(2,286)
Transfers in.....	302,792	1,270,872	18,760	1,592,424
Transfers out.....	(629,249)	(84)	(299,916)	(929,249)
Payment to refunded bond escrow agent.....	-	(683,084)	-	(683,084)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<u>(326,457)</u>	<u>1,272,752</u>	<u>1,088,332</u>	<u>2,034,627</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	254,827	(16,206)	612,421	851,042
<b>FUND BALANCES JULY 1, 2016</b> .....	<u>2,985,120</u>	<u>23,446</u>	<u>566,823</u>	<u>3,575,389</u>
<b>FUND BALANCES JUNE 30, 2017</b> .....	<u>\$ 3,239,947</u>	<u>\$ 7,240</u>	<u>\$ 1,179,244</u>	<u>\$ 4,426,431</u>

**- THIS PAGE INTENTIONALLY LEFT BLANK -**





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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 40 individual special revenue funds.

There are a total of 48 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, 2017

(Amounts in thousands)

	Budgeted Funds								Total
	Banking	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Tobacco Settlement Fund	Public Transportation Trust	Gaming	Other	
<b>ASSETS</b>									
Cash.....	\$ 13	\$ 25	\$ 4	\$ 15	\$ 140	\$ 69	\$ 5,468	\$ 18,121	\$ 23,855
Temporary investments.....	24,923	3,883	82,381	47,840	117,248	220,980	621,878	708,701	1,827,834
Long-term investments.....	14,580	-	-	669,678	-	296,046	-	591,937	1,572,241
Receivables (net):									
Accounts.....	10,919	-	5	-	176,821	4	3	303	188,055
Investment income.....	22	3	-	3,883	-	217	528	727	5,380
Investment sale proceeds.....	-	-	-	5,452	-	-	-	-	5,452
Other.....	-	-	-	-	-	-	-	62,654	62,654
Due from other funds.....	9	1	12	-	6,718	147,870	10	24,133	178,753
Due from pension trust funds.....	-	-	-	-	-	-	-	2,236	2,236
Due from component units.....	-	-	-	-	-	-	7,902	-	7,902
Due from Federal government.....	-	-	-	-	1,220	-	-	20,955	22,175
Advances to other funds.....	-	-	9,000	165,750	-	-	-	-	174,750
<b>TOTAL ASSETS.....</b>	<b>\$ 50,466</b>	<b>\$ 3,912</b>	<b>\$ 91,402</b>	<b>\$ 892,618</b>	<b>\$ 302,147</b>	<b>\$ 665,186</b>	<b>\$ 635,789</b>	<b>\$ 1,429,767</b>	<b>\$ 4,071,287</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities.....	\$ 1,276	\$ 85	\$ 3,869	\$ 4,580	\$ 2,806	\$ 16,304	\$ 39,153	\$ 164,774	\$ 232,847
Investment purchases payable.....	-	-	-	8,037	-	-	-	-	8,037
Securities lending obligations.....	511	-	-	26,366	-	10,382	-	20,757	58,016
Due to other funds.....	33	42	115	230	2,568	25	2,392	49,182	54,587
Due to component units.....	-	-	70	-	-	-	15,066	2,514	17,650
Due to pension trust funds.....	55	15	187	2	1	18	375	1,513	2,166
Due to political subdivisions.....	1	-	-	-	465	58,573	18,070	75,090	152,199
Due to other governments.....	14	4	44	1	-	4	40	399	506
Unearned revenue.....	-	1,576	-	-	-	-	8,419	106,516	116,511
Advances from other funds.....	-	-	-	-	-	-	-	12,000	12,000
<b>TOTAL LIABILITIES.....</b>	<b>1,890</b>	<b>1,722</b>	<b>4,285</b>	<b>39,216</b>	<b>5,840</b>	<b>85,306</b>	<b>83,515</b>	<b>432,745</b>	<b>654,519</b>
<b>Deferred inflows of resources:</b>									
<b>TOTAL DEFERRED INFLOWS OF RESOURCES..</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>176,821</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>176,821</b>
<b>Fund balances:</b>									
Restricted.....	48,576	2,190	87,117	853,402	-	579,880	552,274	999,211	3,122,650
Committed.....	-	-	-	-	119,486	-	-	39,888	159,374
Unassigned deficit.....	-	-	-	-	-	-	-	(42,077)	(42,077)
<b>TOTAL FUND BALANCES.....</b>	<b>48,576</b>	<b>2,190</b>	<b>87,117</b>	<b>853,402</b>	<b>119,486</b>	<b>579,880</b>	<b>552,274</b>	<b>997,022</b>	<b>3,239,947</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 50,466</b>	<b>\$ 3,912</b>	<b>\$ 91,402</b>	<b>\$ 892,618</b>	<b>\$ 302,147</b>	<b>\$ 665,186</b>	<b>\$ 635,789</b>	<b>\$ 1,429,767</b>	<b>\$ 4,071,287</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, 2017

(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.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 469,351	\$ 1,280,160	\$ 109,666	\$ 1,859,177
Licenses and fees.....	6,995	3,838	6	5,374	-	248,813	83,381	836,381	1,184,788
Intergovernmental.....	-	-	-	-	175,539	450,003	16,808	211,117	853,467
Charges for sales and services.....	22,337	-	74,563	-	14,911	-	-	141,571	253,382
Investment income.....	1,240	26	-	52,977	1,116	19,098	3,330	47,326	125,113
Other.....	2,035	-	103	112	369,417	-	-	13,602	385,269
<b>TOTAL REVENUES</b> .....	<b>32,607</b>	<b>3,864</b>	<b>74,672</b>	<b>58,463</b>	<b>560,983</b>	<b>1,187,265</b>	<b>1,383,679</b>	<b>1,359,663</b>	<b>4,661,196</b>
<b>EXPENDITURES:</b>									
Current:									
Direction and supportive services.....	-	-	-	1,631	-	-	386,936	799	389,366
Protection of persons and property.....	21,428	2,598	-	21,062	-	-	16,901	640,919	702,908
Health and human services.....	-	-	59,607	-	531,895	-	7,989	90,294	689,785
Public education.....	-	-	-	-	-	-	617,900	288	618,188
Recreation and cultural enrichment.....	-	-	-	-	-	-	9,916	165,066	174,982
Economic development.....	-	-	193	-	2,724	-	43,432	222,866	269,215
Transportation.....	-	-	-	-	-	1,192,944	-	32,307	1,225,251
Capital outlay.....	-	-	-	-	-	-	-	10,217	10,217
<b>TOTAL EXPENDITURES</b> .....	<b>21,428</b>	<b>2,598</b>	<b>59,800</b>	<b>22,693</b>	<b>534,619</b>	<b>1,192,944</b>	<b>1,083,074</b>	<b>1,162,756</b>	<b>4,079,912</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	<b>11,179</b>	<b>1,266</b>	<b>14,872</b>	<b>35,770</b>	<b>26,364</b>	<b>(5,679)</b>	<b>300,605</b>	<b>196,907</b>	<b>581,284</b>
<b>OTHER FINANCING SOURCES (USES):</b>									
Transfers in.....	-	-	-	-	-	116,992	-	185,800	302,792
Transfers out.....	-	-	-	-	(28,500)	(30,000)	(309,516)	(261,233)	(629,249)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,500)</b>	<b>86,992</b>	<b>(309,516)</b>	<b>(75,433)</b>	<b>(326,457)</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>11,179</b>	<b>1,266</b>	<b>14,872</b>	<b>35,770</b>	<b>(2,136)</b>	<b>81,313</b>	<b>(8,911)</b>	<b>121,474</b>	<b>254,827</b>
<b>FUND BALANCES, JULY 1, 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>875,548</b>	<b>2,985,120</b>
<b>FUND BALANCES, JUNE 30, 2017</b> .....	<b>\$ 48,576</b>	<b>\$ 2,190</b>	<b>\$ 87,117</b>	<b>\$ 853,402</b>	<b>\$ 119,486</b>	<b>\$ 579,880</b>	<b>\$ 552,274</b>	<b>\$ 997,022</b>	<b>\$ 3,239,947</b>

**Commonwealth of Pennsylvania**  
**Budgetary Comparison Schedule**  
 Budgeted Nonmajor Funds  
 Special Revenue Fund-Banking  
 For the Fiscal Year Ended June 30, 2017  
 (Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Licenses and fees.....	\$ 24,317	\$ 1,447	\$ 25,764	\$ 1,032	\$ 26,796
Fines, penalties and interest.....	400	-	400	45	445
Investment income.....	236	192	428	57	485
<b>TOTAL REVENUES.....</b>	<b>24,953</b>	<b>1,639</b>	<b>26,592</b>	<b>1,134</b>	<b>27,726</b>
<b>EXPENDITURES:</b>					
State Programs.....	25,235	-	25,235	-	25,235
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(282)</b>	<b>1,639</b>	<b>1,357</b>	<b>1,134</b>	<b>2,491</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	6,206	6,206	-	6,206
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>(282)</b>	<b>7,845</b>	<b>7,563</b>	<b>1,134</b>	<b>8,697</b>
<b>FUND BALANCE</b>					
(BUDGETARY BASIS), JUNE 30, 2016.....	11,726	-	11,726	-	11,726
<b>FUND BALANCE</b>					
(BUDGETARY BASIS), JUNE 30, 2017.....	<u>\$ 11,444</u>	<u>\$ 7,845</u>	<u>\$ 19,289</u>	<u>\$ 1,134</u>	<u>\$ 20,423</u>

**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, 2017 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 2017.)

<u>Traceability to the "Status of Appropriations" Column Totals</u>	<i>Special Funds</i> <i>"Status of</i> <i>Appropriations"</i> <b>Report Page</b>	
<u>Total State Programs-Actual (Budgetary Basis) Expenditures</u>	<b>Reference</b>	
Appropriations (Column A).....	234	\$ 25,235
plus Actual Augmentations (Column C).....	234	-
less Lapses (Column D).....	234	-
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<u>\$ 25,235</u>

**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).....	<u>\$ 8,697</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(1,325)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>3,807</u>
Net adjustments.....	<u>2,482</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ 11,179</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 191 to 193 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, 2017

(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.....	\$ 2,393	\$ 38	\$ 2,431	\$ 1,400	\$ 3,831
Fines, penalties and interest.....	5	5	10	(2)	8
Investment income.....	7	17	24	1	25
<b>TOTAL REVENUES.....</b>	<u>2,405</u>	<u>60</u>	<u>2,465</u>	<u>1,399</u>	<u>3,864</u>
<b>EXPENDITURES:</b>					
State programs.....	2,840	-	2,840	-	2,840
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<u>(435)</u>	<u>60</u>	<u>(375)</u>	<u>1,399</u>	<u>1,024</u>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	379	379	-	379
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<u>(435)</u>	<u>439</u>	<u>4</u>	<u>1,399</u>	<u>1,403</u>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016.....</b>	544	-	544	-	544
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2017.....</b>	<u>\$ 109</u>	<u>\$ 439</u>	<u>\$ 548</u>	<u>\$ 1,399</u>	<u>\$ 1,947</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, 2017 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 2017.)

Total Actual (Budgetary Basis) Expenditures of \$2,840 are traceable from page 238, Column A 'Appropriations' in the June 30, 2017 "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>\$ 1,403</u>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(379)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	<u>242</u>
Net adjustments.....	<u>(137)</u>
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<u>\$ 1,266</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 191 to 193 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, 2017

(Amounts in thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
<b>REVENUES:</b>					
State Programs:					
Taxes, net of refunds.....	\$ 84,531	\$ (12,565)	\$ 71,966	\$ 9,253	\$ 81,219
Fines, penalties and interest.....	9	16	25	(20)	5
Investment income.....	180	(180)	-	-	-
Miscellaneous.....	775	(5)	770	(666)	104
<b>TOTAL REVENUES.....</b>	<b>85,495</b>	<b>(12,734)</b>	<b>72,761</b>	<b>8,567</b>	<b>81,328</b>
<b>EXPENDITURES:</b>					
State programs.....	81,228	5,000	86,228	549	86,777
<b>REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>4,267</b>	<b>(17,734)</b>	<b>(13,467)</b>	<b>8,018</b>	<b>(5,449)</b>
<b>OTHER FINANCING SOURCES:</b>					
Prior year lapses.....	-	6,381	6,381	-	6,381
<b>REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES.....</b>	<b>4,267</b>	<b>(11,353)</b>	<b>(7,086)</b>	<b>8,018</b>	<b>932</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2016.....</b>	<b>55,498</b>	<b>-</b>	<b>55,498</b>	<b>-</b>	<b>55,498</b>
<b>FUND BALANCE</b>					
<b>(BUDGETARY BASIS), JUNE 30, 2017.....</b>	<b>\$ 59,765</b>	<b>\$ (11,353)</b>	<b>\$ 48,412</b>	<b>\$ 8,018</b>	<b>\$ 56,430</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, 2017 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 2017.)

<b>Traceability to the " Status of Appropriations " Column Totals</b>	<i>Special Funds</i> <i>"Status of</i> <i>Appropriations"</i>	
<b><u>Total State Programs-Actual (Budgetary Basis) Expenditures</u></b>	<b>Report Page</b>	
	<b>Reference</b>	
Appropriations (Column A).....	327	\$ 86,228
plus Actual Augmentations (Column C).....	327	549
less Lapses (Column D).....	327	-
<b>TOTAL STATE PROGRAMS Actual (Budgetary Basis) Expenditures</b>		<b>\$ 86,777</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>\$ 932</b>
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue.....	(13,037)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities.....	26,977
Net adjustments.....	13,940
<b>Modified accrual basis</b> — net change in governmental fund balance.....	<b>\$ 14,872</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 191 to 193 are an integral part of this schedule. -

**- THIS PAGE INTENTIONALLY LEFT BLANK -**





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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 14 individual debt service funds.

There are a total of 19 individual debt service funds; all are reported as nonmajor funds.

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

Debt Service Funds  
 June 30, 2017

(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.....	\$ 2,694	\$ 99,023	\$ -	\$ -	\$ -	\$ 145	\$ 101,862
Receivables (net):							
Accounts.....	-	3,222	-	-	-	-	3,222
Investment income.....	3	91	-	-	-	-	94
Due from component units.....	355	-	-	-	-	-	355
<b>TOTAL ASSETS.....</b>	<b>\$ 3,052</b>	<b>\$ 102,336</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 145</b>	<b>\$ 105,533</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Accounts payable and accrued liabilities.....	\$ -	\$ 95,071	\$ -	\$ -	\$ -	\$ -	\$ 95,071
Unearned revenue.....	-	3,222	-	-	-	-	3,222
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>98,293</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,293</b>
<b>Fund balances:</b>							
Committed.....	3,052	4,043	-	-	-	145	7,240
<b>TOTAL FUND BALANCES.....</b>	<b>3,052</b>	<b>4,043</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>145</b>	<b>7,240</b>
<b>TOTAL LIABILITIES AND FUND BALANCES....</b>	<b>\$ 3,052</b>	<b>\$ 102,336</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 145</b>	<b>\$ 105,533</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, 2017

(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.....	\$ -	\$ 18,132	\$ 2,592	\$ -	\$ -	\$ -	\$ 20,724
Investment income.....	34	237	1	-	-	-	272
Other.....	13,830	-	-	-	-	-	13,830
<b>TOTAL REVENUES</b> .....	<u>13,864</u>	<u>18,369</u>	<u>2,593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,826</u>
<b>EXPENDITURES:</b>							
Debt service:							
Principal retirement.....	7,760	720,011	22,565	8,550	9,255	410	768,551
Interest and fiscal charges.....	5,742	519,683	10,612	16,105	3,038	53	555,233
<b>TOTAL EXPENDITURES</b> .....	<u>13,502</u>	<u>1,239,694</u>	<u>33,177</u>	<u>24,655</u>	<u>12,293</u>	<u>463</u>	<u>1,323,784</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b> .....	<u>362</u>	<u>(1,221,325)</u>	<u>(30,584)</u>	<u>(24,655)</u>	<u>(12,293)</u>	<u>(463)</u>	<u>(1,288,958)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Refunding bonds issued.....	-	604,667	-	-	-	-	604,667
Premium on refunding bonds.....	-	80,381	-	-	-	-	80,381
Transfers in.....	-	1,204,212	29,289	24,655	12,293	423	1,270,872
Transfers out.....	-	-	-	-	-	(84)	(84)
Payment to refunded bond escrow agent.....	-	(683,084)	-	-	-	-	(683,084)
<b>NET OTHER FINANCING SOURCES</b> .....	<u>-</u>	<u>1,206,176</u>	<u>29,289</u>	<u>24,655</u>	<u>12,293</u>	<u>339</u>	<u>1,272,752</u>
<b>NET CHANGE IN FUND BALANCES</b> .....	<u>362</u>	<u>(15,149)</u>	<u>(1,295)</u>	<u>-</u>	<u>-</u>	<u>(124)</u>	<u>(16,206)</u>
<b>FUND BALANCES, JULY 1, 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>
<b>FUND BALANCES, JUNE 30, 2017</b> .....	<u>\$ 3,052</u>	<u>\$ 4,043</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145</u>	<u>\$ 7,240</u>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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, 2017

