



FINANCIAL AUDIT REPORT

HIRAM G. ANDREWS CENTER

**COMMONWEALTH OF PENNSYLVANIA
REHABILITATION CENTER FUND**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

JUNE 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



June 2013
Hiram G. Andrews Center – Rehabilitation Center Fund
Financial Audit Report
For the Fiscal Year Ended June 30, 2012

Introductory Section



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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EUGENE A. DEPASQUALE
AUDITOR GENERAL

June 28, 2013

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

and

Carol Mackel
Director
Hiram G. Andrews Center
Johnstown, Pennsylvania 15905

Dear Governor Corbett and Director Mackel:

Enclosed is the independent auditor's report for the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows for the fiscal year ended June 30, 2012.

Sincerely,

A handwritten signature in cursive script that reads "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

June 2013

Hiram G. Andrews Center – Rehabilitation Center Fund

Financial Audit Report

For the Fiscal Year Ended June 30, 2012

Introductory Section

The Hiram G. Andrews Center

The Hiram G. Andrews Center is administratively part of the Commonwealth of Pennsylvania's Bureau of Rehabilitation Center Operations in the Office of Vocational Rehabilitation, Department of Labor and Industry.¹ Since its opening in April 1959, the Hiram G. Andrews Center has primarily provided rehabilitative-type services to persons with disabilities in order to prepare them for gainful employment. Individualized programs are established for each client to assist the individuals in selecting suitable employment goals and to prepare them for a designated vocation through counseling, training, physical restoration, and job placement programs. The Hiram G. Andrews Center has been approved since 1978 to award associate degrees (i.e., Specialized Business Degree and Associate in Specialized Technology Degree) to clients who fulfill the academic requirements of such programs. Furthermore, the Hiram G. Andrews Center offers additional services to other types of non-handicapped clients such as post-secondary education services for veterans and retraining of displaced workers through the federal Workforce Investment Act of 1998.

The Hiram G. Andrews Center is located in Johnstown, Cambria County, on 50 acres of land. It was constructed as the world's first rehabilitation facility under one roof with a barrier-free environment. It is operated as a self-sustaining facility and does not receive a direct legislative appropriation. Payments for services rendered provide the funding for facility operations. Since client referrals for admission are primarily received through 15 Office of Vocational Rehabilitation district offices, the Hiram G. Andrews Center's predominant financial supporter for client services is the Office of Vocational Rehabilitation.

The State Board of Vocational Rehabilitation has administrative responsibility over the Hiram G. Andrews Center's operations. A director, who is appointed by the secretary of the Department of Labor and Industry, administers day-to-day operations of the facility.

¹ The Office of Vocational Rehabilitation is administered, supervised, and controlled by the State Board of Vocational Rehabilitation established under the Department of Labor and Industry pursuant to the Vocational Rehabilitation Act of 1988, 43 P.S. § 682.1 et seq. The secretary of the Department of Labor and Industry serves as chairperson of the board.

June 2013
Hiram G. Andrews Center – Rehabilitation Center Fund
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Financial Section



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Corbett:

We have audited the accompanying financial statements of the Hiram G. Andrews Center as of and for the year ended June 30, 2012. These financial statements are the responsibility of management of the Hiram G. Andrews Center. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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* as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position, results of operations, and cash flows of the Hiram G. Andrews Center. The financial statements are not intended to present fairly in conformity with accounting principles generally accepted in the United States of America the entire financial position of the Commonwealth of Pennsylvania and the results of its operations and cash flows of its proprietary-type enterprise funds.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hiram G. Andrews Center as of June 30, 2012, and the changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Hiram G. Andrews Center has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Hiram G. Andrews Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Sincerely,



