

**PENNSYLVANIA INFRASTRUCTURE  
INVESTMENT AUTHORITY  
(Component Unit of the  
Commonwealth of Pennsylvania)**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2013 AND 2012**

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY

YEARS ENDED JUNE 30, 2013 AND 2012

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# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Pennsylvania Infrastructure Investment Authority  
Harrisburg, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ("PENNVEST"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise PENNVEST'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 express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditor's 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 opinion.

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# *Zelenkofske Axelrod LLC*

Board of Directors  
Pennsylvania Infrastructure Investment Authority

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of PENNVEST, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Adoption of Governmental Accounting Standards Board Principles***

As discussed in Note 1 to the financial statements, during the fiscal year ending June 30, 2013, PENNVEST adopted the provisions of Governmental Accounting Standards Board's Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and 34", Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", and Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Our opinion is 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 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PENNVEST's basic financial statements. The Other Supplemental Information on pages 28 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

# Zelenkofske Axelrod LLC

Board of Directors  
Pennsylvania Infrastructure Investment Authority

The Other Supplemental Information on pages 28-40 is the responsibility of management and was 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 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, the Other Supplementary Information on pages 28 through 40 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedules of Delinquent Loans on page 41 has not been subject to auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013, on our consideration of PENNVEST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PENNVEST's internal control over financial reporting and compliance.



ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
November 19, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Pennsylvania Infrastructure Investment Authority's (PENNVEST) annual financial report presents the Management's Discussion and Analysis (MD&A) of PENNVEST's financial performance during the fiscal year that ended June 30, 2013. It is intended to be read in conjunction with the PENNVEST financial statements and accompanying notes, which follow this section.

For comparative purposes, certain prior year amounts have been reclassified to conform to the current year presentation.

### FINANCIAL HIGHLIGHTS

PENNVEST continued to make use of commercial paper to fund participant loans. The use of commercial paper is much like the use General Obligation bonds. As of June 30, 2013 \$10.0 million of commercial paper was outstanding.

Total Net Position increased by \$249.8 million and Total Assets increase by \$310.4 million this year. Current Liabilities was impacted by a decrease in short-term obligation of \$26.2 million.

The American Reinvestment Recover Act (ARRA) funding decreased by \$4.8 million during the year, as a result of the program nearing completion. ARRA funding impacted Total Operating Revenues by \$2.3 million for the year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts; Management's Discussion and Analysis, financial statements, and other supplemental information. The financial statements also include notes that explain in more detail some of the information in the financial statements. The MD&A serves as an introduction to the basic financial statements and other supplementary information and presents management's examination and analysis of PENNVEST's financial condition and performance.

### REQUIRED FINANCIAL STATEMENTS

The financial statements of PENNVEST report information about PENNVEST using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statements of Net Position includes all of PENNVEST's assets and liabilities and provides information about investments, revenue bonds, and federal government payments. All of the current year's revenues are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the fiscal conditions of PENNVEST operations over the past year and can be used to determine whether PENNVEST has remained creditworthy and in a positive financial order. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about PENNVEST's cash receipts and cash payments, net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as, where did the cash come from, what was the cash used for, and what was the change in cash balance during the report period.

## FINANCIAL ANALYSIS

The issued report provides comparative statements for a two-year period. This presentation enables a reader to determine by category the basic analysis of a year's activity. The Statements of Net Position, and the Statements of Revenues, Expenses, and Changes in Net Position report information about PENNVEST and provide an excellent examination of financial performance. These two statements report the net position of PENNVEST and the changes in them. Over time, increases or decreases in PENNVEST's net position is one gauge of whether its financial health is improving or deteriorating. This alone will not provide the total picture of financial health but it is a good indicator. Additional information such as the status of assets and liabilities and the reduction in long-term debt will provide a larger picture of the status of fiscal health. The following table summarizes the changes in net position between fiscal years ending June 30, 2013 and 2012.

**Table 1 (Thousands)**  
**ASSETS**

	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	<b>\$ 1,291,948</b>	\$ 976,996	\$ 314,952	32.2%
Non-current Assets	<b>2,152,685</b>	2,157,198	(4,513)	-0.2%
Total Assets	<b><u>\$ 3,444,633</u></b>	<u>\$ 3,134,194</u>	<u>\$ 310,439</u>	9.9%
Current Liabilities	<b>\$ 39,439</b>	\$ 69,979	\$ (30,540)	-43.6%
Non-current Liabilities	<b>215,472</b>	124,311	91,161	73.3%
Total Liabilities	<b><u>\$ 254,911</u></b>	<u>\$ 194,290</u>	<u>\$ 60,621</u>	31.2%
Total Net Position	<b><u>\$ 3,189,722</u></b>	<u>\$ 2,939,904</u>	<u>\$ 249,818</u>	8.5%

The above table provides several financial indicators that depict the fiscal health of PENNVEST. First, total net position increased this year by 8.5%. The Federal Clean Water State Revolving Fund has a significant impact on the total net position line, as it represents 55.2% of the total net position. This reflects the strength of the Federal Clean Water program in total net position.

Current assets reflect an increase of \$305.8 million or an increase of 32.2%. Cash and cash equivalents increased by \$6.6 million due to the PENNVEST's Trustee receiving transfers of the 1990 Revenue Bond Surplus funds and investing these funds in money market accounts which are reported as cash equivalents in the audited report. Investments increased \$268.7 million. This increase can be attributed to loan repayments, as well as state contributions being invested in the Common Investment pool of the Commonwealth, until they are redistributed in the form of loans or grants. Investments—securities lending collateral showed an increase of \$4.3 million or an increase of 39.5%. The increase in lending collateral is offset by the increase in the securities lending obligation noted in Current Liabilities. Current Loans Receivable increased by \$34.7 million or an increase of 16.8%. This increase is due to the PENNVEST loans leveling off as they reach a larger percentage of future year payments going to principle as the loans mature.

Non-Current Assets decreased by a minimal amount of 0.2% or by \$4.5 million. PENNVEST is a Revolving Loan Program. In a Revolving Loan Program, principal and interest payments received from borrowers are recycled back into the Program and are available for future loan disbursements. The ability to encumber against future year revenues is critical for a revolving

program. Non-current Loans Receivable, gross, are those future loans that are due in more than one year. The Non-Current Asset total is reduced by the Allowance for loan losses which is \$36.2 million for the year ended June 30, 2013. Loan loss allowance is an estimate of the amount of Loans Receivable that will not be collected and is not realized in operations.

Total Liabilities increased by 31.2% or by \$60.6 million. The increase in Liabilities is impacted by the \$93.3 million increase in Due to Commonwealth of Pennsylvania. The large increase in the Due to Commonwealth of Pennsylvania can be primarily attributed to PENNNVEST receiving additional revolving funds from the Commonwealth of Pennsylvania that need to be repaid. This increase is offset by a \$36.2 million decrease in short-term liabilities, as Pennvest paid back a portion of its outstanding Commercial Paper.

The Securities lending obligation, as described in footnote 2, accounts for 38.6% of Total Current Liabilities. Excluding the securities lending obligation, total current liabilities decreased 59.0% in 2013. With the exclusion of securities lending obligation, Total Liabilities increased by 30.7% or by \$56.3 million in 2013.

The PENNVEST Program financial picture reflects responsible fiscal management this year. The total net position growth of 8.5% or \$249.8 million is bolstered by the Clean Water State Revolving Fund net position of \$1.8 billion which represents 55.2% of Total Net Position of \$3.2 billion. Supported by the Clean Water State Revolving Fund federal program, the PENNVEST Program continues to show sustained growth.

#### OPERATING REVENUES AND EXPENSES

The Program has not received Commonwealth appropriations for operations since 1996. The cost of the Program has been funded from investment earnings, the repayment of loans, and allowable federal administrative expenses.