(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>							
Temporary investments.....	\$ 1,022,351	\$ 39,099	\$ 2,950	\$ 28,215	\$ -	\$ 8,694	\$ 1,101,309
Long-term investments.....	-	136,054	-	-	-	-	136,054
Receivables (net):							
Taxes.....	-	-	-	-	-	36,089	36,089
Investment income.....	919	30	3	24	-	10	986
Due from other funds.....	328	9,256	-	-	-	9,873	19,457
Due from component units.....	2,874	-	-	-	-	-	2,874
<b>TOTAL ASSETS.....</b>	<b>\$ 1,026,472</b>	<b>\$ 184,439</b>	<b>\$ 2,953</b>	<b>\$ 28,239</b>	<b>\$ -</b>	<b>\$ 54,666</b>	<b>\$ 1,296,769</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities.....	\$ 57,534	\$ 6,698	\$ 2,467	\$ 253	\$ -	\$ -	\$ 66,952
Securities lending obligations.....	-	4,771	-	-	-	-	4,771
Due to other funds.....	6,086	97	-	-	-	976	7,159
Due to component units.....	-	15	-	-	-	-	15
Due to pension trust funds.....	-	7	-	-	-	-	7
Due to political subdivisions.....	29,592	1,085	218	-	-	7,724	38,619
Due to other governments.....	-	2	-	-	-	-	2
<b>TOTAL LIABILITIES.....</b>	<b>93,212</b>	<b>12,675</b>	<b>2,685</b>	<b>253</b>	<b>-</b>	<b>8,700</b>	<b>117,525</b>
<b>Fund balances:</b>							
Committed.....	933,260	171,764	268	27,986	-	45,966	1,179,244
<b>TOTAL FUND BALANCES.....</b>	<b>933,260</b>	<b>171,764</b>	<b>268</b>	<b>27,986</b>	<b>-</b>	<b>45,966</b>	<b>1,179,244</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 1,026,472</b>	<b>\$ 184,439</b>	<b>\$ 2,953</b>	<b>\$ 28,239</b>	<b>\$ -</b>	<b>\$ 54,666</b>	<b>\$ 1,296,769</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, 2017

(Amounts in thousands)

	<b>Capital Facilities</b>	<b>Keystone Recreation, Park and Conservation</b>	<b>Growing Greener Bond</b>	<b>Water Supply and Wastewater Treatment</b>	<b>Land and Water Development</b>	<b>Public Transportation Assistance</b>	<b>Total</b>
<b>REVENUES:</b>							
Taxes.....	\$ -	\$ 86,531	\$ -	\$ -	\$ -	\$ 237,805	\$ 324,336
Charges for sales and services.....	7,252	-	-	-	-	-	7,252
Investment income.....	9,408	9,421	72	234	-	161	19,296
<b>TOTAL REVENUES</b> .....	<b>16,660</b>	<b>95,952</b>	<b>72</b>	<b>234</b>	<b>-</b>	<b>237,966</b>	<b>350,884</b>
<b>EXPENDITURES:</b>							
Current:							
Direction and supportive services.....	53,133	-	-	4	-	-	53,137
Protection of persons and property.....	-	-	1,520	-	57	-	1,577
Public education.....	-	18,272	2,563	-	-	-	20,835
Recreation and cultural enrichment.....	-	45,785	132	-	-	-	45,917
Economic development.....	223,070	-	1,004	2,391	-	-	226,465
Transportation.....	141,594	-	-	-	-	213,999	355,593
Capital outlay.....	98,293	12,790	8,147	-	-	-	119,230
Debt service:							
Interest and fiscal charges.....	4,012	-	-	29	-	-	4,041
<b>TOTAL EXPENDITURES</b> .....	<b>520,102</b>	<b>76,847</b>	<b>13,366</b>	<b>2,424</b>	<b>57</b>	<b>213,999</b>	<b>826,795</b>
<b>EXCESS/(DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES</b> .....	<b>(503,442)</b>	<b>19,105</b>	<b>(13,294)</b>	<b>(2,190)</b>	<b>(57)</b>	<b>23,967</b>	<b>(475,911)</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Bonds issued.....	1,200,000	-	-	8,725	-	-	1,208,725
Refunding bonds issued.....	503	-	-	-	-	-	503
Premium on bonds issued.....	161,375	-	-	1,171	-	-	162,546
Discount on bonds issued.....	(2,270)	-	-	(16)	-	-	(2,286)
Transfers in.....	18,638	122	-	-	-	-	18,760
Transfers out.....	(275,553)	(744)	-	(2,534)	-	(21,085)	(299,916)
<b>NET OTHER FINANCING SOURCES (USES)</b> .....	<b>1,102,693</b>	<b>(622)</b>	<b>-</b>	<b>7,346</b>	<b>-</b>	<b>(21,085)</b>	<b>1,088,332</b>
<b>NET CHANGE IN FUND BALANCES</b> .....	<b>599,251</b>	<b>18,483</b>	<b>(13,294)</b>	<b>5,156</b>	<b>(57)</b>	<b>2,882</b>	<b>612,421</b>
<b>FUND BALANCES JULY 1, 2016</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>FUND BALANCES JUNE 30, 2017</b> .....	<b>\$ 933,260</b>	<b>\$ 171,764</b>	<b>\$ 268</b>	<b>\$ 27,986</b>	<b>\$ -</b>	<b>\$ 45,966</b>	<b>\$ 1,179,244</b>





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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.

***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 16 individual enterprise funds. The following funds are reported as Major Funds in the basic financial statements: **Unemployment Compensation, State Workers' Insurance, State Lottery, State Stores, Tuition Payment** and the **Commonwealth Financing Authority** (a blended component unit).

**- THIS PAGE INTENTIONALLY LEFT BLANK -**

Commonwealth of Pennsylvania  
**Combining Statement of Net Position-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 June 30, 2017

(Amounts in thousands)

	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 .....	\$ 33	\$ 113	\$ 4	\$ 89	\$ 17,086	\$ 110	\$ 17,435
Cash with fiscal agents.....	-	-	-	1	-	-	1
Temporary investments.....	23,517	21,757	20,951	13,828	1,565	19,255	100,873
Receivables (net):							
Accounts .....	221	-	770	100	-	18	1,109
Investment income.....	19	16	17	12	-	17	81
Interest on loans.....	109	-	547	-	-	-	656
Loans.....	12,530	-	12,681	-	-	372	25,583
Lease rental.....	-	-	-	-	583	-	583
Other .....	-	-	-	-	3	-	3
Due from other funds .....	-	-	-	3,907	6,549	14	10,470
Due from Federal government.....	-	-	-	42	-	1	43
Due from other governments .....	-	-	-	-	96	-	96
Inventory.....	-	-	-	-	-	4	4
Prepaid expenses.....	-	-	-	-	561	-	561
Other assets.....	-	-	-	-	494	-	494
Total current assets .....	<u>36,429</u>	<u>21,886</u>	<u>34,970</u>	<u>17,979</u>	<u>26,937</u>	<u>19,791</u>	<u>157,992</u>
Noncurrent assets:							
Restricted cash.....	-	-	-	-	4,525	-	4,525
Long-term investments .....	33,643	113,131	41,720	-	-	-	188,494
Receivables:							
Loans.....	59,260	-	66,982	-	-	2,689	128,931
Non-depreciable capital assets:							
Land.....	-	-	-	-	208,807	-	208,807
Construction in progress.....	-	-	-	-	14,124	-	14,124
Depreciable or amortizable capital assets:							
Land improvements.....	-	-	-	-	69,830	-	69,830
Buildings and building improvements.....	-	-	-	34,135	378,325	-	412,460
Machinery and equipment.....	-	146	-	3,206	40,002	1,785	45,139
Less: accumulated depreciation and amortization...	-	(78)	-	(27,216)	(215,225)	(1,767)	(244,286)
Net depreciable or amortizable capital assets.....	-	68	-	10,125	272,932	18	283,143
Other assets.....	-	-	-	-	9,959	-	9,959
Total noncurrent assets .....	<u>92,903</u>	<u>113,199</u>	<u>108,702</u>	<u>10,125</u>	<u>510,347</u>	<u>2,707</u>	<u>837,983</u>
<b>TOTAL ASSETS.....</b>	<u>129,332</u>	<u>135,085</u>	<u>143,672</u>	<u>28,104</u>	<u>537,284</u>	<u>22,498</u>	<u>995,975</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES..</b>	<u>-</u>	<u>856</u>	<u>-</u>	<u>5,949</u>	<u>4,809</u>	<u>621</u>	<u>12,235</u>

*Commonwealth of Pennsylvania*  
**Combining Statement of Net Position-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 June 30, 2017

(Amounts in thousands)

	Volunteer Companies Loan	Coal and Clay Mine Subsidence Insurance	PA Infrastructure Bank	Rehabilitation Center	Philadelphia Regional Port Authority	Other	Total
<b><u>LIABILITIES</u></b>							
Current liabilities:							
Accounts payable and accrued liabilities.....	620	138	1,490	1,999	7,996	413	12,656
Securities lending obligations.....	1,179	3,967	1,463	-	-	-	6,609
Due to other funds.....	-	14	-	296	34	66	410
Due to pension trust funds.....	-	6	-	114	25	7	152
Due to component units.....	-	48	-	-	-	-	48
Due to political subdivisions.....	-	-	-	28	-	-	28
Due to other governments.....	-	1	-	14	2,274	1	2,290
Interest payable.....	-	-	-	-	279	-	279
Unearned revenue.....	69	2,689	43	-	623	-	3,424
Revenue bonds payable.....	-	-	-	-	4,065	-	4,065
Self insurance liabilities.....	-	17	-	123	87	29	256
Compensated absences.....	-	94	-	323	187	44	648
Other liabilities.....	-	-	-	-	740	-	740
Total current liabilities.....	<u>1,868</u>	<u>6,974</u>	<u>2,996</u>	<u>2,897</u>	<u>16,310</u>	<u>560</u>	<u>31,605</u>
Non-current liabilities:							
Insurance loss liability.....	-	490	-	-	-	-	490
Revenue bond payable.....	-	-	-	-	13,258	-	13,258
Compensated absences.....	-	314	-	1,082	626	148	2,170
Self insurance liabilities.....	-	107	-	773	545	180	1,605
Other postemployment benefit obligations.....	-	786	-	6,367	3,370	623	11,146
Net pension liability.....	-	3,837	-	26,617	16,113	2,772	49,339
Other liabilities.....	-	-	-	-	2,345	-	2,345
Total non-current liabilities.....	<u>-</u>	<u>5,534</u>	<u>-</u>	<u>34,839</u>	<u>36,257</u>	<u>3,723</u>	<u>80,353</u>
<b>TOTAL LIABILITIES.....</b>	<u>1,868</u>	<u>12,508</u>	<u>2,996</u>	<u>37,736</u>	<u>52,567</u>	<u>4,283</u>	<u>111,958</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>							
<b>TOTAL DEFERRED INFLOWS OF RESOURCES...</b>	<u>-</u>	<u>159</u>	<u>-</u>	<u>1,105</u>	<u>1,204</u>	<u>115</u>	<u>2,583</u>
<b><u>NET POSITION</u></b>							
Net investment in capital assets.....	-	68	-	10,125	485,039	18	495,250
Restricted for:							
Transportation.....	-	-	140,676	-	-	-	140,676
Capital projects.....	-	-	-	-	149	-	149
Debt service.....	-	-	-	-	4,200	-	4,200
Economic development.....	-	-	-	-	-	6,373	6,373
Emergency support.....	127,464	-	-	-	-	-	127,464
Other purposes.....	-	123,206	-	-	-	12,330	135,536
Unrestricted.....	-	-	-	(14,913)	(1,066)	-	(15,979)
<b>TOTAL NET POSITION.....</b>	<u>\$ 127,464</u>	<u>\$ 123,274</u>	<u>\$ 140,676</u>	<u>\$ (4,788)</u>	<u>\$ 488,322</u>	<u>\$ 18,721</u>	<u>\$ 893,669</u>

**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, 2017

(Amounts in thousands)

	<b>Volunteer Companies Loan</b>	<b>Coal and Clay Mine Subsidence Insurance</b>	<b>PA Infrastructure Bank</b>	<b>Rehabilitation Center</b>	<b>Philadelphia Regional Port Authority</b>	<b>Other</b>	<b>Total</b>
<b>OPERATING REVENUES:</b>							
Sales and services.....	\$ -	\$ 5,646	\$ 11	\$ 278	\$ 13,466	\$ 5,104	\$ 24,505
Interest on loans.....	1,477	-	1,327	-	-	162	2,966
Other.....	-	-	-	-	103	35	138
<b>OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS.....</b>	<b>1,477</b>	<b>5,646</b>	<b>1,338</b>	<b>278</b>	<b>13,569</b>	<b>5,301</b>	<b>27,609</b>
Provision for uncollectible accounts.....	87	-	(3,374)	-	-	1,385	(1,902)
<b>NET OPERATING REVENUES.....</b>	<b>1,564</b>	<b>5,646</b>	<b>(2,036)</b>	<b>278</b>	<b>13,569</b>	<b>6,686</b>	<b>25,707</b>
<b>OPERATING EXPENSES:</b>							
Cost of sales and services.....	250	4,174	3	741	14,288	3,174	22,630
Depreciation.....	-	38	-	940	19,913	14	20,905
Other.....	-	-	-	-	2,252	-	2,252
<b>TOTAL OPERATING EXPENSES .....</b>	<b>250</b>	<b>4,212</b>	<b>3</b>	<b>1,681</b>	<b>36,453</b>	<b>3,188</b>	<b>45,787</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>1,314</b>	<b>1,434</b>	<b>(2,039)</b>	<b>(1,403)</b>	<b>(22,884)</b>	<b>3,498</b>	<b>(20,080)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>							
Investment income.....	3,142	8,252	3,686	102	11	142	15,335
Grants and other revenues.....	-	-	-	980	513	109	1,602
Other expenses.....	-	-	-	(5)	(4,517)	-	(4,522)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>3,142</b>	<b>8,252</b>	<b>3,686</b>	<b>1,077</b>	<b>(3,993)</b>	<b>251</b>	<b>12,415</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>4,456</b>	<b>9,686</b>	<b>1,647</b>	<b>(326)</b>	<b>(26,877)</b>	<b>3,749</b>	<b>(7,665)</b>
<b>TRANSFERS:</b>							
Transfers in.....	-	-	-	-	57,083	-	57,083
Transfers out.....	(9,000)	-	-	-	-	-	(9,000)
<b>TRANSFERS, NET.....</b>	<b>(9,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,083</b>	<b>-</b>	<b>48,083</b>
<b>CHANGE IN NET POSITION.....</b>	<b>(4,544)</b>	<b>9,686</b>	<b>1,647</b>	<b>(326)</b>	<b>30,206</b>	<b>3,749</b>	<b>40,418</b>
<b>TOTAL NET POSITION, JULY 1, 2016.....</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>853,251</b>
<b>TOTAL NET POSITION, JUNE 30, 2017.....</b>	<b>\$ 127,464</b>	<b>\$ 123,274</b>	<b>\$ 140,676</b>	<b>\$ (4,788)</b>	<b>\$ 488,322</b>	<b>\$ 18,721</b>	<b>\$ 893,669</b>

**- THIS PAGE INTENTIONALLY LEFT BLANK -**

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	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.....	\$ -	\$ -	\$ -	\$ 206	\$ 16,147	\$ 5,207	\$ 21,560
Receipts from borrowers for fees and loan repayments.....	14,531	-	14,933	-	-	1,026	30,490
Receipt of premiums.....	-	5,858	-	-	-	-	5,858
Payments to borrowers.....	(10,058)	-	(13,525)	-	-	(390)	(23,973)
Payments for vendors, employees and other costs.....	(250)	(3,748)	(3)	3,100	(13,643)	(3,421)	(17,965)
Other receipts.....	-	-	-	-	-	31	31
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>4,223</b>	<b>2,110</b>	<b>1,405</b>	<b>3,306</b>	<b>2,504</b>	<b>2,453</b>	<b>16,001</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>							
Transfers in.....	-	-	-	-	1,500	-	1,500
Transfers out.....	(9,000)	-	-	-	-	-	(9,000)
Grants and other revenues.....	-	-	-	998	200	109	1,307
Other payments for non-capital financing uses.....	-	-	-	-	(7,132)	-	(7,132)
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES.....</b>	<b>(9,000)</b>	<b>-</b>	<b>-</b>	<b>998</b>	<b>(5,432)</b>	<b>109</b>	<b>(13,325)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>							
<b>FINANCING ACTIVITIES:</b>							
Acquisition and construction of capital assets.....	-	(75)	-	(534)	(42,337)	(6)	(42,952)
Principal payments on other capital debt.....	-	-	-	-	(3,680)	-	(3,680)
Interest payments on other capital debt.....	-	-	-	-	(951)	-	(951)
Transfers in.....	-	-	-	-	55,799	-	55,799
Other receipts for capital and related financing activities.....	-	-	-	-	4,920	-	4,920
Other payments for capital and related financing uses.....	-	-	-	-	(6,124)	-	(6,124)
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>(75)</b>	<b>-</b>	<b>(534)</b>	<b>7,627</b>	<b>(6)</b>	<b>7,012</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchase of investments.....	(15,272)	(7,401)	(17,053)	(22,910)	(9,582)	(6,822)	(79,040)
Sales and maturities of investments.....	17,074	2,905	12,616	19,024	8,458	4,200	64,277
Investment income.....	2,907	2,494	3,036	95	11	132	8,675
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....</b>	<b>4,709</b>	<b>(2,002)</b>	<b>(1,401)</b>	<b>(3,791)</b>	<b>(1,113)</b>	<b>(2,490)</b>	<b>(6,088)</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>(68)</b>	<b>33</b>	<b>4</b>	<b>(21)</b>	<b>3,586</b>	<b>66</b>	<b>3,600</b>
<b>CASH AT JULY 1, 2016.....</b>	<b>101</b>	<b>80</b>	<b>-</b>	<b>111</b>	<b>18,025</b>	<b>44</b>	<b>18,361</b>
<b>CASH AT JUNE 30, 2017 (including \$4,525 included in restricted assets).....</b>	<b>\$ 33</b>	<b>\$ 113</b>	<b>\$ 4</b>	<b>\$ 90</b>	<b>\$ 21,611</b>	<b>\$ 110</b>	<b>\$ 21,961</b>



