

# ***Elmhurst Memorial Healthcare and Subsidiaries***

*Consolidated Financial Statements as of and  
for the Years Ended June 30, 2005 and 2004,  
Supplemental Consolidating Schedules as of and  
for the Year Ended June 30, 2005, Supplemental  
Schedule Required by the Master Trust Debt Indenture,  
and Independent Auditors' Report*

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Elmhurst Memorial Healthcare and Subsidiaries  
Elmhurst, Illinois

We have audited the accompanying consolidated balance sheets of Elmhurst Memorial Healthcare and subsidiaries ("Elmhurst") as of June 30, 2005 and 2004, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Elmhurst's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Elmhurst's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Elmhurst at June 30, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our 2005 audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental consolidating schedules are presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations for the individual organizations, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of Elmhurst's management. Such information has been subjected to auditing procedures applied in our audit of the 2005 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2005 consolidated financial statements taken as a whole.

The accompanying supplemental schedule required by the Master Trust Debt Indenture for the year ended June 30, 2005, is presented for additional analysis and is not a required part of the basic consolidated financial statements. This schedule is the responsibility of Elmhurst's management. In connection with our audit, nothing came to our attention that caused us to believe that Elmhurst, failed to comply with any of the terms, covenants, or conditions of the Master Trust Indenture dated July 1, 1987, as amended, with LaSalle National Bank, insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of non compliance with such provisions. This schedule is intended solely for the information and use of Elmhurst, the board of directors, and LaSalle National Bank as master trustee for Direct Note Obligations, Series 1985B, 1985C, 1998B, 2002D, 2004A, and 2004B, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deloitte & Touche LLP*

September 7, 2005

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2005 AND 2004

	2005	2004
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,980,361	\$ 5,067,417
Short-term investments (Note 3)	2,273,881	1,275,726
Patient accounts receivable, less allowances for uncollectible accounts of \$10,508,000 in 2005 and \$12,325,000 in 2004	46,412,782	50,085,421
Inventories	3,984,725	3,971,761
Prepaid expenses, interest receivable, and other	5,498,269	4,933,333
Due from third-party payers	<u>462,796</u>	<u>                    </u>
Total current assets	<u>67,612,814</u>	<u>65,333,658</u>
INVESTMENTS—Assets limited as to use (Note 3):		
Internally designated for capital improvements	352,125,186	315,683,004
Externally designated investments under bond agreements	20,362,369	23,315,076
Internally designated for medical education and other healthcare services	1,946,675	1,866,335
Temporarily restricted donor funds	464,845	
Donor restricted into perpetuity	<u>374,974</u>	<u>294,792</u>
Total assets limited as to use	<u>375,274,049</u>	<u>341,159,207</u>
LAND, BUILDINGS, AND EQUIPMENT—Net (Note 4)	<u>147,666,717</u>	<u>151,230,113</u>
PREPAID PENSION, DEFERRED FINANCING COSTS, AND OTHER (Note 6)	<u>28,917,252</u>	<u>28,554,596</u>
<b>TOTAL</b>	<u><u>\$ 619,470,832</u></u>	<u><u>\$ 586,277,574</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 13,564,321	\$ 12,886,836
Accrued payroll and other	18,413,923	19,153,365
Amounts due to third-party payors	10,595,567	5,865,907
Current maturities of long-term debt (Note 5)	<u>4,402,504</u>	<u>4,839,004</u>
Total current liabilities	46,976,315	42,745,112
LONG-TERM DEBT (Note 5)	201,157,332	204,344,271
OTHER LIABILITIES	<u>9,375,272</u>	<u>8,178,576</u>
Total liabilities	<u>257,508,919</u>	<u>255,267,959</u>
NET ASSETS:		
Unrestricted	361,122,094	330,705,098
Temporarily restricted (Note 8)	464,845	9,725
Permanently restricted (Note 8)	<u>374,974</u>	<u>294,792</u>
Total net assets	<u>361,961,913</u>	<u>331,009,615</u>
<b>TOTAL</b>	<u><u>\$ 619,470,832</u></u>	<u><u>\$ 586,277,574</u></u>

See notes to consolidated financial statements.

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
REVENUES:		
Net patient service revenue	\$ 316,584,707	\$ 287,927,816
Other revenue	<u>10,740,012</u>	<u>11,092,270</u>
Total revenues	<u>327,324,719</u>	<u>299,020,086</u>
EXPENSES:		
Salaries and benefits	156,489,326	149,907,443
Supplies	56,181,166	48,970,439
Purchased services and other	56,584,938	53,277,384
Provision for bad debts	21,031,469	17,879,824
Depreciation	15,367,384	15,114,153
Medicaid tax	<u>7,085,141</u>	<u></u>
Total expenses (Note 11)	<u>312,739,424</u>	<u>285,149,243</u>
OPERATING INCOME	<u>14,585,295</u>	<u>13,870,843</u>
NONOPERATING INCOME (EXPENSE):		
Investment income (Note 3)	21,103,244	25,216,779
Interest expense	(9,741,415)	(9,864,014)
Amortization expense	(104,449)	(69,212)
Realized (loss) gain on terminated interest rate swap (Note 5)	(999,000)	1,182,000
Cash settlements on interest rate swaps (Note 5)	1,235,380	1,579,805
Unrealized gain on interest rate swaps (Note 5)	<u>1,637,184</u>	<u>1,306,964</u>
Total nonoperating income (expense)-net	<u>13,130,944</u>	<u>19,352,322</u>
EXCESS OF REVENUES OVER EXPENSES	<u>27,716,239</u>	<u>33,223,165</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net change in unrealized gains on investments	2,222,278	15,272,075
Unrealized gains on interest rate swap (Note 5)	232,479	1,964,201
Temporarily restricted contributions released for capital projects	<u>246,000</u>	<u>1,609,435</u>
Total other changes in unrestricted net assets-net	<u>2,700,757</u>	<u>18,845,711</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 30,416,996</u>	<u>\$ 52,068,876</u>

See notes to consolidated financial statements.

