

**NORTHEASTERN PENNSYLVANIA
HOSPITAL AND EDUCATION AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
AND
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION**

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY

WILKES-BARRE, PENNSYLVANIA

JUNE 30, 2010

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* * * * *

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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 and for the year ended June 30, 2010, 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, 2010, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 9 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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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.

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, 2010. 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, 2010.

MD&A is designed to focus on the current year's activities and resulting changes in the Authority's financial position. This is a subsequent 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

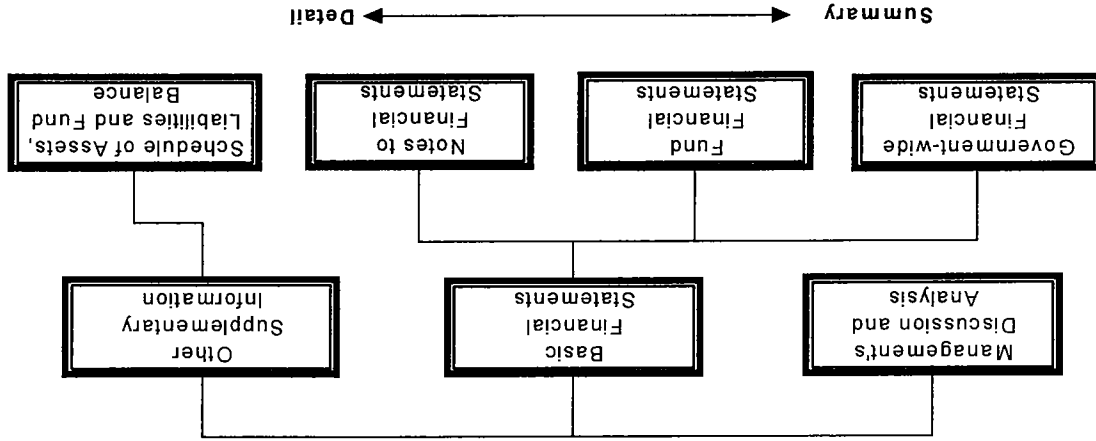
➤ The Authority had \$72,030,000 in general obligation debt outstanding as of June 30, 2010. This represents a net decrease of \$1,715,000 from the previous year. The net decrease represents scheduled debt service payments.

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 financial-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 sources 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, 2010 and 2009 are presented below:

NET ASSETS		
Governmental		
Activities		
	2010	2009 Restated
Assets		
Current Assets	\$ 8,025,981	\$ 31,350,630
Other Assets	68,384,806	47,313,169
Total Assets	76,410,787	78,663,799
Liabilities		
Current Liabilities	3,721,072	4,794,421
Long-Term Liabilities	71,403,770	72,347,477
Total Liabilities	75,124,842	77,141,898
Net Assets		
Unrestricted	89,688	87,921
Restricted - Capital Projects	1,196,257	1,433,980
Total Net Assets	\$ 1,285,945	\$ 1,521,901

Governmental activities net assets - For the year ended June 30, 2010, net assets of governmental activities were \$1,285,945, a decrease of \$235,956 from 2009. This entire balance is restricted for capital projects except for \$89,688 which is unrestricted. The June 30, 2009 balances were restated for a prior period adjustment for the bonds issued for Danville Area School District.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

The Authority has \$76,410,787 in total assets, a decrease of \$2,253,012 from 2009. Of this, there are \$8,025,981 in current assets and \$68,384,806 in noncurrent assets, a decrease of \$23,324,649 and an increase of \$21,071,637, respectively, over last year. The majority of the \$23,324,649 decrease in current assets was due to capital project funds being used for the construction of the Commonwealth Medical College. The entire current asset balance is made up of investments that are to be used for capital projects or debt service requirements except for \$89,688 which is unrestricted. The fund statements should be used to determine what current assets could be used for either capital projects or debt service. Included in noncurrent assets is \$67,430,147 due from institutions to service future debt requirements and \$95,659 in deferred bond issue costs. Historically, capital assets have not been reported or amortized in governmental financial statements. GASB Statement No. 34 requires that all capital assets, including bond issue costs, be reported within the governmental activities column of the government-wide financial statements.