**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
 Enterprise Funds  
 For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	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).....	\$ 1,314	\$ 1,434	\$ (2,039)	\$ (1,403)	\$ (22,884)	\$ 3,498	\$ (20,080)
Depreciation and amortization of capital assets.....	-	38	-	940	19,913	14	20,905
Amortization of other assets.....	-	-	-	-	2,252	-	2,252
Provision for uncollectible accounts.....	(87)	-	3,374	-	-	(1,385)	1,902
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:							
Accounts receivable.....	-	-	-	(13)	-	(18)	(31)
Interest on loans receivable.....	(11)	-	119	-	-	-	108
Loans receivable.....	2,822	-	631	-	-	488	3,941
Lease rental receivable.....	-	-	-	-	155	-	155
Other receivables.....	-	-	-	-	4	-	4
Due from other funds.....	-	-	-	1,607	-	-	1,607
Due from other governments.....	-	-	-	-	(30)	-	(30)
Prepaid expenses.....	-	-	-	-	160	-	160
Other current and noncurrent assets.....	-	-	-	-	(2,025)	-	(2,025)
Deferred outflows.....	-	(170)	-	(514)	(1,246)	(73)	(2,003)
Accounts payable and accrued liabilities.....	201	(117)	(664)	550	1,540	(425)	1,085
Due to other funds.....	-	(7)	-	24	28	44	89
Due to pension trust funds.....	-	(12)	-	(14)	(56)	(6)	(88)
Due to component units.....	-	26	-	-	-	-	26
Due to political subdivisions.....	-	-	-	(14)	-	-	(14)
Due to other governments.....	-	(3)	-	(20)	-	(5)	(28)
Unearned revenue.....	(16)	208	(16)	-	(406)	-	(230)
Self insurance liabilities.....	-	15	-	102	91	3	211
Compensated absences.....	-	24	-	44	(327)	18	(241)
Insurance loss liability.....	-	(90)	-	-	-	-	(90)
Other postemployment benefit obligations.....	-	126	-	895	520	88	1,629
Net pension liability.....	-	521	-	347	2,242	129	3,239
Other current and noncurrent liabilities.....	-	-	-	-	2,418	-	2,418
Deferred inflows.....	-	117	-	775	155	83	1,130
<b>Total Adjustments.....</b>	<b>2,909</b>	<b>676</b>	<b>3,444</b>	<b>4,709</b>	<b>25,388</b>	<b>(1,045)</b>	<b>36,081</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ 4,223</b>	<b>\$ 2,110</b>	<b>\$ 1,405</b>	<b>\$ 3,306</b>	<b>\$ 2,504</b>	<b>\$ 2,453</b>	<b>\$ 16,001</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>							
Increase in fair value of investments during the fiscal year.....	\$ 224	\$ 5,750	\$ 637	\$ -	\$ -	\$ -	\$ 6,611
Increase in investments from changes in securities lending obligations.....	104	1,185	189	-	-	-	1,478
Capital asset acquisitions that pertain to changes in accounts payable.....	-	-	-	29	-	7	36
Disposals of capital assets.....	-	-	-	(30)	(1,372)	(5)	(1,407)
Amortization of bond premium/discount (net).....	-	-	-	-	(195)	-	(195)
Transfers from other funds (accruals).....	-	-	-	-	(216)	-	(216)
Internal activity elimination for capital financing activities.....	-	-	-	-	(4,546)	-	(4,546)

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

**- THIS PAGE INTENTIONALLY LEFT BLANK -**



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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, 2017

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash.....	\$ 4,440	\$ 555	\$ 4,995
Temporary investments.....	9,562	15,823	25,385
Receivables (net):			
Accounts.....	29	375	404
Investment income.....	8	15	23
Due from other funds.....	19,227	2,114	21,341
Due from pension trust funds.....	1,024	3,688	4,712
Due from component units.....	72	6	78
Due from political subdivisions.....	-	24	24
Inventory.....	41	16,288	16,329
Total current assets.....	<u>34,403</u>	<u>38,888</u>	<u>73,291</u>
Noncurrent assets:			
Long-term investments .....	-	21,869	21,869
Depreciable capital assets:			
Land improvements.....	192	-	192
Buildings and building improvements.....	-	6,237	6,237
Machinery and equipment.....	67,625	36,165	103,790
Less: accumulated depreciation.....	(45,076)	(23,374)	(68,450)
Net depreciable capital assets.....	<u>22,741</u>	<u>19,028</u>	<u>41,769</u>
Total noncurrent assets.....	<u>22,741</u>	<u>40,897</u>	<u>63,638</u>
<b>TOTAL ASSETS.....</b>	<b><u>57,144</u></b>	<b><u>79,785</u></b>	<b><u>136,929</u></b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b><u>3,955</u></b>	<b><u>8,720</u></b>	<b><u>12,675</u></b>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities.....	32,221	3,881	36,102
Securities lending obligations.....	-	767	767
Due to other funds.....	2,710	337	3,047
Due to pension trust funds.....	75	313	388
Due to component units.....	4	-	4
Due to political subdivisions.....	2	-	2
Due to other governments.....	21	37	58
Capital lease/installment purchase obligations.....	509	-	509
Self insurance liabilities.....	126	436	562
Compensated absences.....	188	453	641
Total current liabilities.....	<u>35,856</u>	<u>6,224</u>	<u>42,080</u>
Non-current liabilities:			
Installment purchase.....	1,035	-	1,035
Compensated absences.....	631	1,516	2,147
Self insurance liabilities.....	787	2,733	3,520
Other postemployment benefit obligations.....	3,416	8,825	12,241
Net pension liability.....	17,699	39,019	56,718
Total non-current liabilities.....	<u>23,568</u>	<u>52,093</u>	<u>75,661</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>59,424</u></b>	<b><u>58,317</u></b>	<b><u>117,741</u></b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b><u>734</u></b>	<b><u>1,619</u></b>	<b><u>2,353</u></b>
<b><u>NET POSITION</u></b>			
Net investment in capital assets.....	21,197	19,028	40,225
Restricted for:			
Correctional industries and procurement.....	-	9,541	9,541
Unrestricted.....	(20,256)	-	(20,256)
<b>TOTAL NET POSITION.....</b>	<b><u>\$ 941</u></b>	<b><u>\$ 28,569</u></b>	<b><u>\$ 29,510</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, 2017

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Sales and services.....	\$ 15,493	\$ 76,951	\$ 92,444
<b>OPERATING EXPENSES:</b>			
Cost of sales and services.....	1,626	74,704	76,330
Depreciation.....	12,097	1,731	13,828
<b>TOTAL OPERATING EXPENSES .....</b>	<u>13,723</u>	<u>76,435</u>	<u>90,158</u>
<b>OPERATING GAIN.....</b>	<u>1,770</u>	<u>516</u>	<u>2,286</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	75	1,678	1,753
Other expenses.....	(495)	-	(495)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET....</b>	<u>(420)</u>	<u>1,678</u>	<u>1,258</u>
<b>CHANGE IN NET POSITION.....</b>	1,350	2,194	3,544
<b>TOTAL NET POSITION, JULY 1, 2016.....</b>	<u>(409)</u>	<u>26,375</u>	<u>25,966</u>
<b>TOTAL NET POSITION, JUNE 30, 2017.....</b>	<u>\$ 941</u>	<u>\$ 28,569</u>	<u>\$ 29,510</u>

**Commonwealth of Pennsylvania**  
**Combining Statement of Cash Flows-Nonmajor Proprietary Funds**  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)	<u>Purchasing</u>	<u>Manufacturing</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers.....	\$ 14,922	\$ 76,996	\$ 91,918
Payments for vendors, employees and other costs.....	648	(70,113)	(69,465)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>15,570</b>	<b>6,883</b>	<b>22,453</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets.....	(12,391)	(663)	(13,054)
Proceeds from disposal of capital assets.....	2,243	-	2,243
Capital lease/installment purchase payments.....	(569)	-	(569)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES...</b>	<b>(10,717)</b>	<b>(663)</b>	<b>(11,380)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments.....	(282,158)	(52,573)	(334,731)
Sales and maturities of investments.....	279,433	45,808	325,241
Investment income.....	71	556	627
<b>NET CASH USED FOR INVESTING ACTIVITIES.....</b>	<b>(2,654)</b>	<b>(6,209)</b>	<b>(8,863)</b>
<b>NET INCREASE IN CASH.....</b>	<b>2,199</b>	<b>11</b>	<b>2,210</b>
<b>CASH AT JULY 1, 2016.....</b>	<b>2,241</b>	<b>544</b>	<b>2,785</b>
<b>CASH AT JUNE 30, 2017.....</b>	<b>\$ 4,440</b>	<b>\$ 555</b>	<b>\$ 4,995</b>

**RECONCILIATION OF OPERATING INCOME TO NET**

**CASH PROVIDED BY OPERATING ACTIVITIES**

Operating gain.....	\$ 1,770	\$ 516	\$ 2,286
Depreciation and amortization of capital assets.....	12,097	1,731	13,828
Other adjustments.....	(2,243)	-	(2,243)
Effect of changes in assets, liabilities, deferred outflows and deferred inflows:			
Accounts receivable.....	(22)	545	523
Due from other funds.....	17,646	(495)	17,151
Due from pension trust funds.....	1,035	(15)	1,020
Due from component units.....	71	-	71
Due from political subdivisions.....	6	10	16
Inventory.....	(6)	3,870	3,864
Deferred outflows.....	(609)	(969)	(1,578)
Accounts payable and accrued liabilities.....	(17,115)	(3,131)	(20,246)
Due to other funds.....	276	53	329
Due to pension trust funds.....	20	194	214
Due to component units.....	1	-	1
Due to political subdivisions.....	(1)	(3)	(4)
Due to other governments.....	8	5	13
Self insurance liabilities.....	(19)	213	194
Compensated absences.....	15	29	44
Other postemployment benefit obligations.....	581	1,632	2,213
Net pension liability.....	1,528	1,549	3,077
Deferred inflows.....	531	1,149	1,680
<b>Total Adjustments.....</b>	<b>13,800</b>	<b>6,367</b>	<b>20,167</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ 15,570</b>	<b>\$ 6,883</b>	<b>\$ 22,453</b>

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

Increase in fair value of investments during the fiscal year.....	\$ -	\$ 1,111	\$ 1,111
Increase in investments from changes in securities lending obligations.....	-	229	229
Capital assets acquired through installment purchases.....	671	-	671
Capital asset acquisitions that pertain to changes in accounts payable.....	(56)	5	(51)
Disposals of capital assets.....	(495)	(91)	(586)

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

**- THIS PAGE INTENTIONALLY LEFT BLANK -**





Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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 healthcare, disability, and death benefits to members and their beneficiaries.

***Other Postemployment Benefits (REHP)*** — an employee benefit trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing postemployment healthcare benefits to retired employees.

***Other Postemployment Benefits (RPSPP)*** — an employee benefit trust fund that holds and invests amounts contributed by the Commonwealth of Pennsylvania for the sole purpose of providing postemployment healthcare benefits to retired Pennsylvania State Police.

**- THIS PAGE INTENTIONALLY LEFT BLANK -**

**Commonwealth of Pennsylvania**  
**Combining Statement of Fiduciary Net Position**  
Pension (and Other Employee Benefit) Trust Funds  
June 30, 2017

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust						
	State Employees' Retirement System (December 31, 2016)	Deferred Compensation (December 31, 2016)	Public School Employees' Retirement System		Other Postemployment Benefits		Total
			Pension	Postemployment Healthcare	Retired Employees Health Program	Retired Pennsylvania State Police Program	
<b>ASSETS</b>							
Cash.....	\$ -	\$ 8,057	\$ 131,324	\$ -	\$ -	\$ -	\$ 139,381
Temporary investments.....	-	16,776	-	-	26,676	8,847	52,299
Long-term investments.....	-	91,787	-	-	282,274	93,615	467,676
Short-term funds.....	1,577,211	67,093	5,565,178	172,672	-	-	7,382,154
Corporate obligations.....	748,672	189,085	1,927,373	-	-	-	2,865,130
Collective trust funds.....	275,206	332,218	12,816,147	-	-	-	13,423,571
Real estate.....	2,491,314	-	5,340,555	-	-	-	7,831,869
Alternative.....	6,182,866	-	11,922,940	-	-	-	18,105,806
Securities lending collateral.....	273,603	2,005	2,016,063	-	-	-	2,291,671
Asset-backed securities.....	554,952	131,469	1,062,696	-	-	-	1,749,117
Derivatives.....	-	-	1,399	-	-	-	1,399
Domestic equities.....	7,343,898	1,395,641	5,649,599	-	-	-	14,389,138
International equities.....	4,789,908	155,533	5,688,266	-	-	-	10,633,707
International private debt securities.....	-	1,058	72,982	-	-	-	74,040
International public debt securities.....	249,606	-	371,550	-	-	-	621,156
Mortgage-backed securities.....	-	225,943	527,192	-	-	-	753,135
Private placements.....	515,019	-	-	-	-	-	515,019
Repurchase agreements.....	-	-	-	129,996	-	-	129,996
U.S. Treasury obligations.....	1,645,854	507,912	1,105,942	-	-	-	3,259,708
U.S. government agency debt securities.....	80,429	40,105	-	-	-	-	120,534
Receivables (net):							
Investment income.....	60,600	66	150,626	196	-	-	211,488
Interest on notes and loans.....	-	-	-	-	248	82	330
Pension contributions.....	-	5,452	1,407,949	33,470	-	-	1,446,871
Investment sale proceeds.....	207,428	-	864,326	-	-	-	1,071,754
Other.....	3,093	4	205	27,716	-	-	31,018
Due from other funds.....	10,168	-	5,733	163	-	-	16,064
Due from pension trust funds.....	1,688	-	39	-	-	-	1,727
Due from component units.....	65,202	-	-	-	-	-	65,202
Due from political subdivisions.....	42,231	-	-	-	-	-	42,231
Due from other governments.....	-	-	-	46,975	-	-	46,975
Depreciable or amortizable capital assets:							
Machinery and equipment.....	-	-	12,689	-	-	-	12,689
Intangible assets.....	-	-	41,285	-	-	-	41,285
Less: accumulated depreciation and amortization.....	-	-	(29,973)	-	-	-	(29,973)
Net depreciable or amortizable capital assets.....	-	-	24,001	-	-	-	24,001
<b>TOTAL ASSETS.....</b>	<b>27,118,948</b>	<b>3,170,204</b>	<b>56,652,085</b>	<b>411,188</b>	<b>309,198</b>	<b>102,544</b>	<b>87,764,167</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES...</b>	<b>-</b>	<b>-</b>	<b>16,695</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,695</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Fiduciary Net Position**  
Pension (and Other Employee Benefit) Trust Funds  
June 30, 2017

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust						Total
	State Employees' Retirement System (December 31, 2016)	Deferred Compensation (December 31, 2016)	Public School Employees' Retirement System		Other Postemployment Benefits		
			Pension	Postemployment Healthcare	Retired Employees Health Program	Retired Pennsylvania State Police Program	
<b>LIABILITIES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities.....	68,236	1,674	98,680	2,560	93	31	171,274
Investment purchases payable.....	389,220	-	800,996	-	-	-	1,190,216
Securities lending obligations.....	273,603	2,005	2,016,063	-	26,676	8,847	2,327,194
Due to other funds.....	-	35	575	-	-	-	610
Due to pension trust funds.....	-	168	739	-	-	-	907
Net pension liability.....	-	-	64,116	-	-	-	64,116
Other liabilities.....	-	-	529,833	57,018	-	-	586,851
<b>TOTAL LIABILITIES.....</b>	<b>731,059</b>	<b>3,882</b>	<b>3,511,002</b>	<b>59,578</b>	<b>26,769</b>	<b>8,878</b>	<b>4,341,168</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>-</b>	<b>-</b>	<b>2,442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,442</b>
<b>NET POSITION</b>							
Restricted and held in trust for:							
Pension benefits.....	26,387,889	-	53,155,336	-	-	-	79,543,225
Postemployment healthcare benefits.....	-	-	-	351,610	282,429	93,666	727,705
Employee salary deferrals.....	-	3,166,322	-	-	-	-	3,166,322
<b>TOTAL NET POSITION.....</b>	<b>\$ 26,387,889</b>	<b>\$ 3,166,322</b>	<b>\$ 53,155,336</b>	<b>\$ 351,610</b>	<b>\$ 282,429</b>	<b>\$ 93,666</b>	<b>\$ 83,437,252</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, 2017

(Amounts in thousands)

