

**NORTHEASTERN PENNSYLVANIA  
HOSPITAL AND EDUCATION AUTHORITY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**AND  
INDEPENDENT AUDITORS' REPORT  
AND  
ADDITIONAL INFORMATION**

# SNYDER & CLEMENTE

ACCOUNTANTS & CONSULTANTS

*A Wealth of Knowledge*

KINGSTON • HAZLETON

## KINGSTON

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BENJAMIN J. MATTEO, CPA  
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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 Northeastern Pennsylvania Hospital and Education Authority as of June 30, 2002, 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.

As described in Note 1, the Authority prepares its financial statements on the cash basis, which is comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Authority, as of June 30, 2002, and the revenues it received and expenditures it paid for the year then ended on the basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying additional 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 of the Northeastern Pennsylvania Hospital and Education Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Kingston, Pennsylvania  
December 6, 2002



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NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY  
 ALL FUND TYPES AND ACCOUNT GROUPS - CASH BASIS  
 JUNE 30, 2002

	Governmental Fund Types		Account Groups	Total (Memorandum Only)
	Capital Project	Debt Service	General Long-Term Debt	
<b><u>ASSETS</u></b>				
Cash	\$	\$ 108,491	\$	\$ 108,491
Investments	2,258,323	23,947,817		26,206,140
Amount Available in Debt Service Fund			24,056,308	24,056,308
Amount to be Provided for Retirement of Bonds and Subordinated Promissory Notes			179,035,697	179,035,697
<b>TOTAL ASSETS</b>	<b><u>\$ 2,258,323</u></b>	<b><u>\$ 24,056,308</u></b>	<b><u>\$ 203,092,005</u></b>	<b><u>\$ 229,406,636</u></b>
<b><u>LIABILITIES</u></b>				
Bonds Payable	\$	\$	\$ 202,657,000	\$ 202,657,000
Subordinated Promissory Notes			435,005	435,005
<b>TOTAL LIABILITIES</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>203,092,005</u></b>	<b><u>203,092,005</u></b>
<b><u>FUND EQUITY</u></b>				
Designated for Specific Fund Purposes	2,258,323			2,258,323
Reserved for Debt Service		24,056,308		24,056,308
<b>TOTAL FUND EQUITY</b>	<b><u>2,258,323</u></b>	<b><u>24,056,308</u></b>	<b><u>-</u></b>	<b><u>26,314,631</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 2,258,323</u></b>	<b><u>\$ 24,056,308</u></b>	<b><u>\$ 203,092,005</u></b>	<b><u>\$ 229,406,636</u></b>

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES - CASH BASIS  
 FOR THE YEAR ENDED JUNE 30, 2002

	Governmental Fund Types		Total (Memorandum Only)
	Capital Project	Debt Service	
<b>REVENUES</b>			
Investment Income	\$ 63,378	\$ 780,425	\$ 843,803
Rental Income		12,732,450	12,732,450
<b>TOTAL REVENUES</b>	<u>63,378</u>	<u>13,512,875</u>	<u>13,576,253</u>
<b>EXPENDITURES</b>			
Project	1,037,971		1,037,971
Administrative Expenses	9,489	1,542,352	1,551,841
Debt Service:			
Principal	6,375,000	5,828,000	12,203,000
Interest		11,418,919	11,418,919
<b>TOTAL EXPENDITURES</b>	<u>7,422,460</u>	<u>18,789,271</u>	<u>26,211,731</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(7,359,082)</u>	<u>(5,276,396)</u>	<u>(12,635,478)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Payments from Institutions	6,074,176	5,187,382	11,261,558
Operating Transfers from Other Funds	1,189,845	923,567	2,113,412
Operating Transfers to Other Funds	(923,567)	(1,189,845)	(2,113,412)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>6,340,454</u>	<u>4,921,104</u>	<u>11,261,558</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	<u>(1,018,628)</u>	<u>(355,292)</u>	<u>(1,373,920)</u>
<b>FUND BALANCE - JULY 1, 2001</b>	<u>3,276,951</u>	<u>24,411,600</u>	<u>27,688,551</u>
<b>FUND BALANCE - JUNE 30, 2002</b>	<u>\$ 2,258,323</u>	<u>\$ 24,056,308</u>	<u>\$ 26,314,631</u>

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002

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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' govern-bodying 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.

