



NORTHEASTERN PENNSYLVANIA  
HOSPITAL AND EDUCATION AUTHORITY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
AND  
INDEPENDENT AUDITORS' REPORT  
AND  
SUPPLEMENTARY INFORMATION

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Northeastern Pennsylvania Hospital and  
Education Authority  
Wilkes-Barre, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Northeastern Pennsylvania Hospital and Education Authority as of June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. 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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Authority, as of June 30, 2005, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on Pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, as listed in the Table of Contents, is presented for purposes of supplementary analysis and is not a required part of the basic financial statements of the Northeastern Pennsylvania Hospital and Education Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Smyser & Clemente*

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**INTRODUCTION**

The following discussion and analysis of the Northeastern Pennsylvania Hospital and Education Authority's (Authority) annual financial report provides an overview and analysis of the financial performance for the fiscal year ended June 30, 2005. It is recommended that it be read in conjunction with the accompanying basic financial statements and notes to those statements in order to obtain a thorough understanding of the Authority's financial condition as of June 30, 2005.

MD&A is designed to focus on the current year's activities and resulting changes in the Authority's financial position. This is the second year of implementation of Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). Consequently, a comparative analysis is provided.

**FINANCIAL HIGHLIGHTS**

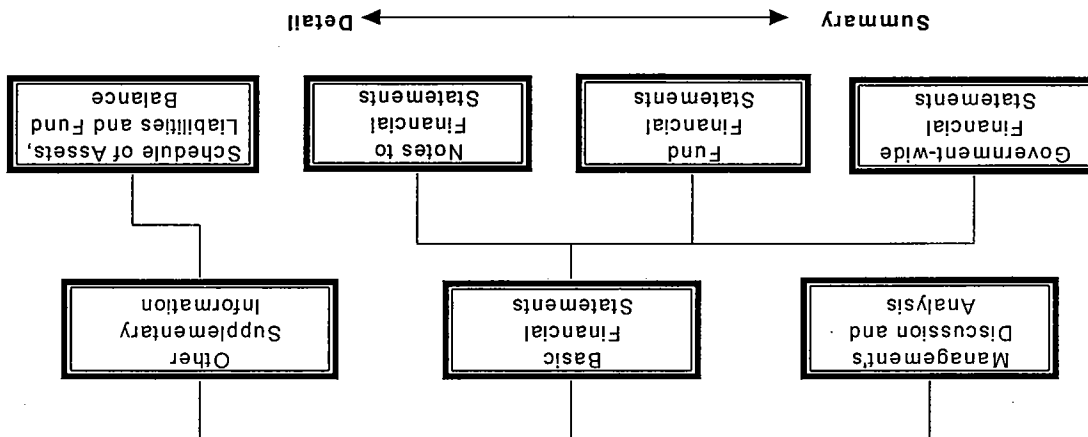
➤ The Authority had \$184,551,329 in general obligation debt outstanding as of June 30, 2005. This represents a net decrease of \$4,803,676 from the previous year. There were no new bonds issued during the June 30, 2005 fiscal period.

## MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements consist of three parts: Management Discussion and Analysis (MD&A), the basic financial statements and the related notes to the financial statements, and other supplementary information. The MD&A serves as an introduction to the basic financial statements and provides analysis and overview of the Authority's financial activities. The basic financial statements present two different views of the Authority through the use of government-wide statements and fund financial statements. The supplementary information includes schedule of assets, liabilities and fund balance by bond issue. The following diagram shows how the required components of this annual financial report are arranged and relate to one another.

#### REQUIRED COMPONENTS OF THE ANNUAL FINANCIAL REPORT



The first two statements are government-wide financial statements that provide information about the Authority's overall financial status. The remaining statements are fund financial statements that report the Authority's operations in more detail than the government-wide statements.

The differences in presentation between the government-wide financial statements, which are reported in the statement of net assets and the statement of activities, and the fund financial statements are reconciled following the fund financial statements. The differences in presentation are due to the following:

**Deferred Bond Issue Costs:** Governmental funds report debt issuance costs as expenditures, while governmental activities report amortization expense to allocate those expenditures over the life of the assets.