The Authority has \$75,124,842 in total liabilities, a decrease of \$2,017,056 from 2009. Of this, there are \$3,721,072 in current liabilities and \$71,403,770 in noncurrent liabilities. The decrease of \$1,073,349 and a decrease of \$943,707, respectively, from last year. The \$943,707 decrease in noncurrent liabilities resulted from scheduled debt service payments. The current liability balance is made up of \$1,916,072 of accounts payable, due to institutions and accrued expense and \$1,805,000 of current year debt. The noncurrent liabilities are made up of \$69,987,831 long-term debt and \$1,415,939 of cash flow derivative financial instrument liability.

Government-wide Statement of Activities

CHANGE IN NET ASSETS

Governmental Activities		2009 Restated	
	2010		2009 Restated
Revenues			
Program Function Revenues:			
Reimbursement from College and Hospital Institutions	\$ 3,552,551	\$ 9,382,606	
General Revenues:			
Investment Income	26,971	93,607	
Miscellaneous		20,000	
Total Revenues	3,579,522	9,496,213	
Program Expenses			
General Government	1,862,935	2,404,329	
Interest on Long-Term Debt	1,952,543	6,016,379	
Total Expenses	3,815,478	8,420,708	
Change in Net Assets	(235,956)	1,075,505	
Net Assets - Beginning, as Adjusted	1,521,901	446,396	
Net Assets - Ending	\$ 1,285,945	\$ 1,521,901	

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Government activities revenues - Total authority governmental revenues amounted to \$3,552,551, consisting of general revenues, a decrease of \$5,830,055 from 2009. 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 \$3,815,478 a decrease of \$4,605,230 from 2009. The expenses cover all governmental activities.

General governmental expenses for the administration of the Authority were \$1,862,935, a decrease of \$541,394 from 2009.

Interest on debt was \$1,952,543 in 2010, a decrease of \$4,063,836 from 2009.

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, 2010 Northeastern Pennsylvania Hospital and Education Authority governmental funds reported a combined ending fund balance of \$5,577,507, a decrease of \$22,055,627 from 2009. The Authority's major governmental funds are the Capital Projects and Debt Service.

The Capital Projects Fund had a total fund balance of \$3,408,091, a decrease of \$22,081,361 from 2009. The debt service fund had a total fund balance of \$2,169,416, an increase of \$25,734 from 2009. The \$25,734 increase resulted from the decrease in 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 has no capital assets.

This financial report is designed to provide our institutions and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions regarding this report or requests for additional financial information should be directed to John Riccetti, CPA, Authority Coordinator, 46 Public Square, Wilkes-Barre, PA 18701.

EDUCATION AUTHORITY'S FINANCIAL MANAGEMENT

CONTACTING THE NORTHEASTERN PENNSYLVANIA HOSPITAL AND

Additional detailed information on the Authority's conduit debt can be found in Note 7 of the notes to the financial statements.

As of June 30, 2010, the Authority also had \$5,809,509 of conduit debt outstanding.

Additional detailed information on the Authority's long-term debt can be found in Note 5 and Note 6 of the Notes to the Financial Statements.

As of June 30, 2010, the Authority had \$72,030,000 in general obligation bonds outstanding. The Authority was credited with making \$1,715,000 of debt service principal payments during 2010.

Amounts Due Within One Year	Ending Balance	Reductions	Additions	Beginning Balance	Governmental Activities:
\$ 1,805,000	\$ 72,030,000	\$ (1,715,000)	\$ -	\$ 73,745,000	Bonds Payable:
					General Obligation Debt
					GOVERNMENTAL ACTIVITIES LONG-TERM DEBT
\$ 1,805,000	\$ 72,030,000	\$ (1,715,000)	\$ -	\$ 73,745,000	

LONG-TERM LIABILITY ACTIVITY FOR THE YEAR ENDED JUNE 30, 2010:

The following table summarizes the Authority's long-term debt:

Long-term Debt

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY
 STATEMENT OF NET ASSETS
 JUNE 30, 2010

