

**NORTHEASTERN PENNSYLVANIA  
HOSPITAL AND EDUCATION AUTHORITY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004**

**AND  
INDEPENDENT AUDITORS' REPORT  
AND  
SUPPLEMENTARY INFORMATION**

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY

WILKES-BARRE, PENNSYLVANIA

JUNE 30, 2004

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\* \* \* \* \*

# SNYDER & CLEMENTE

ACCOUNTANTS & CONSULTANTS

*A Wealth of Knowledge*

KINGSTON • HAZLETON

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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, 2004, 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, 2004, 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 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.

*Snyder & Clemente*

***NORTHEASTERN PENNSYLVANIA HOSPITAL AND  
EDUCATION AUTHORITY***

**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, 2004. 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, 2004.

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**

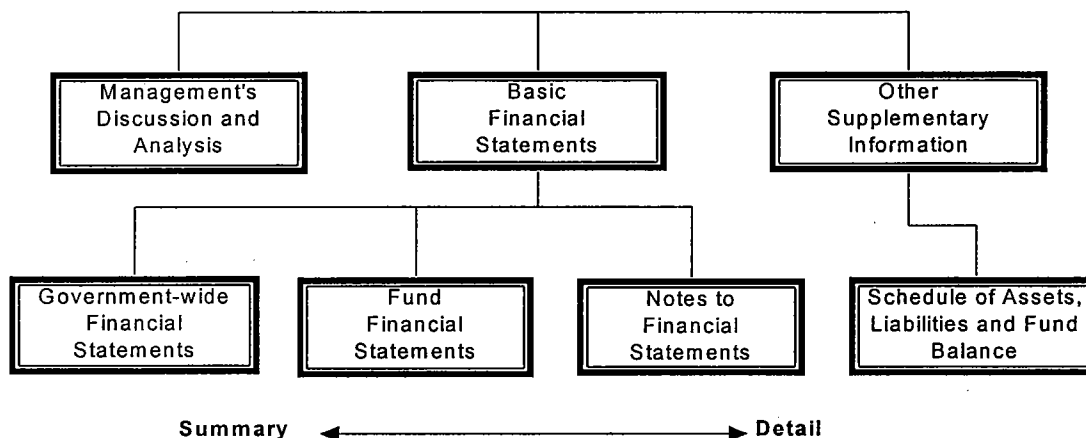
- The Authority had \$189,355,005 in general obligation debt outstanding as of June 30, 2004. This represents a net decrease of \$15,380,000 from the previous year. The majority of the decrease resulted from the refunding of the 1993 King's College Revenue Bonds totaling \$10,765,000. There were no new bonds issued during the June 30, 2004 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.

## MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

### **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 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 governmental 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

In accordance with GASB 34, the Authority is not required to restate prior periods for the purpose of providing comparative information in the year GASB 34 is implemented. In future years, when prior year information is available, a comparative analysis of government-wide information will be provided.

#### Government-wide Statement of Net Assets

Governmental activities net assets - For the year ended June 30, 2004, net assets of governmental activities were \$4,065,013, a decrease of \$2,024,607 from 2003. The most significant component to the decrease in net assets was the expenditure for project expenses. This entire balance is restricted for capital projects.

The Authority has \$196,412,965 in total assets, a decrease of \$17,362,620 over 2003. Of this, there are \$24,056,281 in current assets and \$172,356,684 in noncurrent assets, a decrease of \$12,937,159 and \$4,425,461, respectively, over last year. The majority of the \$12,937,159 decrease in current assets was from a decrease in investments which was used to refund the 1993 King's College Revenue Bonds. The entire current asset balance is made up of investments that are to be used for capital projects or debt service requirements. 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 \$172,063,738 due from institutions to service future debt requirements and \$292,946 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 \$192,347,952 in total liabilities, a decrease of \$15,338,013 over 2003. Of this, there are \$7,707,947 in current liabilities and \$184,640,005 in noncurrent liabilities a decrease if \$268,013 and \$15,070,000, respectively, over last year. The majority of the \$15,070,000 decrease in noncurrent liabilities resulted from the refunding of the 1993 King's College Revenue Bonds totaling \$10,765,000. The current liability balance is made up of \$2,992,947 of accounts payable and accrued expense and \$4,715,00 of current year debt. The entire noncurrent liabilities are made up of long-term debt.



## MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

### Government-wide Statement of Activities

Government activities revenues - Total authority governmental revenues amounted to \$10,357,332, consisting of general revenues, a decrease of \$15,120,327 from 2003. The general revenues was higher in the prior year because the institutional receivable had to be increased because of the Wilkes 2002 Bond Issue. 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 \$13,134,831, a decrease of \$6,643,064 from 2003. The expenses for governmental activities was higher in the prior year because of the \$5,660,200 transfer that was made to Wilkes University 1997 Bond Issue in accordance with the Wilkes University 2002 Bond Indenture. The expenses cover all governmental activities.

General governmental expenses for the administration of the Authority were \$1,386,587, a decrease of \$34,266 from 2003.

Project expenses for the capital projects related to the outstanding bonds were \$2,442,188, an increase of \$1,004,197 from 2003.

Interest on debt was \$9,098,956 in 2004, a decrease of \$2,159,895 from 2003.

## 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, 2004 Northeastern Pennsylvania Hospital and Education Authority governmental funds reported a combined ending fund balance of \$23,209,269, a decrease of \$13,467,796 from 2003. The Authority's major governmental funds are the Capital Projects and Debt Service.

The Capital Projects Fund had a total fund balance of \$3,772,067, a decrease of \$2,004,058 from 2003. The component to the decrease in net assets was the expenditure for project expenses. The debt service fund had a total fund balance of \$19,437,202, a decrease of \$11,463,738 from 2003. The majority of the \$11,463,738 decrease resulted from the refunding of the 1993 King's College Revenue Bonds totaling \$10,765,000. The fund balance is to be used for the retirement of future debt.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

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, 2004, a decrease of \$20,549 from 2003. Capital assets consist of bond issue costs.

Long-term Debt

The following table summarizes the Authority's long-term liabilities.

LONG-TERM LIABILITY ACTIVITY FOR THE YEAR ENDED JUNE 30, 2004:

Governmental Activities:	Bonds Payable:	Notes Payable:	Subordinated Promissory Note	Governmental Activities:			
				Beginning Balance	Additions	Reductions	Ending Balance
							Amounts Due Within One Year
				\$ 204,300,000	\$ -	\$ (15,380,000)	\$ 188,920,000
				435,005			435,005
				\$ 204,735,005	\$ -	\$ (15,380,000)	\$ 189,355,005
							\$ 4,715,000
							\$ 4,715,000

As of June 30, 2004, the Authority had \$189,355,005 in general obligation bonds outstanding. No new bonds were issued during 2004. The Authority made debt service principal payments in the amount of \$15,380,000 during 2004.

Additional detailed information on the Authority's long-term debt can be found in Note 6 and Note 7 of the Notes to the Financial Statements.

**MANAGEMENT DISCUSSION & ANALYSIS (MD&A)**

**CONTACTING THE NORTHEASTERN PENNSYLVANIA HOSPITAL AND**

**EDUCATION AUTHORITY'S FINANCIAL MANAGEMENT**

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, RR #2, Box 300, Drums, PA 18222.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

<u>ASSETS</u>	
Governmental Activities	
\$ 136,775	CASH
42,121	CERTIFICATES OF DEPOSIT
23,662,190	INVESTMENTS
215,195	ACCRUED INTEREST RECEIVABLE
<u>24,056,281</u>	TOTAL CURRENT ASSETS
172,063,738	NONCURRENT ASSETS
Institution Receivable	
Capital Assets	
292,946	DEFERRED BOND ISSUE COSTS
<u>172,356,684</u>	TOTAL NONCURRENT ASSETS
\$ 196,412,965	TOTAL ASSETS
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
\$ 2,992,947	ACCOUNTS PAYABLE AND ACCRUED EXPENSES
4,715,000	CURRENT PORTION OF LT DEBT
<u>7,707,947</u>	TOTAL CURRENT LIABILITIES
184,205,000	NON-CURRENT LIABILITIES
Long-Term Portion of Bonds Payable	
435,005	LONG-TERM PORTION OF SUBORDINATED PROMISSORY NOTES
<u>184,640,005</u>	TOTAL NON-CURRENT LIABILITIES
192,347,952	TOTAL LIABILITIES
<u>NET ASSETS</u>	
Capital Projects	
4,065,013	RESTRICTED FOR:
<u>4,065,013</u>	TOTAL NET ASSETS
4,065,013	TOTAL LIABILITIES AND NET ASSETS
<u>\$ 196,412,965</u>	