**Accrued Interest:** These are not reported in the funds because current financial resources are not used.

**Bonds Payable:** These are not reported in the funds because current financial resources are not used.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the financial activities of the Authority in a manner similar to a private sector business. The government-wide financial statements include the statement of net assets and the statement of activities.

The Statement of Net Assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing the change in the Authority's net assets during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period. The focus of this statement is on maintaining the debt and the capital projects associated with the debt.

The Government-wide financial statements can be found on pages 10 and 11 of this report.

### Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds. In the fund financial statements, the focus is on major funds rather than the Authority as a whole.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current resources and uses of expendable resources (cash and other financial assets that can readily be converted to cash) and on the balance of expendable resources available at the end of the year.

Governmental funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Because this information does not encompass the long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds as other financing sources and capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the government-wide activities column in the government-wide statements, among other reconciling items.

The governmental fund financial statements can be found on pages 12 - 15 of this report.



MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately after the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information (i.e. schedule of assets, liabilities and fund balance). These statements and schedules can be found immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Government-wide Statement of Net Assets

The Authority's net assets at June 30, 2005 and 2004 are presented below:

NET ASSETS		
Governmental		
Activities		
	2005	2004
<b>Assets</b>		
Current Assets	\$ 20,981,752	\$ 24,056,281
Other Assets	168,221,788	172,356,684
Total Assets	189,203,540	196,412,965
<b>Liabilities</b>		
Current Liabilities	7,193,108	7,707,947
Long-Term Liabilities	179,441,329	184,640,005
Total Liabilities	186,634,437	192,347,952
<b>Net Assets</b>		
Restricted - Capital Projects	2,569,103	4,065,013
Total Net Assets	\$ 2,569,103	\$ 4,065,013

Governmental activities net assets - For the year ended June 30, 2005, net assets of governmental activities were \$2,569,103, a decrease of \$1,495,910 from 2004. The most significant component to the decrease in net assets was the expenditure for project expenses. This entire balance is restricted for capital projects.



Government activities revenues - Total authority governmental revenues amounted to \$10,946,336, consisting of general revenues, an increase of \$589,004 from 2004. General revenues, such as amounts received from institutions and investment earnings are designed to cover future debt service payments.

#### Governmental Activities Expenses

Expenses for governmental activities totaled \$12,688,921, a decrease of \$445,910 from 2004. The expenses cover all governmental activities.

General governmental expenses for the administration of the Authority were \$1,516,891, an increase of \$130,304 from 2004.

Project expenses for the capital projects related to the outstanding bonds were \$1,907,166, a decrease of \$535,022 from 2004.

Interest on debt was \$9,264,864 in 2005, an increase of \$165,908 from 2004.

#### FUNDS FINANCIAL ANALYSIS

As noted earlier, the Authority uses fund accounting to ensure and to demonstrate compliance with finance-related legal requirements.

Governmental Funds- The accounting focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Authority's financing requirements. For the year ended June 30, 2005 Northeastern Pennsylvania Hospital and Education Authority governmental funds reported a combined ending fund balance of \$20,915,761, a decrease of \$2,293,508 from 2004. The Authority's major governmental funds are the Capital Projects and Debt Service.

The Capital Projects Fund had a total fund balance of \$2,276,157, a decrease of \$1,495,910 from 2004. The component to the decrease in net assets was the expenditure for project expenses. The debt service fund had a total fund balance of \$18,639,604, a decrease of \$797,598 from 2004. The \$797,598 decrease resulted from the required payments for principal, interest and administrative expenses. The fund balance is to be used for the retirement of future debt.

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The Authority's investment in capital assets, net of accumulated amortization, amounted to \$292,946 as of June 30, 2005. Capital assets consist of bond issue costs.



NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

<u>ASSETS</u>	
Governmental Activities	
\$ 95,287	
42,372	Cash
20,726,822	Certificates of Deposit
117,271	Investments
20,981,752	Accrued Interest Receivable
167,928,842	TOTAL CURRENT ASSETS
292,946	NONCURRENT ASSETS
168,221,788	Institution Receivable
\$ 189,203,540	Deferred Bond Issue Costs
	TOTAL NONCURRENT ASSETS
	TOTAL ASSETS
\$ 2,083,108	
5,110,000	CURRENT LIABILITIES
7,193,108	Accounts Payable and Accrued Expenses
179,095,000	Current Portion of LT Debt
346,329	TOTAL CURRENT LIABILITIES
179,441,329	NON-CURRENT LIABILITIES
186,634,437	Long-Term Portion of Bonds Payable
179,095,000	Long-Term Portion of Subordinated Promissory Notes
179,441,329	TOTAL NON-CURRENT LIABILITIES
186,634,437	TOTAL LIABILITIES
2,569,103	NET ASSETS
2,569,103	
2,569,103	Restricted for:
2,569,103	Capital Projects
2,569,103	TOTAL NET ASSETS
\$ 189,203,540	TOTAL LIABILITIES AND NET ASSETS

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
STATEMENT OF ACTIVITIES  
JUNE 30, 2005

<b>Function/Program</b> Governmental Activities: General Government Project Expense Interest on Long-Term Debt  TOTAL GOVERNMENTAL ACTIVITIES  TOTAL GOVERNMENT	\$ 1,516,891 1,907,166 9,264,864  12,688,921  \$ 12,688,921	\$ 1,516,891 164,581 9,264,864  10,946,336  \$ 10,946,336	\$ (1,742,585)          (1,742,585)
<b>GENERAL REVENUES:</b> Investment Earnings			
	246,675		246,675
<b>TOTAL GENERAL REVENUES AND SPECIAL ITEMS</b>			
	246,675		246,675
<b>CHANGE IN NET ASSETS</b>			
NET ASSETS - JULY 1, 2004		(1,495,910)	
NET ASSETS - JUNE 30, 2005		4,065,013	
NET ASSETS - JUNE 30, 2005		2,569,103	

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2005

	<u>Capital Project</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>	
<u>ASSETS</u>				
Cash	\$ 95,287	\$ 95,287	\$ 95,287	
Certificates of Deposit	42,372		42,372	
Investments	2,229,746	18,497,076	20,726,822	
Accrued Interest Receivable	4,211	113,060	117,271	
TOTAL ASSETS	<u>\$ 2,276,329</u>	<u>\$ 18,705,423</u>	<u>\$ 20,981,752</u>	
<u>LIABILITIES</u>				
Accounts Payable & Accrued Expenses	\$ 172	\$ 65,819	\$ 65,991	
TOTAL LIABILITIES	<u>172</u>	<u>65,819</u>	<u>65,991</u>	
<u>FUND EQUITY</u>				
Reserved for Capital Projects	2,276,157	18,639,604	2,276,157	
Reserved for Debt Service		18,639,604	18,639,604	
TOTAL FUND EQUITY	<u>2,276,157</u>	<u>18,639,604</u>	<u>20,915,761</u>	
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,276,329</u>	<u>\$ 18,705,423</u>	<u>\$ 20,981,752</u>	

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 RECONCILIATION OF THE BALANCE OF GOVERNMENTAL FUNDS TO  
 GOVERNMENTAL ACTIVITIES  
 JUNE 30, 2005

**Total Fund Balances - Government Funds** \$ 20,915,761

*Amounts Reported for Governmental Activities in the  
 Statement of Net Assets are Different Because:*

Bond issuance costs are amortized over the life of the bonds  
 on the statement of net assets.

292,946

Since the notes payable are not due and payable in  
 the current period, the receivable due from the  
 institutions to cover notes payable are not reported  
 as an asset.

167,928,842

Long-term liabilities, including notes payable are not  
 due and payable in the current period, and therefore,  
 are not reported as liabilities in the funds. Long-term  
 liabilities at year-end consists of:

(184,205,000)

(346,329)

(2,017,117)

Bonds Payable  
 Subordinated Promissory Notes  
 Accrued interest

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES**

\$ 2,569,103

See Notes to Financial Statements.



NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

Total (Governmental Funds)	Debt Service	Capital Project	REVENUES
246,675	206,133	40,542	Investment Income
10,056,502	10,056,502	-	Rental Income
40,542	10,262,635	40,542	TOTAL REVENUES
1,907,166	1,515,191	1,907,166	EXPENDITURES
1,907,166	1,515,191	1,701	Project
1,516,892	1,515,191	1,701	Administrative Expenses
4,803,676	4,803,676	4,803,676	Debt Service:
9,393,682	9,393,682	9,393,682	Principal
17,621,416	15,712,549	1,908,867	Interest
(1,868,325)	(5,449,914)	(1,868,325)	TOTAL EXPENDITURES
(7,318,239)	(5,449,914)	(1,868,325)	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES
5,024,731	5,024,731	479,689	OTHER FINANCING SOURCES (USES)
5,024,731	5,024,731	479,689	Payments from Institutions
(586,963)	107,274	(107,274)	Operating Transfers from Other Funds
(586,963)	(479,689)	(107,274)	Operating Transfers to Other Funds
5,024,731	4,652,316	372,415	TOTAL OTHER FINANCING SOURCES
(2,293,508)	(797,598)	(1,495,910)	REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES
23,209,269	19,437,202	3,772,067	FUND BALANCE - JULY 1, 2004
\$ 20,915,761	\$ 18,639,604	\$ 2,276,157	FUND BALANCE - JUNE 30, 2005

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
 GOVERNMENTAL ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2005

**Net Change in Fund Balances - Total Governmental Funds** \$ (2,293,508)

*Amounts Reported for Governmental Activities in the  
 Statement of Activities are Different Because:*

Repayment of bond principal is an expenditure in the  
 governmental funds, but the repayment reduces long-term  
 liabilities in the statement of net assets.

4,803,676

Current period change in value of receivable due from  
 institutions to cover notes payable is reported with  
 governmental activities.

(4,134,896)

In the statement of activities, interest is accrued on  
 outstanding bonds, whereas in governmental funds, an  
 interest expenditure is reported when due.

128,818

**CHANGE IN NET ASSETS OF GOVERNMENTAL  
 ACTIVITIES**

\$ (1,495,910)

See Notes to Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

The Governmental Accounting Standards Board (GASB), established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the Authority's financial reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Authority reviews the applicability of the following criteria.

The Authority is financially accountable for:

1. Organizations that make up the legal Authority entity.
2. Legally separate organizations if Authority officials appoint a voting majority of the organizations' governing-body and the Authority is able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

a. Impose its Will - If the Authority can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

b. Financial Benefit or Burden - Exists if the Authority (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligations to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the Authority. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Authority.

The Authority has determined that it has no potential component unit which would be evaluated.

B. Basis of Presentation:

The financial statements of Northeastern Pennsylvania Hospital and Education Authority are presented in conformity with the industry audit guide, Audits of State and Local Government Units, issued by the American Institute of Certified Public Accountants.

The Authority's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

#### Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the Authority as a whole. The Authority does not have any proprietary or fiduciary funds to be presented in the financial statements. The activities of the Authority are governmental in nature, and accordingly, only governmental activities are reported. There are no business-type activities to report.

#### Fund Financial Statements:

During the year, the Authority segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at this more detailed level. The focus of the governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. All of the funds of the Authority are presented as major funds.

C.

#### Future Lease and Loans Receivable:

The Authority accounts for the long-term lease and loans with Wyoming Valley Health Care, Luzerne County Community College, Hospital Central Services Capital Asset Financing Program, Christopher Place Non-Profit Housing Corporation D/B/A Christopher Place, Inc., Wyoming Seminary and Wilkes University under the financing method. Accordingly, at the completion of construction, future rentals and loans receivable will represent the present value of the aggregate rentals and loans receivable over the term of the leases and loans.

D.

#### Fund Accounting:

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

There is one major fund type presented in this report. A brief description is presented below:

**Governmental Fund Types:**

Capital Project Fund:  
Used to account for financial resource, such as bond issues, related to construction and improvements. The fund balance in the Capital Project Fund is designated for construction and improvements.

Debt Service Fund:  
Used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related cost. The fund balance in the Debt Service Fund is reserved for the retirement of debt principal and interest.

E. Investments:  
Investments consist of government securities, which are recorded at fair market value provided by the trust departments. The Authority is invested in some securities that are subject to market risk.

F. Amounts to be Provided for Retirement of Long-Term Obligations:  
The balance in this account represents the amount to be provided from revenues to retire long-term obligations.