**Table 2 (Thousands)  
Operating Revenue and Expenses**

	2013	2012	Dollar Change	Percent Change
Operating Revenues				
Interest on Loan Receivables	\$ 32,862	\$ 31,363	\$ 1,499	4.8%
ARRA Federal Grants	2,257	9,225	(6,968)	-75.5%
Other Federal and State	18,457	16,623	1,834	11.0%
Total Operating Revenues	\$ 53,576	\$ 57,211	\$ (3,635)	-6.4%
Operating Expenses				
Administration	\$ 12,447	\$ 11,570	\$ 877	7.6%
Interest and amortization expense	1,754	1,726	28	1.6%
ARRA "Principal Forgiveness" to program participants	2,257	9,225	(6,968)	-75.5%
Grants/"principal forgiveness" to program participants	66,636	65,725	911	1.4%
Total Operating Expenses	\$ 83,094	\$ 88,246	\$ (5,152)	-5.8%

The operating portion of the American Reinvestment Recover Act (ARRA) funding was reduced by \$7.0 million. However ARRA funding impacted Total Operating Revenues by \$2.3 million or 4.2% of Total Operating Revenues and represented 2.7% of the Total Operating Expenses for the 2013 fiscal year. The Operating Revenues, before Provision for Loan Losses of \$53.6 million were driven by the ARRA Federal Grants of \$2.3 million, and interest repayments on loans of \$32.9 million.

The Total Operating Expenses had a decrease of 5.8% which was primarily impacted by a reduction of \$7.0 million in ARRA funds being disbursed as "Principal Forgiveness" to borrowers of PENNVEST. Grants to program participants increased in 2013 by \$0.9 million or 1.4%. This increase was based on the use of 2008 Referendum authorized use of grant funding. PENNVEST grant funding enables economic challenged borrowers to fund projects that otherwise would not be obtainable.

**Table 3 (Thousands)**  
**Loan Loss Allowance**

Loan Loss Allowance	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
1990 Revenue	\$ 418	\$ 513	\$ (95)	-18.5%
2010 Revenue	8,319	8,418	(99)	-1.2%
CWSRF	21,183	29,984	(8,801)	-29.4%
DWSRF	4,096	4,263	(167)	-3.9%
State	2,219	3,347	(1,128)	-33.7%
Total Program	<u>\$ 36,235</u>	<u>\$ 46,525</u>	<u>\$ (10,290)</u>	-22.1%

Table 3 examines the loan loss allowance for each of the loan portfolios of PENNVEST. The largest change was noted in the Clean Water State Revolving Fund loan program of \$8.8 million. The CWSRF loan loss allowance is 58.5% of the total current year Provision for loan losses. The State loan loss allowance decreased by 33.7% or by \$1.1 million. The Drinking Water State Revolving Fund loan loss allowance reflects a decrease of \$.2 million. The loan loss is an allowance in the balance sheet, which reflects the amount, which in management's judgment establishes an adequate allowance to report possible losses on loans.

**Table 4 (Thousands)**  
**Loan Loss Allowance by Risk Code**

Risk Codes	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Speculative	\$ 471,673	\$ 704,448	\$ (232,775)	-33.0%
Concern High Rate Impact	57,491	95,643	(38,152)	-39.9%
Concern Service User	9,591	20,688	(11,097)	-53.6%
Non-Speculative	1,857,025	1,555,314	301,711	19.4%
Total Loan Portfolio	<u>\$ 2,395,780</u>	<u>\$ 2,376,093</u>	<u>\$ 19,687</u>	0.8%

Table 4 depicts the PENNVEST loan portfolios, excluding On-Lot Loans, by risk code classification which is one of the calculations for the loan loss allowance. The largest dollar change occurred in the Non-Speculative project rating. This risk code represented \$1.9 billion or 77.5% of the 2013 total. The rating of Non-Speculative reflects that the projects receiving this rating are not suspect financially to be able to repay their PENNVEST loan. One of the largest percent change was in the Concern Service User of 53.6%. This code represents the concern of service user rates of the borrower of PENNVEST funds. Overall the risk assessment of the loan portfolio remains good as the Non-Speculative rating represents 77.5% of the total. The Speculative reduction of \$232.8 million is an indication that more of the PENNVEST portfolio is less risky in 2013.

REVENUES

As PENNVEST is a Revolving Loan Program, it is essential that loan repayments be made in a timely manner. Over 99.9% of all loans in every PENNVEST portfolio are submitting repayments electronically with the electronic fund transfer program offered under the Automatic Clearing House (ACH) system; however, funds have to be available for payment in the borrowers' accounts. By all accounts, the PENNVEST ACH system is working and funds are available for repayment. Table 5 illustrates the loan receipts by the different loan portfolios of PENNVEST.

**Table 5 (Thousands)**  
**Loan Receipts from Customers**

<u>Loan receipts</u>	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
1990 Revenue Bond Loans	\$ 12,406	\$ 21,751	\$ (9,345)	-43.0%
2010 Revenue Bond Loans	53,637	35,599	18,038	50.7%
CWSRF Federal Loans	137,373	126,258	11,115	8.8%
DWSRF Federal Loans	38,605	30,909	7,696	24.9%
State Loans	8,349	8,768	(419)	-4.8%
Totals	<b>\$ 250,370</b>	<b>\$ 223,285</b>	<b>\$ 27,085</b>	<b>12.1%</b>

As can be observed from Table 5, loan receipts vary for each of the PENNVEST portfolios. These receipts are categorized as deposits that do not include any transfers. The CWSRF Federal Clean Water Program had the largest dollar collection this year of \$137.4 million or 54.9% of the total collected. The CWSRF is a major portfolio in the PENNVEST program. The DWSRF Program continues to reflect a steady growth in loan receipts, with 2013 receipts totaling \$38.6 million or 15.4% of the total loan receipts. The 1990 Revenue Bond Program reflected a decrease of \$9.3 million due to the maturity of the program. Total loan receipts increased by \$27.1 million.

**Table 6 (Thousands)**  
**Loan Disbursements to Customers**

<u>Loan disbursements</u>	<u>2013</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
2010 Revenue Bond Loans	46,122	52,634	(6,512)	-12.4%
CWSRF Federal Loans	123,760	153,333	(29,573)	-19.3%
DWSRF Federal Loans	50,461	64,237	(13,776)	-21.4%
State Loans	17,255	53,623	(36,368)	-67.8%
All Portfolios Disbursements	<b>\$ 237,598</b>	<b>\$ 323,827</b>	<b>\$ (86,229)</b>	<b>-26.6%</b>

Table 6 is an illustration of the PENNVEST disbursements to customers. The total disbursement of \$237.6 million reflects a decrease of \$86.2 million from last year or a decrease of 26.6%. The State disbursements had decreased from the previous year by \$36.4 million or 67.8%. The CWSRF Federal Disbursement reflects a decrease of 19.3% and represents 52.1% of total disbursements. The Drinking Water Disbursements decreased by 21.4% and is 21.2% of the total disbursements.

LONG-TERM DEBT ADMINISTRATION

At June 30, 2013, PENNVEST had \$4.0 million of general debt outstanding. Debt decreased 47.9% from the previous year. The following is a summary of revenue bond activity for the 2012-2013 fiscal year.

<b>Table 7 (Thousands)</b>	
Outstanding debt July 1, 2011	\$ 7,647
Less: Principal payments	(3,640)
Add:	
Net change in deferred refunding loss	205
Net change in unamortized premium	<u>(228)</u>
Outstanding debt at June 30, 2012	<u>\$ 3,984</u>

See footnote 6 to the financial statements for detailed descriptions of the outstanding debt and the current year activity.

Future Programs under Development

## Commercial Paper Programs

PENNVEST established a Commercial Paper program in 2010-2011 in our Commonwealth program. This mechanism allows PENNVEST to better manage our cash flows so that funds on hand with the Commonwealth Treasurer can be invested for a longer term and a higher rate than would otherwise be the case.

In the existing Commonwealth Commercial Paper program, a change in the Comptroller's Loan Accounting system in late winter 2012-13 allowed the Trustee to disburse funds directly to the borrower rather than transferring the CP proceeds to the state Treasury for disbursement.

PENNVEST plans to expand its Commercial Paper program to both the CWSRF and DWSRF programs during 2013-2014.

## Nutrient Trading

PENNVEST continues to further develop the Nutrient Credit Trading Program during 2012-2013 as a clearing house for nitrogen and phosphorous credits and to also facilitate Bilateral Agreements between credit producers and municipalities wanting to purchase the credits outside of the auction process.

## Loan Guarantee Program

During 2013-14 PENNVEST will be developing a Loan Guarantee program to supplement its loan program. This will allow PENNVEST to provide further assistance to the borrowers when the cost of the project is more than PENNVEST can lend. The Loan Guarantee will allow the borrowers to find private financing for the balance of a project with a reduced interest rate.