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
STATEMENT OF ACTIVITIES  
JUNE 30, 2004

Function/Program	Expenses	Program Revenues Reimbursement from College and Hospital Institutions	Net (Expense) Revenue and Changes in Net Assets
<b>Governmental Activities:</b>			
General Government	\$ 1,386,587	\$ 1,258,376	\$ (128,211)
Project Expense	2,442,188		(2,442,188)
Interest on Long-Term Debt	9,098,956	9,098,956	
Premium Paid to Refund Bonds	207,100		(207,100)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>13,134,831</u>	<u>10,357,332</u>	<u>(2,777,499)</u>
<b>TOTAL GOVERNMENT</b>	<u>\$ 13,134,831</u>	<u>\$ 10,357,332</u>	<u>(2,777,499)</u>
<b>GENERAL REVENUES:</b>			
Investment Earnings			752,892
<b>TOTAL GENERAL REVENUES AND SPECIAL ITEMS</b>			
			<u>752,892</u>
<b>CHANGE IN NET ASSETS</b>			
			<u>(2,024,607)</u>
<b>NET ASSETS - JULY 1, 2003</b>			
			<u>6,089,620</u>
<b>NET ASSETS - JUNE 30, 2004</b>			
			<u>\$ 4,065,013</u>

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2004

<u>ASSETS</u>	<u>FUND EQUITY</u>	<u>FUND EQUITY</u>
Cash Certificates of Deposit Investments Accrued Interest Receivable TOTAL ASSETS	Reserved for Capital Projects Reserved for Debt Service TOTAL FUND EQUITY TOTAL LIABILITIES AND FUND EQUITY	Accounts Payable & Accrued Expenses TOTAL LIABILITIES TOTAL FUND EQUITY TOTAL LIABILITIES AND FUND EQUITY
\$ 136,775 42,121 23,662,190 215,195 \$ 24,056,281	3,772,067 19,437,202 3,772,067 19,437,202 \$ 19,498,518	\$ 785,696 61,316 785,696 61,316 \$ 847,012
Total Governmental Funds	Capital Project Debt Service	Capital Project Debt Service

See Notes to Financial Statements.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY  
 RECONCILIATION OF THE BALANCE OF GOVERNMENTAL FUNDS TO  
 GOVERNMENTAL ACTIVITIES  
 JUNE 30, 2004

**Total Fund Balances - Government Funds** \$ 23,209,269

*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.

172,063,738

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 (188,920,000)

Subordinated Promissory Notes (435,005)

Accrued interest (2,145,935)

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES**

\$ 4,065,013

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, 2004

Total (Governmental Funds)	Debt Service	Capital Project	REVENUES
752,892	\$ 731,798	\$ 21,094	Investment Income
9,289,854	9,289,854	-	Rental Income
10,042,746	10,021,652	21,094	TOTAL REVENUES
2,442,188	1,364,850	1,188	EXPENDITURES
1,366,038			Project
15,587,100			Administrative Expenses
9,587,605			Debt Service:
			Principal
			Interest
28,982,931	26,539,555	2,443,376	TOTAL EXPENDITURES
(18,940,185)	(16,517,903)	(2,422,282)	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES
5,472,389	5,472,389	420,710	OTHER FINANCING SOURCES (USES)
423,196	2,486	420,710	Payments from Institutions
(423,196)	(420,710)	(2,486)	Operating Transfers from Other Funds
5,472,389	5,054,165	418,224	Operating Transfers to Other Funds
5,472,389	5,472,389	418,224	TOTAL OTHER FINANCING SOURCES
(13,467,796)	(11,463,738)	(2,004,058)	REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES
36,677,065	30,900,940	5,776,125	FUND BALANCE - JULY 1, 2003
\$ 23,209,269	\$ 19,437,202	\$ 3,772,067	FUND BALANCE - JUNE 30, 2004