G. Measurement Focus:  
Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

On the government-wide statement of net assets and the statement of activities, governmental activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the "current financial resources" measurement focus is used as appropriate. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

H. Basis of Accounting:

"when" transactions are recorded regardless of the measurement focus applied. In the government-wide statement of net assets and statement of activities, government activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. In the fund financial statements, government funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available;" measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

I. Interest Rate Swap Agreement:

Two of the revenue bond issues the Authority has issued have derivative agreements associated with them. However, in both instances the Authority is not a party to the derivative agreements and therefore, has not recorded any assets or liabilities that may result from these derivative financial instruments.

J. Equity Classifications:

Government-Wide Statements:

Equity is classified as net assets displayed in the following component:

- a. Restricted net assets - consists of net assets with constraints placed on the user by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

2. NATURE OF OPERATION AND ORGANIZATION

The Authority was incorporated on March 5, 1974, under the provisions of the Pennsylvania Municipal Authorities Act of 1945, as amended, pursuant to a resolution passed by the Commissioners of the Board of County Commissioners of the County of Luzerne, Pennsylvania. The Authority is administered by a five-member Board of Directors.

3. FUTURE RENTALS AND LOANS RECEIVABLE

Under the terms of the financing agreements with Wilkes University, Wyoming Valley Health Care, Luzerne County Community College, and Wyoming Seminary and Christopher Place Non-Profit Housing Corporation, the Authority received interest and principal payments in the amounts sufficient to:

- a. Pay the debt service due on outstanding bonds; and
- b. Pay the annual administrative expenses of the Authority.

To secure the required loan payments, the facilities have granted the Authority as collateral a security interest in all moneys, fees, charges, income and revenues including all future accounts receivable, contract rights documents, instruments, causes in action, general intangibles and the proceeds thereof constituting obligations under the loan agreements.

Aggregate rentals and loans receivable over the terms of the leases and loan agreements have been discounted to their present and loans receivable amounted to \$167,928,842 at June 30, 2005 (See supplementary information).

4. AGREEMENTS

The Authority has entered into the following agreements:

Wyoming Valley Health Care:

- a. The Authority issued their Wyoming Valley Health Care Series 1994 A Bonds pursuant to a financing agreement dated December 1, 1994.

- b. The Authority issued their Wyoming Valley Health Care Series 1994 B Bond pursuant to a financing agreement dated December 1, 1994.

- c. The Authority loaned the proceeds to Wyoming Valley Health Care to refinance certain outstanding long-term debt and capital lease obligations of Wyoming Valley Health Care and their Berwick affiliates.

d. The Authority issued their Wyoming Valley Health Care Series 1996 Bonds pursuant to a trust indenture dated December 1, 1996.

e. The Authority loaned the proceeds of the 1996 Bonds to Wyoming Valley Health Care and Luzerne-Wyoming County Mental Health Center #2 d/b/a Community Counseling Services of NEPA pursuant to a loan agreement dated December 1, 1996. The proceeds of the Bonds were used to (i) finance the construction, acquisition, renovation and equipping of certain capital improvements to facilities of Wyoming Valley Health Care and (ii) the refinancing of costs incurred for the acquisition of a facility of Community Counseling Services.

Hospital Central Services:

a. The Authority will undertake various projects to finance and refinance the cost of capital projects including the construction, renovation, and acquisition of capital improvements (including equipment), used in connection with the provision of health care services by, or in the operation of health care facilities for nonprofit hospital corporations. The Authority has retained Hospital Central Services Enterprises, Inc. to administer this program on behalf of the Authority.

b. The Authority will enter into a lease with each institution providing for the payment of a rental equal to the cost of financing or refinancing capital assets.

c. The Authority will sublease the capital assets back to each institution by entering into a sublease with each institution.

d. A supplemental trust indenture was issued on June 1, 1988 supplementing the original indenture dated December 1, 1985. The supplemental indenture lengthened the amortization period for "Non-Asset Bonds" to coincide with the term of the loans from the program.

e. In the event of default related to the subleases, the bond document requires certain institutions to have available letters of credit to fund the default.

Kings College:

a. The Authority issued their Series 1993 College Revenue Refunding Bonds pursuant to a trust indenture dated August 15, 1993.

b. The Authority loaned the proceeds of the Series B Bond to Kings College pursuant to a loan agreement dated August 15, 1993. The proceeds of the bonds were used to refund its College Revenue Bonds Series 1988, College Revenue Bonds Series 1990 and repay certain bank debt.