<u>ASSETS</u>	
Governmental Activities	
\$ 6,545,803 89,688 428,550 961,940 8,025,981	CURRENT ASSETS Cash Equivalents Held by Trustee Certificates of Deposit Investments Held by Trustee Current Portion of Institution Receivable TOTAL CURRENT ASSETS 8,025,981
67,430,147 954,659 68,384,806	NONCURRENT ASSETS Institution Receivable Net of Current Portion Deferred Bond Issue Costs TOTAL NONCURRENT ASSETS 68,384,806
\$ 76,410,787	TOTAL ASSETS \$ 76,410,787
<u>LIABILITIES</u>	
\$ 1,793,834 122,238 1,805,000 3,721,072	CURRENT LIABILITIES Accounts Payable and Accrued Expenses Due to Others Current Portion of Bonds Payable TOTAL CURRENT LIABILITIES 3,721,072
69,987,831 1,415,939 71,403,770 75,124,842	NON-CURRENT LIABILITIES Long-Term Portion of Bonds Payable Net of Discount and Current Portion Cash Flow Derivative Financial Instrument TOTAL NON-CURRENT LIABILITIES 71,403,770
89,688	Unrestricted Restricted for: Capital Projects TOTAL NET ASSETS 1,285,945
1,196,257	TOTAL LIABILITIES AND NET ASSETS \$ 76,410,787

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

<u>Function/Program</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Governmental Activities:</u>	<u>Expenses</u>	<u>Program Revenues Reimbursement from College and Hospital Institutions</u>	<u>Governmental Activities</u>
General Government	\$ 1,862,935	\$ 1,600,008	\$ (262,927)
Interest on Long-Term Debt	1,952,543	1,952,543	
TOTAL GOVERNMENTAL ACTIVITIES	3,815,478	3,552,551	(262,927)
TOTAL GOVERNMENT	\$ 3,815,478	\$ 3,552,551	(262,927)
<u>GENERAL REVENUES:</u>			
Investment Earnings			26,971
TOTAL GENERAL REVENUES			26,971
CHANGE IN NET ASSETS			
NET ASSETS - JULY 1, 2009			1,246,514
Prior Period Adjustment			275,387
NET ASSETS - JULY 1, 2009 AS RESTATED			1,521,901
NET ASSETS - JUNE 30, 2010			\$ 1,285,945