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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	2005	2004
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 27,716,239	\$ 33,223,165
Net change in unrealized gains on investments	2,222,278	15,272,075
Unrealized gains on interest rate swap (Note 5)	232,479	1,964,201
Temporarily restricted contributions released for capital projects	<u>246,000</u>	<u>1,609,435</u>
Increase in unrestricted net assets	<u>30,416,996</u>	<u>52,068,876</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions for medical education programs, capital purchases, and other purposes	1,577,442	901,767
Net assets released from restrictions and used for operations, capital purposes, and medical education programs	<u>(1,122,322)</u>	<u>(1,932,042)</u>
Increase (decrease) in temporarily restricted net assets	<u>455,120</u>	<u>(1,030,275)</u>
PERMANENTLY RESTRICTED NET ASSETS—Contributions to endowment funds	<u>80,182</u>	<u>22,326</u>
INCREASE IN NET ASSETS	30,952,298	51,060,927
NET ASSETS—Beginning of year	<u>331,009,615</u>	<u>279,948,688</u>
NET ASSETS—End of year	<u>\$361,961,913</u>	<u>\$331,009,615</u>

See notes to consolidated financial statements.

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 30,952,298	\$ 51,060,927
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	15,367,384	15,114,153
Amortization of deferred financing costs	104,449	69,212
Change in unrealized gains on investments	(2,222,278)	(15,272,075)
Unrealized (gains) losses on interest rate swaps	(1,869,663)	(3,271,165)
Contributions for capital projects	(115,282)	(1,007,949)
Change in patient accounts receivable:		
Net increase in patient accounts receivable	(2,100,229)	(12,425,324)
Increase in contractual allowance reserves	8,950,234	17,240,790
Provision for bad debts	21,031,469	17,879,824
Write-offs of accounts receivable	(24,208,835)	(18,566,876)
Decrease in prepaid pension, deferred financing costs, and other	(467,105)	1,336,924
Net change in other assets and liabilities	<u>6,693,366</u>	<u>3,296,049</u>
Net cash provided by operating activities	<u>52,115,808</u>	<u>55,454,490</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of buildings and equipment	(18,897,808)	(16,227,682)
Proceeds from settlement (Note 4)	13,534,124	
Acquisition of land held for future use	(6,440,304)	(11,250,958)
Purchases of investments	(130,522,176)	(164,026,305)
Proceeds from sales and maturities of investments	<u>97,631,457</u>	<u>121,995,761</u>
Net cash used in investing activities	<u>(44,694,707)</u>	<u>(69,509,184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions for capital projects	115,282	1,007,949
Proceeds from new debt issuance		13,558,792
Repayment of long-term debt	(3,623,439)	(2,958,979)
Payment of bond issue costs		<u>316,208</u>
Net cash (used in) provided by financing activities	<u>(3,508,157)</u>	<u>11,923,970</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,912,944	(2,130,724)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>5,067,417</u>	<u>7,198,141</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 8,980,361</u>	<u>\$ 5,067,417</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Interest paid	<u>\$ 9,778,790</u>	<u>\$ 10,017,255</u>

See notes to consolidated financial statements.

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**—Elmhurst Memorial Healthcare (“Elmhurst”) is an integrated delivery system that provides health care services to the residents of eastern Du Page and western Cook counties. Elmhurst provides a broad continuum of services and is committed to providing high-quality, comprehensive patient care that is designed to meet the total needs of the patient.

Elmhurst functions in a leadership role in improving the health of the community through an emphasis on health maintenance, education, and rehabilitation, as well as diagnosis and treatment.

Elmhurst is the sole corporate member of Elmhurst Memorial Hospital (the “Hospital”) and is also the sole shareholder of Elmhurst Memorial Health Technologies, LLC. (“HTI”). The Hospital is the sole corporate member of Elmhurst Memorial Home Health (“Home Health”) and Elmhurst Memorial Hospital Foundation (the “Foundation”).

**Basis of Presentation**—The consolidated financial statements include the accounts and transactions of Elmhurst, the Hospital, Home Health, HTI, and the Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ.

**Cash Equivalents**—Elmhurst considers all highly liquid investments purchased with original maturities of ninety days or less to be cash equivalents.

**Inventories**—Inventories are stated at the lower of cost (first-in, first-out) or market.

**Assets Limited as to Use and Short-Term Investments**—Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the consolidated financial statements. Investment gains and losses (including interest, dividends, realized gains and losses, and other-than-temporary declines in investments) are included in excess of revenue over expenses unless the income or loss is restricted by donor or law (see Note 8). Unrealized gains and losses are excluded from the excess of revenue over expenses, and are reflected in the other changes in unrestricted net assets. Investment returns on permanently restricted assets are allocated to purposes specified by the donor, either as temporarily restricted or unrestricted.

Assets limited as to use consist of investments set aside by the Board of Trustees for future capital acquisitions and improvements, medical education and other healthcare programs, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Additionally, assets limited as to use include investments held by trustees under debt agreements and investments held for purposes specified by the donor, or in perpetuity.

Elmhurst routinely monitors and evaluates the declines in the values of investments to determine whether other-than-temporary impairment losses have occurred based on the significance of decline and the duration of decline. Management believes other-than-temporary adjustments were not material at June 30, 2005 and 2004.

***Land, Buildings, and Equipment***—Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Depreciation for land, buildings, and equipment is provided over the estimated useful lives of each class of depreciable assets using both the straight-line and accelerated methods.

***Deferred Financing Costs and Intangible Assets***—Expenses incurred in connection with the issuance of long-term debt are deferred and amortized over the term of the related financing using a method which approximates the effective-yield method. Intangible assets are principally amortized over a period of 15 years using the straight-line method.

***Derivative Instruments and Hedging Activities***—Elmhurst has entered into interest rate swap arrangements to manage its interest costs and achieve other risk management objectives. The swaps are marked to market on a periodic basis with the fair value recognized as an asset or liability. Gains and losses on hedging and nonhedging swaps are recorded as components of non operating income and other changes in unrestricted net assets.

***Temporarily and Permanently Restricted Net Assets***—Temporarily restricted net assets are assets whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Elmhurst in perpetuity. Assets released from restrictions that are used for the purchase of fixed assets or capital purposes are reported in the consolidated statements of operations and changes in net assets as additions to unrestricted net assets. Assets released from restrictions that are used for operating purposes are reported in the consolidated statements of operations and changes in net assets as other revenue. Restricted earnings are recorded as temporarily restricted net assets until amounts are expended in accordance with donors' specifications.

***Donor-Restricted Gifts***—Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

***Excess of Revenues Over Expenses***—The consolidated statements of operations and changes in net assets include unrestricted revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from unrestricted revenues in excess of expenses, include unrealized gains and losses on investments and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets.

***Net Patient Service Revenue***—Elmhurst has agreements with third-party payers that provide for payments to Elmhurst at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

**New Accounting Pronouncements**—On an annual basis, Elmhurst reviews the new accounting pronouncements that have been issued. All relevant pronouncements have been adopted.