	Pension (and Other Employee Benefit) Trust						
	State Employees' Retirement System (December 31, 2016)	Deferred Compensation (December 31, 2016)	Public School Employees' Retirement System		Other Postemployment Benefits		Total
			Pension	Postemployment Healthcare	Retired Employees Health Program	Retired Pennsylvania State Police Program	
<b>ADDITIONS:</b>							
Contributions:							
Pension:							
Employer.....	\$ 1,622,123	\$ -	\$ 3,832,773	\$ 184,756	\$ 603,720	\$ 122,870	\$ 6,366,242
Employee.....	374,570	135,829	1,013,847	336,646	-	-	1,860,892
Transfer in from other plans.....	-	65,984	-	-	50,000	-	115,984
Total contributions.....	<u>1,996,693</u>	<u>201,813</u>	<u>4,846,620</u>	<u>521,402</u>	<u>653,720</u>	<u>122,870</u>	<u>8,343,118</u>
Investment income:							
Net increase/(decrease) in fair value of investments.....	1,233,501	168,577	4,204,585	(337)	25,812	9,028	5,641,166
Interest income.....	126,219	23,741	227,910	1,728	124	44	379,766
Dividend income.....	273,733	-	295,427	-	6,150	2,151	577,461
Rental and other income.....	116,708	-	730,076	-	79	27	846,890
Total investment activity income.....	<u>1,750,161</u>	<u>192,318</u>	<u>5,457,998</u>	<u>1,391</u>	<u>32,165</u>	<u>11,250</u>	<u>7,445,283</u>
Less: investment expenses							
Investment activity expense.....	(167,712)	(3,701)	(474,441)	(50)	-	-	(645,904)
Net investment earnings.....	<u>1,582,449</u>	<u>188,617</u>	<u>4,983,557</u>	<u>1,341</u>	<u>32,165</u>	<u>11,250</u>	<u>6,799,379</u>
Securities lending activities:							
Income.....	4,893	18	21,395	-	-	-	26,306
Expenses.....	(489)	(2)	(9,590)	-	-	-	(10,081)
Total securities lending income.....	<u>4,404</u>	<u>16</u>	<u>11,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,225</u>
Total net investment income.....	<u>1,586,853</u>	<u>188,633</u>	<u>4,995,362</u>	<u>1,341</u>	<u>32,165</u>	<u>11,250</u>	<u>6,815,604</u>
<b>TOTAL ADDITIONS.....</b>	<b><u>3,583,546</u></b>	<b><u>390,446</u></b>	<b><u>9,841,982</u></b>	<b><u>522,743</u></b>	<b><u>685,885</u></b>	<b><u>134,120</u></b>	<b><u>15,158,722</u></b>
<b>DEDUCTIONS:</b>							
Benefit payments.....	3,214,440	90,976	6,452,651	450,325	596,568	122,182	10,927,142
Refunds of contributions.....	13,108	-	20,928	-	-	-	34,036
Transfers to other plans.....	-	113,377	-	-	-	-	113,377
Administrative expenses.....	22,999	408	45,127	39,310	7,183	698	115,725
Other expenses.....	-	3,714	-	-	302	106	4,122
<b>TOTAL DEDUCTIONS.....</b>	<b><u>3,250,547</u></b>	<b><u>208,475</u></b>	<b><u>6,518,706</u></b>	<b><u>489,635</u></b>	<b><u>604,053</u></b>	<b><u>122,986</u></b>	<b><u>11,194,402</u></b>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>							
Pension benefits.....	332,999	-	3,323,276	-	-	-	3,656,275
Postemployment healthcare benefits.....	-	-	-	33,108	81,832	11,134	126,074
Employee salary deferrals.....	-	181,971	-	-	-	-	181,971
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST.....</b>	<b><u>332,999</u></b>	<b><u>181,971</u></b>	<b><u>3,323,276</u></b>	<b><u>33,108</u></b>	<b><u>81,832</u></b>	<b><u>11,134</u></b>	<b><u>3,964,320</u></b>
<b>Net position, July 1, 2016.....</b>	<b>26,054,890</b>	<b>2,984,351</b>	<b>49,832,060</b>	<b>318,502</b>	<b>200,597</b>	<b>82,532</b>	<b>79,472,932</b>
<b>Net position, June 30, 2017.....</b>	<b>\$ <u>26,387,889</u></b>	<b>\$ <u>3,166,322</u></b>	<b>\$ <u>53,155,336</u></b>	<b>\$ <u>351,610</u></b>	<b>\$ <u>282,429</u></b>	<b>\$ <u>93,666</u></b>	<b>\$ <u>83,437,252</u></b>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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, 2017

(Amounts in thousands)

	<b>Tuition Account Investment Program</b>	<b>Monetary Penalty Endowments Trust</b>	<b>Total</b>
<b>ASSETS</b>			
Cash.....	\$ 3,643	\$ -	\$ 3,643
Temporary investments.....	-	6,758	6,758
Long-term investments.....	2,399,875	45,017	2,444,892
Receivables (net):			
Accounts.....	336	-	336
Investment income.....	-	5	5
Due from other funds.....	-	38	38
<b>TOTAL ASSETS</b> .....	<b>2,403,854</b>	<b>51,818</b>	<b>2,455,672</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities.....	1,335	483	1,818
Investment purchases payable.....	674	-	674
Securities lending obligations.....	-	1,579	1,579
Due to political subdivisions.....	-	66	66
<b>TOTAL LIABILITIES</b> .....	<b>2,009</b>	<b>2,128</b>	<b>4,137</b>
<b>NET POSITION</b>			
Restricted and held in trust for:			
Tuition Account Program participants.....	2,401,845	-	2,401,845
Other.....	-	49,690	49,690
<b>TOTAL NET POSITION</b> .....	<b>\$ 2,401,845</b>	<b>\$ 49,690</b>	<b>\$ 2,451,535</b>

**Commonwealth of Pennsylvania**  
**Combining Statement of Changes in Fiduciary Net Position**  
Private-Purpose Trust Funds  
For the Fiscal Year Ended June 30, 2017  
(Amounts in thousands)

	<b>Tuition Account Investment Program</b>	<b>Monetary Penalty Endowments Trust</b>	<b>Total</b>
<b>ADDITIONS:</b>			
Investment income:			
Net increase in			
fair value of investments.....	\$ 172,564	\$ -	\$ 172,564
Interest income.....	56,161	3,458	59,619
Total investment activity income.....	<u>228,725</u>	<u>3,458</u>	<u>232,183</u>
Total net investment income.....	<u>228,725</u>	<u>3,458</u>	<u>232,183</u>
Share transactions (at net asset value of \$1.00 per share):			
Net increase in net assets from share transactions.....	139,520	-	139,520
<b>TOTAL ADDITIONS.....</b>	<u>368,245</u>	<u>3,458</u>	<u>371,703</u>
<b>DEDUCTIONS:</b>			
Administrative expenses.....	6,819	-	6,819
Other expenses.....	-	2,684	2,684
<b>TOTAL DEDUCTIONS.....</b>	<u>6,819</u>	<u>2,684</u>	<u>9,503</u>
<b>CHANGE IN PLAN NET POSITION HELD IN TRUST FOR:</b>			
Tuition Account Investment Program participants.....	361,426	-	361,426
Other.....	-	774	774
<b>TOTAL CHANGE IN PLAN NET POSITION HELD IN TRUST.....</b>	<u>361,426</u>	<u>774</u>	<u>362,200</u>
<b>Net position, July 1, 2016.....</b>	<u>2,040,419</u>	<u>48,916</u>	<u>2,089,335</u>
<b>Net position, June 30, 2017.....</b>	<u>\$ 2,401,845</u>	<u>\$ 49,690</u>	<u>\$ 2,451,535</u>



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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 2% 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 2% 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 10 individual agency funds.

There are a total of 17 individual agency funds.

Commonwealth of Pennsylvania  
 Combining Statement of Fiduciary Assets and Liabilities  
 Agency Funds  
 June 30, 2017

(Amounts in thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodial Accounts	Other	Total Agency Funds
<b>ASSETS</b>									
Cash.....	\$ -	\$ 1,030	\$ 90	\$ -	\$ 12	\$ -	\$ 11,322	\$ 718	\$ 13,172
Cash with fiscal agents.....	75,152	-	-	-	-	-	-	-	75,152
Temporary investments.....	136,900	95,463	16,986	16,032	303,291	63,063	26,198	48,204	706,137
Long-term investments.....	2,664,950	8,473	-	236,461	-	-	-	-	2,909,884
Receivables (net):									
Taxes.....	-	-	17,800	-	7	14,889	-	43,708	76,404
Accounts.....	25,621	-	-	18,664	-	-	4,893	-	49,178
Investment income.....	9,032	83	9	946	263	-	-	32	10,365
Investment sale proceeds.....	2,754	-	-	562	-	-	-	-	3,316
Advances to other funds.....	-	-	-	67,500	-	-	-	-	67,500
Other assets.....	4,562,710	-	-	-	-	-	962	-	4,563,672
<b>TOTAL ASSETS.....</b>	<b>\$ 7,477,119</b>	<b>\$ 105,049</b>	<b>\$ 34,885</b>	<b>\$ 340,165</b>	<b>\$ 303,573</b>	<b>\$ 77,952</b>	<b>\$ 43,375</b>	<b>\$ 92,662</b>	<b>\$ 8,474,780</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities.....	\$ -	\$ 104,745	\$ 473	\$ 17,692	\$ 20,692	\$ 2,770	\$ 13,199	\$ 254	\$ 159,825
Investment purchases payable.....	3,032	-	-	1,154	-	-	-	-	4,186
Securities lending obligations.....	2,703	297	-	4,244	-	-	-	-	7,244
Due to political subdivisions.....	-	-	34,412	-	282,881	75,182	-	88,081	480,556
Due to other governments.....	-	7	-	1	-	-	-	-	8
Other liabilities.....	7,471,384	-	-	317,074	-	-	30,176	4,327	7,822,961
<b>TOTAL LIABILITIES.....</b>	<b>\$ 7,477,119</b>	<b>\$ 105,049</b>	<b>\$ 34,885</b>	<b>\$ 340,165</b>	<b>\$ 303,573</b>	<b>\$ 77,952</b>	<b>\$ 43,375</b>	<b>\$ 92,662</b>	<b>\$ 8,474,780</b>

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

Agency Funds

For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
<b>STATUTORY LIQUIDATOR FUND</b>				
<b><u>ASSETS</u></b>				
Cash with fiscal agents.....	\$ 65,975	\$ 3,039,755	\$ 3,030,578	\$ 75,152
Temporary investments.....	117,078	136,900	117,078	136,900
Long-term investments.....	2,335,346	1,640,984	1,311,380	2,664,950
Receivables (net):				
Accounts.....	19,281	24,565	18,225	25,621
Investment income.....	10,201	44,825	45,994	9,032
Investment sale proceeds.....	-	6,775	4,021	2,754
Other assets.....	4,634,108	114,946	186,344	4,562,710
<b>TOTAL ASSETS .....</b>	<b><u>\$ 7,181,989</u></b>	<b><u>\$ 5,008,750</u></b>	<b><u>\$ 4,713,620</u></b>	<b><u>\$ 7,477,119</u></b>
<b><u>LIABILITIES</u></b>				
Investment purchases payable.....	\$ 610	\$ 135,757	\$ 133,335	\$ 3,032
Securities lending obligations.....	1,896	2,703	1,896	2,703
Other liabilities.....	7,179,483	7,471,384	7,179,483	7,471,384
<b>TOTAL LIABILITIES .....</b>	<b><u>\$ 7,181,989</u></b>	<b><u>\$ 7,609,844</u></b>	<b><u>\$ 7,314,714</u></b>	<b><u>\$ 7,477,119</u></b>
<b>MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND</b>				
<b><u>ASSETS</u></b>				
Cash.....	\$ 700	\$ 8,997,355	\$ 8,997,025	\$ 1,030
Temporary investments.....	90,032	7,581,862	7,576,431	95,463
Long-term investments.....	22,557	16,953	31,037	8,473
Receivables (net):				
Accounts.....	-	3	3	-
Investment income.....	57	83	57	83
<b>TOTAL ASSETS .....</b>	<b><u>\$ 113,346</u></b>	<b><u>\$ 16,596,256</u></b>	<b><u>\$ 16,604,553</u></b>	<b><u>\$ 105,049</u></b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities.....	\$ 112,742	\$ 775,664	\$ 783,661	\$ 104,745
Securities lending obligations.....	598	297	598	297
Due to other funds.....	-	109	109	-
Due to other governments.....	6	9	8	7
Other liabilities.....	-	123,400	123,400	-
<b>TOTAL LIABILITIES .....</b>	<b><u>\$ 113,346</u></b>	<b><u>\$ 899,479</u></b>	<b><u>\$ 907,776</u></b>	<b><u>\$ 105,049</u></b>

(continued)

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

Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>ALLEGHENY REGIONAL ASSET DISTRICT</b>				
<b>SALES AND USE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ 83	\$ 5,179,297	\$ 5,179,290	\$ 90
Temporary investments.....	15,749	3,254,809	3,253,572	16,986
Receivables (net):				
Taxes.....	17,843	17,800	17,843	17,800
Investment income.....	4	10	5	9
<b>TOTAL ASSETS</b> .....	<b>\$ 33,679</b>	<b>\$ 8,451,916</b>	<b>\$ 8,450,710</b>	<b>\$ 34,885</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 595	\$ 473	\$ 595	\$ 473
Due to political subdivisions.....	33,084	1,328	-	34,412
<b>TOTAL LIABILITIES</b> .....	<b>\$ 33,679</b>	<b>\$ 1,801</b>	<b>\$ 595</b>	<b>\$ 34,885</b>
<b>UNDERGROUND STORAGE TANK</b>				
<b>INDEMNIFICATION FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 13,468,524	\$ 13,468,524	\$ -
Temporary investments.....	30,197	7,319,928	7,334,093	16,032
Long-term investments.....	208,829	5,296,062	5,268,430	236,461
Receivables (net):				
Accounts.....	14,591	18,665	14,592	18,664
Investment income.....	894	946	894	946
Interest on notes and loans.....	-	1,840	1,840	-
Investment sale proceeds.....	1,420	562	1,420	562
Advances to other funds.....	67,500	-	-	67,500
<b>TOTAL ASSETS</b> .....	<b>\$ 323,431</b>	<b>\$ 26,106,527</b>	<b>\$ 26,089,793</b>	<b>\$ 340,165</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 18,134	\$ 180,650	\$ 181,092	\$ 17,692
Investment purchases payable.....	3,075	1,154	3,075	1,154
Securities lending obligations.....	16,578	4,244	16,578	4,244
Due to other funds.....	-	687	687	-
Due to political subdivisions.....	-	187	187	-
Due to other governments.....	2	23	24	1
Other liabilities.....	285,642	35,863	4,431	317,074
<b>TOTAL LIABILITIES</b> .....	<b>\$ 323,431</b>	<b>\$ 222,808</b>	<b>\$ 206,074</b>	<b>\$ 340,165</b>

(continued)

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

Agency Funds (continued)  
 For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>MUNICIPAL PENSION AID FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 8,050,980	\$ 8,050,968	\$ 12
Cash with fiscal agents.....	-	-	-	-
Temporary investments.....	278,452	5,292,024	5,267,185	303,291
Receivables (net):				
Taxes.....	238	7	238	7
Investment income.....	140	263	140	263
<b>TOTAL ASSETS</b> .....	<b>\$ 278,830</b>	<b>\$ 13,343,274</b>	<b>\$ 13,318,531</b>	<b>\$ 303,573</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 102	\$ 577,282	\$ 556,692	\$ 20,692
Due to political subdivisions.....	278,728	570,541	566,388	282,881
<b>TOTAL LIABILITIES</b> .....	<b>\$ 278,830</b>	<b>\$ 1,147,823</b>	<b>\$ 1,123,080</b>	<b>\$ 303,573</b>
<b>FIRE INSURANCE TAX FUND</b>				
<b>ASSETS</b>				
Cash.....	\$ -	\$ 2,729,680	\$ 2,729,680	\$ -
Temporary investments.....	80,362	1,751,357	1,768,656	63,063
Receivables (net):				
Taxes.....	1	14,889	1	14,889
<b>TOTAL ASSETS</b> .....	<b>\$ 80,363</b>	<b>\$ 4,495,926</b>	<b>\$ 4,498,337</b>	<b>\$ 77,952</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ -	\$ 201,302	\$ 198,532	\$ 2,770
Due to political subdivisions.....	80,363	290,288	295,469	75,182
Due to other governments.....	-	4	4	-
<b>TOTAL LIABILITIES</b> .....	<b>\$ 80,363</b>	<b>\$ 491,594</b>	<b>\$ 494,005</b>	<b>\$ 77,952</b>
<b>AGENCY CUSTODIAL ACCOUNTS</b>				
<b>ASSETS</b>				
Cash.....	\$ 11,531	\$ 938	\$ 1,147	\$ 11,322
Temporary investments.....	23,146	6,575	3,523	26,198
Receivables (net):				
Accounts.....	4,672	446	225	4,893
Other assets.....	912	111	61	962
<b>TOTAL ASSETS</b> .....	<b>\$ 40,261</b>	<b>\$ 8,070</b>	<b>\$ 4,956</b>	<b>\$ 43,375</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 13,289	\$ 95	\$ 185	\$ 13,199
Other liabilities.....	26,972	6,557	3,353	30,176
<b>TOTAL LIABILITIES</b> .....	<b>\$ 40,261</b>	<b>\$ 6,652</b>	<b>\$ 3,538</b>	<b>\$ 43,375</b>

(continued)



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

Agency Funds (continued)

For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>OTHER FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 3,340	\$ 16,002,073	\$ 16,004,695	\$ 718
Temporary investments.....	49,447	10,029,289	10,030,532	48,204
Receivables (net):				
Taxes.....	29,437	43,840	29,569	43,708
Investment income.....	15	34	17	32
<b>TOTAL ASSETS</b> .....	<b>\$ 82,239</b>	<b>\$ 26,075,236</b>	<b>\$ 26,064,813</b>	<b>\$ 92,662</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 784	\$ 84,483	\$ 85,013	\$ 254
Due to political subdivisions.....	77,196	524,688	513,803	88,081
Other liabilities.....	4,259	93	25	4,327
<b>TOTAL LIABILITIES</b> .....	<b>\$ 82,239</b>	<b>\$ 609,264</b>	<b>\$ 598,841</b>	<b>\$ 92,662</b>
<b>TOTAL — AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash.....	\$ 15,654	\$ 54,428,847	\$ 54,431,329	\$ 13,172
Cash with fiscal agents.....	65,975	3,039,755	3,030,578	75,152
Temporary investments.....	684,463	35,372,744	35,351,070	706,137
Long-term investments.....	2,566,732	6,953,999	6,610,847	2,909,884
Receivables (net):				
Taxes.....	47,519	76,536	47,651	76,404
Accounts.....	38,544	43,679	33,045	49,178
Investment income.....	11,311	46,161	47,107	10,365
Interest on notes and loans.....	-	1,840	1,840	-
Investment sale proceeds.....	1,420	7,337	5,441	3,316
Advances to other funds.....	67,500	-	-	67,500
Other assets.....	4,635,020	115,057	186,405	4,563,672
<b>TOTAL ASSETS</b> .....	<b>\$ 8,134,138</b>	<b>\$ 100,085,955</b>	<b>\$ 99,745,313</b>	<b>\$ 8,474,780</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities.....	\$ 145,646	\$ 1,819,949	\$ 1,805,770	\$ 159,825
Investment purchases payable.....	3,685	136,911	136,410	4,186
Securities lending obligations.....	19,072	7,244	19,072	7,244
Due to other funds.....	-	796	796	-
Due to political subdivisions.....	469,371	1,387,032	1,375,847	480,556
Due to other governments.....	8	36	36	8
Net pension liability.....	-	-	-	-
Other liabilities.....	7,496,356	7,637,297	7,310,692	7,822,961
<b>TOTAL LIABILITIES</b> .....	<b>\$ 8,134,138</b>	<b>\$ 10,989,265</b>	<b>\$ 10,648,623</b>	<b>\$ 8,474,780</b>

(concluded)

**- THIS PAGE INTENTIONALLY LEFT BLANK -**



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# 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, 2016 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 22 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.