CONTACTING PENNVEST'S DIRECTOR OF FINANCIAL MANAGEMENT

This financial report is designed to provide bondholders, investors, creditors, and federal and state agencies with a general overview of PENNVEST's finances and to demonstrate PENNVEST's accountability as a governmental agency. If you have any questions about this report or need additional financial information, contact Beverly Reinhold, Deputy Executive Director, Financial Management, PENNVEST, 22 South Third Street, Harrisburg, PA 17101.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 STATEMENTS OF NET POSITION  
 JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	2013	2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 59,679	\$ 53,047
Investment - securities lending collateral	15,254	10,931
Investments	970,448	701,796
Loans receivable, gross	241,373	206,708
Accrued interest receivable	3,120	2,919
Due from Commonwealth of Pennsylvania	151	51
Due from federal government	1,923	1,544
	1,291,948	976,996
Total Current Assets		
Noncurrent Assets:		
Loans receivable, gross	2,173,906	2,188,682
Allowance for loan losses	(36,235)	(46,525)
Due from Commonwealth of Pennsylvania	15,000	15,000
Bond issuance costs (net of accumulated amortization of \$2,254 for 2013 and \$2,227 for 2012)	14	41
	2,152,685	2,157,198
Total Noncurrent Assets		
	\$ 3,444,633	\$ 3,134,194
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 2,238	\$ 1,679
Accrued interest payable	61	129
Due to Commonwealth of Pennsylvania	9,470	7,064
Unearned revenue	60	277
Securities lending obligation	15,235	10,915
Short-term obligations	10,000	46,200
Compensated absences	80	75
Current portion of revenue bonds payable	2,295	3,640
	39,439	69,979
Total Current Liabilities		
Noncurrent Liabilities:		
Due to Commonwealth of Pennsylvania	212,885	119,546
Compensated absences	339	321
Noncurrent revenue bonds payable (net of deferred refunding loss of \$205 for 2012)	1,689	4,007
Other Noncurrent liabilities	559	437
	215,472	124,311
Total Noncurrent Liabilities		
	254,911	194,290
<b>NET POSITION</b>		
Restricted:		
Federal clean water revolving loan program	1,760,748	1,542,940
Federal drinking water revolving loan program	571,609	488,545
Unrestricted	857,365	908,419
	\$ 3,189,722	\$ 2,939,904
Total net position		

See accompanying notes to the financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	2013	2012
Operating Revenues		
Interest on loans receivable	\$ 32,862	\$ 31,363
ARRA federal "principal forgiveness" grants	2,257	9,225
Other federal and state	18,457	16,623
Operating Revenues before Provision for Loan Losses	53,576	57,211
Provision for loan losses	(10,290)	91
Net Operating Revenues	63,866	57,120
Operating Expenses		
Administration	12,447	11,570
Interest and amortization expense	1,754	1,726
ARRA federal "principal forgiveness" to program participants	2,257	9,225
Grants/"principal forgiveness" to program participants	66,636	65,725
Total Operating Expenses	83,094	88,246
Operating Income	(19,228)	(31,126)
Nonoperating Revenues		
Investment income	40,077	14,954
Total Nonoperating Revenues	40,077	14,954
Income before Capital Contributions	20,849	(16,172)
Capital Contributions:		
ARRA federal	3,774	1,621
Other federal and state	225,195	292,087
Total Capital Contributions	228,969	293,708
Increase In Net Position	249,818	277,536
Net Position - Beginning of Year	2,939,904	2,662,368
Net Position - End of Year	\$ 3,189,722	\$ 2,939,904

See accompanying notes to the financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

	2013	2012
Cash Flows from Operating Activities:		
Loan repayments from borrowers	\$ 250,370	\$ 223,285
Loan disbursements to borrowers	(237,598)	(323,827)
Payments for goods and services	(11,743)	(12,352)
ARRA federal "principal forgiveness" to program participants	(2,257)	(9,225)
Grants/"principal forgiveness" to program participants	(66,636)	(65,725)
ARRA federal grant receipts	2,257	9,225
Other federal and state receipts	17,772	15,257
	(47,835)	(163,362)
Net Cash Used In Operating Activities		
Cash Flows from Capital Financing Activities:		
ARRA federal capital contributions	3,774	1,621
Other federal and state capital contributions	225,195	292,087
Proceeds of short term obligations	1,973,800	938,300
Repayments of short term obligations	(2,010,000)	(977,100)
Proceeds from letter of credit	2,010,000	977,100
Repayments of letter of credit	(2,010,000)	(977,100)
Repayment of bonds payable	(3,640)	(6,530)
Repayment of due to Commonwealth of Pennsylvania	(6,943)	(4,545)
Loan disbursement to Commonwealth of Pennsylvania	-	(15,000)
Proceeds from Commonwealth of Pennsylvania bond issuance	102,677	51,826
Interest on bonds payable	(1,818)	(1,806)
	283,045	278,853
Cash Provided By Capital Financing Activities		
Cash Flows from Investing Activities:		
Receipts from/(Payments to) depositories	40,074	14,958
Net sales of investments held by trustee	1,678	7,300
Net (purchases)/sales of State Treasury Commonwealth Investment Pool	(270,330)	(116,031)
	(228,578)	(93,773)
Cash Provided By (Used In) Investing Activities		
Increase (Decrease) In Cash And Cash Equivalents	6,632	21,718
Cash and Cash Equivalents, Beginning of Year	53,047	31,329
Cash and Cash Equivalents, End of Year	\$ 59,679	\$ 53,047

See accompanying notes to the financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 STATEMENTS OF CASH FLOWS (CONTINUED)  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	2013	2012
Reconciliation of Operating Income to Net Cash Used In Operating Activities:		
Operating income	\$ (19,228)	\$ (31,126)
Adjustments to reconcile operating income to net cash used in operating activities:		
Interest on bonds payable not considered operating activities	1,795	1,809
Amortization	27	31
Provision for loan losses	(10,290)	91
Changes in operating assets and liabilities:		
Loan disbursements	(238,472)	(323,583)
Loan repayments	217,709	191,487
Loan origination costs	874	(244)
Accrued interest receivable	(201)	435
Due from Commonwealth of Pennsylvania	(89)	(2,322)
Due to/from federal government	(379)	689
Accounts payable	559	(912)
Accrued interest payable	(68)	(114)
Accrued compensated absences	23	48
Unearned revenue	(217)	267
Other noncurrent liabilities	122	82
Total adjustments	(28,607)	(132,236)
Net Cash Used In Operating Activities	\$ (47,835)	\$ (163,362)
Supplemental Disclosure of Cash Flow Information:		
Interest paid during the year	\$ 407	\$ 686

See accompanying notes to the financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Pennsylvania Infrastructure Investment Authority (“PENNVEST”) is an instrumentality of the Commonwealth of Pennsylvania (“Commonwealth”) created by Act 16 of the General Assembly in March of 1988 (the PENNVEST Act). The purpose of PENNVEST is to finance long-term, low-interest loans for corporations, partnerships, sole proprietorships, non-profit organizations, authorities, and municipalities for repair, construction, reconstruction, rehabilitation, extension, and improvement of drinking water, storm water, and wastewater systems. PENNVEST’s On-Lot Program provides funding for the improvement of septic systems. PENNVEST is funded through revenue bonds, federal grants, Commonwealth appropriations, Commonwealth general obligation bonds, and the use of recycled loan repayments.

A governing body consisting of thirteen members, the chairman of which is a Governor appointee, administers the operations of PENNVEST. Other members include cabinet secretaries, legislators, and local government leaders, as well as representatives of the engineering community and the drinking water and wastewater industries.

PENNVEST, which is a component unit of the Commonwealth reporting entity, is presented as an Enterprise Fund on the accrual basis of accounting. Criteria considered in making this determination include the Commonwealth’s appointment of PENNVEST’s Board and the Commonwealth’s ability to impose its will on PENNVEST.

B. Measurement Focus and Basis of Accounting

PENNVEST’s activities are accounted for on a cost of services or “capital maintenance” approach under the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activities are included on its statement of net position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

PENNVEST utilizes the accrual basis of accounting wherein revenues are recognized in the period earned and expenses are recognized when they are incurred.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of PENNVEST. Operating revenues consist primarily of interest on loans receivable, and federal and state grants given to program participants as grants or “principal forgiveness”. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions, such as investment income/loss.