**2. NET PATIENT SERVICE REVENUE**

The mix of net patient service revenue for the years ended June 30, 2005 and 2004 was as follows:

	<b>2005</b>	<b>2004</b>
Medicare	32 %	33 %
Medicaid	3	1
Other	<u>65</u>	<u>66</u>
Total	<u>100 %</u>	<u>100 %</u>

Elmhurst has agreements with third-party payers that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments and discounted charges. Patient service revenue is reported at the estimated net realizable amounts from third-party payers, patients, and others for services rendered, including estimated retroactive settlements. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in estimates relating to prior periods increased net patient service revenue by \$1,208,732 and \$611,914 in fiscal years 2005 and 2004, respectively. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount.

Elmhurst has filed formal appeals relating to the settlement of certain prior-year Medicare cost reports. The outcome of such appeals cannot be determined at this time. Any resulting gains will be recognized in the consolidated statement of operations when realized.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenues from patient services. Management believes that Elmhurst is in substantial compliance with current laws and regulations.

In 2005, the State of Illinois adopted legislation requiring hospitals to pay a tax whose amount was determined based on certain factors including bed size, patient days, emergency room visits and other utilization measures. The funds raised by this assessment are matched by the federal government. A portion of the total proceeds from the assessment and federal match is required to be distributed to hospitals based on certain factors including Medicaid inpatient and outpatient utilization, trauma status and other measures. Elmhurst's assessment for 2005 was \$7,085,141 and is presented as Medicaid Tax expense. The amount distributed to Elmhurst in 2005 was \$9,884,034 and is included in Net Patient Service Revenue.

### 3. INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS

Assets limited as to use and short-term investments consisted of the following at June 30:

	<b>2005</b>	<b>2004</b>
Cash	\$ 2,068,634	\$ 1,016,470
Certificates of deposit	2,738,726	1,275,726
Commercial paper	4,718,000	8,127,710
Corporate bonds	1,130,856	1,263,482
United States government obligations	10,689,017	11,686,262
Mutual funds invested in fixed-income securities	139,417,351	125,591,925
Equity securities	183,571,685	162,505,008
Hedge funds	<u>33,213,661</u>	<u>30,968,350</u>
Total	<u>\$377,547,930</u>	<u>\$342,434,933</u>

Presented as:

	<b>2005</b>	<b>2004</b>
Short-term investments	\$ 2,273,881	\$ 1,275,726
Assets limited to use	<u>375,274,049</u>	<u>341,159,207</u>
Total investment income	<u>\$377,547,930</u>	<u>\$342,434,933</u>

The fair values of investments are based on quoted market prices.

Investment returns consisted of the following for the years ended June 30:

	<b>2005</b>	<b>2004</b>
Interest and dividend income	\$ 18,714,892	\$ 16,676,527
Realized gains	<u>2,811,886</u>	<u>8,540,252</u>
Total investment returns	<u>\$21,526,778</u>	<u>\$25,216,779</u>

Investment returns on bond funds are presented as other revenue and all other investment returns are presented as investment income.

The carrying values of cash and cash equivalents, patient accounts receivable, amounts due to third-party payors, and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues, was approximately \$11,741,912 and \$3,281,400 more than its carrying value (see Note 5) at June 30, 2005 and 2004, respectively.

At June 30, 2005, the aggregate unrealized losses and related market values for investments that were in a loss position for less than 12 months was \$56,703 and \$33,818,987, respectively. There were no investments in an unrealized loss position for 12 months or more.

Management believes that the unrealized losses do not represent other-than-temporary impairments because the significance and duration of the losses did not exceed internal thresholds for temporary decline.

#### 4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are stated at cost, less accumulated depreciation, as follows at June 30:

	2005	2004
Land and land improvements	\$ 22,589,521	\$ 21,643,172
Buildings	171,204,367	174,170,467
Equipment	152,110,753	144,374,091
Construction in progress	5,515,705	6,818,128
Land held for future use	<u>27,585,360</u>	<u>21,145,056</u>
	379,005,706	368,150,914
Less accumulated depreciation	<u>231,338,989</u>	<u>216,920,802</u>
Total	<u>\$ 147,666,717</u>	<u>\$ 151,230,112</u>

In May 2005, Elmhurst opened a free-standing ambulatory services building in Lombard, Illinois, known as the Elmhurst Memorial Lombard Health Center.

In April 2005, Elmhurst settled a dispute related to previously purchased assets for \$14,286,124. Of the settlement, \$755,000 was reimbursement for legal and consulting cost related to the settlement and recorded as a reduction of purchased services expense. The remaining \$13,534,124 was recorded as a reduction in the basis of the assets.

In July 2004, the Board of Trustees of Elmhurst announced its decision to initiate a planning process to develop a new, integrated healthcare campus on 32 acres of land acquired in southern Elmhurst. This new facility will be adjacent to the Elmhurst Memorial Center for Health, a 15-acre ambulatory services campus that was completed in 1999. The planning and approval process for the new campus is expected to take 30 to 36 months to complete. Construction could start in late 2007 and is expected to take 24 to 30 months to complete. The campus will include a replacement hospital and additional physician offices. Although plans do not yet exist, the project is estimated to cost \$300,000,000 to \$350,000,000. Financing for the new campus will include internally generated funds, debt and a capital gift campaign. A plan will also be developed to determine the reuse of the current hospital campus and facilities. It is expected that some level of healthcare services will continue to be provided there. The Hospital will assess whether an impairment is required when the planning process is complete.

## 5. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	2005	2004
Taxable convertible variable rate unsecured revenue bonds (3.29% and 1.15% at June 30, 2005 and 2004, respectively), dated February 11, 1998 (Series 1998B), maturing on January 1, 2028	\$ 39,400,000	\$ 39,400,000
5.00% to 6.25% secured revenue refunding bonds, dated December 15, 2002 (Series 2002D), due in varying annual principal installments through January 1, 2028	137,807,814	139,431,249
Variable rate direct note obligation Series 1985C and 1985D (2.35% at June 30, 2005), maturing on December 15, 2008	14,333,322	16,333,326
Variable rate direct note obligation Series 2004A (2.28% at June 30, 2005), maturing on January 1, 2024	6,482,000	6,482,000
Taxable convertible variable rate demand direct note obligation Series 2004B (3.29% at June 30, 2005), maturing on January 1, 2024	7,393,000	7,393,000
Other long-term borrowings	<u>143,700</u>	<u>143,700</u>
	205,559,836	209,183,275
Less current maturities of long-term debt	<u>4,402,504</u>	<u>4,839,004</u>
Total	<u>\$ 201,157,332</u>	<u>\$ 204,344,271</u>

In April 2004, Elmhurst issued \$13,875,000 Series 2004 A&B variable rate unsecured direct obligation bonds. The proceeds were used to construct the Elmhurst Memorial Lombard Health Center.