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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, Kings College, 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 and account groups, 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. Account groups are used to establish accounting control and accountability for the Authority's general long-term obligations.

There is one major fund type and one account group presented in this report. A brief description of each 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.

**Account Groups:**

Long-Term Debt Account Group:

Used to record the outstanding principal balances of revenue bonds.

E. Investments:

Investments consist of U.S. Treasury Notes, which are stated at cost, which approximates fair value.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
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- 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. Debt Service Fund:  
Debt service payments are shown as expenditures when payment is made. The fund balance in the debt service fund is reserved for the retirement of debt principal and interest.
- H. Total Columns on Combined Statements:  
The total columns on the combined statements are captioned "memorandum only" to indicate that they are only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of the data; and it is, therefore, not comparable to a consolidation.
- I. Measurement Focus / Basis of Accounting:  
The governmental funds of the Authority are accounted for on a "spending" measurement focus. Accordingly, only current assets and current liabilities are included on the governmental fund statement of assets, liabilities and fund balances and the fund balances reflect spendable or appropriate resources. The operating statement for the governmental funds reflect increases and decreases in the spendable resources through revenues and expenditures.
- The account group is not a fund. It is designed to measure only the financial position of the account and does not provide results of operations.
- Basis of Accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The Authority maintains its records and prepares its financial statements on the cash basis. This method differs from generally accepted accounting principles in that certain revenue and related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when an obligation is incurred. Interest on long-term debt is expensed when paid.
- J. Interest Rate Swap Agreement:  
The Authority entered into an interest swap agreement to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2002

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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 leases with the participating facilities in the Hospital Central Services Capital Asset Financing Program, the Authority receives monthly rentals from the participating facilities in amounts sufficient to:

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

To secure the required lease payments, the participating facilities have granted the Authority a security interest in a first lien on the Hospitals' gross revenues excluding certain specifically restricted grants, gifts, and other donations.

Total Sublease Receivable	\$ 2,411,037
Less: Current Portion	<u>1,208,308</u>
<b>TOTAL SUBLEASE RECEIVABLE - LONG-TERM</b>	<b><u>\$ 1,202,729</u></b>

Aggregate maturities under these leases for the five years subsequent to June 30, 2002 are as follows:

2003	\$ 1,208,308
2004	570,933
2005	546,269
2006	85,527
2007	
Thereafter	<u>                    </u>
<b>TOTAL</b>	<b><u>\$ 2,411,037</u></b>



NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
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Under the terms of the financing agreements with Kings College, 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 \$179,035,697 at June 30, 2002 (See additional 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.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
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FOR THE YEAR ENDED JUNE 30, 2002

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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.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002

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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").

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
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5. DEPOSITS AND INVESTMENTS

Pennsylvania statutes 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.

DEPOSITS:

The Authority's deposits are categorized to indicate the level of risk assumed. Category 1 includes bank balances insured by the FDIC. Category 2 includes bank balances collateralized with securities held by the pledging financial institutions trust department or agent in the Authority's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institutions, or its trust department or agent, but not in the Authority's name.

<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Category 3</u>
\$ 108,491	\$ 108,491	\$ 108,491

INVESTMENTS:

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at June 30, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name. Investments or deposits which have the characteristics of mutual funds are not reported by risk category.

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 FOR THE YEAR ENDED JUNE 30, 2002

The funds are also invested in the Federated Treasury Obligation Fund. This money market fund is comprised of governments and repurchase agreements secured by governments. This fund is qualified as specified under permitted investments in the trust indenture.

	Carrying Value	Category 3	Fair Value
U.S. Treasury Notes	\$ 25,529,721	\$ 25,529,721	\$ 25,529,721
Federated Treasury Obligation Fund	676,419	676,419	676,419
 TOTAL	 \$ 26,206,140	 \$ 26,206,140	 \$ 26,206,140

See Note 1-E

6. GENERAL LONG-TERM DEBT

The following is a summary of changes in the general long-term debt account group for the year ended June 30, 2002:

	Bonds Payable	Subordinated Promissory Notes
BALANCE - JULY 1, 2001	\$ 214,860,000	\$ 435,005
Additional Bonds and Subordinated Promissory Notes Issued		
Bonds Retired and Subordinated Promissory Note Payments	(12,203,000)	
BALANCE - JUNE 30, 2002	\$ 202,657,000	\$ 435,005

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2002

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The aggregate future principal payments required on bonds and subordinated promissory notes payable at June 30, 2002 are as follows:

Year Ending <u>June 30</u>	<u>Annual Bond Requirements</u>	<u>Annual Subordinated Promissory Note Requirements</u>
2003	\$ 16,191,307	\$ 59,361
2004	16,515,234	59,361
2005	21,767,125	59,361
2006	16,266,214	59,361
2007	16,247,159	59,361
Thereafter	<u>273,435,326</u>	<u>267,844</u>
TOTAL	360,422,365	564,649
Less: Interest	<u>157,765,365</u>	<u>129,644</u>
OUTSTANDING PRINCIPAL	<u>\$ 202,657,000</u>	<u>\$ 435,005</u>

An average rate of interest was used in the calculation of future interest due on the Wyoming Valley Health Care Series B Issue of 1994. This was due to the issue having a variable interest rate.

The June 30, 2002 interest rate of commercial paper was used in the calculation of future interest due on the Hospital Central Services Issue of 1985. This was due to the issue having a variable interest rate.

All rights of the Authority under the agreements have been assigned to the trustees as collateral for payments of the bonds and the performance and observance of the covenants in the trust indentures. In addition, cash and securities held by the Authority are pledged as collateral for the bonds until utilized in accordance with the trust indentures financing agreements.

Escrow Agreements

The Authority has entered into various escrow deposit agreements with Wyoming Valley Health Care Systems, Mercy Medical Systems, and Luzerne County Community College. Upon enactment of the escrow deposit, the outstanding bonds are defeased and are no longer the responsibility of the Authority.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
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Defeasance of Wilkes-Barre General Hospital Bonds:

In December 1987, the Authority defeased certain revenue bonds by placing the proceeds with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the Authority's financial statements. In accordance with the amortization schedule, the amount of \$13,250,000 was outstanding on the defeased bonds as of June 30, 2002.

Partial Defeasance of the 1994 Luzerne County Community College Revenue Bonds:

In August 1997, the Authority defeased a portion of revenue bonds by placing the proceeds with an escrow agent to provide for future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the Authority's financial statements. In accordance with the amortization schedule, the amount of \$14,055,000 was outstanding on the defeased bonds as of June 30, 2002.

7. BONDS PAYABLE

Health Care Revenue Bonds (Wyoming Valley Health Care), Series A of 1994 due in varying installments from January 1, 1996 through January 1, 2007 with interest rates from 5.0% to 6.5%. Health Care Revenue Bonds due on January 1, 2024 with variable interest determined on a weekly basis. See interest rate swap note below.	\$ 67,700,000
Health Care Revenue Bonds (Wyoming Valley Health Care), Series B of 1994 due in varying installments from January 1, 1996 through January 1, 2024 with variable interest determined on a weekly basis.	17,100,000
Health Care Revenue Bonds (Wyoming Valley Health Care), Series 1996 due in varying installments from January 1, 2012 through January 1, 2026 with an interest rate of 5.25%.	44,355,000
College Revenue Bonds (Luzerne County Community College), Series 1997 due on August 15, 2016 with an interest rate of 5.150%.	16,385,000

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College Revenue Bonds (Luzerne County Community College), Series of 1994 due in varying installments from August 15, 1996 through August 15, 2004 with interest rates from 5.35% to 6.13%.	2,450,000
Variable Rate Demand Revenue Bonds (Hospital Central Services), Series 1985 due on December 1, 2025 with variable interest rates initially at 7% and subsequently determined by the Remarketing Agent.	5,407,000
College Revenue Bonds (King's College), Series B 1993 due in varying installments from July 15, 1994 through July 15, 2018 with interest rates from 3.50% to 6.00%.	11,155,000
University Revenue Bonds (Wilkes University), Series 1993 due in varying installments from October 1, 1998 through October 1, 2018 with interest rates from 4.60% to 6.125%.	22,180,000
School Revenue Bonds (Wyoming Seminary of the Wyoming Annual Conference of the Methodist Church), Series of 1998 due in varying installments from October 1, 1999 through October 1, 2028 with interest rates from 3.75% to 5.00%.	12,010,000
Health Care Revenue Bonds (Christopher Place Non-Profit Housing Corporation), Series of 1999 due in varying installments from October 1, 2009 through October 1, 2029 with an interest rate of 7.125%.	<u>3,915,000</u>
<b>TOTAL BONDS PAYABLE</b>	<b><u>\$ 202,657,000</u></b>

Interest Rate Swap Agreement

The Authority has entered into a thirty-year interest rate swap agreement for \$54,800,000 of its variable-rate 1994 Series A health care revenue bonds. Based on the swap agreement, the Authority owes interest calculated at a fixed rate of 6.48 percent to the counterparty to the swap. In return, the counterparty owes the Authority interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$54,800,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The Authority continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds (presented in this note) are based on that fixed rate. The Authority will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the Authority making or receiving a termination payment.