When an expense is incurred for purposes for which there are both restricted and unrestricted resources available, it is PENNVEST’s policy to apply those expenses to restricted resources to the extent that they are available and then to unrestricted resources.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting (Continued)

The accounting and reporting policies of PENNVEST conform to the accounting rules prescribed by the Governmental Accounting Standards Board ("GASB").

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, PENNVEST considers all highly liquid investments with an initial maturity of three months or less at the time of purchase to be cash equivalents.

D. Investments

Investments are stated at fair value based on quoted market values.

E. Capital Contributions

Capital contributions represent contributions from the Commonwealth of Pennsylvania and the federal government for the loan programs.

F. Allowance for Loan Losses

The allowance for loan losses is used to report possible future losses on loans outstanding. Loan losses and recoveries of previously charged-off loans are charged or credited directly to the allowance for loan losses. The provision for loan losses, which is charged to current operations, reflects the amount, which in management's judgment establishes an adequate allowance to report possible losses on loans. Management's judgment is based upon a continuing review of the loan portfolio, past collection experience, and current economic conditions. While management uses available information to recognize losses on loans, future adjustments to the allowance may be necessary based on changes in economic conditions.

G. Interest Income

Interest income on investment securities is recorded when earned. Interest income on loans is accrued based on methods that result in a constant yield when related to the principal amounts outstanding.

H. Deferred Loan Origination Costs

The costs incurred by PENNVEST to originate loans are deferred and amortized using the interest method over the amortizing life of the loan (beginning at the point in time when all drawdowns have been made) to maintain a constant effective yield on the loan portfolio.

I. Bond Issuance Costs

Bond issuance costs are being amortized using the straight-line method over the lives of the bonds issued, which approximates the interest method.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Net Position

Restricted net position represents net position that is restricted for revolving loans in the Federal Revolving Clean Water and Drinking Water Programs.

K. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Deferred Refunding Loss

The accounting loss incurred by PENNVEST related to the refunding of certain bonds is deferred and amortized using the straight-line method over the life of the original refunded bonds or refunding bonds, whichever is shorter, which approximates the interest method.

M. Reclassifications

Certain amounts in 2012 have been reclassified to conform with the 2013 presentation.

N. Adoption of Governmental Accounting Standards Board Statements

PENNVEST adopted the provisions of GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*". The adoption of this statement had no effect on previously reported amounts.

PENNVEST adopted the provisions of GASB Statement No. 61 "*The Financial Reporting Entity: Omnibus-an amendment of GASB Statement No. 14 and No. 34*". The adoption of this statement had no effect on the previously reported amounts.

PENNVEST adopted the provisions of GASB Statement No. 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*". The adoption of this statement had no effect on the previously reported amounts.

PENNVEST adopted the provisions of GASB Statement No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this statement resulted in replacing the term "net assets" with the term "net position".

O. Pending Changes in Accounting Principles

In March 2012, the GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". PENNVEST is required to adopt statement No. 65 for its fiscal year 2014 financial statements.

In March 2012, the GASB issued Statement No. 66, "*Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*". PENNVEST is required to adopt statement No. 66 for its fiscal year 2014 financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pending Changes in Accounting Principles

In June 2012, the GASB issued Statement No. 67, "*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*". PENNVEST is required to adopt statement No. 67 for its fiscal year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*". PENNVEST is required to adopt statement No. 68 for its fiscal year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, "*Government Combinations and Disposals of Government Operations*". PENNVEST is required to adopt statement No. 69 for its fiscal year 2015 financial statements.

In April 2013, the GASB issued Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". PENNVEST is required to adopt statement No. 70 for its fiscal year 2014 financial statements.

PENNVEST has not completed the various analyses required to estimate the financial statement impact of these new pronouncements.

NOTE 2: DEPOSIT AND INVESTMENT RISK

The trust indenture and the Commonwealth of Pennsylvania (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 funds or trusts; and "prudent man" investments as determined by PENNVEST's depository (i.e. Commonwealth Treasury Department).

The majority of PENNVEST's investments are invested in the Common Investment Pool of the Commonwealth which is managed by the Commonwealth's Treasury Department (the Treasury Department).

The deposit and investment policies of the Treasury Department are governed by Sections: 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929 P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929 P.L. 177. No. 175).

Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments subject. This authority is subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital. Treasury Department deposits and investments may include equity securities and mutual funds.

As of June 30, 2013, the Treasury Department manages the Commonwealth Investment Program (CIP). Treasury is required to exercise careful judgment 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 pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the Commonwealth Investment Program. Asset allocation targets among cash, equity securities, fixed income securities and alternative are established in order to meet these overall objectives.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

Treasury has created two separate Pools within the Commonwealth Investment Program, each with its own distinct investment strategies, goals, and holdings that reflect the differing needs of Commonwealth funds for income, cash flows, and investment risk tolerance. A highly liquid vehicle, Pool 99, consists of short-term fixed income and cash and provides a high degree of liquidity and security but only modest returns. A less liquid vehicle, Pool 198, allows for investment in assets that offer potentially higher returns with commensurate risk.

As of June 30, 2013 and 2012, PENNVEST's investments, excluding securities lending balances (see below) held in the Commonwealth Investment Pool were \$963,899 and \$693,568 respectively.

As of June 30, 2013 and 2012, PENNVEST also had repurchase agreements held by Bank of New York in the amount of \$6,549 and \$8,228, respectively. The repurchase agreements held at June 30, 2013 and 2012 were with CS First Boston. The maturity dates for the repurchase agreements held at June 30, 2013 and 2012 were July 1, 2013 and July 2, 2012, respectively.

As of June 30, 2013 and 2012, PENNVEST also had bank balances of cash and cash equivalents in the amount of \$59,565 and \$53,105 held by Bank of New York. These balances were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name.

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 securities and U.S. Treasury and foreign debt obligations. For securities lent which are not denominated in United States dollars or whose primary trading market is located outside the United States, the fair value of the collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Practically all collateral received consists of cash. A small portion of collateral received consists of letters of credit, United States Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration – usually overnight. Therefore, the duration of lending agreements do not generally match the maturities of the investments made with cash collateral. The resulting rate risk is mitigated by the lending agent's ability to reallocate lending agreements among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2013, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amounts of the loans that could be made.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

As of June 30, 2013 there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent. As of June 30, 2013 and 2012, PENNVEST's portion of securities lending collateral within the Commonwealth Investment Pool was \$15,254 and \$10,931, respectively.

NOTE 3: LOANS RECEIVABLE

PENNVEST has loans outstanding throughout the Commonwealth. The nine largest loans amount to 12%, and 11%, respectively, of gross loans receivable at June 30, 2013 and 2012. The majority of loans are disbursed to municipal governments of the Commonwealth and are collateralized by a pledge of the general taxing powers of the municipal governments or the revenue stream generated by the municipal governments.

PENNVEST currently provides loans for projects which are expected to lead to an effective solution to problems experienced with the drinking water, wastewater treatment, or storm water systems. The term of loans is normally between 20 and 30 years. The minimum interest rate on a loan is 1%. Detailed guidelines are established in the PENNVEST Act for the maximum interest rate. The actual interest rates ranged from 1.000% to 4.516% at June 30, 2013 and 2012.

At June 30, 2013 and 2012, PENNVEST had approved approximately \$440 and \$449 million, respectively, of loans that had not yet been disbursed. The monies needed to fund these loans will be generated from contributions by the federal government or the Commonwealth of Pennsylvania, revenue bonds, and principal repayments on existing loans.