In August 2002, Elmhurst received approximately \$20,000,000 from the Illinois Health Facilities Authority's Pooled Financing Program related to the Series 1985C and 1985D Project Loan Agreements. In June 2004, the terms of this agreement were extended to December 15, 2008. The proceeds were used to reimburse Elmhurst for prior equipment purchases.

The Hospital has a credit agreement with a bank, under the terms of which the bank agrees to make liquidity loans to the Hospital in the amount necessary to purchase the variable rate unsecured revenue bonds if not remarketed. The maximum amount of the liquidity loan would be the principal (\$39,400,000 at June 30, 2005), plus accrued interest. The liquidity loan is payable in four quarterly installments, with the first installment due 15 months following the date on which the loan is borrowed. Various debt agreements place restrictions on Elmhurst and require Elmhurst to maintain certain financial ratios. Management believes the Hospital was in compliance with these restrictions at June 30, 2005.

The fair value of debt approximates the amortized cost of the debt.

The maturities and annual sinking fund requirements for the fiscal years ending June 30, 2006 through 2010, on the outstanding long-term debt are as follows, assuming remarketing of variable rate unsecured demand revenue bonds: 2006-\$3,615,004; 2007-\$3,695,004; 2008-\$3,780,004; 2009-\$10,203,310; 2010-\$1,970,000; and thereafter-\$182,296,514.

In 1998, Elmhurst established a program to actively manage its interest cost. The program seeks to achieve the lowest interest cost consistent with an acceptable level of risk given varying interest rate environments. Elmhurst has established a long-term targeted mix of 50% fixed and 50% variable interest rate exposure. Long-term tax-exempt and taxable financings form the base for the program. These financings are necessarily timed to coincide with the periodic acquisition of qualified assets. Based upon the interest rate environment at the time of such financings, fixed or variable rate modes of financing are utilized. Derivatives (swaps) are used to achieve the targeted mix when underlying financings do not. Market conditions often limit the ability of the program to fully achieve its goals and consequently swap terms (maturity, notional amounts, etc.) do not perfectly match the terms of the underlying debt. Accounting rules cause the economic effects to be reported in a variety of places as described below. A Board committee oversees this program.

During the years ended June 30, 2005 and 2004, Elmhurst had the following interest rate swap agreements in place:

- Fixed Payer Interest Rate Swap Agreement (“Fixed Payer Swap”)—Elmhurst entered into a Fixed Payer Swap effective October 1, 2001, to reduce its total floating interest rate exposure. At the time of issuance, floating rate exposure was approximately 75%. Elmhurst pays its counterparty a fixed rate of 4.54% in exchange for receiving one-month LIBOR on a notional amount of \$39,400,000. The swap generally matches the terms of the \$39,400,000 Series 1998B taxable bonds but expires on October 2, 2006. The Fixed Payer Swap qualifies for hedge accounting treatment as a cash flow hedge. Elmhurst terminated this swap in November 2004 to achieve its 50% variable rate debt mix target and potential cash flow savings. Elmhurst paid the counterparty \$999,000 for termination.
- Floating Interest Rate Agreement (“Basis Swap”)—Elmhurst entered into a Basis Swap effective May 2002 to earn income from spreads between taxable and tax-exempt interest rates. Elmhurst pays the BMA floating rate index and receives 76.21% of one-month LIBOR on a notional amount of \$50,000,000, extending over a 20-year period. The Basis Swap does not qualify for hedge accounting.
- Long-Term Fixed Receiver Interest Rate Swap Agreement (“Long-Term Fixed Receiver”)—Elmhurst entered this swap in August 2003 to increase its exposure to floating interest rate debt after its 2002D fixed rate refinancing resulted in a higher fixed interest rate exposure. Elmhurst pays the BMA floating rate index and receives a fixed rate of 4.64% on a notional amount of \$40,000,000. This agreement also includes a counterparty termination option effective August 2011 and anytime thereafter. The swap extends over a 27-year period from the August 2003 execution date. The long-term fixed receiver does not qualify for hedge accounting.
- Short-Term Fixed Receiver Interest Rate Swap Agreement (“Short-Term Fixed Receiver”)—Elmhurst entered the Short-Term Fixed Receiver swap in August 2003 to increase its floating interest rate exposure after the Series 2002D fixed rate refinancing. Elmhurst pays the BMA floating rate index and receives a fixed rate of 3.08% on a notional amount of \$40,000,000. The swap extends over a five-year period from the August 2003 execution date. The Short-Term Fixed Receiver swap does not qualify for hedge accounting. Elmhurst terminated this swap in March 2004 in exchange for a payment from the counterparty of \$1,000,000. This value was estimated to be equal to one-and-a-half years of expected cash flow from the Short-Term Fixed Receiver swap.

The following table provides details on the swap agreements and reconciliation to the financial statements:

	<b>Fixed Payer</b>	<b>Basis Swap</b>	<b>Long-Term Fixed Receiver</b>	<b>Short-Term Fixed Receiver</b>
Execution date	October 01	May 02	August 03	August 03
Notional amount	\$39,400,000	\$50,000,000	\$40,000,000	\$40,000,000
Elmhurst pays the counterparty	4.54 %	BMA	BMA	BMA
Counterparty pays Elmhurst	LIBOR	76.2% LIBOR	4.64 %	3.08 %
Termination date	October 06	May 22	August 30	August 08
Qualifies for hedge accounting	yes	no	no	no

<b>Market Value (Liability) of Derivative Contracts</b>	<b>Fixed Payer</b>	<b>Basis Swap</b>	<b>Long-Term Fixed Receiver</b>	<b>Short-Term Fixed Receiver</b>
Balance—June 30, 2003	\$(3,195,680)	\$(2,079,130)	\$ -	\$ -
Changes in value	<u>1,964,201</u> <sup>(5)</sup>	<u>1,435,426</u> <sup>(3)</sup>	<u>(128,462)</u> <sup>(3)</sup>	<u>_____</u> <sup>(3)</sup>
Balance—June 30, 2004	(1,231,479)	(643,704)	(128,462)	
Changes in value	<u>1,231,479</u> <sup>(8)</sup>	<u>(755,032)</u> <sup>(8)</sup>	<u>1,393,217</u> <sup>(8)</sup>	<u>_____</u> <sup>(8)</sup>
Balance—June 30, 2005	<u>\$ -</u>	<u>\$(1,398,736)</u>	<u>\$1,264,755</u>	<u>\$ -</u>