EUGENE A. DEPASQUALE
Auditor General

June 28, 2013

**REHABILITATION CENTER FUND
HIRAM G. ANDREWS CENTER
STATEMENT OF NET ASSETS
As of June 30**

	2012
<u>ASSETS</u>	
Cash Advancement Account.....	\$ 83,942
Cash In Transit.....	34,407
Cash With Fiscal Agents.....	1,000
Temporary Investments.....	4,887,220
Receivables, net:	
Accounts.....	241,077
Grants.....	14,460
Investment Income.....	1,093
Due From Other Funds.....	3,902,420
Due From Federal Government.....	4,983
Total Current Assets.....	<u>9,170,602</u>
Noncurrent Assets:	
Depreciable Capital Assets:	
Buildings and Building Improvements.....	25,351,410
Machinery and Equipment.....	2,295,354
Less: Accumulated Depreciation.....	<u>(20,258,129)</u>
Net Depreciable Capital Assets.....	<u>7,388,635</u>
Total Noncurrent Assets.....	<u>7,388,635</u>
TOTAL ASSETS.....	<u>\$ 16,559,237</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable and Accrued Liabilities.....	\$ 843,333
Invoices Payable.....	237,465
Accrued Payables Good Receipt.....	73,440
Due To Other Funds.....	55,012
Due To Political Subdivisions.....	22,013
Due to Other Governments.....	26,454
Due to Fiduciary Funds.....	36,029
Self Insurance Liabilities.....	204,965
Compensated Absences.....	292,526
Total Current Liabilities.....	<u>1,791,237</u>
Noncurrent Liabilities:	
Self Insurance Liabilities.....	1,099,639
Other Postemployment Benefit Obligations.....	2,881,666
Compensated Absences.....	1,247,086
Total Noncurrent Liabilities.....	<u>5,228,391</u>
TOTAL LIABILITIES.....	<u>7,019,628</u>
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt.....	7,388,635
Restricted for:	
Vocational Rehabilitation.....	2,150,974
TOTAL NET ASSETS.....	<u>\$ 9,539,609</u>

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

**REHABILITATION CENTER FUND
HIRAM G. ANDREWS CENTER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Fiscal Period Ended June 30**

	2012
OPERATING REVENUES:	
Sales and Services.....	\$ 1,894,028
Office of Vocational Rehabilitation.....	19,090,360
TOTAL OPERATING REVENUES.....	<u>20,984,388</u>
OPERATING EXPENSES:	
Personnel Services.....	15,767,876
Operational.....	4,771,356
Grants and Subsidies.....	254,720
Debt Services and Fixed Charges.....	(5,554)
Depreciation.....	1,556,932
Retirements.....	567
Intra/Inter Transfer.....	530,276
TOTAL OPERATING EXPENDITURES.....	<u>22,876,173</u>
OPERATING INCOME (LOSS).....	(1,891,785)
NONOPERATING REVENUES (EXPENSES):	
Investment Income.....	7,735
Redeposit of Checks.....	45
NONOPERATING REVENUES, NET.....	<u>7,780</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>(1,884,005)</u>
INCREASE (DECREASE) IN NET ASSETS.....	(1,884,005)
TOTAL NET ASSETS, JULY 1	11,423,614
TOTAL NET ASSETS, JUNE 30.....	<u>\$ 9,539,609</u>

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

**REHABILITATION CENTER FUND
HIRAM G. ANDREWS CENTER
STATEMENT OF CASH FLOWS
For the Fiscal Period Ended June 30**

	2012
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers.....	\$ 1,317,916
Payments for vendors, employees and other costs.....	(21,290,744)
Other receipts (payments).....	21,264,213
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	<u>1,291,385</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets.....	125,402
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>125,402</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments.....	(21,939,864)
Sales and maturities of investments.....	18,768,539
Investment income.....	6,887
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	<u>(3,164,438)</u>
NET INCREASE (DECREASE) IN CASH.....	(1,747,651)
CASH AT JULY 1, 2011.....	<u>1,867,000</u>
CASH AT JUNE 30, 2012.....	<u>\$ 119,349</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED FOR) OPERATING ACTIVITIES	
Operating Income (Loss):.....	\$ (1,891,785)
Depreciation and amortization.....	1,556,932
Non-operating expenses.....	(213,765)
Change in assets and liabilities:	
(Increase)/Decrease in accounts receivable.....	(240,691)
(Increase)/Decrease in due from other funds.....	1,526,570
(Increase)/Decrease in due from component units.....	(14,460)
(Increase)/Decrease in due from federal government.....	326,322
Increase/(Decrease) in accounts payable and accrued liabilities.....	(139,795)
Increase/(Decrease) in due to other funds.....	7,142
Increase/(Decrease) in due to pension trust funds.....	36,009
Increase/(Decrease) in due to political subdivisions.....	4,603
Increase/(Decrease) in due to other governments.....	26,454
Increase/(Decrease) in self insurance liabilities.....	(248,939)
Increase/(Decrease) in compensated absences.....	(56,510)
Increase/(Decrease) in other postemployment benefit obligations.....	613,298
Total Adjustments.....	<u>3,183,170</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	<u>\$ 1,291,385</u>

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commonwealth of Pennsylvania established the Rehabilitation Center Fund on May 13, 1959, to receive and disburse all fees for services rendered and other income received by the Hiram G. Andrews Center (HGAC).