Loans receivable at June 30 is as follows:

	<u>2013</u>	<u>2012</u>
Loans receivable	\$ 2,397,907	\$ 2,377,148
Deferred loan origination costs	<u>17,372</u>	<u>18,242</u>
Loans receivable, gross	<u>\$ 2,415,279</u>	<u>\$ 2,395,390</u>
Displayed as:		
Current portion	\$ 241,373	\$ 206,708
Noncurrent portion	<u>2,173,906</u>	<u>2,188,682</u>
Total	<u>\$ 2,415,279</u>	<u>\$ 2,395,390</u>

Changes in deferred loan origination costs during the years ended June 30, which is included in loans receivable, gross, are as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 18,242	\$ 17,999
Deferred costs incurred	1,259	2,305
Amortization of costs	<u>(2,129)</u>	<u>(2,062)</u>
Balance, end of year	<u>\$ 17,372</u>	<u>\$ 18,242</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

## NOTE 4: ALLOWANCE FOR LOAN LOSSES

Changes in allowance for loan losses during years ended June 30 is as follows:

	2013	2012
Balance, beginning of year	\$ 46,525	\$ 46,434
Provision for loan losses	(10,290)	91
Balance, end of year	\$ 36,235	\$ 46,525

## NOTE 5: SHORT-TERM OBLIGATIONS

In December 2010, PENNVEST issued the first series of short term obligations, to finance the issuance of loans to program participants. In October 2011 the first amendment was issued. These obligations are issued in the form of bonds, and bear interest, which is due upon maturity. During the fiscal year ended June 30, 2013 and 2012 PENNVEST issued eighty five and fifty nine of these bonds in the aggregate principal amount of \$1,973,800 and \$938,300 and repaid eighty seven and sixty one of these bonds in the aggregate principal amount of \$2,010,000 and \$977,100, respectively. Interest rates on these bonds ranged from .06% to .33% with no maturity being greater than 120 days. As of June 30, 2013 and 2012 \$10,000 and \$46,200, respectively, of these bonds remained outstanding.

In conjunction with the issuance of the aforementioned short-term obligations, PENNVEST entered into a Letter of Credit with the Bank of America, N.A. to provide a source of funds for payment of principal and interest on the short-term obligations. The maximum stated amount of the letter of credit at June 30, 2013 and 2012 was \$171,103 and \$171,103, respectively. During the year ended June 30, 2013 and 2012 PENNVEST drew \$2,010,000 and \$977,100 and made repayments of \$2,010,000 and \$977,100, respectively, on the Letter of Credit. At June 30, 2013 and 2012 there was no outstanding balance on the Letter of Credit.

## NOTE 6: REVENUE BONDS PAYABLE

Changes in revenue bonds payable for the fiscal years ended June 30, 2013 and 2012 are as follows:

Series	Beginning Balance at July 1, 2012	Additions	Reductions	Ending Balance at June 30, 2013	Amounts Due within One Year
2005A Revenue Bonds	7,510	-	3,640	3,870	2,295
Total principal	\$ 7,510	\$ -	\$ 3,640	3,870	\$ 2,295
Unamortized premium				114	
				\$ 3,984	

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

## NOTE 6: REVENUE BONDS PAYABLE (CONTINUED)

Series	Beginning Balance at July 1, 2011	Additions	Reductions	Ending Balance at June 30, 2012	Amounts Due within One Year
1998A Revenue Bonds	\$ 1,715	\$ -	\$ 1,715	\$ -	\$ -
2005A Revenue Bonds	12,325	-	4,815	7,510	3,640
Total principal	<u>\$ 14,040</u>	<u>\$ -</u>	<u>\$ 6,530</u>	7,510	<u>\$ 3,640</u>
Deferred refunding loss				(205)	
Unamortized premium				<u>342</u>	
				<u>\$ 7,647</u>	

Information regarding revenue bonds issued issues is presented below:

Year of Issue	Amount of Original Issue	Purpose
1998	\$ 38,045	Advance refund certain maturities of Series 1990, 1991A and Series 1992A Revenue Bonds and to pay the cost of issuance.
2005	\$ 37,315	Advance refund all outstanding maturities of Series 1993 and 1994 Revenue Bonds, fund a deposit into the Debt Service Reserve Fund for the 2005A Revenue Bonds, and to pay the cost of issuance.

Revenue Bonds payable as of June 30 are as follows:

Series	Maturity Date (September 1)	Interest Rate	2013 Principal Balance	2012 Principal Balance
Series of 1998A Revenue Bonds	2005 through 2011	4.00% to 5.00%	\$ -	\$ -
Series of 2005A Revenue Bonds	2006 through 2014	4.25% to 5.00%	3,870	7,510
Total Principal			3,870	7,510
Less: Deferred refunding loss			-	(205)
Add: Unamortized bond premium			114	342
Less: Current portion			<u>(2,295)</u>	<u>(3,640)</u>
Noncurrent			<u>\$ 1,689</u>	<u>\$ 4,007</u>

A summary of debt service requirements (payable semi-annually on September 1 and March 1) at June 30, 2013 are as follows:

Ending	Principal	Interest	Total
2014	2,295	124	2,419
2015	1,575	33	1,608
	<u>\$ 3,870</u>	<u>\$ 157</u>	<u>\$ 4,027</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 6: BONDS PAYABLE (CONTINUED)

Under the terms of the debt issues described above, PENNVEST is required to maintain certain balances in restricted trust accounts, make timely payments to the trustee accounts, and pledge loans that provide cash flow necessary to service the debt.

In December 2005, PENNVEST issued Revenue Refunding Bonds Series 2005A in the amount of \$37,315. The proceeds of the bonds were used to advance refund the outstanding Series 1993 Revenue Bonds and Series 1994 Revenue Bonds, to fund a debt service reserve fund for the Revenue Refunding Bonds Series 2005A, and for the payment of costs incurred by PENNVEST to issue the bonds.

The advance refunding resulted in the recognition of an accounting loss of \$1,918 for the year ended June 30, 2006. PENNVEST in effect reduced its aggregate debt service payments by \$3,298 over the subsequent 10 year period and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$1,795.

In December 2005, PENNVEST defeased the Series of 1993 and Series of 1994 Revenue Bonds by placing proceeds of the Series of 2005A Revenue Bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2013 and 2012 the amount of defeased debt was \$5,910 and \$10,485, respectively.

NOTE 7: DUE TO THE COMMONWEALTH OF PENNSYLVANIA

In April 2013, a Commonwealth of Pennsylvania bond issue was closed in which \$90,000 of bonds was issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$102,677, including a premium of \$12,677. The net proceeds received by PENNVEST will be repaid quarterly on January 1, April 1, July 1, and October 1, to the Commonwealth over a 20 year term and a 1% interest rate.

In October 2011, a Commonwealth of Pennsylvania bond issue was closed in which \$46,000 of bonds was issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$51,826, including a premium of \$5,826. The net proceeds received by PENNVEST will be repaid quarterly on February 1, May 1, August 1, and November 1 to the Commonwealth over a 20 year term and a 1% interest rate.

In June 2007, a Commonwealth of Pennsylvania bond issue was closed in which \$15,000 of bonds was issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$14,764, including a discount of \$196 and underwriters insurance costs of \$40. The net proceeds received by PENNVEST will be repaid semi-annually on May 1 and November 1 to the Commonwealth over a 20 year term and a 1% interest rate.

In December 2006, a Commonwealth of Pennsylvania bond issue was closed in which \$50,000 of bonds was issued for PENNVEST loans under the 1992 Referendums. Net proceeds from the bonds were \$52,877, including a premium of \$2,937 and underwriters insurance costs of \$60. The net proceeds received by PENNVEST will be repaid quarterly on February 1, May 1, August 1 and November 1 to the Commonwealth over a 20 year term and a 1% interest rate.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
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NOTE 7: DUE TO THE COMMONWEALTH OF PENNSYLVANIA (CONTINUED)

In December 2005, a Commonwealth of Pennsylvania bond issue was closed in which \$50,000 of bonds was issued for PENNVEST loans under the 1988 and 1992 Referendums. Net proceeds from the bonds were \$53,334, including a premium of \$3,413 and underwriters insurance costs of \$79. Of the net proceeds received by PENNVEST, \$24,727 was a contribution of capital that does not have to be repaid and \$28,607 must be repaid quarterly on February 1, May 1, August 1 and November 1 to the Commonwealth over a 20 year term and a 1% interest rate.