**Net Cash Flow Received (Paid) by Elmhurst under Derivative Contracts**

<b>Year Ended June 30, 2004</b>	<b>Fixed Payer</b>	<b>Basis Swap</b>	<b>Long-Term Fixed Receiver</b>	<b>Short-Term Fixed Receiver</b>	<b>Total Swap Cash Flow</b>
Cash from contractual payments	\$ (1,269,324) <sup>(1)</sup>	\$(16,574) <sup>(4)</sup>	\$ 1,097,450 <sup>(4)</sup>	\$ 498,929 <sup>(4)</sup>	\$ 310,481
Termination cash flows	_____	_____	_____	<u>1,182,000</u> <sup>(2)</sup>	<u>1,182,000</u>
Total	<u>\$(1,269,324)</u>	<u>\$(16,574)</u>	<u>\$1,097,450</u>	<u>\$1,680,929</u>	<u>\$1,492,481</u>
<b>Year Ended June 30, 2005</b>					
Cash from contractual payments	\$ (522,999) <sup>(6)</sup>	\$(14,069) <sup>(9)</sup>	\$ 1,249,449 <sup>(9)</sup>	\$ -	\$ 712,380
Termination cash flows	<u>(999,000)</u> <sup>(7)</sup>	_____	_____	_____	<u>(999,000)</u>
Total	<u>\$(1,521,999)</u>	<u>\$(14,069)</u>	<u>\$1,249,449</u>	<u>\$ -</u>	<u>\$ (286,620)</u>

<b>Financial Reporting of Derivatives</b>	<b>Fixed Payer</b>	<b>Basis Swap</b>	<b>Long-Term Fixed Receiver</b>	<b>Short-Term Fixed Receiver</b>
<b>Year Ended June 30, 2004</b>				
Nonoperating income (expense):				
Interest expense	\$(1,269,324)	<sup>(1)</sup> \$ -	\$ -	\$ -
Realized gain on terminated interest rate swap				1,182,000 <sup>(2)</sup>
Unrealized gain (loss) on interest rate swaps		1,435,426 <sup>(3)</sup>	(128,462) <sup>(3)</sup>	<sup>(3)</sup>
Cash settlements on interest rate swaps		(16,574) <sup>(4)</sup>	1,097,450 <sup>(4)</sup>	498,929 <sup>(4)</sup>
Other changes in unrestricted net assets— unrealized gain on interest rate swap	1,964,201	<sup>(5)</sup>		
<b>Year Ended June 30, 2005</b>				
Nonoperating income (expense):				
Interest expense	522,999	<sup>(6)</sup>		
Realized loss on terminated interest rate swap	(999,000)	<sup>(7)</sup>		
Unrealized gain (loss) on interest rate swaps	999,000	<sup>(8)</sup>	(755,032) <sup>(8)</sup>	1,393,216 <sup>(8)</sup>
Cash settlements on interest rate swaps		12,325 <sup>(9)</sup>	1,223,055 <sup>(9)</sup>	
Other changes in unrestricted net assets— unrealized gain on interest rate swap	232,479	<sup>(10)</sup>		

1. The cash settlements completed under the Fixed Payer agreement during FY '04 totaled a loss of \$(1,269,324) and was classified as interest expense on the June 30, 2004 income statement.
2. On March 8, 2004, Elmhurst terminated its Short-Term Fixed Receiver in exchange for a payment of \$1,182,000 from its counterparty. The payment was classified as a realized gain in the nonoperating income section of the June 30, 2004 income statement.
3. The changes in market values for the Basis Swap of \$1,435,426 and the Long-Term Fixed Receiver of \$(128,462) during FY '04 were classified as an unrealized gain of \$1,306,964 in the June 30, 2004 nonoperating section of the income statement.
4. The cash settlements completed under the Basis Swap of \$(16,574), the Long-Term Fixed Receiver of \$1,097,450, and the Short-Term Fixed Receiver of \$498,929 during FY '04 totaled a gain of \$1,579,804 and was classified as Cash settlements received from interest rate swaps in the non operating section of the June 30, 2004 income statement.
5. The change in market value for the Fixed Payer during FY '04 was classified as an unrealized gain of \$1,964,201 in the June 30, 2004 schedule of other changes in unrestricted net assets.
6. The cash settlements completed under the Fixed Payer agreement during FY '05 totaled a loss of \$(522,999) and was classified as interest expense on the June 30, 2005 income statement.
7. On November 15, 2004, Elmhurst terminated its Fixed Payer Swap for a payment of (\$999,000) to the counterparty. The payment was classified as a realized loss in the nonoperating income section of the June 30, 2005 income statement

8. The changes in market values for the Basis Swap of (\$755,032), the Long-Term Fixed Receiver of \$1,393,216 and the Fixed Payer Swap of \$999,000 during FY '05 were classified as an unrealized gain of 1,637,184 in the June 30, 2005 non operating section of the income statement.
9. The cash settlements completed under the Basis Swap of \$12,325, and the Long-Term Fixed Receiver of \$1,223,055 during FY '05 totaled a gain of \$1,235,380 and was classified as Cash settlements received from interest rate swaps in the non operating section of the June 30, 2005 income statement.
10. The change in market value for the Fixed Payer during FY '05 was classified as an unrealized gain of \$232,479 in the June 30, 2005 changes in unrestricted net assets.

## **6. EMPLOYEE RETIREMENT PLANS**

Elmhurst has a noncontributory retirement plan that covers substantially all full-time employees. It is Elmhurst's policy to make contributions in amounts calculated by the actuarial consultant to adequately fund benefit programs and meet ERISA requirements.

Information regarding the benefit obligations and assets of the pension plan as of and for the years ended June 30, 2005 and 2004, are as follows:

	<b>Pension Benefits</b>	
	<b>2005</b>	<b>2004</b>
Projected benefit obligation:		
Projected benefit obligation—beginning of year	\$ 100,238,769	\$ 91,957,419
Service cost	4,635,012	4,317,645
Interest cost	6,174,586	5,661,814
Plan changes		
Actuarial losses	3,645,758	1,193,566
Benefits paid	<u>(3,176,398)</u>	<u>(2,891,675)</u>
Projected benefit obligation—end of year	<u>\$ 111,517,727</u>	<u>\$ 100,238,769</u>
Change in plan assets:		
Fair value of plan assets—beginning of year	\$ 114,606,668	\$ 88,200,589
Actual return on plan assets	5,050,318	29,297,754
Benefits paid	<u>(3,176,398)</u>	<u>(2,891,675)</u>
Fair value of plan assets—end of year	<u>\$ 116,480,588</u>	<u>\$ 114,606,668</u>
Funded status:		
Unrecognized net actuarial loss	\$ 4,962,861	\$ 14,367,899
Unrecognized prior service cost	15,372,333	6,599,099
Unrecognized net transitional asset	<u>1,375,797</u>	<u>1,541,984</u>
Prepaid pension expense included in prepaid pension, deferred financing costs, and other	<u>21,710,991</u>	<u>22,508,982</u>
Net amount recognized	<u>\$ 21,710,991</u>	<u>\$ 22,508,982</u>
Assumptions:		
Discount rate	6.00 %	6.25 %
Rate of increase in compensation levels	5.00	5.00
Expected long-term rate of return on assets	8.50	8.50