The intent of the HGAC is that all related costs of providing goods and services to the general public on an ongoing basis be financed by user charges. Effective July 1998, a Settlement Agreement was executed between the Department of Labor and Industry, HGAC, and the United States Department of Education in which the Department of Labor and Industry agreed to abide by OMB Circular A-87 (Cost Principles for State and Local Governments) as the basis for its accounting methodology. The HGAC, as a provider of rehabilitation services, will determine allowable costs based on provisions of OMB Circular A-87.

Basis of Accounting

The basic financial statements of the HGAC 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.

Within the operations of the Commonwealth of Pennsylvania, the HGAC Rehabilitation Center Fund is classified and presented as a proprietary-type enterprise fund. This type of fund accounts 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.

Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of the fund are included on the Statement of Net Assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Revenues and expenses are classified as either 'operating' or 'non-operating', depending on the nature of the activities reported in the fund. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Temporary Investments

HGAC investments are concentrated entirely within Treasury’s Liquid Asset Pool 99 which invests exclusively in fixed income securities, primarily of a short duration, similar to a money market fund. Pool 99 is designed to generate income while minimizing investment volatility by protecting principle and maximizing availability of balances through ownership of only liquid investments. A detailed description of Pool 99 can be found in the Treasury Investment Policy at <http://www.patreasury.gov/assets/pdf/TreasuryInvestmentPolicy.pdf>.

The statement of cash flows includes cash, cash in transit, and cash with fiscal agents. Temporary investments are not included on the statement.

Capital Assets

General capital assets are reported at cost or estimated historical cost in the Statement of Net Assets. The Commonwealth of Pennsylvania’s process for financially reporting capital assets paid for and contributed by other Pennsylvania fund types is for the paying fund type to transfer the capital asset at the time the asset is fully received and paid. The Commonwealth Department of Labor and Industry, Office of Vocational Rehabilitation, purchases assets on behalf of the Hiram G. Andrews Center. These assets are not recorded in the Hiram G. Andrews Center financial statements until the assets are completed and transferred to the Hiram G. Andrews Center. For capital assets reporting, the following minimum dollar reporting thresholds are used (in thousands):

Buildings and building improvements.....	\$	5
Machinery and equipment.....		5

Capital assets are reported at cost or estimated historical cost. Depreciation/amortization is reported on the straight-line basis over the capital assets’ estimated useful lives. The following useful lives are used for HGAC activities:

Buildings and building improvements	40 years
Machinery and equipment	10 years

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Costs

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

Additional pertinent information regarding SERS, including the basis for employer contributions, how to obtain audited financial statements for SERS, and other relevant pension information for the HGAC, is published each year as part of the Commonwealth of Pennsylvania's Basic Financial Statements included in the Comprehensive Annual Financial Report, which is available at <http://www.budget.state.pa.us/>.

Other Post-employment Benefits

The Commonwealth established and sponsors the Retired Employees Health Program (REHP) which provides other postemployment benefits other than pensions (OPEB). This plan is administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which acts as a third-party administrator and administers the REHP under an administrative agreement with the Commonwealth for postemployment healthcare. REHP is a single employer defined benefit OPEB plan. The REHP is provided, in part, as a part of collective bargaining agreements with most Commonwealth labor unions.

REHP contribution requirements are established by the Office of Administration and the Governor's Budget Office. All employing agencies and certain plan members must contribute specified amounts to the REHP. Starting July 1, 2005, REHP plan members with membership dates after June 30, 2004 contribute between 1.0 percent and 3.0 percent of their final salary, based on REHP enrollment date. During the fiscal year ended June 30, 2012, the HGAC contributed \$240 per pay period for each active employee. In February 2008 a three tiered prescription REHP member copayment was introduced and in May 2008 a Medicare Private Fee-For-Service plan for REHP was started. In January 2011, the majority of REHP Medicare-eligible members were enrolled in Medicare HMO or Medicare PPO medical plans.

For the fiscal year ended June 30, 2012, the Hiram G Andrews Center's allocated share of the Commonwealth's total REHP annual required contribution (ARC) of \$870.20 million was \$2.2

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Post-employment Benefits (Continued)

million. The unfunded liability allocated to the Hiram G Andrews Center as of June 30, 2012 and June 30, 2011 was \$2,882 thousand and \$1,528 thousand, respectively.