A summary of the required payments at June 30, 2013 are as follows:

Fiscal Year Ending	Principal	Interest	Total
2014	9,470	2,144	11,614
2015	11,768	2,085	13,853
2016	11,886	1,967	13,853
2017	12,006	1,847	13,853
2018	12,126	1,727	13,853
2019-2023	62,481	19,528	82,009
2024-2028	61,098	3,605	64,703
2029-2033	38,695	1,108	39,803
2034	2,825	11	2,836
	<u>\$ 222,355</u>	<u>\$ 34,022</u>	<u>\$ 256,377</u>

NOTE 8: CAPITAL CONTRIBUTIONS

The Commonwealth of Pennsylvania has authorized the issuance of \$1.43 billion of general obligation bonds and appropriated the proceeds to PENNVEST for the improvement of water and sewer systems in the Commonwealth. Proceeds include \$230,256 approved by the electorate in 1981, \$300,000 approved by the electorate in 1988, \$350,000 approved by the electorate in 1992, \$150,000 under the provisions of PL343 No. 176 as authorized by the PENNVEST Act of 1988, and \$400,000 approved by the electorate in 2008. PENNVEST is authorized to utilize the proceeds for loans to borrowers. All but \$300,000 of the proceeds is considered to be revolving, as such, the principal and interest received on the loans are not required to be repaid to the Commonwealth. The balance of the proceeds, also used for loans to borrowers, ultimately received from the bond issues will require repayment as described in Note 7.

The Commonwealth has cumulatively issued \$1,040,000 in general obligation bonds as of June 30, 2013 and has used the proceeds of the issuances to contribute funds to PENNVEST. PENNVEST is not required to repay the funds to the Commonwealth. The proceeds received from borrowers as repayment on the loans can be utilized by PENNVEST to make new loans.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

NOTE 8: CAPITAL CONTRIBUTIONS (CONTINUED)

PENNVEST has also received approval for \$1,262,836 and \$462,712 in Federal loan funds for water pollution control and drinking water, respectively, at June 30, 2013. Of the \$1,262,836 and \$462,712 approved, \$1,262,836 and \$452,078, respectively, have been received as of June 30, 2013. For the period July 1, 2012 through June 30, 2013, \$153,773 and \$55,789 of Federal funds were received for water pollution control and drinking water, respectively. The State match for these programs for the period July 1, 2012 through June 30, 2013, was \$31,468 and \$25,454, respectively. These funds have or will be utilized to make loans and the proceeds from repayments can be utilized to make new loans in the future.

The required State match for the disbursed Federal loan funds for water pollution control and drinking water at June 30, 2013, was \$252,567 and \$90,416, respectively. As of June 30, 2013, \$255,773 and \$96,564 was the cumulative State match on disbursed loans for water pollution control and drinking water, respectively. All state match must be funded by the end of the award period.

In addition to the federal loan funds described above PENNVEST has also received approval for \$176,913 and \$44,006 of ARRA federal funding for the water pollution and drinking water, respectively, at June 30, 2013. Of the \$176,913 and \$44,006 approved, \$176,002 and \$43,772, respectively, have been received as of June 30, 2013. Of these amounts cumulatively received \$18,621 and \$13,827 will be utilized to make loans for the water pollution and drinking water programs, respectively, and the proceeds from repayments can be utilized to make new loans in the future. The remaining balance of ARRA federal funding received cumulatively of \$157,381 and \$29,945 for the water pollution and drinking water programs, respectively, were given to participants in the loan programs as "principal forgiveness" and are reported as operating revenues/expenses.

PENNVEST has been authorized by the PENNVEST Act to make grants to participants in the loan programs, if deemed necessary, to financially assist the community. As of June 30, 2013, PENNVEST has authorized grant commitments of \$92,751 remaining.

Current year capital contributions were \$228,969. State and federal funded grants and principle forgiveness to program participants of \$66,636 are reported as operating expenses.

NOTE 9: RELATED PARTY TRANSACTIONS

PENNVEST contracts for services necessary to carry out its operations from various Commonwealth of Pennsylvania departments and agencies. PENNVEST paid the following departments and agencies for accounting services and loan project technical assistance during the fiscal year ended June 30:

	<u>2013</u>	<u>2012</u>
Office of Comptroller Operations	\$ 442	\$ 291
Department of Environmental Protection	1,197	1,308

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 10: LITIGATION

PENNVEST is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on PENNVEST's financial position.

**OTHER  
SUPPLEMENTAL  
INFORMATION**

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
NOTES TO FUND SCHEDULES  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

NOTE 1: GENERAL

The accompanying schedules present the activity for four of the five funds maintained by PENNVEST: the 1990 Revenue Bond Fund which accounts for the financial activity resulting from the 1990 Trust Indenture securing the Loan Pool Program; the 2010 Commercial Paper Revenue Notes Fund which accounts for the financial activity resulting from the 2010 Trust Indenture securing the Loan Pool Program; the Federal Clean Water State Revolving Loan Fund which accounts for the financial activity resulting from capitalization grants received from the federal government under the State Revolving Loan Funds Program; and the Federal Drinking Water State Revolving Loan Fund which accounts for the financial activity resulting from grants received from the federal government under the State Revolving Loan Fund Program. The activity resulting from the Commonwealth of Pennsylvania capital contributed to PENNVEST has not been presented in the schedules except for the transactions with these three funds. The schedules have been presented to comply with contractual arrangements with the funding sources.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedules are presented using the accrual basis of accounting, which is described in Note 1 of PENNVEST's financial statements, except that management has elected not to record deferred loan origination costs in the schedules for the Revenue Bond Fund, the Federal Clean Water State Revolving Loan Fund, or the Federal Drinking Water State Revolving Fund and are presented in the format prescribed by the applicable contractual arrangements. Total net deferred loan costs were approximately \$17 million of the approximately \$2.4 billion in gross loans receivable for all funds at June 30, 2013 and approximately \$18 million of the approximately \$2.4 billion in gross loans receivable for all funds at June 30, 2012.

NOTE 3: TRANSFER OF LOANS BETWEEN FUNDS

When PENNVEST transfers a loan receivable between the funds identified above, the loan transfer is recorded in contributed capital and the provision for credit losses related to the transferred loans is reflected as an adjustment to net position.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses was \$418, \$8,319, \$21,183, and \$4,096 for the 1990 Revenue Bond Fund, 2010 Commercial Paper Revenue Notes Fund, Federal Clean Water State Revolving Loan Fund, and the Federal Drinking Water State Loan Fund, respectively at June 30, 2013 and \$513, \$8,418, \$29,984, and \$4,263, respectively at June 30, 2012.

NOTE 5: COMMITMENTS & CONTINGENT LIABILITIES

At June 30, 2013, PENNVEST had approved approximately \$312,088 and \$128,010, respectively, of Federal Clean Water and Federal Drinking Water loans that had not yet been disbursed. The monies needed to fund these loans will be generated from contributions by the federal government or the Commonwealth of Pennsylvania, revenue bonds, and principal repayments on existing loans.

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although PENNVEST expects such amounts, if any, to be immaterial.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 1990 REVENUE BOND FUND  
 SCHEDULES OF NET POSITION  
 JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 30	\$ 30
Investments	6,549	8,227
Loans receivable, gross	53,823	65,589
Allowance for loan losses	(418)	(513)
Accrued interest receivable	48	63
Bond issuance costs (net of accumulated amortization of \$2,254 for 2013 and \$2,228 for 2012)	14	40
	<b>\$ 60,046</b>	<b>\$ 73,436</b>
<b>LIABILITIES</b>		
Accrued interest payable	\$ 61	\$ 122
Revenue bonds payable (net of deferred refunding loss of \$240 for 2012)	3,984	7,647
	<b>\$ 4,045</b>	<b>\$ 7,769</b>
<b>NET POSITION</b>		
Unrestricted net position	<b>\$ 56,001</b>	<b>\$ 65,667</b>

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 1990 REVENUE BOND FUND  
 SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Interest on loans receivable	<u>\$ 625</u>	<u>\$ 901</u>
Total Operating Revenues	<u>625</u>	<u>901</u>
Operating Expenses		
Administration	-	41
Interest and amortization expense	1,051	1,492
Provision for loan losses	<u>(95)</u>	<u>(185)</u>
Total Operating Expenses	<u>956</u>	<u>1,348</u>
Operating Income (Loss)	<u>(331)</u>	<u>(447)</u>
Nonoperating Revenues (Expenses)		
Investment income	9	10
Transfer to the State Revolving Loan Fund	(4,839)	(10,481)
Transfer to the 2010 Revenue Bond Fund	<u>(4,505)</u>	<u>(10,634)</u>
Total Nonoperating (Expenses)	<u>(9,335)</u>	<u>(21,105)</u>
Decrease In Net Position	(9,666)	(21,552)
Net Position - Beginning of Year	<u>65,667</u>	<u>87,219</u>
Net Position - End of Year	<u><u>\$ 56,001</u></u>	<u><u>\$ 65,667</u></u>