The following table summarizes the allocation of pension plan assets at March 31 (measurement date):

	<b>2005</b>	<b>2004</b>
Equity securities	53.9 %	59.1 %
Fixed income securities	35.2	34.2
Alternatives	10.5	
Cash and cash equivalents	<u>0.4</u>	<u>6.7</u>
Total	<u>100 %</u>	<u>100 %</u>

The pension fund is managed in accordance with the policies established by the Investment Committee of the Board (“Investment Committee”). The investment policy includes specific guidelines for quality, asset concentration, asset mix, asset allocations and performance expectations. The pension fund investment allocations are periodically reviewed for compliance with the pension investment policy by the Investment Committee.

Expected future benefit payments for the years ended December 31 are as follows:

<b>Year Ending December 31</b>	<b>Amount</b>
2006	\$ 3,705,765
2007	4,022,191
2008	4,402,190
2009	4,758,071
2010	5,211,147
2011–2015	34,293,548

Net periodic benefit cost for 2005 and 2004 includes the following components:

	<b>Pension Benefits</b>	
	<b>2005</b>	<b>2004</b>
Service cost–benefits earned during the year	\$ 4,635,012	\$ 4,317,645
Interest cost on projected benefit obligation	6,174,586	5,661,814
Expected return on plan assets	(10,177,794)	(9,802,664)
Amortization of prior service costs	<u>166,187</u>	<u>157,246</u>
Net periodic benefit cost	<u>\$ 797,991</u>	<u>\$ 334,041</u>

Elmhurst also maintains contributory savings plans (the “Savings Plans”) covering substantially all employees of Elmhurst. Participants may make voluntary contributions to the Savings Plans, which are partially matched by Elmhurst. For each dollar of participant contribution, Elmhurst matches 50% of the first 3% of pay and 25% of the second 3% of pay. Additional contributions may be made by Elmhurst at its discretion. Costs of the Savings Plans charged to salaries and benefits totaled \$1,468,239 and \$1,283,159 for the years ended June 30, 2005 and 2004, respectively.

In addition, Elmhurst also maintains a noncontributory, supplemental defined benefit retirement plan (the “Supplemental Plan”) for certain executive employees. As of June 30, 2005 and 2004, the projected benefit obligation amounted to approximately \$3,740,000 and \$3,314,000, respectively. As of June 30, 2005 and 2004, the unrecognized prior service cost amounted to approximately \$583,000 and \$673,000, respectively. At June 30, 2005 and 2004, accrued pension cost of \$2,364,000 and \$1,856,000, respectively, is included in other liabilities. The weighted-average discount rate utilized in determining the actuarial present value of the projected benefit obligation was 6.00% and 6.25% in 2005 and 2004, respectively.

## **7. PROFESSIONAL AND GENERAL LIABILITIES INSURANCE**

The Hospital is involved in litigation arising in the ordinary course of operations that, in the opinion of management, will be resolved without a material impact on the Hospital’s financial position. Substantially, all claims made prior to July 1, 1979, are covered by commercial insurance. Effective July 1, 1979, the Hospital entered into a contractual agreement with the Chicago Hospital Risk Pooling Program (“CHRPP”) that, through its risk-sharing provisions, provides the Hospital with insurance

coverage for professional and general liability claims. CHRPP is a multi-hospital trust formed pursuant to the provisions of the Illinois Religious and Charitable Risk Pooling Act. As a self-insurance administrator, CHRPP enables risk-sharing among Illinois hospitals. Beneficiary hospitals are obligated to make additional contributions, if necessary, to maintain the trust assets at a level adequate to support anticipated disbursements, as defined in the trust agreement. Effective January 1, 2003, CHRPP changed its coverage from occurrence-basis to claims-made. At June 30, 2005 and 2004, Elmhurst recorded in other liabilities a reserve for incurred but not reported claims of approximately \$4,006,000 and \$2,760,000, respectively.

CHRPP has engaged the services of an independent consultant for actuarial valuations of self-insured funding requirements and has designated attorneys to handle professional and general liability claims. The Hospital has established its risk management program and claims-handling procedures in accordance with guidelines issued by the United States Department of Health and Human Services. The self-insurance funding, which is expensed when amounts are funded into the self-insurance trust, was recommended and certified by an independent actuarial firm. As stated above, the Hospital's insurance premiums are subject to retrospective adjustments. Management does not believe any retrospective adjustments would be material.

#### **8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets of \$464,845 and \$9,725 at June 30, 2005 and 2004, respectively, are available for medical education, other health care programs, and capital purchases.

Permanently restricted net assets of \$374,974 and \$294,792 at June 30, 2005 and 2004, respectively, are investments to be held in perpetuity, the income from which is expendable for medical education.

During 2005 and 2004, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of medical education and other health care programs amounting to \$876,322 and \$322,607, respectively, and was recorded as other revenue.

#### **9. CONCENTRATION OF CREDIT RISK**

Elmhurst grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors as of June 30, 2005 and 2004, was as follows:

	<b>2005</b>	<b>2004</b>
Medicare	34 %	34 %
Medicaid	18	13
Managed Care	34	39
Self-pay	6	7
Other	<u>8</u>	<u>7</u>
Total	<u>100 %</u>	<u>100 %</u>

## 10. COMMUNITY COMMITMENT

Community commitment represents Elmhurst's support of patients at reduced or no fee based upon community need, the inability of the individual to pay in accordance with Elmhurst's policies or the acceptance of payment from government payers at less than the cost of the services provided. The estimated amounts of the community commitment provided for the years ended June 30 are as follows:

	<b>2005</b>	<b>2004</b>
Charity care (foregone charges)	\$ 5,988,914	\$ 5,912,544
Unreimbursed cost (cost less reimbursement)	<u>41,535,477</u>	<u>30,275,443</u>
Total	<u>\$47,524,391</u>	<u>\$36,187,987</u>

In addition, Elmhurst is involved in many community benefit activities. These activities are wide-ranging and include health education, health screenings, support groups, insurance information resources, seminars, and speakers. These activities are conducted free of charge or below the cost of providing them. The estimated cost of these activities was \$1,919,042 and \$1,781,366 in 2005 and 2004, respectively.

