

***Elmhurst Memorial  
Healthcare and Subsidiaries***

*Consolidated Financial Statements as of and  
for the Years Ended June 30, 2006 and 2005  
(Restated), Supplemental Consolidating Schedules  
as of and for the Year Ended June 30, 2006,  
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, 2006 and 2005 (restated), 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, 2006 and 2005, 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 2006 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 2006 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2006 consolidated financial statements taken as a whole.

Also, the accompanying Supplemental Schedule required by the Master Trust Debt Indenture for the year ended June 30, 2006 is presented for purpose of additional analysis of the basic consolidated financial statements, and are not a required part of the basic consolidated financial statements. 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. The schedule is the responsibility of Elmhurst's management. Such information has been subjected to auditing procedures applied in our audit of the 2006 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2006 consolidated financial statements taken as a whole. However, our audit was not directed primarily toward obtaining knowledge of non compliance with such section.

As described in Note 15, the accompanying 2005 consolidated balance sheet and statement of changes in net assets have been restated to reflect an error in the calculation of liability to third party payers.

This report is intended solely for the Board of Directors, Elmhurst Management, and La Salle National Bank and should not be used by anyone other than those specified parties.

*Deloitte & Touche LLP*

September 22, 2006

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2006 AND 2005

	2006	2005 (As Restated See Note 15)
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,620,572	\$ 8,980,361
Short-term investments (Note 3)	5,326,835	2,273,881
Patient accounts receivable, less allowances for uncollectible accounts of \$10,121,000 in 2006 and \$10,508,000 in 2005	40,782,385	46,412,782
Inventories	4,215,552	3,984,725
Prepaid expenses, interest receivable, and other	14,795,229	5,498,269
Due from third-party payers	<u>468,401</u>	<u>462,796</u>
Total current assets	<u>75,208,974</u>	<u>67,612,814</u>
INVESTMENTS—Assets limited as to use (Note 3):		
Internally designated for capital improvements	377,506,256	352,125,186
Externally designated investments under bond agreements	18,897,556	20,362,369
Internally designated for medical education and other healthcare services	2,485,017	1,946,675
Temporarily restricted donor funds	549,860	464,845
Donor restricted into perpetuity	<u>436,976</u>	<u>374,974</u>
Total assets limited as to use	399,875,665	375,274,049
LAND, BUILDINGS, AND EQUIPMENT—Net (Note 4)	147,501,062	147,666,717
PREPAID PENSION, DEFERRED FINANCING COSTS, AND OTHER (Notes 5 and 7)	<u>31,686,756</u>	<u>28,917,252</u>
<b>TOTAL</b>	<u>\$ 654,272,457</u>	<u>\$ 619,470,832</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 20,108,376	\$ 13,564,321
Accrued payroll and other	16,026,308	18,413,923
Amounts due to third-party payors	17,459,278	19,028,087
Current maturities of long-term debt (Note 5)	<u>4,522,504</u>	<u>4,402,504</u>
Total current liabilities	58,116,466	55,408,835
LONG-TERM DEBT (Note 5)	197,358,442	201,157,332
OTHER LIABILITIES	<u>11,163,603</u>	<u>9,375,272</u>
Total liabilities	<u>266,638,511</u>	<u>265,941,439</u>
NET ASSETS (Restated, Note 15):		
Unrestricted	386,647,110	352,689,574
Temporarily restricted (Note 9)	549,860	464,845
Permanently restricted (Note 9)	<u>436,976</u>	<u>374,974</u>
Total net assets	<u>387,633,946</u>	<u>353,529,393</u>
<b>TOTAL</b>	<u>\$ 654,272,457</u>	<u>\$ 619,470,832</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, 2006 AND 2005