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
1990 REVENUE BOND FUND  
SCHEDULES OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

	2013	2012
Cash Flows From Operating Activities:		
Loan receipts from borrowers	\$ 12,406	\$ 21,751
Cash paid to vendors	-	(41)
	12,406	21,710
Net Cash Provided By Operating Activities	12,406	21,710
Cash Flows From Capital Financing Activities:		
Transfer to 2010 Revenue Bond Fund	(4,505)	(10,634)
Repayment of bonds payable	(3,640)	(6,530)
Interest on bonds payable	(1,109)	(1,563)
Transfer to the Commonwealth Revolving Loan Fund	(4,839)	(10,481)
	(14,093)	(29,208)
Cash Used In Capital Financing Activities	(14,093)	(29,208)
Cash Flows from Investing Activities:		
Cash received from depositors	9	10
Net (purchases) sales of investments held by trustee	1,678	7,300
	1,687	7,310
Cash Provided By Investing Activities	1,687	7,310
Increases (Decrease) In Cash And Cash Equivalents	-	(188)
Cash and Cash Equivalents, Beginning of Year	30	218
Cash and Cash Equivalents, End of Year	\$ 30	\$ 30
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating income (loss)	\$ (331)	\$ (447)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Interest on bonds payable not considered operating activities	1,086	1,566
Amortization	26	32
Changes in operating assets and liabilities:		
Loan repayments	11,766	20,822
Provision for loan losses	(95)	(185)
Accrued interest receivable	15	28
Accrued interest payable	(61)	(106)
Total adjustments	12,737	22,157
Net Cash Provided By Operating Activities	\$ 12,406	\$ 21,710
Supplemental Disclosure of Cash Flow Information:		
Interest paid during the year	\$ 273	\$ 524

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 2010 COMMERCIAL PAPER REVENUE NOTES FUND  
 SCHEDULES OF NET POSITION  
 YEAR ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 59,535	\$ 53,075
Loans receivable, gross	543,098	523,176
Allowance for loan losses	(8,319)	(8,418)
Accrued interest receivable	640	655
Total Assets	\$ 594,954	\$ 568,488
<b>LIABILITIES</b>		
Accrued interest payable	\$ -	\$ 7
Short term obligations	10,000	46,200
Total Liabilities	\$ 10,000	\$ 46,207
<b>NET POSITION</b>		
Unrestricted net position	\$ 584,954	\$ 522,281

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
2010 COMMERCIAL PAPER REVENUE NOTES FUND  
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

	2013	2012
Operating Revenues		
Interest on loans receivable	\$ 7,920	\$ 7,413
Total Operating Revenues	7,920	7,413
Operating Expenses		
Administration	1,154	1,054
Interest expense	530	154
Provision for loan losses	(99)	957
Total Operating Expenses	1,585	2,165
Operating Income	6,335	5,248
Nonoperating Revenues		
Transfer from 1990 Revenue Bond Fund	4,505	10,634
Transfer from State Revolving Loan Fund	32,330	78,960
Loans transferred from State Revolving Loan Fund	19,502	40,171
Investment Income	1	2
Total Nonoperating Revenues	56,338	129,767
Increase In Net Position	62,673	135,015
Net Position - Beginning of Year	522,281	387,266
Net Position - End of Year	\$ 584,954	\$ 522,281

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
2010 COMMERCIAL PAPER REVENUE NOTES FUND  
SCHEDULES OF CASH FLOWS  
YEAR ENDED JUNE 30, 2013 AND 2012  
(IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Loan receipts from borrowers	\$ 53,637	\$ 35,599
Loan disbursements made to customers	(46,122)	(52,634)
Cash paid to vendors	(1,154)	(1,054)
	<u>6,361</u>	<u>(18,089)</u>
Net Cash Used In Operating Activities		
Cash Flows From Capital Financing Activities:		
Transfer in from 1990 revenue bond fund	4,505	10,634
Transfer in from state revolving loan fund	32,330	78,960
Proceeds from short term obligations	1,973,800	938,300
Repayment of short term obligations	(2,010,000)	(977,100)
Proceeds from letter of credit	2,010,000	977,100
Repayment of letter of credit	(2,010,000)	(977,100)
Interest on short term obligations	(537)	(162)
	<u>98</u>	<u>50,632</u>
Cash Provided by Capital Financing Activities		
Cash Flows from Investing Activities:		
Cash received from depositors	1	2
	<u>1</u>	<u>2</u>
Cash Provided By Investing Activities		
Increase In Cash And Cash Equivalents	<u>6,460</u>	<u>32,545</u>
Cash and Cash Equivalents, Beginning of Year	<u>53,075</u>	<u>20,530</u>
Cash and Cash Equivalents, End of Year	<u>\$ 59,535</u>	<u>\$ 53,075</u>
Reconciliation of Operating Income to Net Cash Used In Operating Activities:		
Operating loss	<u>\$ 6,335</u>	<u>\$ 5,248</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Interest on bonds payable not considered operating activities	537	162
Changes in operating assets and liabilities:		
Loan disbursements	(46,122)	(52,634)
Loan repayments	45,702	28,246
Provision for loan losses	(99)	957
Accrued interest receivable	15	(60)
Accrued interest payable	(7)	(8)
Total adjustments	<u>26</u>	<u>(23,337)</u>
Net Cash Used In Operating Activities	<u>\$ 6,361</u>	<u>\$ (18,089)</u>
Noncash investing, capital and financing activities:		
Loans transferred from State Revolving Loan Fund	19,502	40,171
Supplemental Disclosure of Cash Flow Information:		
Interest paid during the year	<u>\$ 134</u>	<u>\$ 162</u>

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND  
 SCHEDULES OF NET POSITION  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Restricted cash - securities lending collateral	\$ 8,708	\$ 6,019
Investments	534,277	328,851
Loans receivable, gross	1,246,815	1,243,325
Allowance for loan losses	(21,183)	(29,984)
Accrued interest receivable	1,011	1,399
Due from the Commonwealth of Pennsylvania	10	4
Due from federal government	6	119
	<u>6</u>	<u>119</u>
Total Assets	<u>\$ 1,769,644</u>	<u>\$ 1,549,733</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 98	\$ 464
Due to the Commonwealth of Pennsylvania	41	42
Deferred Revenue	60	277
Securities lending obligations	8,697	6,010
	<u>8,697</u>	<u>6,010</u>
Total Liabilities	<u>\$ 8,896</u>	<u>\$ 6,793</u>
<b>NET POSITION</b>		
Restricted for federal clean water revolving loan fund	<u>\$ 1,760,748</u>	<u>\$ 1,542,940</u>

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND  
 SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Interest on loans receivable	\$ 16,715	\$ 16,369
ARRA federal grants	2,062	6,780
State contribution	-	2,345
Other federal grants	8,318	13,733
Other	112	1
	<u>27,207</u>	<u>39,228</u>
Operating Revenues Before Provision for Loan Loss		
Provision for loan losses	<u>(8,801)</u>	<u>48</u>
Net Operating Revenues	<u>36,008</u>	<u>39,180</u>
Operating Expenses		
Administration	1,849	394
Other state and federal "principal forgiveness" to program participants	15,799	21,508
ARRA "principal forgiveness" to program participants	<u>2,062</u>	<u>6,780</u>
Total Operating Expenses	<u>19,710</u>	<u>28,682</u>
Operating Income	<u>16,298</u>	<u>10,498</u>
Nonoperating Revenues		
Investment income	<u>22,768</u>	<u>7,843</u>
Total Nonoperating Revenue	<u>22,768</u>	<u>7,843</u>
Income before Capital Contributions	<u>39,066</u>	<u>18,341</u>
Capital contributions:		
ARRA federal	3,472	837
Other federal and state	<u>175,270</u>	<u>61,478</u>
Total Capital Contributions	<u>178,742</u>	<u>62,315</u>
Increase In Net Position	217,808	80,656
Net Position - Beginning of Year	<u>1,542,940</u>	<u>1,462,284</u>
Net Position - End of Year	<u>\$ 1,760,748</u>	<u>\$ 1,542,940</u>