## 11. FUNCTIONAL EXPENSES

Elmhurst provides comprehensive quality health care services to the residents of eastern Du Page and western Cook counties. Expenses related to these functions are as follows:

	<b>2005</b>	<b>2004</b>
Health care services	\$239,806,370	\$216,188,750
General and administrative	<u>72,933,054</u>	<u>68,960,493</u>
Total	<u>\$312,739,424</u>	<u>\$285,149,243</u>

## 12. TAX STATUS

HTI, a wholly owned subsidiary of Elmhurst, is a for-profit corporation.

For the year ended June 30, 2005, HTI had net operating gains of \$130,467 for financial statement purposes that were offset by previous years' net operating losses ("NOL"). In accordance with Internal Revenue Service ("IRS") regulations, an NOL may be carried forward 20 years to offset taxable income that exists in those years. At June 30, 2005, approximately \$4,882,826 of NOL was available to be carried forward.

As a result of the NOL, HTI has no tax expense or tax liability for the year ended June 30, 2005. The deferred tax asset related to the NOL is offset by a valuation allowance, as realization of tax benefits of the NOL carryforward is not assured.

Elmhurst, the Hospital, and its wholly owned subsidiaries are tax-exempt under Internal Revenue Code Section 501(c)(3).

### 13. SUBSEQUENT EVENTS

Elmhurst entered into the following two interest rate swap strategies after the close of the 2005 fiscal year:

- 2008 Fixed Payer Interest Rate Swap Agreement (“2008 Fixed Payer”)—Elmhurst entered the 2008 Fixed Payer Interest Rate Swap in July 2005 with a forward starting date of January 1, 2008 to lock a fixed payer rate on the expected Series 2007/2008 bonds. The objective of the strategy is to effectively (“synthetically”) fix the interest cost on the anticipated 2007/2008 borrowings related to constructing a replacement hospital (see Note 4). Beginning January 1, 2008, Elmhurst will pay 4.135% and receive the BMA floating rate index on a notional amount of \$120 million. Elmhurst has designated the 2008 Fixed Payer for hedge accounting treatment as a total cash flow hedge.
- 2008 Fixed Spread Basis Swap Interest Rate Swap Agreement (“2008 Fixed Spread Basis Swap”)—Elmhurst entered into a fixed spread basis swap effective January 1, 2008 to earn income from spreads between taxable and tax-exempt interest rates. This swap was an integrated part of the 2008 Fixed Payer Swap above, and designed to help reduce total interest cost associated with financing the replacement hospital. Beginning January 1, 2008, Elmhurst will pay the BMA floating rate index and receives 67% of one-month LIBOR plus 0.7636% on a notional amount of \$120 million, amortized over a 30-year period. The 2008 Fixed Spread Basis Swap does not qualify for hedge accounting.

\* \* \* \* \*

## **SUPPLEMENTAL SCHEDULES**

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2005

	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, Inc.	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 8,980,361	\$ -	\$ 6,788,114	\$1,102,788	\$ 1,089,459	\$ -	\$ -	\$ -	\$1,089,459
Short-term investments	2,273,881		437,865		1,836,016				1,836,016
Patient accounts receivable—less allowances for uncollectible accounts	46,412,782		3,859,606	5,223	42,547,953		41,282,798	1,265,155	
Inventories	3,984,725		148,442	12,918	3,823,365		3,781,394	41,971	
Prepaid expenses, interest receivable, and other	5,498,269	(5,613)	545,111	165,569	4,793,202		4,566,196	199,473	27,533
Due from third-party payers	462,796				462,796		462,796		
Due from affiliated organizations		(1,079,840)			1,079,840		1,105,742	(25,902)	
Total current assets	<u>67,612,814</u>	<u>(1,085,453)</u>	<u>11,779,138</u>	<u>1,286,498</u>	<u>55,632,631</u>	<u>-</u>	<u>51,198,926</u>	<u>1,480,697</u>	<u>2,953,008</u>
INVESTMENTS—Assets limited as to use:									
Internally designated for capital improvements	352,125,186		352,125,186						
Externally designated investments under bond agreements	20,362,369		18,451,297		1,911,072		1,911,072		
Internally designated for medical education and other health care services	1,946,675				1,946,675				1,946,675
Temporarily restricted donor funds	464,845				464,845				464,845
Donor restricted into perpetuity	374,974				374,974				374,974
Total assets limited as to use	<u>375,274,049</u>		<u>370,576,483</u>		<u>4,697,566</u>		<u>1,911,072</u>		<u>2,786,494</u>
LAND, BUILDINGS, AND EQUIPMENT—Net	<u>147,666,717</u>		<u>48,738,345</u>	<u>5,403</u>	<u>98,922,969</u>		<u>98,671,005</u>	<u>251,964</u>	
INVESTMENT IN SUBSIDIARIES		(96,305)	96,305			(5,734,518)	5,734,518		
PREPAID PENSION, DEFERRED FINANCING COSTS, AND OTHER	<u>28,917,252</u>		<u>5,785,191</u>		<u>23,132,061</u>		<u>23,132,061</u>		
TOTAL	<u>\$ 619,470,832</u>	<u>\$(1,181,758)</u>	<u>\$ 436,975,462</u>	<u>\$ 1,291,901</u>	<u>\$ 182,385,227</u>	<u>\$(5,734,518)</u>	<u>\$ 180,647,582</u>	<u>\$ 1,732,661</u>	<u>\$ 5,739,502</u>

(Continued)

## ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

### SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2005

LIABILITIES AND NET ASSETS/ SHAREHOLDER'S EQUITY	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, Inc.	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
CURRENT LIABILITIES:									
Accounts payable	\$ 13,564,321	\$ (5,613)	\$ 725,676	\$ 27,679	\$ 12,816,579	\$ -	\$ 12,808,484	\$ 8,485	\$ (390)
Accrued payroll and other	18,413,923		7,432,632	102,097	10,879,194		9,912,143	961,677	5,374
Amounts due to third-party payers	10,595,567				10,595,567		10,612,408	(16,841)	
Current maturities of long-term debt	4,402,504		4,402,504						
Due to affiliated organizations		(1,079,840)	14,020	1,065,820					
Total current liabilities	46,976,315	(1,085,453)	12,574,832	1,195,596	34,291,340	-	33,333,035	953,321	4,984
LONG-TERM DEBT	201,157,332		201,157,332						
OTHER LIABILITIES	9,375,272		2,891,084		6,484,188		6,484,188		
Total liabilities	257,508,919	(1,085,453)	216,623,248	1,195,596	40,775,528		39,817,223	953,321	4,984
NET ASSETS/SHAREHOLDER'S EQUITY:									
Common stock—at par		(8,802,470)		8,802,470					
Additional paid-in capital		(2,552,286)		2,552,286					
Unrestricted net assets/retained earnings	361,122,094	11,258,451	220,352,214	(11,258,451)	140,769,880	(4,894,699)	139,990,540	779,340	4,894,699
Temporarily restricted net assets	464,845				464,845	(464,845)	464,845		464,845
Permanently restricted net assets	374,974				374,974	(374,974)	374,974		374,974
Total net assets/shareholder's equity	361,961,913	(96,305)	220,352,214	96,305	141,609,699	(5,734,518)	140,830,359	779,340	5,734,518
TOTAL	\$ 619,470,832	\$ (1,181,758)	\$ 436,975,462	\$ 1,291,901	\$ 182,385,227	\$ (5,734,518)	\$ 180,647,582	\$ 1,732,661	\$ 5,739,502

(Concluded)

## ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

### SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEAR ENDED JUNE 30, 2005

	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, Inc.	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
<b>REVENUES:</b>									
Net patient service revenue	\$ 316,584,707	\$ -	\$26,500,825	\$ -	\$ 290,083,882	\$ -	\$ 280,275,848	\$9,808,034	\$ -
Other revenue	10,740,012	(9,992,457)	1,646,085	9,623,810	9,462,574		8,529,311	91,723	841,540
Total revenues	<u>327,324,719</u>	<u>(9,992,457)</u>	<u>28,146,910</u>	<u>9,623,810</u>	<u>299,546,456</u>	<u>-</u>	<u>288,805,159</u>	<u>9,899,757</u>	<u>841,540</u>
<b>EXPENSES:</b>									
Salaries and benefits	156,489,326		1,343,535	9,499,471	145,646,320		139,703,359	5,648,716	294,245
Supplies	56,181,166		2,131,404	2,680	54,047,082		53,301,311	743,099	2,672
Purchased services and other	56,584,938	(9,992,457)	24,874,886	(4,413)	41,706,922	345,525	39,856,724	1,255,071	249,602
Provision for bad debts	21,031,469		1,243,081	(7,353)	19,795,741		19,745,494	50,247	
Depreciation	15,367,384		748,800	2,957	14,615,627		14,452,757	162,870	
Medicaid tax	7,085,141				7,085,141		7,085,141		
Total expenses	<u>312,739,424</u>	<u>(9,992,457)</u>	<u>30,341,706</u>	<u>9,493,342</u>	<u>282,896,833</u>	<u>345,525</u>	<u>274,144,786</u>	<u>7,860,003</u>	<u>546,519</u>
OPERATING INCOME (LOSS)	<u>14,585,295</u>		<u>(2,194,796)</u>	<u>130,468</u>	<u>16,649,623</u>	<u>(345,525)</u>	<u>14,660,373</u>	<u>2,039,754</u>	<u>295,021</u>
<b>NONOPERATING INCOME (EXPENSE):</b>									
Investment income	21,103,244		19,862,300		1,240,944		1,121,206		119,738
Interest expense	(9,741,415)		(9,741,415)						
Amortization expense	(104,449)		(104,449)						
Realized loss on terminated interest rate swap	(999,000)		(999,000)						
Cash settlements on interest rate swap	1,235,380		1,235,380						
Unrealized gains on interest rate swap	1,637,184		1,637,184						
Distribution of restricted revenue						591,525			(591,525)
Gain (loss) on investment in subsidiaries		(130,468)	130,468			647,556	(647,556)		
Total nonoperating income (expense)-net	<u>13,130,944</u>	<u>(130,468)</u>	<u>12,020,468</u>	<u>-</u>	<u>1,240,944</u>	<u>1,239,081</u>	<u>473,650</u>	<u>-</u>	<u>(471,787)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>27,716,239</u>	<u>(130,468)</u>	<u>9,825,672</u>	<u>130,468</u>	<u>17,890,567</u>	<u>893,556</u>	<u>15,134,023</u>	<u>2,039,754</u>	<u>(176,766)</u>
<b>OTHER CHANGES IN UNRESTRICTED NET ASSETS:</b>									
Net change in unrealized gains on investments	2,222,278		2,091,295		130,983	(73,831)	130,983		73,831
Unrealized gains on interest rate swap	232,479		232,479						
Temporarily restricted contributions released for capital projects	246,000				246,000				246,000
Total other changes in unrestricted net assets-net	<u>2,700,757</u>	<u>-</u>	<u>2,323,774</u>	<u>-</u>	<u>376,983</u>	<u>(73,831)</u>	<u>130,983</u>	<u>-</u>	<u>319,831</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 30,416,996</u>	<u>\$ (130,468)</u>	<u>\$12,149,446</u>	<u>\$ 130,468</u>	<u>\$ 18,267,550</u>	<u>\$ 819,725</u>	<u>\$ 15,265,006</u>	<u>\$2,039,754</u>	<u>\$ 143,065</u>

**SUPPLEMENTAL SCHEDULE REQUIRED BY  
MASTER DEBT INDENTURE**

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## SCHEDULE OF ANNUAL DEBT SERVICE COVERAGE RATIO FOR THE YEAR ENDED JUNE 30, 2005 (In thousands)

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NET INCOME AVAILABLE FOR DEBT SERVICE:	
Total revenue	<u>\$ 326,852</u>
Total expenses	312,346
Total nonoperating (income)–net	(12,494)
Less:	
Interest expense	9,741
Amortization expense	104
Depreciation expense	15,364
Pension expense	803
Unrealized (gain) on swaps	<u>(1,637)</u>
	<u>275,477</u>
NET INCOME AVAILABLE FOR DEBT SERVICE (A)	<u>\$ 51,375</u>
ANNUAL DEBT SERVICE (B)	<u>\$ 12,129</u>
ANNUAL DEBT SERVICE COVERAGE RATIO (A/B)	<u>4.24</u>

Note: The method of calculating the historical debt service coverage ratio is prescribed by Section 416 of the Master Trust Indenture between Elmhurst Memorial Hospital, Elmhurst Memorial Healthcare, and Elmhurst Memorial Home Health and LaSalle National Bank, as Master Trustee, dated as of July 1, 1987, as amended through December 15, 2002.