There are a total of 15 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.

**- THIS PAGE INTENTIONALLY LEFT BLANK -**

**Commonwealth of Pennsylvania**  
**Combining Statement of Net Position**  
 Nonmajor Discretely Presented Component Units  
 June 30, 2017

(Amounts in thousands)

	State Public School Building Authority	Philadelphia Shipyards Development Corporation (December 31, 2016)	Ben Franklin Technology Development Authority	Pennsylvania Higher Educational Facilities Authority
<b>ASSETS</b>				
Current assets:				
Cash.....	\$ -	\$ 857	\$ -	\$ -
Temporary investments.....	5,497	-	23,181	-
Receivables (net):				
Accounts.....	1	-	-	-
Investment income.....	71	-	20	-
Interest on notes and loans.....	16	-	-	-
Loans.....	2,036	-	-	-
Other.....	-	-	-	-
Due from primary government.....	-	-	-	-
Due from Federal government.....	-	-	-	-
Inventory.....	-	-	-	-
Prepaid and deferred expenses.....	-	15	-	-
Total current assets.....	7,621	872	23,201	-
Noncurrent assets:				
Restricted cash.....	-	-	-	-
Long-term investments.....	21,513	-	-	-
Receivables (net):				
Loans.....	2,796	-	28,923	-
Non-depreciable capital assets:				
Land.....	-	161	-	-
Construction in progress.....	-	-	-	-
Depreciable or amortizable capital assets:				
Land improvements.....	-	-	-	-
Buildings and building improvements.....	-	-	-	-
Machinery and equipment.....	389	-	-	-
Library books.....	-	-	-	-
Intangible assets.....	-	-	-	-
Less: accumulated depreciation and amortization.....	(313)	-	-	-
Net depreciable or amortizable capital assets.....	76	-	-	-
Other assets.....	-	7,410	-	-
Total noncurrent assets.....	24,385	7,571	28,923	-
<b>TOTAL ASSETS.....</b>	<b>32,006</b>	<b>8,443</b>	<b>52,124</b>	<b>-</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>583</b>	<b>-</b>	<b>172</b>	<b>-</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities.....	27	-	117	-
Securities lending obligations.....	-	-	-	-
Due to primary government.....	-	-	4	-
Due to other governments.....	-	-	1	-
Interest payable.....	-	-	-	-
Unearned revenue.....	-	-	-	-
Revenue bonds payable.....	-	-	-	-
Capital lease/installment purchase obligations.....	-	-	-	-
Compensated absences.....	51	-	-	-
Other liabilities.....	35	-	-	-
Total current liabilities.....	113	-	122	-
Non-current liabilities:				
Revenue bond payable.....	-	-	-	-
Capital lease/installment purchase obligations.....	-	-	-	-
Compensated absences.....	152	-	-	-
Other postemployment benefit obligations.....	494	-	138	-
Net pension liability.....	2,355	-	773	-
Other liabilities.....	91	7,410	-	-
Total non-current liabilities.....	3,092	7,410	911	-
<b>TOTAL LIABILITIES.....</b>	<b>3,205</b>	<b>7,410</b>	<b>1,033</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>73</b>	<b>-</b>	<b>32</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets.....	76	161	-	-
Restricted for:				
Debt service.....	-	-	-	-
Economic development.....	-	872	51,231	-
Other purposes.....	29,235	-	-	-
Unrestricted.....	-	-	-	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 29,311</b>	<b>\$ 1,033</b>	<b>\$ 51,231</b>	<b>\$ -</b>

Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Pennsylvania Convention Center Authority	Thaddeus Stevens College of Technology	Pennsylvania Energy Development Authority	Total
\$ -	\$ 300	\$ 19,734	\$ 9,253	\$ -	\$ 30,144
2,569	309,942	19,077	-	1,005	361,271
3	56	2,958	26	-	3,044
-	-	-	-	1	92
-	578	-	-	-	594
-	51,419	-	-	-	53,455
-	-	7,500	566	-	8,066
-	-	-	55	-	55
742	-	-	-	-	742
-	-	-	796	-	796
-	-	2,460	80	-	2,555
3,314	362,295	51,729	10,776	1,006	460,814
-	-	-	1,767	-	1,767
-	-	-	2,362	3,713	27,588
-	259,537	-	-	-	291,256
-	-	994	-	-	1,155
-	-	7,132	53	-	7,185
-	-	-	2,626	-	2,626
-	-	771,386	474	-	771,860
2,069	-	181,680	6,421	-	190,559
-	-	-	353	-	353
33	-	-	-	-	33
(1,405)	-	(343,623)	(5,918)	-	(351,259)
697	-	609,443	3,956	-	614,172
-	620	3,461	1,204	-	12,695
697	260,157	621,030	9,342	3,713	955,818
4,011	622,452	672,759	20,118	4,719	1,416,632
224	10,839	1,343	5,442	21	18,624
853	120	10,640	2,336	6	14,099
-	1,146	-	-	-	1,146
3	318	7,902	-	-	8,227
-	1	-	-	-	2
-	3,694	-	-	-	3,694
-	-	1,909	40	-	1,949
-	25,980	-	-	-	25,980
-	-	-	89	-	89
-	-	-	466	-	517
-	-	-	-	-	35
856	31,259	20,451	2,931	6	55,738
2,000	163,343	-	-	-	165,343
-	-	-	157	-	157
110	-	-	2,189	-	2,451
216	382	4,355	4,253	11	9,849
870	997	3,803	17,768	96	26,662
-	150	-	63	-	7,714
3,196	164,872	8,158	24,430	107	212,176
4,052	196,131	28,609	27,361	113	267,914
65	41	111	522	4	848
(1,315)	-	617,570	3,763	-	620,255
-	56,858	-	-	-	56,858
1,433	-	27,812	-	4,623	85,971
-	-	-	-	-	29,235
-	380,261	-	(6,086)	-	374,175
\$ 118	\$ 437,119	\$ 645,382	\$ (2,323)	\$ 4,623	\$ 1,166,494

**Commonwealth of Pennsylvania**  
**Combining Statement of Activities**  
 Nonmajor Discretely Presented Component Units  
 For the Fiscal Year Ended June 30, 2017

(Amounts in thousands)

	<b>State Public School Building Authority</b>	<b>Philadelphia Shipyards Development Corporation (December 31, 2016)</b>	<b>Ben Franklin Technology Development Authority</b>	<b>Pennsylvania Higher Educational Facilities Authority</b>
Expenses.....	\$ 1,788	\$ 248	\$ 30,689	\$ 1,123
Program revenues:				
Charges for goods and services.....	1,224	-	29,095	1,123
Operating grants and contributions.....	302	6	15,021	-
Capital grants and contributions.....	-	-	-	-
<b>Total program revenues.....</b>	<b>1,526</b>	<b>6</b>	<b>44,116</b>	<b>1,123</b>
<b>Change in net position.....</b>	<b>(262)</b>	<b>(242)</b>	<b>13,427</b>	<b>-</b>
<b>Net position, July 1, 2016.....</b>	<b>29,573</b>	<b>1,275</b>	<b>37,804</b>	<b>-</b>
<b>Net position, June 30, 2017.....</b>	<b>\$ 29,311</b>	<b>\$ 1,033</b>	<b>\$ 51,231</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>Total</b>
\$ 2,123	\$ 9,658	\$ 86,135	\$ 27,671	\$ 287	\$ 159,722
11	11,222	16,360	10,400	-	69,435
1,984	13,495	40,189	16,100	340	87,437
-	-	4,680	-	-	4,680
<u>1,995</u>	<u>24,717</u>	<u>61,229</u>	<u>26,500</u>	<u>340</u>	<u>161,552</u>
(128)	15,059	(24,906)	(1,171)	53	1,830
246	422,060	670,288	(1,152)	4,570	1,164,664
<u>\$ 118</u>	<u>\$ 437,119</u>	<u>\$ 645,382</u>	<u>\$ (2,323)</u>	<u>\$ 4,623</u>	<u>\$ 1,166,494</u>

**- THIS PAGE INTENTIONALLY LEFT BLANK -**



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# Statistical Section

Statistical Section Table of Contents

**Financial Trends**

*These tables illustrate how the Commonwealth's financial position has changed over time by providing information on the Commonwealth's net position, changes in net position, fund balance, and changes in fund balance.*

Table 1-Net Position by Component..... 260  
 Table 2-Changes in Net Position ..... 262  
 Table 3-Governmental Fund Type Fund Balances ..... 264  
 Table 4-Revenues by Source and Expenditures by Function-All Governmental Fund Types ..... 266

**Revenue Capacity**

*These tables contain information on the factors that affect the Commonwealth's ability to generate its own-source revenues. The Commonwealth's largest source of revenues is taxes. Information for the three largest tax types is contained within these tables. Personal income, sales, and corporation taxes account for 75% of all general revenues for the June 30, 2017 fiscal year (as reported in the statement of activities).*

Table 5-Personal Income Tax-Personal Income by Industry..... 267  
 Table 6-Personal Income Tax-Personal Income Tax Filers and Liability by Income Level ..... 268  
 Table 7-Sales Tax-Estimated Taxable Sales by Industry Classification of the Vendor ..... 269  
 Table 8-Sales Tax-Sales Tax Remittances by Major Industry Classification ..... 270  
 Table 9-Corporate Tax-Corporate Net Income Tax..... 271  
 Table 10-Corporate Tax-Capital Stock/Foreign Franchise Tax..... 272

**Debt Capacity**

*These tables contain information on the Commonwealth's debt burden as well as information about the Commonwealth's ability to issue additional debt.*

Table 11-Outstanding Debt and Outstanding Debt Ratios ..... 273  
 Table 12-Ratios of General Obligation Bonded Debt Outstanding ..... 274  
 Table 13-Computation of Legal Debt Margin ..... 275

**Demographic and Economic Information**

*These tables contain information on the socioeconomic environment in which the Commonwealth operates.*

Table 14-Employment by Nonfarm Related Industry ..... 276  
 Table 15-Population and Per Capita Personal Income ..... 277  
 Table 16-Employment Information..... 277

**Operating Information**

*These tables provide information about the Commonwealth's operations and resources and assist in relating financial statement information to the Commonwealth's economic condition.*

Table 17-Commonwealth Employees by Function and Agency..... 278  
 Table 18-Operating Indicators by Function and Agency..... 280  
 Table 19-Capital Asset Information by Function and Agency..... 282

**- THIS PAGE INTENTIONALLY LEFT BLANK -**

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)

	2008 (3)	2009 (3)	2010	2011	2012 (4)	2013 (4)(6)	2014 (6)(7)	2015 (7)(8)	2016 (9)	2017 (9)
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
Net investment in capital assets.....	\$ 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	\$ 31,540,865
Restricted for:										
General government operations (2)(5).....	N/A	N/A	N/A	672,834	-	1,739	-	35	47	75
Health-related programs.....	1,410,932	1,291,318	1,048,684	61,785	18,977	18,830	16,982	15,412	14,294	13,918
Transportation.....	1,520,801	1,342,189	1,318,358	1,000,129	670,168	352,317	298,733	481,202	599,545	724,063
Capital projects.....	-	-	11	-	-	-	-	-	-	-
Debt service.....	27,458	16,834	46,853	-	-	-	-	-	-	-
Unemployment/worker's compensation.....	120,181	125,515	301,372	367,006	427,934	499,547	528,908	405,823	468,215	529,416
Elderly programs.....	38,264	62,183	50,213	-	-	-	-	-	-	-
Environmental and conservation programs.....	457,726	529,274	592,672	331,102	565,891	512,807	551,972	365,837	318,622	370,188
Economic development.....	22,530	23,576	25,312	-	-	-	-	-	-	6,862
Gaming licensing/regulation.....	947,145	917,466	771,616	720,578	725,468	709,348	651,467	502,589	426,436	400,131
Correctional industries and procurement.....	46,541	37,701	49,467	62,868	71,095	52,287	38,976	5,498	6,284	26,422
Emergency support.....	58,063	57,324	58,209	51,926	46,793	52,178	50,535	55,044	65,361	93,002
Higher education.....	7,023	8,985	7,715	-	-	-	-	-	-	-
Other purposes.....	88,580	58,842	55,616	40,078	35,614	35,626	57,614	24,019	18,528	-
Unrestricted.....	(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)	(21,275,848)
<b>TOTAL GOVERNMENTAL ACTIVITIES NET POSITION.....</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>12,429,094</b>
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
Net investment in capital assets.....	72,668	78,561	74,392	84,065	77,259	465,161	489,357	504,790	528,443	556,457
Restricted for:										
Health-related programs.....	1,942	1,059	2,837	2,323	1,340	4,456	5,588	-	-	-
Transportation.....	103,274	103,652	110,987	118,938	121,760	126,986	134,364	136,802	139,029	140,676
Capital projects.....	-	-	-	-	-	-	-	-	2	149
Debt service.....	-	-	-	-	-	4,199	4,199	4,199	4,199	4,200
Unemployment/worker's compensation.....	2,378,092	342,098	-	-	-	-	-	-	685,191	1,746,563
Elderly programs.....	124,351	-	-	-	-	-	-	-	-	-
Economic development (8).....	299,924	283,012	295,502	304,767	309,636	325,269	333,821	5,256	5,102	6,373
Emergency support.....	132,837	134,685	138,884	144,834	147,747	151,853	156,951	129,459	132,008	127,464
Higher Education.....	-	-	-	-	-	29,009	155,638	226,767	218,155	282,773
Other purposes.....	126,799	76,573	85,177	94,985	98,203	105,929	147,076	116,825	123,408	135,536
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)	(2,274,990)
<b>TOTAL BUSINESS-TYPE ACTIVITIES NET POSITION.....</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>725,201</b>
<b>PRIMARY GOVERNMENT (1)</b>										
Net investment in capital assets.....	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	32,097,322
Restricted for:										
General government operations (2)(5).....	N/A	N/A	N/A	672,834	-	1,739	-	35	47	75
Health-related programs.....	1,412,874	1,292,377	1,051,521	64,108	20,317	23,286	22,570	15,412	14,294	13,918
Transportation.....	1,624,075	1,445,841	1,429,345	1,119,067	791,928	479,303	433,097	618,004	738,574	864,739
Capital projects.....	-	-	11	-	-	-	-	-	2	149
Debt service.....	27,458	16,834	46,853	-	-	4,199	4,199	4,199	4,199	4,200
Unemployment/worker's compensation.....	2,498,273	467,613	301,372	367,006	427,934	499,547	528,908	405,823	1,153,406	2,275,979
Elderly programs.....	162,615	62,183	50,213	-	-	-	-	-	-	-
Environmental and conservation programs.....	457,726	529,274	592,672	331,102	565,891	512,807	551,972	365,837	318,622	370,188
Economic development (8).....	322,454	306,588	320,814	304,767	309,636	325,269	333,821	5,256	5,102	13,235
Gaming licensing/regulation.....	947,145	917,466	771,616	720,578	725,468	709,348	651,467	502,589	426,436	400,131
Correctional industries and procurement.....	46,541	37,701	49,467	62,868	71,095	52,287	38,976	5,498	6,284	26,422
Emergency support.....	190,900	192,009	197,093	196,760	194,540	204,031	207,486	184,503	197,369	220,466
Higher education.....	7,023	8,985	7,715	-	-	29,009	155,638	226,767	218,155	282,773
Other purposes.....	215,379	135,415	140,793	135,063	133,817	141,555	204,690	140,844	141,936	135,536
Unrestricted.....	(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)	(23,550,838)
<b>TOTAL PRIMARY GOVERNMENT NET POSITION (1).....</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>	<b>\$ 13,154,295</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 2008-2012, 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 2008-2012 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 2008-2012.

(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)-For the 2017 fiscal year, the operations of the Pennsylvania eHealth Partnership Authority, reported as a discretely presented component unit in the June 30, 2016 CAFR, were merged into the Commonwealth's primary government, effective July 1, 2017. The operations are reported within the General Fund. With this merger, the beginning net position for governmental activities and total primary government both were increased by \$361, as of July 1, 2016. Therefore, the ending net position balance (for governmental activities and total primary government) shown in this table as of June 30, 2016 plus the change in net position shown in Table 2 for the June 30, 2017 fiscal year will differ from the ending net position balance (for governmental activities and total primary government) shown in this table as of June 30, 2017. Note 18 in the notes to the financial statements provides additional details on this change in reporting entity.