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, 2004

**Net Change in Fund Balances - Total Governmental Funds**      \$      (13,467,796)

*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.      15,380,000

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.      20,549

Current period change in value of receivable due from  
 institutions to cover notes payable is reported with  
 governmental activities.      (4,446,010)

In the statement of activities, interest is accrued on  
 outstanding bonds, whereas in governmental funds, an  
 interest expenditure is reported when due.      488,650

**CHANGE IN NET ASSETS OF GOVERNMENTAL  
 ACTIVITIES**

\$      (2,024,607)

See Notes to Financial Statements.

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

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:

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.

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 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 \$172,063,738 at June 30, 2004 (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 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.

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.



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Deposits: At June 30, 2004, the deposits of the Authority can be 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.

Primary Government:

<u>Carrying Value</u> \$ 178,896	<u>Bank Balance</u> \$ 178,896	<u>1</u> \$ 178,896
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Investments:

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at June 30, 2004. 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 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 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.

NORTHEASTERN PENNSYLVANIA HOSPITAL AND EDUCATION AUTHORITY

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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	\$ 21,607,651	\$ 21,607,651	\$ 21,607,651
Federated Treasury Obligation Fund	2,054,539	2,054,539	2,054,539
TOTAL	\$ 23,662,190	\$ 23,662,190	\$ 23,662,190

See Note 1-E

6. GENERAL LONG-TERM DEBT

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
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Governmental Activities:

Bonds Payable:

Wyoming Valley Health Care Series A of 1994	\$ 65,500,000	\$ (2,500,000)	\$ 63,000,000	\$ 2,500,000
Wyoming Valley Health Care Series B of 1994	16,700,000	(400,000)	16,300,000	400,000
Wyoming Valley Health Care Series of 1996	44,355,000		44,355,000	
Luzerne County Community College Series of 1997	16,260,000	(130,000)	16,130,000	135,000
Luzerne County Community College Series of 1994	1,680,000	(815,000)	865,000	865,000
Kings College Series B of 1993	10,765,000	(10,765,000)		
Wilkes University Series of 1993	4,530,000	(255,000)	4,275,000	265,000

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Wilkes University Series A of 2002	12,110,000			
Wilkes University Series B of 2002	16,750,000	(225,000)	16,525,000	245,000
Wyoming Seminary Series of 1998	11,780,000	(240,000)	11,540,000	250,000
Christopher Place Non-Profit Housing Corporation	3,870,000	(50,000)	3,820,000	55,000
TOTAL BONDS PAYABLE	204,300,000	(15,380,000)	188,920,000	4,715,000
Notes Payable:				
Subordinated Promissory Note	435,005		435,005	
Governmental Activities	\$ 204,735,005	\$ (15,380,000)	\$ 189,355,005	\$ 4,715,000
LONG-TERM LIABILITIES				

The annual aggregate maturities of long-term debt for the years subsequent to June 30, 2004 is as follows:

Primary Government  
 Governmental Activities

Years Ended June 30	Principal	Interest	Principal	Interest
2005	\$ 4,715,000	\$ 9,325,730	\$ 4,715,000	\$ 9,325,730
2006	5,110,000	9,050,484		23,562
2007	5,315,000	8,757,913		25,259
2008	5,615,000	8,458,933		27,093
2009	6,225,000	8,138,427		29,076
2010-2014	33,155,000	35,746,804	435,005	45,922
2015-2019	41,785,000	25,736,581		
2020-2024	48,665,000	13,968,191		
2025-2029	30,240,000	2,957,200		
2030-2034	8,095,000	202,499		
	\$ 188,920,000	\$ 122,342,762	\$ 435,005	\$ 150,912