Additional pertinent information on the REHP, including employee and employer contributions and overall actuarial liabilities and assumptions related to the Commonwealth as a whole, is published each year as part of the Commonwealth of Pennsylvania's Basic Financial Statements included in the Comprehensive Annual Financial Report, which is available at <http://www.budget.state.pa.us/>.

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:

Days Available at Retirement	Percentage Payment	Maximum Days Paid
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

Net Asset Categories

Invested in Capital Assets, Net of Related Debt represents total capital assets less accumulated depreciation and the outstanding liability (excluding unspent proceeds) for debt specifically related to the acquisition of the capital assets.

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Categories (Continued)

Restricted Net Assets, Vocational Rehabilitation are reported based on constraints imposed by either 1) creditors, grantors, contributors or laws or regulations of other governments; or 2) Commonwealth enabling legislation.

New Accounting Pronouncements – To Be Adopted

GASB issued Statement No. 60 “Accounting and Financial Reporting for Service Concession Arrangements” in November 2010. This statement provides accounting and financial reporting requirements for reporting service concession arrangements (SCAs). An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Commonwealth is determining whether it is involved in any SCAs and, if so, will report its involvement using the required method of presentation. HGAC will implement in succession with Commonwealth-wide implementation.

GASB issued Statement No. 61 “The Financial Reporting Entity: Omnibus” in November 2010. This statement is an amendment of GASB Statements No. 14 “The Financial Reporting Entity”, and No. 34 “Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments”. GASB Statement No. 61 amends certain requirements for inclusion of component units in the reporting government’s financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. It also requires consolidation, as a blended component unit, organizations which serve as financing vehicles for the primary government. The Commonwealth is reevaluating its component units and how they are financially reported. HGAC will implement in succession with Commonwealth-wide implementation.

GASB issued Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” in December 2010. The statement incorporates into the GASB’s own pronouncements certain accounting and financial

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
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NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements – To Be Adopted (Continued)

reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and interpretations;
2. Accounting Principles Board Opinions; and,
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

The Commonwealth is evaluating whether or not it is engaged in any of the specific activities included in the standard and will financially report such activities as required by the standard. HGAC will implement in succession with Commonwealth-wide implementation.

GASB issued Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position” in June 2011. This statement provides accounting and financial reporting requirements for deferred outflows of resources and deferred inflows of resources as introduced and defined in GASB’s Concepts Statement No. 4, “Elements of Financial Statements”. This Statement amends the net asset reporting requirements in Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”. The Commonwealth has established proper account coding for the deferred items and is incorporating them into its financial statements and is evaluating potential changes to categories of net assets. HGAC will implement in succession with Commonwealth-wide implementation.

GASB issued Statement No. 65 “Items Previously Reported as Assets and Liabilities” in March 2012. This statement establishes accounting guidance for the reporting of certain assets and liabilities as deferred outflows or inflows. It also provides guidance on the reporting of certain revenues and expenditures/expenses as deferred outflows or inflows. HGAC will implement in succession with Commonwealth-wide implementation.

GASB issued Statement No.68 “Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27” in June 2012. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. HGAC will implement in succession with Commonwealth-wide implementation.

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements – To Be Adopted (Continued)

The new standards must be adopted as follows:

GASB Statement No. 60 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

GASB Statement No. 61 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

GASB Statement No. 62 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

GASB Statement No. 63 Effective July 1, 2012 for financial statements for the fiscal year ending June 30, 2013.

GASB Statement No. 65 Effective July 1, 2013 for financial statements for the fiscal year ending June 30, 2014.

GASB Statement No. 68 Effective July 1, 2014 for financial statements for the fiscal year ending June 30, 2015.

NOTE 2: RESTATEMENT

The Hiram G. Andrews Center July 1, 2011 beginning net assets has been restated as a result of prior year overstatement of assets-under-construction, overstatement of due from other funds, understatement of accrued liabilities, and other adjustments attributable to the conversion of financial information from the Solomon system used by HGAC to the SAP Enterprise Resource Planning system used by the Commonwealth (amounts in thousands).