	2006	2005
REVENUES:		
Net patient service revenue (Note 2)	\$ 312,432,407	\$ 316,584,707
Other revenue	<u>9,797,814</u>	<u>10,740,012</u>
Total revenues	<u>322,230,221</u>	<u>327,324,719</u>
EXPENSES:		
Salaries and benefits	159,585,024	156,489,326
Supplies	53,783,174	56,181,166
Purchased services and other	61,200,621	56,584,938
Provision for bad debts	17,018,497	21,031,469
Depreciation	14,298,470	15,367,384
Medicaid tax	<u>8,988,954</u>	<u>7,085,141</u>
Total expenses (Note 12)	<u>314,874,740</u>	<u>312,739,424</u>
OPERATING INCOME	<u>7,355,481</u>	<u>14,585,295</u>
NONOPERATING INCOME (EXPENSE):		
Investment income (Note 3)	27,901,452	21,103,244
Interest expense	(10,320,562)	(9,741,415)
Amortization expense	(81,070)	(104,449)
Realized loss on terminated interest rate swap (Note 5)		(999,000)
Cash settlements on interest rate swaps (Note 5)	941,420	1,235,380
Unrealized (loss) gain on interest rate swaps (Note 5)	(409,779)	1,637,184
Change in unrealized gain on hedge fund investments	<u>4,721,676</u>	<u></u>
Total nonoperating income (expense)–net	<u>22,753,137</u>	<u>13,130,944</u>
EXCESS OF REVENUES OVER EXPENSES	<u>30,108,618</u>	<u>27,716,239</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net change in unrealized (losses) gains on investments	(1,902,210)	2,222,278
Unrealized gains on interest rate swap (Note 5)	5,511,128	232,479
Temporarily restricted contributions released for capital projects	<u>240,000</u>	<u>246,000</u>
Total other changes in unrestricted net assets–net	<u>3,848,918</u>	<u>2,700,757</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 33,957,536</u>	<u>\$ 30,416,996</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, 2006 AND 2005

	2006	2005 (As Restated See Note 15)
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 30,108,618	\$ 27,716,239
Net change in unrealized (losses) gains on investments	(1,902,210)	2,222,278
Unrealized gains on interest rate swap (Note 5)	5,511,128	232,479
Temporarily restricted contributions released for capital projects	<u>240,000</u>	<u>246,000</u>
Increase in unrestricted net assets	<u>33,957,536</u>	<u>30,416,996</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions for medical education programs, capital purchases, and other purposes	1,067,886	1,577,442
Net assets released from restrictions and used for operations, capital purposes, and medical education programs	<u>(982,871)</u>	<u>(1,122,322)</u>
Increase in temporarily restricted net assets	85,015	455,120
PERMANENTLY RESTRICTED NET ASSETS—Contributions to endowment funds	<u>62,002</u>	<u>80,182</u>
INCREASE IN NET ASSETS	34,104,553	30,952,298
NET ASSETS—Beginning of year (Restated, Note 15)	<u>353,529,393</u>	<u>322,577,095</u>
NET ASSETS—End of year	<u>\$387,633,946</u>	<u>\$353,529,393</u>

See notes to consolidated financial statements.

# ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 34,104,553	\$ 30,952,298
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	14,298,470	15,367,384
Loss on disposal of assets	1,691,707	
Amortization of deferred financing costs	81,070	104,449
Change in unrealized gains on investments	(2,819,466)	(2,222,278)
Unrealized gains on interest rate swaps	(5,101,349)	(1,869,663)
Restricted contributions—net of assets released from restrictions and used for operations	(147,017)	(115,282)
Change in patient accounts receivable:		
Net increase in patient accounts receivable	(5,460,125)	(2,100,229)
Increase in contractual allowance reserves	11,476,483	8,950,234
Provision for bad debts	17,018,497	21,031,469
Write-offs of accounts receivable	(17,404,458)	(24,208,835)
Decrease in prepaid pension, deferred financing costs, and other	(2,850,574)	(467,105)
Net change in other assets and liabilities	(56,030)	6,693,366
	<u>44,831,761</u>	<u>52,115,808</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of buildings and equipment	(16,061,111)	(18,897,808)
Proceeds from settlement (Note 4)		13,534,124
Acquisition of land held for future use	(10,000)	(6,440,304)
Proceeds from sale of buildings and equipment	246,589	
Purchases of investments	(98,929,324)	(130,522,176)
Proceeds from sales and maturities of investments	74,094,169	97,631,457
	<u>(40,659,677)</u>	<u>(44,694,707)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions—net of assets released from restrictions	147,017	115,282
Repayment of long-term debt	(3,678,890)	(3,623,439)
	<u>(3,531,873)</u>	<u>(3,508,157)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	640,211	3,912,944
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>8,980,361</u>	<u>5,067,417</u>
End of year	<u>\$ 9,620,572</u>	<u>\$ 8,980,361</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Interest paid	<u>\$ 10,359,937</u>	<u>\$ 9,778,790</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, 2006 AND 2005

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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 with an original maturity 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 9). The valuations of these investments are based upon the quoted market prices of the underlying securities. Unrealized gains and losses are excluded from the excess of revenue over expenses, and are reflected in the other changes in unrestricted net assets, except investments in Hedge Funds. The unrealized gains and losses on Hedge Funds are included in excess of revenue over expenses (see Note 9). Elmhurst is a passive participant in these funds and manages its holdings in these funds similar to its holdings in other financial instruments. The valuations on Hedge Funds are based upon the net asset value of the underlying securities. Investment returns on permanently restricted assets are allocated to purposes specified by the donor, either as temporarily restricted or unrestricted.