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2010

<u>ASSETS</u>	<u>LIABILITIES</u>	<u>FUND BALANCES</u>																																							
<table border="0" style="width: 100%;"> <tr> <td style="width: 33%;">Cash Equivalents</td> <td style="width: 33%; text-align: right;">\$ 4,682,699</td> <td style="width: 33%; text-align: right;">\$ 1,863,104</td> </tr> <tr> <td>Certificates of Deposit</td> <td style="text-align: right;">89,688</td> <td></td> </tr> <tr> <td>Investments</td> <td style="text-align: right;">428,550</td> <td style="text-align: right;">428,550</td> </tr> <tr> <td>Loans Receivable</td> <td style="text-align: right;">68,392,087</td> <td style="text-align: right;">68,392,087</td> </tr> <tr> <td>TOTAL ASSETS</td> <td style="text-align: right;">\$ 4,772,387</td> <td style="text-align: right;">\$ 70,683,741</td> </tr> </table>	Cash Equivalents	\$ 4,682,699	\$ 1,863,104	Certificates of Deposit	89,688		Investments	428,550	428,550	Loans Receivable	68,392,087	68,392,087	TOTAL ASSETS	\$ 4,772,387	\$ 70,683,741	<table border="0" style="width: 100%;"> <tr> <td style="width: 33%;">Accounts Payable & Accrued Expenses</td> <td style="width: 33%; text-align: right;">\$ 1,364,296</td> <td style="width: 33%; text-align: right;">\$</td> </tr> <tr> <td>Due to Others</td> <td style="text-align: right;">122,238</td> <td style="text-align: right;">122,238</td> </tr> <tr> <td>Deferred Revenue</td> <td style="text-align: right;">68,392,087</td> <td style="text-align: right;">68,392,087</td> </tr> <tr> <td>TOTAL LIABILITIES</td> <td style="text-align: right;">1,364,296</td> <td style="text-align: right;">68,514,325</td> </tr> </table>	Accounts Payable & Accrued Expenses	\$ 1,364,296	\$	Due to Others	122,238	122,238	Deferred Revenue	68,392,087	68,392,087	TOTAL LIABILITIES	1,364,296	68,514,325	<table border="0" style="width: 100%;"> <tr> <td style="width: 33%;">Unreserved</td> <td style="width: 33%; text-align: right;">89,688</td> <td style="width: 33%; text-align: right;">89,688</td> </tr> <tr> <td>Reserved for Capital Projects</td> <td style="text-align: right;">3,318,403</td> <td style="text-align: right;">3,318,403</td> </tr> <tr> <td>Reserved for Debt Service</td> <td style="text-align: right;">2,169,416</td> <td style="text-align: right;">2,169,416</td> </tr> <tr> <td>TOTAL FUND BALANCES</td> <td style="text-align: right;">3,408,091</td> <td style="text-align: right;">2,169,416</td> </tr> </table>	Unreserved	89,688	89,688	Reserved for Capital Projects	3,318,403	3,318,403	Reserved for Debt Service	2,169,416	2,169,416	TOTAL FUND BALANCES	3,408,091	2,169,416
Cash Equivalents	\$ 4,682,699	\$ 1,863,104																																							
Certificates of Deposit	89,688																																								
Investments	428,550	428,550																																							
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TOTAL ASSETS	\$ 4,772,387	\$ 70,683,741																																							
Accounts Payable & Accrued Expenses	\$ 1,364,296	\$																																							
Due to Others	122,238	122,238																																							
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Unreserved	89,688	89,688																																							
Reserved for Capital Projects	3,318,403	3,318,403																																							
Reserved for Debt Service	2,169,416	2,169,416																																							
TOTAL FUND BALANCES	3,408,091	2,169,416																																							
TOTAL LIABILITIES AND FUND BALANCES																																									
\$ 4,772,387	\$ 70,683,741	\$ 75,456,128																																							

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total Fund Balances - Government Funds \$ 5,577,507

*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. 954,659

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. 68,392,087

Interest payable on long-term debt does not require current
 financial resources. Therefore, interest payable is not reported
 as a liability in the governmental funds balance sheet. (429,538)

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:

Bonds Payable (71,792,831)
 Cash Flow Derivative Financial Instrument (1,415,939)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 1,285,945

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, 2010

Total Governmental Funds	Debt Service	Capital Project	REVENUES
26,971	5,910	21,061	\$ 21,061
26,971	5,910	21,061	\$ 26,971
TOTAL REVENUES			
21,410,472	1,821,939	21,410,472	EXPENDITURES
1,822,745	806	806	Project
1,715,000	1,715,000	1,715,000	Administrative Expenses
1,962,644	1,493,587	469,057	Debt Service:
26,910,861	5,030,526	21,880,335	Principal
26,910,861	5,030,526	21,880,335	Interest
TOTAL EXPENDITURES			
(26,883,890)	(5,024,616)	(21,859,274)	EXCESS (DEFICIENCY) OF REVENUES
4,828,263	4,774,421	53,842	OTHER FINANCING SOURCES (USES)
275,929	275,929	(275,929)	Payments from Institutions
(275,929)	(275,929)	(275,929)	Operating Transfers from Other Funds
4,828,263	5,050,350	(222,087)	Operating Transfers to Other Funds
TOTAL OTHER FINANCING SOURCES (USES)			
(22,055,627)	25,734	(22,081,361)	REVENUES AND OTHER FINANCING SOURCES
21,407,511	1,589,164	19,818,347	(USES) OVER (UNDER) EXPENDITURES AND OTHER
6,225,623	554,518	5,671,105	FINANCING SOURCES
27,633,134	2,143,682	25,489,452	Prior Period Adjustment
FUND BALANCE - JULY 1, 2009			
FUND BALANCE - JULY 1, 2009 AS RESTATED			
5,577,507	2,169,416	3,408,091	FUND BALANCE - JUNE 30, 2010
5,577,507	2,169,416	3,408,091	\$ 5,577,507