Net Assets as previously reported at June 30, 2011	\$24,648
Adjustments	<u>(13,224)</u>
Net Assets restated as of July 1, 2011	<u>\$11,424</u>

Net Assets previously reported at June 30, 2011 (rounded in thousands)	\$24,648
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Differences:

Cash advancement account	2
Cash in transit	1,336

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 2: RESTATEMENT (Continued)

Construction in progress	(8,185)
Accounts receivable	(74)
Investments	(2)
Investment income receivable	(51)
Other assets	(4)
Accumulated depreciation	(42)
Due from federal government	(331)
Due from other funds	9
Building and improvements	16
Machinery and equipment	25
Accounts payable/accrued liabilities	956
Accrued payables good receipt	15
Due to other funds	(48)
Due to political subdivisions	(17)
Due to other governments	4
Deferred revenue	5
Other post-employment benefit obligations	(2,268)
Compensated absences - current liability	(335)
Compensated absences - noncurrent liability	(1,261)
Self-insurance liability - current liability	(200)
Self-insurance liability - noncurrent liability	(1,354)

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 2: RESTATEMENT (Continued)

Overstatement of revenue as of June 30, 2011	(1,752)
Prior year grants receivable adjustment	331
Prior year cash with fiscal agents adjustment	1
Total Adjustments	<u>(13,224)</u>
Net Assets restated at July 1, 2011	\$11,424

The information obtained during this audit also affected balances for the fiscal year ended June 30, 2010 that were reported in the previously audited financial statements. The amount reported for Construction in Progress for that fiscal year, \$2,885,931, should not have been included in the financial statements. Additionally, liabilities for the following should have been reported, but were not. The effect that these revisions would have on the ending total net assets as of June 30, 2010 is shown below.

Account	Adjustment (in thousands)
Construction in Progress	\$2,886
Compensated Absences	\$1,728
Other Post Employment Benefits	\$793
Self-Insurance Liabilities	\$1,369
Total Reduction in Ending Net Assets as of June 30, 2010	\$6,776
Revised Net Assets as of June 30, 2010	\$13,230

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 3: RECEIVABLES/DUE FROM

Client referrals and payments for services rendered by the HGAC are primarily received from the Office of Vocational Rehabilitation (OVR). Of the amount shown as Due From Other Funds, \$3,899,731 of the \$3,902,420 account balance represents receivables due from OVR for services rendered during the months of April, May, and June 2012. Accounts receivables are for students that do not meet the income guidelines.

NOTE 4: REVENUES

Client referrals and payments for services rendered by the HGAC are primarily received from the Department of Labor and Industry's Office of Vocational Rehabilitation, which also oversees management of the HGAC.

NOTE 5: EXPENSES

Staff personnel compensation represents the primary outlay at the Hiram G. Andrews Center. Additional expenses incurred are operational in nature, including facilities overhead and the normal costs associated with operation of the facility.

NOTE 6: SELF-INSURANCE LIABILITIES

The Commonwealth of Pennsylvania is self-insured for statutory workers' compensation, which includes indemnity and medical payments (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 million retention with excess commercial insurance coverage up to \$500 million per occurrence. There was no reduction in commercial insurance coverage during the prior year and the amount of settlements did not exceed insurance coverage during any of the past three fiscal years. The Commonwealth has established various administrative policies, which are intended to avoid or limit the aforementioned risks.

The HGAC is a participant of the Commonwealth self-insurance program and pays prescribed program amounts or rates throughout its fiscal year. These amounts, reported as current fiscal year expenses, finance a portion of cumulative, estimated self-insurance liabilities incurred, in amounts sufficient to fund ongoing program needs. These amounts do not finance all cumulative, estimated self-insurance

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
REHABILITATION CENTER FUND
NOTES TO FINANCIAL STATEMENTS
SFYE JUNE 30, 2012

NOTE 6: SELF-INSURANCE LIABILITIES (Continued)

liabilities incurred. Therefore, accrued liabilities for employee disability 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.



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Corbett:

We have audited the accompanying financial statements of the Hiram G. Andrews Center, as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated June 28, 2013. We conducted our audit 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*, as issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Hiram G. Andrews Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hiram G. Andrews Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hiram G. Andrews Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hiram G. Andrews Center's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hiram G. Andrews Center's financial statements are free of 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*.

This report is intended solely for the information and use of the Commonwealth of Pennsylvania, management of the Hiram G. Andrews Center, others within the entity, and the federal awarding agencies, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



EUGENE A. DEPASQUALE
Auditor General

June 28, 2013

June 2013
Hiram G. Andrews Center – Rehabilitation Center Fund
Financial Audit Report
For the Fiscal Year Ended June 30, 2012

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