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)

	2008	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017 (6)
<b>GOVERNMENTAL ACTIVITIES (1)</b>										
<b>Expenses:</b>										
Direction and supportive services.....	\$ 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	\$ 1,255,507
Protection of persons and property .....	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	7,011,983
Public education.....	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	16,426,756
Health and human services.....	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	41,335,304
Economic development.....	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	1,006,641
Transportation.....	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	6,365,693
Recreation and cultural enrichment.....	571,009	602,365	559,311	491,082	514,309	519,242	522,662	615,175	607,420	626,195
Interest.....	371,249	382,065	395,305	440,428	475,545	489,401	494,177	266,477	512,324	435,877
<b>Total expenses.....</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>74,463,956</b>
<b>Program revenues:</b>										
Charges for sales and services:										
Direction and supportive services.....	143,933	74,320	216,188	252,572	277,492	363,296	256,820	975,506	424,384	428,813
Protection of persons and property .....	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	1,571,915
Public education.....	17,641	15,756	18,201	14,928	4,776	5,926	5,337	5,102	7,647	6,059
Health and human services.....	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	2,994,241
Economic development.....	11,379	15,553	12,317	11,812	8,205	13,910	6,373	6,695	7,110	6,221
Transportation.....	945,536	944,486	910,721	976,705	970,026	972,417	1,036,790	1,210,668	1,316,284	1,365,419
Recreation and cultural enrichment.....	162,013	312,287	416,053	181,373	245,405	304,903	338,954	274,966	251,242	258,709
Operating grants and contributions.....	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	30,207,372
Capital grants and contributions.....	4,610	47,320	57,628	221,195	67,866	91,603	42,261	32,186	62,360	78,145
<b>Total program revenues.....</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>36,916,894</b>
<b>Total governmental activities net program revenues/(expenses).....</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>(37,547,062)</b>
<b>General revenues and other changes in net position:</b>										
<b>General revenues:</b>										
<b>Taxes:</b>										
Personal income.....	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	12,072,378
Sales and use.....	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	10,714,383
Corporation.....	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	4,406,000
Liquid fuels and motor carriers.....	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	3,583,153
Gaming (2).....	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	1,402,207
Inheritance.....	802,865	733,405	698,980	783,824	803,573	796,007	850,221	976,286	947,699	988,569
Cigarette.....	1,026,125	1,000,987	1,088,405	1,104,355	1,081,587	1,038,605	968,436	954,930	974,267	1,406,189
Realty transfer.....	500,786	348,003	346,094	328,997	343,015	396,552	439,797	485,275	564,002	564,030
Other.....	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	948,200
<b>Total taxes.....</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>	<b>36,085,109</b>
Investment income.....	128,722	(137,831)	15,099	52,129	14,979	12,876	36,311	16,072	16,297	22,977
<b>Total general revenues.....</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>	<b>36,108,086</b>
Transfers from business-type activities.....	296,931	430,398	218,721	239,925	210,438	17,275	(103,151)	127,071	(50,376)	833,714
<b>Net general revenues and transfers.....</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>36,941,800</b>
<b>Total governmental activities change in net position.....</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>	<b>\$ (605,262)</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)

	2008	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017 (6)
<b>BUSINESS-TYPE ACTIVITIES (1)</b>										
<b>Expenses</b>										
State lottery.....	\$ 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	\$ 3,982,011
State workers' insurance.....	616,256	388,424	338,229	306,318	268,388	365,900	267,991	312,856	286,526	221,245
Tuition payment.....	224,791	100,028	235,876	259,069	236,342	248,592	277,139	226,330	231,082	336,445
Unemployment compensation (2).....	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	2,088,543
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	261,428	189,682	162,358	188,604	217,680
Liquor control.....	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	1,947,038
Economic development and other (1).....	3,148	14,171	13,706	23,635	16,997	41,199	47,212	57,287	54,089	52,211
<b>Total expenses.....</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>8,845,173</b>
<b>Program revenues</b>										
Charges for sales and services:										
State lottery.....	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	4,002,543
State workers' insurance.....	384,301	291,677	223,458	173,571	157,579	178,058	207,208	225,660	211,481	184,205
Tuition payment.....	138,361	153,892	157,336	165,157	185,947	182,555	191,766	191,915	192,187	206,893
Unemployment compensation (2).....	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	3,122,318
Commonwealth Financing Authority (1).....	N/A	N/A	N/A	N/A	N/A	10,172	8,463	11,083	9,237	10,497
Liquor control.....	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	2,046,869
Economic development and other (1).....	20,149	19,067	22,254	24,449	17,478	25,816	25,305	36,170	26,463	29,211
Operating grants and contributions.....	350,892	1,760,824	4,970,529	4,858,476	3,211,902	2,166,475	1,048,220	416,322	110,551	361,400
Capital grants and contributions.....	-	-	-	-	-	1,128	270	232	-	-
<b>Total program revenues.....</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>9,963,936</b>
<b>Total business-type activities net program revenues/(expenses).....</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>1,118,763</b>
<b>Other changes in net position</b>										
Special item-loss on transfer of operations (5).....	-	-	-	-	-	-	-	(157,930)	-	-
Transfers to governmental activities.....	(296,931)	(430,398)	(218,721)	(239,925)	(210,438)	(17,275)	103,151	(127,071)	50,376	(833,714)
<b>Net special items and transfers.....</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>(833,714)</b>
<b>Total business-type activities change in net position.....</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>285,049</b>
<b>Total primary government change in net position.....</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>	<b>\$ (320,213)</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 2008-2012.
- (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.
- (6)-Beginning with the 2017 fiscal year, the operations of the Pennsylvania eHealth Partnership Authority, reported as a discretely presented component unit in the June 30, 2016 CAFR, were merged into the Commonwealth's primary government, effective July 1, 2017. The operations are reported within the General Fund. As noted in Table 1, the Commonwealth increased its net position for July 1, 2016. Details on the change in reporting entity can be found in Note 18 in the notes to the financial statements. The primary effect on this table is that beginning with the 2017 fiscal year, the activity associated with these operations is being reported within this table.

**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)

	2008 (6)	2009 (6)	2010	2011	2012 (7)	2013 (7)	2014	2015	2016 (9)	2017 (9)
<b>GENERAL FUND (1)(2)(3)(4)(8)(9)</b>										
Reserved for:										
Encumbrances.....	\$ 568,678	\$ 785,864	\$ 806,181	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Advances.....	114,108	139,108	139,108	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loans receivable.....	8,358	9,924	9,989	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Budget Stabilization Reserve.....	745,949	745,949	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other.....	1,148,218	1,375,432	764,206	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved:										
Designated for:										
Other.....	379,169	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Undesignated.....	9,621	(2,541,099)	(1,434,681)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonspendable.....	N/A	N/A	N/A	123,156	240,975	223,930	265,403	247,216	284,398	218,343
Restricted (5).....	N/A	N/A	N/A	756,141	-	76	45	36	45	78
Committed.....	N/A	N/A	N/A	1,063,613	1,276,671	1,334,872	1,119,470	1,289,298	1,486,831	2,321,358
Assigned.....	N/A	N/A	N/A	-	-	7,132	-	-	-	-
Unassigned/(deficit) (5).....	N/A	N/A	N/A	(321,475)	(258,351)	-	(1,950,956)	(1,262,997)	(1,681,165)	(3,237,347)
<b>TOTAL GENERAL FUND.....</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>(697,568)</b>
<b>ALL OTHER GOVERNMENTAL FUNDS (1)(2)(3)(4)(8)(9)</b>										
Reserved for:										
Encumbrances.....	2,057,615	2,085,395	2,329,299	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Advances.....	3,000	3,000	3,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Loans receivable.....	73,628	83,100	79,315	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other.....	940,263	916,713	907,005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved:										
Designated for, reported in:										
Highways.....	689,288	700,018	768,710	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Special Revenue funds.....	9,341	8,666	2,218	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt Service funds.....	27,458	16,834	46,853	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capital Projects funds.....	54,631	33,527	32,879	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unreserved: Undesignated, reported in:										
Special Revenue funds.....	2,630,277	2,448,383	2,421,257	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Capital Projects funds (deficit).....	(629,686)	(721,365)	(524,465)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Restricted reported in:										
Special Revenue funds.....	N/A	N/A	N/A	3,711,994	3,690,354	3,557,116	3,776,739	3,756,605	3,708,867	4,131,763
Committed reported in:										
Special Revenue funds.....	N/A	N/A	N/A	426,391	402,207	374,074	373,185	116,314	159,035	159,374
Debt Service funds.....	N/A	N/A	N/A	17,040	48,400	37,041	9,221	11,717	23,446	7,240
Capital Projects funds.....	N/A	N/A	N/A	239,180	509,618	282,094	423,670	1,022,565	566,823	1,179,244
Unassigned reported in:										
Special Revenue funds (deficit).....	N/A	N/A	N/A	(2,837)	(2,955)	(3,167)	-	(1,936)	-	(42,077)
Capital Projects funds (deficit).....	N/A	N/A	N/A	(20,711)	-	-	-	-	-	-
<b>TOTAL ALL OTHER GOVERNMENTAL FUNDS.....</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>	<b>\$ 5,435,544</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.

(9)-For the 2017 fiscal year, the operations of the Pennsylvania eHealth Partnership Authority, reported as a discretely presented component unit in the June 30, 2016 CAFR, were merged into the Commonwealth's primary government, effective July 1, 2017. The activity is reported within the General Fund. With this merger, the beginning fund balance for the General Fund was increased by \$2,048, as of July 1, 2016. In addition, the Veterans' Trust 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 for the June 30, 2017 CAFR that this fund should have been classified as a special revenue fund. This required the beginning fund balance of the General Fund to be decreased by \$1,960, and the fund balance for all other governmental funds was increased by \$1,960. The net effect of both was an increase in the beginning fund balance of the General Fund from the \$90,109 shown in this schedule at the end of the 2016 fiscal year to \$90,197 which was reported at July 1, 2016. Likewise, the fund balance for all other governmental funds was increased from the \$4,458,171 shown at the end of the 2016 fiscal year to \$4,460,131 at July 1, 2016. Therefore, the combined ending fund balance (for the General Fund and all other governmental fund types) shown in this table as of June 30, 2016 plus the change in fund balances shown in Table 4 for the June 30, 2017 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, 2017. Note 18 in the notes to the financial statements provides additional details on this change in reporting entity.

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)

	2008	2009	2010	2011	2012	2013 (1)	2014	2015	2016	2017
<b>REVENUES BY SOURCE</b>										
Taxes, net of refunds.....	\$ 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	\$ 35,804,620
Licenses and fees.....	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	2,777,557
Intergovernmental.....	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	29,734,671
Charges for sales and services.....	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	3,099,188
Investment income.....	166,522	(306,524)	344,936	326,021	116,945	155,845	270,607	93,756	85,338	218,483
Other (2).....	752,308	715,425	686,069	632,670	709,810	767,463	486,992	441,176	702,830	739,385
<b>TOTAL REVENUES</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>72,373,904</b>
<b>EXPENDITURES BY FUNCTION</b>										
Direction and supportive services .....	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	1,150,808
Protection of persons and property.....	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	6,208,519
Health and human services.....	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	40,378,702
Public education.....	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	16,345,233
Recreation and cultural enrichment.....	557,387	570,177	506,737	463,501	482,065	474,966	484,137	544,326	536,873	533,125
Economic development.....	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	983,358
Transportation.....	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	4,520,863
Capital outlay.....	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	2,920,195
Debt service:										
Principal retirement.....	555,337	598,850	626,090	697,510	711,875	769,390	761,345	762,425	757,455	768,551
Interest and fiscal charges.....	388,722	402,653	406,414	477,751	510,783	531,564	554,574	563,326	578,463	582,068
<b>TOTAL EXPENDITURES</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>74,391,422</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</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>(2,017,518)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>										
Bonds issued.....	913,119	1,064,103	1,900,401	650,000	1,600,303	950,300	1,295,000	1,460,000	355,000	1,208,725
Refunding bonds issued.....	194,471	155,642	695,945	-	161,272	361,760	289,946	782,425	633,175	605,170
Premium on bonds/refunding bonds issued.....	61,277	88,921	203,601	37,739	259,314	216,416	203,088	318,957	173,671	242,927
Discount on bonds issued.....	-	-	(2,924)	(4,724)	-	-	-	(1,441)	(780)	(2,286)
Transfers in.....	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	3,158,742
Transfers out.....	(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)	(2,325,028)
Payment to refunded bond escrow agent.....	(203,633)	(166,978)	(795,844)	-	(192,390)	(444,364)	(336,896)	(900,849)	(763,350)	(683,084)
Capital lease and installment purchase obligations.....	529	3,638	-	111	108,263	1,965	715	-	-	-
<b>TOTAL OTHER FINANCING SOURCES/(USES)</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>2,205,166</b>
<b>NET CHANGE IN FUND BALANCES.....</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>	<b>\$ 187,648</b>
Debt Service as a Percentage of Noncapital Expenditures (3).....	1.85%	1.87%	1.81%	2.01%	2.14%	2.26%	2.21%	2.12%	2.04%	1.89%

**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)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>TOTAL PERSONAL INCOME BY INDUSTRY (1)(2)</b>										
<b>Workplace Earnings:</b>										
<b>Farm Earnings</b> .....	\$ 1,284	\$ 1,210	\$ 787	\$ 1,181	\$ 1,656	\$ 1,834	\$ 2,034	\$ 2,339	\$ 1,513	\$ 487
<b>Nonfarm Earnings:</b>										
<b>Private earnings:</b>										
Forestry, fishing/hunting, agriculture.....	589	563	547	642	610	730	745	811	859	903
Mining.....	2,707	4,296	2,491	3,108	3,781	3,985	4,414	5,007	3,783	2,739
Utilities.....	2,914	3,135	2,938	2,884	3,198	3,014	3,109	3,186	3,597	3,675
Construction.....	23,283	22,852	18,933	20,103	21,132	21,408	22,140	24,033	25,427	26,838
Manufacturing.....	43,675	43,938	39,618	39,795	41,084	41,949	42,550	43,698	44,971	43,944
Wholesale trade.....	18,905	18,995	17,920	18,351	19,657	20,202	20,563	21,549	21,837	21,252
Retail trade.....	23,444	22,521	22,061	22,379	22,746	23,328	23,567	23,817	24,398	24,463
Transportation and warehousing.....	12,983	12,765	12,631	13,134	14,737	14,959	15,463	16,552	19,334	20,436
Broadcasting/publishing/internet technology.....	16,537	23,870	20,374	20,158	18,496	21,569	23,528	23,227	23,066	23,947
Finance and insurance.....	20,910	15,625	19,146	21,710	23,698	24,575	25,266	25,740	25,693	24,744
Real estate and rental and leasing.....	4,215	4,008	2,227	2,534	3,070	5,405	6,993	7,551	8,523	8,841
Professional and technical services.....	32,651	35,548	34,821	35,002	36,877	38,464	38,797	40,487	42,746	44,421
Management of companies and enterprises.....	13,134	13,545	13,268	13,765	15,350	16,109	17,132	17,404	18,699	17,941
Administrative services.....	11,432	11,576	10,940	11,566	12,464	12,578	13,206	13,728	14,410	14,418
Educational services.....	9,908	10,529	11,373	11,825	12,308	12,804	13,076	13,401	13,980	14,444
Health care and social assistance.....	46,084	49,359	51,112	52,744	54,364	55,668	57,249	58,647	61,196	63,232
Arts, entertainment, and recreation.....	3,124	3,320	3,507	3,762	3,904	4,105	4,219	4,678	4,707	5,063
Accommodation and food services.....	8,725	8,689	8,583	8,873	9,482	10,103	10,501	10,898	11,423	11,813
Other services, except public administration.....	13,601	13,289	12,816	13,073	13,468	14,261	13,744	14,555	15,814	16,770
<b>Total private earnings</b> .....	<b>308,821</b>	<b>318,423</b>	<b>305,306</b>	<b>315,408</b>	<b>330,426</b>	<b>345,216</b>	<b>356,262</b>	<b>368,969</b>	<b>384,463</b>	<b>389,884</b>
<b>Government:</b>										
Federal, civilian.....	8,911	9,136	9,479	9,915	9,906	9,775	9,510	9,682	10,038	10,192
Military.....	1,493	1,577	1,693	1,676	1,547	1,508	1,461	1,403	1,375	1,417
State government.....	11,921	12,179	12,547	12,954	13,037	13,015	13,304	13,562	13,922	13,900
Local government.....	30,016	31,275	32,063	33,437	33,105	32,331	33,595	33,766	34,134	34,599
<b>Total government earnings</b> .....	<b>52,341</b>	<b>54,167</b>	<b>55,782</b>	<b>57,982</b>	<b>57,595</b>	<b>56,629</b>	<b>57,870</b>	<b>58,413</b>	<b>59,469</b>	<b>60,108</b>
<b>Total nonfarm earnings</b> .....	<b>361,162</b>	<b>372,590</b>	<b>361,088</b>	<b>373,390</b>	<b>388,021</b>	<b>401,845</b>	<b>414,132</b>	<b>427,382</b>	<b>443,932</b>	<b>449,992</b>
<b>Total workplace earnings</b> .....	<b>362,446</b>	<b>373,800</b>	<b>361,875</b>	<b>374,571</b>	<b>389,677</b>	<b>403,679</b>	<b>416,166</b>	<b>429,721</b>	<b>445,445</b>	<b>450,479</b>
<b>Other earnings/deductions (3)</b> .....	<b>143,912</b>	<b>155,054</b>	<b>153,611</b>	<b>159,359</b>	<b>171,335</b>	<b>182,173</b>	<b>173,326</b>	<b>183,938</b>	<b>191,739</b>	<b>198,215</b>
<b>Total personal income</b> .....	<b>\$ 506,358</b>	<b>\$ 528,854</b>	<b>\$ 515,486</b>	<b>\$ 533,930</b>	<b>\$ 561,012</b>	<b>\$ 585,852</b>	<b>\$ 589,492</b>	<b>\$ 613,659</b>	<b>\$ 637,184</b>	<b>\$ 648,694</b>
<b>Total personal income subject to the direct personal income tax rate (4)(5)</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>278,384</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 2017. Total personal income subject to the direct tax rate was obtained from the Pennsylvania Department of Revenue. The information for the 2014 calendar year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2016 (Fiscal Year 2015-16). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. 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, 2016. 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 2016. These estimates have subsequently been revised (as provided in the September 2017 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 2015 and 2016 tax years.
- (5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (e.g. March 31st). The information presented is based on those returns of the filers whose tax year ended during the applicable calendar year.