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Subordinated Promissory Notes Payable

Subordinated Promissory Note (Christopher Place Non-Profit Housing Corporation). Payments of principal and interest shall be made on or before October 15 of each year commencing on October 15, 2000 during the term hereof until October 15, 2009 at which time any unpaid principal together with accrued but unpaid interest shall be due and payable to Senior Healthcare Consultants, LLC ("lender") in full. The outstanding principal balance of this note shall bear interest at the rate of eight percent per annum.

\$ 65,000

Subordinated Promissory Note (Christopher Place Non-Profit Housing Corporation). Payments of principal and interest shall be made on or before October 15 of each year commencing on October 15, 2000 during the term hereof until October 15, 2009 at which time any unpaid principal together with accrued but unpaid interest shall be due and payable to Andrew B. Durako and Ann Marie Durako, husband and wife ("lender") in full. The outstanding principal balance of this note shall bear interest at the rate of eight percent per annum.

100,000

Subordinated Promissory Note (Christopher Place Non-Profit Housing Corporation). Payments of principal and interest shall be made on or before October 15 of each year commencing on October 15, 2000 during the term hereof until October 15, 2010 at which time any unpaid principal together with accrued but unpaid interest shall be due and payable to Andrew B. Durako and Ann Marie Durako, husband and wife ("lender") in full. The outstanding balance of this note shall bear interest at an annual rate equal to the amount of interest earned on amounts on deposit to the credit of the loan account of the operating fund.

270,005

TOTAL SUBORDINATED PROMISSORY NOTES PAYABLE \$ 435,005

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002

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8. PENDING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments* was issued in June 1999. The Statement establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments as well as specific standards for the basic financial statements, management's discussion and analysis (MD&A), and certain required supplementary information (RSI) other than MD&A.

The requirements of this Statement are effective in three phases based on total revenues in the first fiscal year ending after June 15, 1999. Earlier application is encouraged. Based on the June 30, 1999 revenue level, it is anticipated that the Authority would be required to implement the Statement for the fiscal year ended June 30, 2003.

The most significant changes involve presenting the Authority's financial statements on the full accrual basis of accounting, presenting government-wide financial statements, and presenting a Management Discussion and Analysis section.



NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE BY BOND ISSUE  
 FOR THE YEAR ENDED JUNE 30, 2002

	Health Care Revenue Bonds Series A 1994 Wyoming Valley Health Care	Health Care Revenue Bonds Series B 1994 Wyoming Valley Health Care	Health Care Revenue Bonds Series 1996 Wyoming Valley Health Care	College Revenue Bonds Series 1997 Luzerne County Community College	College Revenue Bonds Series 1994 Luzerne County Community College	Variable Rate Demand Revenue Bonds Series B 1985 Hospital Central Serv. Capital Asset Financing	College Revenue Bond Series B 1993 Kings College	University Bond Revenue Series 1993 Wilkes University	School Revenue Bonds Series 1998 Wyoming Seminary of The Wyoming Annual Conference of the Methodist Church	Health Care Revenue Bonds Series 1999 Christopher Place Non-Profit Housing Corp. D/B/A Christopher Place, Inc.	Total
Designated for Capital Projects Reserved for Debt Service	2,028			391,823	1,563,932	299,950			590		2,258,323
	8,609,593	1,174,615	5,568,588	30,096	24,725	3,888,201	1,106,629	2,170,080	807,362	676,419	24,056,308
TOTAL FUND EQUITY	8,611,621	1,174,615	5,568,588	421,919	1,588,657	4,188,151	1,106,629	2,170,080	807,952	676,419	26,314,631
TOTAL LIABILITIES AND FUND EQUITY	\$ 8,611,621	\$ 1,174,615	\$ 5,568,588	\$ 421,919	\$ 1,588,657	\$ 4,188,151	\$ 1,106,629	\$ 2,170,080	\$ 807,952	\$ 676,419	\$ 26,314,631