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND  
 SCHEDULES OF CASH FLOWS  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Loan receipts from borrowers	\$ 137,373	\$ 126,258
Loan disbursements to borrowers	(123,760)	(153,333)
Cash paid to vendors	(2,215)	(113)
ARRA "principal forgiveness" to program participants	(2,062)	(6,780)
ARRA federal grant receipts	2,062	6,780
Other State and Federal "principal forgiveness" to program participants	(15,799)	(21,508)
Other receipts	105	279
State contributions	-	2,368
Other federal grant receipts	8,214	13,779
	<u>3,918</u>	<u>(32,270)</u>
Cash Flows From Capital Financing Activities:		
Capital contributed by the Commonwealth of Pennsylvania	29,743	10,241
ARRA federal grants received	3,472	837
Other federal and state grants received	145,527	51,237
	<u>178,742</u>	<u>62,315</u>
Cash Flows from Investing Activities:		
Receipts from/(Payments to) depositories	22,766	7,844
Net (purchases)/sales of State Treasury Common Investment Pool	(205,426)	(37,889)
	<u>(182,660)</u>	<u>(30,045)</u>
Increase In Cash And Cash Equivalents	<u>-</u>	<u>-</u>
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Used In Operating Activities:		
Operating income	\$ 16,298	\$ 10,498
Adjustments to reconcile operating income to net cash used in operating activities:		
Loan disbursements	(123,760)	(153,333)
Loan repayments	120,270	109,313
Provision for loan losses	(8,801)	49
Accrued interest	388	576
Due from the Commonwealth of Pennsylvania	(7)	23
Due from the federal government	113	46
Deferred revenue	(217)	277
Accounts payable and accrued liabilities	(366)	281
Total adjustments	<u>(12,380)</u>	<u>(42,768)</u>
Net Cash Used In Operating Activities	<u>\$ 3,918</u>	<u>\$ (32,270)</u>

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 FEDERAL DRINKING WATER STATE REVOLVING LOAN FUND  
 SCHEDULES OF NET POSITION  
 JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Restricted cash - securities lending collateral	\$ 2,302	\$ 1,500
Investments	147,017	84,949
Loans receivable, gross	426,242	407,127
Allowance for loan losses	(4,096)	(4,263)
Accrued interest receivable	595	596
Due from federal government	<u>1,923</u>	<u>1,425</u>
Total Assets	<u>\$ 573,983</u>	<u>\$ 491,334</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 24	\$ 19
Vouchers payable	50	1,272
Securities lending obligations	<u>2,300</u>	<u>1,498</u>
Total Liabilities	<u>\$ 2,374</u>	<u>\$ 2,789</u>
<b>NET POSITION</b>		
Restricted for federal drinking water revolving loan fund	<u>\$ 571,609</u>	<u>\$ 488,545</u>

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 FEDERAL DRINKING WATER STATE REVOLVING LOAN FUND  
 SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	2013	2012
Operating Revenues		
Interest on loans receivable	\$ 7,258	\$ 6,770
ARRA federal grants	195	2,445
State contribution	-	894
Other federal grants	9,579	12,019
	17,032	22,128
Operating Revenues Before Provision for Loan Loss		
Provision for loan losses	(167)	(247)
	17,199	22,375
Net Operating Revenues		
Operating Expenses		
ARRA "principal forgiveness" to program participants	195	2,445
Other state and federal "principal forgiveness" to program participants	3,494	4,443
Administration:		
Technical Assistance for Small Systems	515	322
Assistance to State Programs	2,608	2,830
Local Assistance and Source Water Pollution	4,100	4,133
Other	195	1,051
Total Administration	7,418	8,336
Total Operating Expenses	11,107	15,224
Operating Income	6,092	7,151
Nonoperating Revenues (Expenses)		
Investment income	5,596	1,333
Total Nonoperating Revenues	5,596	1,333
Income before Capital Contributions	11,688	8,484
Capital contributions:		
ARRA Federal	302	783
Other federal and state	71,074	56,081
Total Capital Contributions	71,376	56,864
Increase In Net Position	83,064	65,348
Net Position - Beginning of Year	488,545	423,197
Net Position - End of Year	\$ 571,609	\$ 488,545

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 FEDERAL DRINKING WATER STATE REVOLVING LOAN FUND  
 SCHEDULES OF CASH FLOWS  
 YEARS ENDED JUNE 30, 2013 AND 2012  
 (IN THOUSANDS)

	2013	2012
Cash Flows From Operating Activities:		
Loan receipts from borrowers	\$ 38,605	\$ 30,909
Loan disbursements to borrowers	(50,461)	(64,237)
Cash paid to vendors	(8,635)	(9,115)
ARRA "principal forgiveness" to program participants	(195)	(2,445)
Other state and federal "principal forgiveness" to program participants	(3,494)	(4,443)
ARRA federal grant receipts	195	2,445
Other federal grant receipts	9,081	12,662
Contributions by the Commonwealth of Pennsylvania	-	894
	(14,904)	(33,330)
Net Cash Used In Operating Activities		
Cash Flows From Capital Financing Activities:		
Capital Contributed by the Commonwealth of Pennsylvania	24,938	2,852
ARRA federal grants received	302	783
Other federal and state grants received	46,136	53,229
	71,376	56,864
Cash Provided By Capital Financing Activities		
Cash Flows From Investing Activities:		
Receipts from/(Payments to) depositories	5,596	1,333
Net (purchases)/sales of State Treasury Common Investment Pool	(62,068)	(24,867)
	(56,472)	(23,534)
Cash Used In Investing Activities		
Increase In Cash And Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning of Year	-	-
Cash and Cash Equivalents, End of Year	\$ -	\$ -
Reconciliation of Operating Income to Net Cash Used In Operating Activities:		
Operating income	\$ 6,092	\$ 7,151
Adjustments to reconcile operating income to net cash used in operating activities:		
Loan disbursements	(50,461)	(64,237)
Loan repayments	31,346	24,211
Provision for loan losses	(167)	(247)
Interest receivable on loans	1	(72)
Due from the federal government	(498)	643
Accounts payable and accrued liabilities	(1,217)	(779)
Total adjustments	(20,996)	(40,481)
Net Cash Used In Operating Activities	\$ (14,904)	\$ (33,330)

See accompanying notes to the fund schedules.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY  
 SCHEDULES OF DELINQUENT LOANS  
 CLEAN WATER PROGRAM ON-LOT LOANS  
 FEDERAL CLEAN WATER PROGRAM  
 (UNAUDITED)

June 30, 2013

**Federal Clean Water Program On-Lot Loans**

<u>Loan Number</u>	<u>Delinquent Amount</u>	<u>Original Loan Balance</u>	<u>Loan Balance at June 30, 2013</u>
823500	\$ 145	\$ 11,470	\$ 1,211
687681	2,371	12,101	1,695
1239839	99	17,393	13,043
846006	2,151	14,555	11,619
1288935	1,629	9,037	2,764
2012029	89	7,036	3,492
2321271	95	10,437	8,159
2607869	71	7,834	7,229
	<u>\$ 6,650</u>	<u>\$ 89,863</u>	<u>\$ 49,212</u>

June 30, 2012

**Federal Clean Water Program On-Lot Loans**

<u>Loan Number</u>	<u>Delinquent Amount</u>	<u>Original Loan Balance</u>	<u>Loan Balance at June 30, 2012</u>
823500	\$ 218	\$ 11,470	\$ 2,121
687681	1,453	12,101	1,695
1239839	99	17,393	13,992
846006	978	14,555	11,619
1288935	543	9,037	2,764
1171925	89	14,109	7,374
	<u>\$ 3,380</u>	<u>\$ 78,665</u>	<u>\$ 39,565</u>

# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Pennsylvania Infrastructure Investment Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Pennsylvania Infrastructure Investment Authority ("PENNVEST"), a component unit of the Commonwealth of Pennsylvania as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise PENNVEST's basic financial statements, and have issued our report thereon dated November 19, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered PENNVEST's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PENNVEST's internal control. Accordingly, we do not express an opinion on the effectiveness of PENNVEST's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PENNVEST's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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# Zelenkofske Axelrod LLC

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
November 19, 2013