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 THE
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (22,055,627)

*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. 1,715,000

Current period change in value of receivable due from
 institutions to cover notes payable is reported with
 governmental activities. 20,134,759

In the statement of activities, interest is accrued on
 outstanding bonds, whereas in governmental funds, an
 interest expenditure is reported when due. 19,933

Costs incurred related to the issuance of general obligation
 bonds is a use of financial resources in governmental
 funds but are deferred and amortized in the statement of
 net assets. (50,021)

**CHANGE IN NET ASSETS OF GOVERNMENTAL
 ACTIVITIES**

\$ (235,956)

See Notes to Financial Statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. 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 Board of County Commissioners of the County of Luzerne, Pennsylvania. The Authority is administered by a five-member Board of Directors.

B. 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.

C. 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.

D. Future Lease and Loans Receivable:

The Authority accounts for the long-term lease and loans with Luzerne County Community College, Christopher Place Non-Profit Housing Corporation D/B/A Christopher Place, Inc., Wyoming Seminary, Commonwealth Medical College, and Danville Area School District 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.

E. 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 category of funds 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 reserved 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.

F. Investments:
Investments consist of government securities, which are recorded at fair market value provided by the trust departments.

G. Remarketing Agreement and Reimbursement, Credit and Security Agreement:
There is a remarketing agreement and reimbursement, credit and security agreement associated with the Commonwealth Medical College Bond Issue and the Danville Area School District Bond Issue. However, the Authority is not a party to these agreements and therefore, has not disclosed any of the terms of these agreements.

H. 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.

I. Basis of Accounting:

Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. In the government-wide statement of net assets and statement of activities, governmental 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, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. In the fund financial statements, governmental 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.

J. Interest Rate Swap Agreements:

The Commonwealth Medical College bonds that the Authority issued has an interest rate swap agreement associated with it but the Authority is not a party to this agreement and therefore has not recorded any asset or liability associated with it. The Danville Area School District bonds that the Authority issued also has an interest rate swap agreement associated with it but the Authority is a named party in the agreement and has recorded a liability as a result of this agreement (Note 10).

K. 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.

L. Restricted Net Assets:

Net Assets of the Authority are restricted to debt service and construction and improvements.

M. Internal Activity: The transactions between funds are eliminated on the government-wide financial statements.
Flows from one fund to another without a requirement for repayment are reported as interfund transfers. These transfers are made between the debt service and capital project funds as deemed necessary by the trustees.

2. FUTURE RENTALS AND LOANS RECEIVABLE

Under the terms of the financing agreements with Luzerne County Community College, Wyoming Seminary, Christopher Place Non-Profit Housing Corporation, Commonwealth Medical College and the Danville Area School District, 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 \$68,392,087 at June 30, 2010 (See supplementary information).

3. AGREEMENTS

The Authority has entered into the following agreements:

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.

f. The Hospital Central Services Bonds were refunded in a prior year and the above agreements have terminated. There are remaining funds and the Authority has developed a plan on how to disburse the excess funds. The funds are included in due to others on the accompanying financial statements.

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").

c. The Authority issued their Series 2005 Health Care Revenue Bonds pursuant to an existing indenture dated October 1, 1999, which provides for additional bonds.

d. The Authority loaned the proceeds to the Christopher Place Non-Profit Corporation D/B/A Christopher Place, Inc., pursuant to the terms of a first supplemental loan agreement dated December 1, 2005 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 first open-end mortgage (as defined in the indenture). The proceeds were used for certain capital projects and refinancing certain existing indebtedness of the corporation.

The Commonwealth Medical College:

a. The Authority issued their Series 2009 College Revenue Bond pursuant to a trust indenture dated March 1, 2009.

b. The Authority loaned the proceeds to the Commonwealth Medical College, pursuant to the terms of a loan and reimbursement, credit and security agreement dated March 1, 2009 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 all of the college's right, title and interest, in and to any and all personal property of the college.

The Danville Area School District:

a. The Authority issued their Series 2009 Variable Rate Demand Revenue Bonds pursuant to a loan agreement dated May 28, 2009.