**Commonwealth of Pennsylvania**  
**Revenue Capacity-Personal Income Tax**

Table 6

Personal Income Tax Filers and Liability by Income Level  
 2005 and 2014 Tax Years

Liability amounts in thousands					Liability amounts in thousands				
2005 Tax Year (1)(2)(3)					2014 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	86,656	1.51%	\$ -	0.00%	\$0	214,814	3.49%	\$ -	0.00%
\$1-999	387,078	6.75%	4,743	0.06%	\$1-999	392,702	6.37%	1,524	0.02%
\$1,000-2,999	417,678	7.29%	24,851	0.30%	\$1,000-2,999	351,263	5.70%	12,940	0.15%
\$3,000-4,999	317,601	5.54%	38,608	0.47%	\$3,000-4,999	274,758	4.46%	23,451	0.27%
\$5,000-6,999	256,879	4.48%	47,013	0.57%	\$5,000-6,999	233,501	3.79%	31,427	0.37%
\$7,000-8,999	212,560	3.71%	52,012	0.64%	\$7,000-8,999	202,309	3.28%	37,599	0.44%
\$9,000-10,999	183,744	3.21%	56,309	0.69%	\$9,000-10,999	190,006	3.08%	44,106	0.52%
\$11,000-12,999	170,097	2.97%	62,599	0.76%	\$11,000-12,999	171,477	2.78%	49,461	0.58%
\$13,000-14,999	156,490	2.73%	67,202	0.82%	\$13,000-14,999	164,573	2.67%	55,554	0.65%
\$15,000-16,999	151,007	2.64%	74,138	0.91%	\$15,000-16,999	154,710	2.51%	61,132	0.72%
\$17,000-18,999	146,414	2.56%	80,870	0.99%	\$17,000-18,999	141,399	2.30%	64,821	0.76%
\$19,000-21,999	212,701	3.71%	133,809	1.63%	\$19,000-21,999	201,651	3.27%	107,627	1.26%
\$22,000-24,999	202,996	3.54%	146,365	1.79%	\$22,000-24,999	192,754	3.13%	120,118	1.41%
\$25,000-29,999	311,760	5.44%	262,636	3.21%	\$25,000-29,999	303,004	4.92%	224,835	2.63%
\$30,000-34,999	274,171	4.78%	273,085	3.33%	\$30,000-34,999	274,352	4.45%	243,289	2.85%
\$35,000-39,999	239,484	4.18%	275,275	3.36%	\$35,000-39,999	243,533	3.95%	251,097	2.94%
\$40,000-49,999	397,940	6.94%	547,351	6.68%	\$40,000-49,999	409,748	6.65%	507,786	5.94%
\$50,000-74,999	686,211	11.97%	1,293,235	15.79%	\$50,000-74,999	710,421	11.53%	1,212,012	14.18%
\$75,000-99,999	384,602	6.71%	1,017,531	12.42%	\$75,000-99,999	450,453	7.31%	1,082,837	12.67%
\$100,000-149,999	307,349	5.36%	1,131,721	13.82%	\$100,000-149,999	458,884	7.45%	1,516,602	17.75%
\$150,000 or more	227,051	3.96%	2,601,394	31.76%	(5) \$150,000-249,999	261,984	4.25%	1,250,937	14.64%
					(5) \$250,000 or more	162,192	2.63%	1,647,231	19.27%
Total (6)	<u>5,730,469</u>	100.00%	<u>\$ 8,190,747</u>	100.00%	Total	<u>6,160,488</u>	100.00%	<u>\$ 8,546,387</u>	100.00%

**Sources:**

For the 2005 tax year, all of the information was provided directly by the Pennsylvania Department of Revenue. For the 2014 tax year, the number of filers per taxable income level and the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) were obtained from the Statistical Supplement for the Pennsylvania Tax Compendium-October 2016 (Fiscal Year 2015-16). The direct personal income tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. 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 2005 or 2014 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 2015 and 2016 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 2005 and 2014 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 2005 tax year are reported within the original caption; whereas the amounts reported in the 2014 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)

Estimated Taxable Sales by Industry (1)(2)

	2007	2008	2009	2010	2011	2012	2013	2014	2015(3)	2016(3)
Manufacturing.....	\$ 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	\$ 6,852,700
Public utilities.....	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	4,565,533
Wholesale trade.....	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	14,344,567
Building materials.....	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	9,906,717
General merchandise.....	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	21,196,000
Food and beverage stores.....	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	6,901,517
Automotive dealers.....	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	4,926,033
Furniture and appliances.....	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	6,105,367
Other retail stores.....	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	6,459,733
Agriculture and mining.....	726,367	666,967	685,577	773,133	838,863	930,587	934,048	906,617	1,178,700	972,767
Construction.....	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	4,553,317
Service.....	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	49,470,517
Transportation, delivery, and warehousing.....	363,450	374,133	356,542	365,150	371,315	420,053	472,217	490,583	518,767	562,800
Government.....	289,767	211,100	285,217	383,150	411,452	362,387	305,027	342,117	281,192	295,717
Unclassified.....	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	1,417,100
Motor vehicle.....	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	22,453,967
Liquor sales.....	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	2,268,800
<b>Total sales tax estimated base (4).....</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>\$ 163,253,150</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 2016 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2016 (Fiscal Year 2015-16). The total direct sales tax rate was obtained from the Pennsylvania Tax Compendium for March 2017. 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 2017 fiscal year. Therefore, fiscal years 2007 through 2016 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, 2007 and June 30, 2016

(Amounts in thousands)

June 30, 2007 (1)(2)			June 30, 2016 (1)(2)		
Industry (4)	Sales (3) Tax Remittances Liability	Percentage of Total	Industry (4)	Sales (3) Tax Remittances Liability	Percentage of Total
Manufacturing.....	\$ 424,989	4.95%	Manufacturing.....	\$ 411,162	4.20%
Public utilities.....	288,992	3.36%	Public utilities.....	273,932	2.80%
Wholesale trade.....	739,202	8.60%	Wholesale trade.....	860,674	8.79%
Building materials.....	555,808	6.47%	Building materials.....	594,403	6.07%
General merchandise.....	1,156,516	13.46%	General merchandise.....	1,271,760	12.98%
Food and beverage stores.....	365,402	4.25%	Food and beverage stores.....	414,091	4.23%
Automotive dealers.....	231,932	2.70%	Automotive dealers.....	295,562	3.02%
Furniture and appliances.....	380,040	4.42%	Furniture and appliances.....	366,322	3.74%
Other retail stores.....	348,145	4.05%	Other retail stores.....	387,584	3.96%
Agriculture and mining.....	43,582	0.51%	Agriculture and mining.....	58,366	0.60%
Construction.....	184,622	2.15%	Construction.....	273,199	2.79%
Service.....	2,473,849	28.80%	Service.....	2,968,231	30.30%
Transportation, delivery, and warehousing.....	21,807	0.25%	Transportation, delivery, and warehousing.....	33,768	0.34%
Government.....	17,386	0.20%	Government.....	17,743	0.18%
Unclassified.....	91,935	1.07%	Unclassified.....	85,026	0.87%
Motor vehicle.....	1,168,918	13.61%	Motor vehicle.....	1,347,238	13.75%
Liquor sales.....	97,640	1.14%	Liquor sales.....	136,128	1.39%
Total (5).....	<u>\$ 8,590,765</u>	100.00%	Total (5).....	<u>\$ 9,795,189</u>	100.00%
Sales Tax Licenses (6).....	237,467		Sales Tax Licenses (6).....	225,046	

**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 2016 fiscal year can be found in the Statistical Supplement for the Pennsylvania Tax Compendium-October 2016 (Fiscal Year 2015-16). 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 2017 fiscal year. Therefore, fiscal years 2007 and 2016 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

	2005	2006	2007	2008	2009	2010	2011	2012 (6)	2013 (6)	2014 (6)
<b>ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)</b>										
Corporate Tax Report Compilation (amounts in thousands).....	\$ 20,312,660	\$ 23,247,419	\$ 20,787,641	\$ 19,652,968	\$ 17,631,632	\$ 19,219,761	\$ 18,084,820	\$ 23,948,802	\$ 23,595,009	\$ 26,570,776
<b>NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)</b>										
\$0.....	94,827	94,119	97,811	79,113	77,698	72,996	85,406	86,259	87,634	91,247
\$1-300.....	9,830	8,668	8,152	7,492	6,978	7,133	6,959	7,029	6,454	6,143
\$301-500.....	2,662	2,319	2,235	2,035	1,925	1,980	1,932	1,939	1,738	1,782
\$501-1,000.....	3,981	3,417	3,375	3,119	2,868	2,950	2,963	3,046	2,834	2,775
\$1,001-5,000.....	10,277	8,577	8,367	7,742	7,051	7,202	6,964	7,528	7,178	7,381
\$5,001-10,000.....	3,600	3,334	3,168	2,803	2,490	2,566	2,655	2,829	2,782	2,831
\$10,001-25,000.....	3,022	2,884	2,894	2,594	2,338	2,440	2,445	2,744	2,696	2,979
\$25,001-50,000.....	1,550	1,582	1,519	1,424	1,291	1,429	1,387	1,559	1,609	1,773
\$50,001-100,000.....	1,208	1,244	1,190	1,157	1,020	1,082	1,138	1,228	1,257	1,383
\$100,001-250,000.....	1,005	1,082	1,050	992	865	956	1,030	1,225	1,198	1,260
\$250,001-500,000.....	475	520	499	471	448	448	450	561	533	576
\$500,001-1,000,000.....	294	344	311	278	279	297	307	379	332	374
>\$1,000,000.....	307	341	326	304	267	289	273	418	412	456
<b>Total corporate net income tax filers (4)(5).....</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>116,744</b>	<b>116,657</b>	<b>120,960</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 March 2017. 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)-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 has been 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 2015 and 2016 tax years. Therefore, tax years 2005 through 2014 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 2005 through 2012, the amounts presented are actual. The amounts presented for the 2012 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, 2016 fiscal year, since that amount was an estimate. For the 2013 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2016 CAFR. And for the 2014 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

	2005	2006	2007	2008	2009	2010	2011	2012 (6)	2013 (6)	2014 (6)
<b>CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)</b>										
Apportioned Capital Stock Value Compilation (expressed in thousands).....	\$ 167,566,590	\$ 189,755,093	\$ 207,628,892	\$ 230,292,556	\$ 248,089,965	\$ 261,854,671	\$ 306,098,458	\$ 332,214,769	\$ 348,881,837	\$ 381,692,143
<b>NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)</b>										
\$0-300.....	262,888	278,843	301,231	309,482	316,168	323,099	328,516	344,930	374,135	393,282
\$301-500.....	8,853	10,198	10,497	11,397	11,431	11,377	11,888	13,262	12,741	12,621
\$501-1,000.....	14,778	15,754	15,688	15,935	16,168	15,796	16,235	16,899	13,650	12,865
\$1,001-5,000.....	30,883	30,246	28,604	25,974	25,903	26,594	27,825	24,509	16,876	15,331
\$5,001-10,000.....	7,435	7,293	6,617	5,694	5,786	6,006	6,159	5,223	3,134	2,858
\$10,001-25,000.....	5,708	5,401	5,015	4,165	4,218	4,389	4,659	3,746	2,248	1,934
\$25,001-50,000.....	2,284	2,196	2,020	1,691	1,714	1,768	1,957	1,496	810	704
\$50,001-100,000.....	1,264	1,213	1,113	887	951	1,040	1,070	840	440	379
\$100,001-250,000.....	816	769	675	515	552	605	652	488	252	226
\$250,001-500,000.....	282	278	225	176	195	190	207	174	102	61
\$500,001-1,000,000.....	142	126	113	81	87	104	125	79	41	34
>\$1,000,000.....	101	93	81	73	83	81	99	70	19	13
<b>Total capital stock and franchise tax filers (4)(5).....</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>411,716</b>	<b>424,448</b>	<b>440,308</b>
<b>Total direct capital stock and franchise tax rate.....</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>	<b>0.67 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 March 2017. 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)-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 has been 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 2015 and 2016 tax years. Therefore, tax years 2005 through 2014 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 2005 through 2012, the amounts presented are actual. The amounts presented for the 2012 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, 2016 fiscal year, since that amount was an estimate. For the 2013 tax year, the amounts presented are revised estimates from the amounts presented in the June 30, 2016 CAFR. And for the 2014 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>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>2017</b>
<b>Governmental activities:</b>										
General obligation bonds.....	\$ 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	\$ 12,966,490
Capital leases/installment purchase obligations.....	37,646	36,730	31,958	26,907	129,757	125,020	117,961	110,208	103,183	100,054
Other financing obligations.....	70,500	67,500	67,500	67,500	334,230	324,860	315,620	285,740	285,740	285,740
<b>Total governmental</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>13,352,284</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	3,893,393
Capital leases/installment purchase obligations.....	5,939	-	-	-	-	-	-	-	-	-
<b>Total business-type</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>3,893,393</b>
<b>TOTAL PRIMARY GOVERNMENT</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>\$ 17,245,677</b>
<b>Debt as a Percentage of Personal Income (4)(5).....</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>2.66%</b>
<b>Amount of Debt per Capita (4)(5).....</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>\$ 1,297</b>	<b>\$ 1,349</b>

**Source:** The Commonwealth's Comprehensive Annual Financial Report (CAFR), as presented for the applicable fiscal year. For fiscal years 2008-2012, 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, 2017 can be found in Note 6 for both governmental activities and 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, 2016 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, 2016 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>
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%	1,014
2016	12,517,909	35.84%	977
2017	12,966,490	35.93%	1,014

**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. As detailed in Table 15, the population data has changed in several calendar years from what was presented in that table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2016 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, 2016 CAFR.

Commonwealth of Pennsylvania

Debt Capacity

Table 13

Computation of Legal Debt Margin

As of August 31 for the Last Ten Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average annual tax revenues deposited in the previous five fiscal years.....	\$ 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	\$ 38,281,016,071
Constitutional factor..... x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75 x	1.75
Constitutional debt limit for debt incurred without the approval of the electors (A).....	54,404,553,021	56,077,116,135	57,058,717,616	58,160,309,190	59,049,213,802	59,804,115,320	61,334,564,977	63,508,573,469	65,321,610,054	66,991,778,124
Less outstanding net debt (non-electorate approved).....	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	10,590,276,500
<b>Legal debt margin (B).....</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>\$ 56,401,501,624</b>
<b>Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit.....</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>	<b>15.81%</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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<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.....	21,100	22,200	22,300	26,600	33,800	37,000	36,000	37,700	33,900	24,900
Construction.....	262,100	254,200	224,000	214,900	221,500	224,300	223,800	228,900	235,400	238,500
Manufacturing.....	659,100	643,800	574,100	560,000	565,000	567,200	564,600	567,500	567,600	558,100
<b>Total goods producing.....</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>836,900</b>	<b>821,500</b>
<b>Service providing:</b>										
Trade.....	1,131,200	1,122,900	1,078,200	1,077,100	1,089,200	1,097,800	1,099,500	1,109,700	1,121,900	1,127,700
Information.....	107,500	105,900	99,600	93,300	91,100	90,300	87,800	85,400	84,900	84,600
Financial Activities.....	332,800	329,800	318,400	310,900	308,600	309,500	313,200	315,300	316,200	316,700
Professional and business services.....	705,700	709,400	674,800	689,900	716,800	733,100	748,000	761,600	779,500	792,700
Education and health services.....	1,068,900	1,094,700	1,112,900	1,127,800	1,144,000	1,156,300	1,162,700	1,180,000	1,191,300	1,221,100
Leisure and hospitality.....	499,900	503,300	494,300	500,600	511,200	524,100	532,200	537,600	545,300	558,000
Other services.....	255,800	254,300	249,900	250,300	253,000	254,000	252,200	253,500	254,900	257,700
<b>Total service providing.....</b>	<b>4,101,800</b>	<b>4,120,300</b>	<b>4,028,100</b>	<b>4,049,900</b>	<b>4,113,900</b>	<b>4,165,100</b>	<b>4,195,600</b>	<b>4,243,100</b>	<b>4,294,000</b>	<b>4,358,500</b>
<b>Total private earnings.....</b>	<b>5,044,100</b>	<b>5,040,500</b>	<b>4,848,500</b>	<b>4,851,400</b>	<b>4,934,200</b>	<b>4,993,600</b>	<b>5,020,000</b>	<b>5,077,200</b>	<b>5,130,900</b>	<b>5,180,000</b>
<b>Government.....</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>704,700</b>	<b>703,900</b>
<b>Total nonfarm.....</b>	<b>5,798,900</b>	<b>5,800,100</b>	<b>5,616,600</b>	<b>5,622,000</b>	<b>5,685,600</b>	<b>5,725,800</b>	<b>5,740,600</b>	<b>5,788,800</b>	<b>5,835,600</b>	<b>5,883,600</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, 2016 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		
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	309,348	4.11%	533,930	12,459,613	4.29%	42,001	40,277	4.28%	
2011	12,744	311,663	4.09%	561,012	13,233,436	4.24%	44,021	42,461	3.67%	
2012	12,772	313,998	4.07%	585,852	13,904,485	4.21%	45,871	44,282	3.59%	
2013	12,781	316,205	4.04%	589,492	14,068,960	4.19%	46,121	44,493	3.66%	
2014	12,791	318,563	4.02%	613,659	14,811,388	4.14%	47,977	46,494	3.19%	
2015	12,792	320,897	3.99%	637,184	15,547,661	4.10%	49,811	48,451	2.81%	
2016	12,784	323,128	3.96%	648,694	15,912,777	4.08%	50,742	49,246	3.04%	