Wilkes University:

a. The Authority issued their Series 1993 Bonds pursuant to a trust indenture dated December 1, 1993.

b. The Authority loaned the proceeds of the 1993 bond to the University pursuant to a loan agreement dated December 1, 1993. The proceeds of the bond are to be used to retire the University's 1990 Bonds (Pennsylvania Higher Educational Facilities Authority), and to make capital improvements at the University.

c. The Authority issued their series 2002 A and B bonds pursuant to a trust indenture dated September 1, 2002.

d. The Authority loaned the proceeds of the series 2002 A and B bonds to the university pursuant to a loan agreement dated September 1, 2002. The proceeds were used to refund the university's 1997 bonds, a portion of the university's 1993 bonds and financing various capital expenditures for the acquisition, construction, renovation and improving of facilities located on the university's campus.

Luzerne County Community College:

a. The Authority issued their Series 1994 College Revenue Bonds pursuant to a loan agreement dated December 15, 1994.

b. The Authority loaned the proceeds of the 1994 bonds to the College pursuant to a loan agreement dated December 15, 1994. The proceeds of the bonds are to be used for construction of a campus center, wellness center, physical plant building, parking lot, and the renovation of the central storage building, security building, business classroom building, administration building, and the existing technologies and commercial arts building.

c. The Authority issued their Series 1997 College Revenue Bonds pursuant to a trust indenture dated August 15, 1997.

d. The Authority loaned the proceeds of the 1997 Bonds to the college pursuant to a loan agreement dated August 15, 1997. The proceeds of the bonds were used to refund a portion of its College Revenue Bonds Series 1994 and certain capital projects at the college.

Wyoming Seminary of the Wyoming Annual Conference of the Methodist Church:

a. The Authority issued their series 1998 School Revenue Bonds, pursuant to a trust indenture dated November 15, 1998.

- b. The Authority loaned the proceeds of the 1998 bonds to Wyoming Seminary pursuant to a loan agreement dated November 15, 1998. The proceeds of the bonds were used to refund its school revenue bonds series 1993 and for certain capital projects at the school.

Christopher Place Non-Profit Housing Corporation D/B/A Christopher Place, Inc.:

- a. The Authority issued their Series 1999 Health Care Revenue Bonds, pursuant to a trust indenture dated October 1, 1999.
- b. The Authority loaned the proceeds to the Christopher Place Non-Profit Housing Corporation D/B/A Christopher Place, Inc., pursuant to the terms of a loan and security agreement dated October 1, 1999 whereas, the borrower's payment obligations under the loan agreement will be general obligations of the borrower, secured by a lien on and security interest in the borrower's gross revenues and security interest on the borrower's fee title interest in the facility (as defined in the indenture). The proceeds were used to acquire a health care facility (the "Oakwood Terrace Facility").

## 5. DEPOSITS AND INVESTMENTS

Pennsylvania states provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practices. Deposits of the Authority are either maintained in highly liquid money market accounts and certificates of deposit and are captioned as "Cash", and "Certificates of Deposit" in the combined balance sheet.

a.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. All cash and certificates of deposit were federally insured at June 30, 2005.

b.

Investments - Credit Risk, Concentration of Credit Risk, and Interest Rate Risk - Specific Identification, Investment Policy

All investments listed on the statement of net assets are related to bond issues and the indentures of those issues describe the covenants related to the investment of the proceeds and existing funds.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
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Treasury Money Market Funds	Less Than 1 Year	\$ 13,439,960
Federal Home Loan Bank	10/22/09	212,313
Federal Farm Credit Bank Bond	10/15/08	107,182
Federal National Mortgage Association	07/15/06	6,967,367
		\$ 20,726,822

Total at 06/30/05

The Federal Home Loan Bank, Federal Farm Credit Bank Bond, and the Federal National Mortgage Association were rated AAA by Standard and Poor's and Moody's Investors Service.

The Authority adheres to the investment policies as indicated in the individual trust indentures as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority adheres to investment policies as indicated in the individual trust indentures as a means to limit investment in any one issuer. More than 35 percent of the Authority's investments are in Federal Home Loan Bank, Federal Farm Credit Bank Bond, and Federal National Mortgage Association.