**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, 2016 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, 2016 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, 2016 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	
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	6,463	5,957	506	7.8%	154,975	142,469	12,506	8.1%	(3.70)%
2013	6,442	5,968	474	7.4%	155,389	143,929	11,460	7.4%	0.00%
2014	6,399	6,025	374	5.8%	155,922	146,305	9,617	6.2%	(6.45)%
2015	6,426	6,085	341	5.3%	157,130	148,834	8,296	5.3%	0.00%
2016	6,472	6,120	352	5.4%	159,187	151,436	7,751	4.9%	10.20%

**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, 2016 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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Direction and supportive services</b>										
Legislative.....	3,346	3,327	3,133	2,959	2,844	2,784	2,749	2,716	2,596	2,583
Revenue.....	2,374	2,254	2,058	1,965	1,934	1,883	1,867	1,902	1,869	1,880
Executive Offices.....	2,012	2,004	1,906	1,767	1,715	1,612	1,554	1,496	1,429	1,441
General Services.....	1,251	1,244	1,145	1,115	1,030	993	950	926	863	866
Auditor General.....	730	708	670	606	598	475	475	472	463	469
Treasurer.....	552	492	420	408	396	386	373	353	345	357
Other.....	327	281	274	270	273	268	256	248	239	230
<b>Total direction and supportive services.....</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>7,826</b>
<b>Protection of persons and property</b>										
Corrections.....	15,722	16,139	16,232	15,740	15,751	15,398	15,177	15,197	15,340	15,374
State Police.....	6,249	6,193	5,989	6,015	5,978	5,938	6,139	6,344	6,372	6,210
Liquor Control Board.....	4,835	5,031	5,082	4,847	4,952	5,007	5,086	5,093	5,166	5,424
Environmental Protection.....	2,793	2,786	2,590	2,609	2,648	2,616	2,522	2,491	2,412	2,411
Judiciary.....	2,136	2,141	2,197	2,154	2,176	2,150	2,171	2,160	2,179	2,178
Transportation.....	1,235	1,185	1,125	1,129	1,194	1,191	1,188	1,189	1,193	1,174
Probation and Parole Board.....	1,084	1,141	1,114	1,105	1,162	1,199	1,217	1,228	1,267	1,268
Agriculture.....	1,187	1,112	995	962	919	952	914	921	884	868
Attorney General.....	985	955	897	814	821	810	836	840	836	859
Military and Veterans Affairs.....	538	529	478	450	468	467	486	474	486	500
State.....	519	509	497	486	490	492	489	485	479	492
Other.....	2,085	2,014	1,955	1,850	1,905	1,839	1,824	1,792	1,736	1,713
<b>Total protection of persons and property.....</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>38,471</b>
<b>Public education</b>										
Education.....	693	578	544	503	521	514	499	488	474	475
Other.....	18	16	15	15	-	-	-	-	-	-
<b>Total public education.....</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>475</b>
<b>Health and human services</b>										
Human Services.....	19,082	18,399	18,300	17,169	16,995	16,504	16,643	16,829	17,164	16,914
Labor and Industry.....	3,960	4,740	4,887	4,632	4,599	4,140	4,037	3,785	3,674	3,108
Military and Veterans Affairs.....	2,128	1,965	2,033	2,049	2,023	1,924	1,961	1,949	1,959	1,923
Health.....	1,511	1,490	1,384	1,364	1,461	1,331	1,281	1,236	1,249	1,282
Other.....	102	98	193	206	220	252	284	301	290	279
<b>Total health and human services.....</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>23,506</b>
<b>Economic development</b>										
Labor and Industry.....	911	930	934	912	942	919	897	903	908	910
Community and Economic Development.....	349	352	334	311	302	321	313	307	299	298
<b>Total economic development.....</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>1,208</b>



**Commonwealth of Pennsylvania**

**Operating Information**

Table 17

Commonwealth Employees by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Transportation</b>										
Transportation.....	10,770	10,655	10,626	10,486	10,696	10,695	10,609	10,480	10,490	10,522
<b>Total transportation.....</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>10,522</b>
<b>Recreation and cultural enrichment</b>										
Conservation and Natural Resources.....	2,632	2,493	2,279	2,219	2,335	2,392	2,407	2,425	2,387	2,396
Game Commission.....	725	706	734	735	774	769	797	781	725	683
Fish and Boat Commission.....	508	485	486	486	481	448	433	416	432	426
Historical and Museum Commission.....	399	347	228	213	231	214	222	218	205	205
Other.....	111	92	56	50	51	43	41	42	41	40
<b>Total recreation and cultural enrichment.....</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>3,750</b>
<b>Total Commonwealth Employees.....</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>	<b>85,758</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.

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2008	2009	2010	2011	2012	2013	2014	2015	2016(5)	2017(5)
<b>Direction and supportive services:</b>										
<b>Executive Offices</b>										
<b>Juvenile Court Judges' Commission</b>										
Children Referred to Court.....	44,000	43,753	41,561	38,978	33,089	31,000	28,955	25,568	24,139	24,556
<b>Protection of persons and property:</b>										
<b>Attorney General</b>										
Local drug task force arrests .....	6,888	6,521	6,585	5,950	6,198	6,781	7,388	8,472	7,008	7,900
Consumer complaints concerning business practices investigated and mediated.....	47,663	47,299	44,582	38,211	37,920	34,382	36,473	26,591	20,736	20,736
<b>Corrections</b>										
Inmates (1).....	46,028	49,307	51,321	51,638	51,184	51,382	51,118	50,366	49,913	49,671
Inmates enrolled in academic educational programs (1).....	15,017	14,551	13,152	12,064	12,871	11,259	11,050	9,052	8,892	8,500
<b>Military and Veterans Affairs</b>										
Pennsylvania National Guard End Strength Ceiling	19,094	19,785	19,253	19,181	19,244	19,301	19,708	19,442	19,483	19,483
Personnel receiving training at Fort Indiantown Gap	142,102	114,542	135,072	125,373	122,846	126,427	136,801	126,722	124,264	129,262
<b>Revenue</b>										
Taxpayer Services and Information Center calls answered.....	451,326	398,564	345,675	369,974	406,468	401,739	411,284	498,452	410,392	400,000
Households provided property tax or rent assistance.....	531,165	562,838	579,754	604,130	603,726	598,075	588,021	578,790	517,645	578,000
<b>State Police</b>										
Traffic citations issued.....	500,820	564,582	567,116	560,063	600,986	566,440	593,721	582,169	623,399	634,000
<b>Background Checks:</b>										
Firearms checks conducted for the purchase of a firearm.....	505,500	681,516	596,879	688,564	849,329	1,202,156	926,157	909,598	1,092,820	1,110,000
<b>Judiciary</b>										
Caseload (cases filed/reopened/appeals) (1).....	3,768,167	3,884,107	3,825,045	3,761,142	3,614,627	3,514,214	3,495,265	3,299,021	3,273,085	3,131,260
<b>Public education:</b>										
<b>Education</b>										
<b>PreK-12 EDUCATION (BASIC EDUCATION):</b>										
Public school enrollment (preK-12).....	1,797,520	1,800,314	1,780,413	1,781,206	1,765,327	1,764,000	1,764,000	1,763,000	1,731,588	1,730,000
<b>HIGHER EDUCATION:</b>										
<b>Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:</b>										
State System of Higher Education.....	103,356	105,566	109,636	112,030	109,738	107,012	104,458	102,322	99,870	97,673
Community Colleges.....	92,526	98,988	106,270	106,164	103,971	97,981	94,051	89,807	86,185	86,890
State-Related Universities.....	148,272	152,678	156,435	157,939	156,517	160,589	161,442	164,075	165,654	167,884
Non-State Related Universities and Colleges.....	48,607	49,532	888	840	809	806	858	842	865	1,104
<b>Health and human services:</b>										
<b>Aging and Long Term Living</b>										
<b>Comprehensive PACE/PACENET Program:</b>										
Older Pennsylvanians enrolled (average).....	313,643	312,916	309,329	307,585	298,137	288,645	275,390	268,805	256,622	245,915
Total prescriptions per year.....	11,173,934	11,605,980	10,773,967	10,341,180	10,288,430	9,739,080	9,040,508	8,386,716	7,565,493	6,912,230
<b>Health</b>										
Vital events (births, deaths, fetal deaths) registered.....	280,928	273,381	268,788	270,194	273,522	272,054	271,697	269,203	272,623	272,700
<b>Human Services</b>										
<b>MEDICAL ASSISTANCE</b>										
Persons participating in Medical Assistance (monthly average).....	1,907,396	1,972,559	2,072,461	2,135,477	2,225,011	2,123,710	2,147,889	2,354,542	2,718,110	2,840,335
Persons receiving cash assistance (monthly average).....	225,846	221,744	240,650	248,173	248,298	180,235	165,794	160,490	143,765	130,330
Children participating in subsidized child care (unduplicated).....	239,550	234,899	251,347	257,735	220,530	207,571	198,742	205,343	200,014	200,000
Total persons provided mental health services.....	525,991	525,136	530,387	649,375	655,577	720,079	696,834	705,154	761,391	798,820
Persons receiving Intellectual Disability services during fiscal year.....	51,375	53,284	53,399	53,455	53,569	53,613	53,618	54,362	54,697	54,700
<b>Economic development:</b>										
<b>Labor and Industry</b>										
Total public health and safety inspections performed.....	75,223	76,253	76,136	77,142	87,913	81,718	82,800	74,778	67,600	73,000
Vocational Rehabilitation-Eligible participants with active plans (2).....	N/A	41,316	43,644	48,652	45,471	52,354	52,000	52,500	41,579	40,000
<b>Transportation:</b>										
<b>Transportation</b>										
Miles of State maintained highways(3).....	39,872	39,861	39,845	39,793	39,797	39,792	39,760	40,000	40,000	40,000
Passengers carried by State-assisted operators (millions annually).....	427	434	423	432	441	435	427	430	426	426
<b>Highway and Bridge Construction/Reconstruction/Maintenance</b>										
Total miles of state maintained highways improved	5,864	6,150	5,712	5,792	5,976	4,956	3,954	5,059	5,291	5,317
Bridges replaced/repaired	219	589	658	442	315	291	270	278	550	613
Bridges preserved	459	371	569	345	230	193	200	234	234	231
<b>Recreation and cultural enrichment:</b>										
<b>Conservation and Natural Resources</b>										
State park attendance (visitor days per calendar year).....	33,200,000	37,000,000	38,400,000	37,600,000	37,600,000	36,400,000	38,000,000	38,000,000	40,500,000	39,000,000
<b>Fish and Boat Commission</b>										
Fishing licenses sold.....	905,806	839,172	883,932	810,050	876,233	852,944	859,863	841,418	885,061	885,061

Commonwealth of Pennsylvania

Operating Information

Table 18

Operating Indicators by Function and Agency

For the Last Ten Fiscal Years Ended June 30

	2008	2009	2010	2011	2012	2013	2014	2015	2016(5)	2017(5)
<b>Game Commission</b>										
Hunting licenses sold.....	924,448	926,892	946,497	927,527	931,060	925,000	952,989	943,836	935,767	937,029
<b>Historical and Museum Commission</b>										
Records maintained by the State Records Center (in thousands) (4).....	812,175	811,000	811,000	239,540	239,772	239,002	249,000	249,000	265,521	260,000
Annual visits to commission historical sites and museums (in thousands).....	1,450	1,425	1,425	1,283	1,045	1,060	1,070	616	697	716

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 2017 fiscal year, a majority of the indicators presented are estimates. For the 2016 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2016 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2016 CAFR.

Commonwealth of Pennsylvania

Operating Information

Table 19

Capital Asset Information by Function and Agency  
For the Last Ten Fiscal Years Ended June 30

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>GOVERNMENTAL ACTIVITIES</b>										
<b>Direction and Supportive Services</b>										
<b>Department of General Services</b>										
Number of buildings .....	87	85	119	116	116	116	115	115	115	115
Total pieces of machinery and equipment.....	133	148	394	139	155	134	141	147	138	144
Capital and Agency projects in design and/or construction(1).....	385	425	638	725	764	799	767	647	315	258
Vehicles in fleet.....	16,307	16,307	15,808	16,353	15,821	14,704	14,542	14,253	14,555	14,674
<b>Protection of persons and property</b>										
<b>Department of Corrections</b>										
State Correctional Institutions (2).....	27	27	27	27	27	26	26	26	26	25
<b>State Police</b>										
Patrol vehicles.....	2,189	2,189	2,182	2,182	2,182	2,182	2,182	2,182	2,182	2,197
Police stations and/or troop headquarters (2).....	23	24	25	25	25	26	26	26	26	26
<b>Department of Military and Veterans Affairs</b>										
Number of National Guard readiness centers.....	117	117	100	100	99	99	85	84	87	85
<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	18	19	17	17	17	17	17	17	16
<b>Transportation</b>										
<b>Department of Transportation</b>										
Total pieces of equipment .....	7,316	7,969	7,707	7,722	7,792	8,128	8,242	8,388	8,559	8,928
Total lane miles of highways (state or locally maintained)(4).....	116,998	117,187	117,385	117,499	117,588	117,681	117,760	118,000	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	2.5	2.5	2.5	2.5	2.5
<b>Game Commission</b>										
Acres of game lands (in millions).....	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5
<b>Fish Commission</b>										
Public boat launches.....	153	271	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	23	23	23	23	23	23	24	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	469,065	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.



Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017

# Appendix

**APPENDIX - Legend of Abbreviations**

The following legend presents descriptions of abbreviations that appear throughout the report:

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
AAL	Actuarial Accrued Liability
APSCUF	Association of Pennsylvania State College and University Faculties
ARO	Asset Retirement Obligation
BFTDA	Ben Franklin Technology Development Authority
BMP	Best Management Practices
C&R	Compromise and Release
CAFR	Comprehensive Annual Financial Report
CFA	Commonwealth Financing Authority
CFP	Charitable Food Program
CHIP	Children's Health Insurance Program
CIP	Commonwealth Investment Program
CMO	Collateralized Mortgage Obligation
CRIZ	City Revitalization Improvement Zone
CTF	Collective Trust Fund
CU	Component Unit
DCED	Department of Community and Economic Development
DCP	Deferred Compensation Program
DEP	Department of Environmental Protection
DGS	Department of General Services
DHS	Department of Human Services
DOH	Department of Health
DOR	Department of Revenue
DOT	Department of Transportation
DPCU	Discretely Presented Component Unit
EAFE	European, Australian, and Far East
eHealth	Pennsylvania eHealth Partnership Authority
EIO	Education Improvement Organization
EITC	Educational Improvement Tax Credit
ETF	Exchange-Traded Funds
EZP	Enterprise Zone Program
GA	General Assistance
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GO	General Obligation
GSE	Government Sponsored Enterprise
GSP	Guaranteed Savings Plan
HOP	Health Options Program
IFPA	Insurance Fraud Prevention Authority
JCTC	Job Creation Tax Credit
KBRA	Kroll Bond Rating Agency
KIZ	Keystone Innovation Zone Program
KOZ	Keystone Opportunity Zone Program
L&I	Department of Labor and Industry
LCB	Liquor Control Board
LIBOR	London Interbank Offered Rate

**APPENDIX - Legend of Abbreviations**

LOC	Line of Credit
MBS	Mortgage-Backed Securities
Mcare	Medical Care Availability and Reduction of Error Fund
MCM	Mellon Capital Management
MD&A	Management's Discussion and Analysis
MLF	Motor License Fund
MLP	Master Limited Partnership
MOU	Memorandum of Understanding
NAICS	North American Industry Classification System
NAP	Neighborhood Assistance Program
NAV	Net Asset Value
NPL	Net Pension Liability
NPP	Neighborhood Partnership Program
NRSRA	Nationally Recognized Statistical Rating Agencies
NRSRO	Nationally Recognized Statistical Rating Organization
NYSE	New York Stock Exchange
OFT	Oil Company Franchise Tax
OPEB	Other Post-Employment Benefits
OSTC	Opportunity Scholarship Tax Credit
PACE	Pharmaceutical Assistance Contract for the Elderly
PCCA	Pennsylvania Convention Center Authority
PEBTF	Pennsylvania Employees' Benefit Trust Fund
PEDA	Pennsylvania Energy Development Authority
PEDFA	Pennsylvania Economic Development Financing Authority
PEMA	Pennsylvania Emergency Management Agency
PennDOT	Pennsylvania Department of Transportation
PENNVEST	Pennsylvania Infrastructure Investment Authority
PG	Primary Government
PHEAA	Pennsylvania Higher Education Assistance Agency
PHEFA	Pennsylvania Higher Education Facilities Authority
PHFA	Pennsylvania Housing Finance Agency
PHMC	Pennsylvania Historical and Museum Commission
PIB	Pennsylvania Investment Bank Fund
PIDA	Pennsylvania Industrial Development Authority
PKSO	Pre-Kindergarten Scholarship Organization
PLCB	Pennsylvania Liquor Control Board
PPC	Port of Pittsburgh Commission
PRPA	Pennsylvania Regional Port Authority
PSDC	Philadelphia Shipyard Development Corporation
PSERS	Public School Employees' Retirement System
PTC	Pennsylvania Turnpike Commission
PTRR	Property Tax and Rent Rebate
PURTA	Public Utility Realty Tax Act
REAP	Resource Enhancement and Protection Tax Credit
REHP	Retired Employees' Health Program
REIT	Real Estate Investment Trust
RPSPP	Retired Pennsylvania State Police Program
RSI	Required Supplementary Information
S&P	Standard & Poor's
SCC	State Conservation Commission

***APPENDIX - Legend of Abbreviations***

SEA	Sports and Exhibition Authority
SERS	State Employees' Retirement System
SO	Scholarship Organization
SPP	Special Program Priorities
SPSBA	State Public School Building Authority
SSHE	State System of Higher Education
STIF	Short Term Investment Fund
STIP	Short Term Investment Pool
SWIF	State Workers' Insurance Fund
TANF	Temporary Assistance for Needy Families
UAAL	Unfunded Actuarial Accrued Liability
UC	Unemployment Compensation
USTIF	Underground Storage Tank Indemnification Fund