

***Elmhurst Memorial
Healthcare and Subsidiaries***

*Consolidated Financial Statements as of and
for the Years Ended June 30, 2007 and 2006,
Supplemental Consolidating Schedules
as of and for the Year Ended June 30, 2007,
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, 2007 and 2006, 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, 2007 and 2006, 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.

As discussed in Note 3, the consolidated financial statements include investments valued at \$63,397,540 (15% of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

As discussed in Note 7 to the consolidated financial statements, as of June 30, 2007, Elmhurst changed its method of accounting for defined benefit pension obligations to conform to Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*.

Our 2007 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 2007 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2007 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, 2007, 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 US Bancorp, 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 2007 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2007 consolidated financial statements taken as a whole. However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such section.

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

Deloitte & Touche LLP

September 14, 2007

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,747,887	\$ 9,620,572
Short-term investments (Note 3)	2,242,404	5,326,835
Patient accounts receivable, less allowances for uncollectible accounts of \$8,902,000 in 2007 and \$10,121,000 in 2006	45,781,554	40,782,385
Inventories	4,360,229	4,215,552
Prepaid expenses, interest receivable, and other	13,900,778	14,795,229
Due from third-party payers	<u>468,401</u>	<u>468,401</u>
Total current assets	<u>75,032,852</u>	<u>75,208,974</u>
INVESTMENTS — Assets limited as to use (Note 3):		
Internally designated for capital improvements	419,880,797	377,506,256
Externally designated investments under bond agreements	40,083,899	18,897,556
Internally designated for medical education and other healthcare services	2,784,585	2,485,017
Temporarily restricted donor assets	1,275,580	549,860
Donor restricted into perpetuity	<u>476,424</u>	<u>436,976</u>
Total assets limited as to use	464,501,285	399,875,665
LAND, BUILDINGS, AND EQUIPMENT — Net (Note 4)	159,090,559	147,501,062
PREPAID PENSION, DEFERRED FINANCING COSTS, AND OTHER (Notes 5 and 7)	<u>26,142,225</u>	<u>31,686,756</u>
TOTAL	<u>\$ 724,766,921</u>	<u>\$ 654,272,457</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 25,183,887	\$ 20,108,376
Accrued payroll and other	18,263,025	16,026,308
Amounts due to third-party payors	24,425,491	17,459,278
Current maturities of long-term debt (Note 5)	<u>5,847,504</u>	<u>4,522,504</u>
Total current liabilities	73,719,907	58,116,466
LONG-TERM DEBT (Note 5)	203,502,171	197,358,442
OTHER LIABILITIES	<u>16,621,149</u>	<u>11,163,603</u>
Total liabilities	<u>293,843,227</u>	<u>266,638,511</u>
NET ASSETS:		
Unrestricted	429,171,690	386,647,110
Temporarily restricted (Note 9)	1,275,580	549,860
Permanently restricted (Note 9)	<u>476,424</u>	<u>436,976</u>
Total net assets	<u>430,923,694</u>	<u>387,633,946</u>
TOTAL	<u>\$ 724,766,921</u>	<u>\$ 654,272,457</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, 2007 AND 2006

	2007	2006
REVENUES:		
Net patient service revenue (Note 2)	\$ 326,122,587	\$ 312,432,407
Other revenue	<u>15,691,227</u>	<u>9,797,814</u>
Total revenues	<u>341,813,814</u>	<u>322,230,221</u>
EXPENSES:		
Salaries and benefits	166,642,313	159,585,024
Supplies	55,291,403	53,783,174
Purchased services and other	68,743,210	61,200,621
Provision for bad debts	17,990,886	17,018,497
Depreciation	14,374,745	14,298,470
Medicaid tax	<u>8,988,954</u>	<u>8,988,954</u>
Total expenses (Note 12)	<u>332,031,511</u>	<u>314,874,740</u>
OPERATING INCOME	<u>9,782,303</u>	<u>7,355,481</u>
NONOPERATING INCOME (EXPENSE):		
Investment income (Note 3)	24,540,390	27,901,452
Interest expense	(10,631,544)	(10,320,562)
Amortization expense	(88,400)	(81,070)
Loss on refunding of debt	(355,465)	
Cash settlements on interest rate swaps (Note 5)	484,073	941,420
Unrealized gain (loss) on interest rate swaps (Note 5)	6,321,811	(409,779)
Change in unrealized gain on hedge fund investments	<u>7,462,201</u>	<u>4,721,676</u>
Total nonoperating income (expense) — net	<u>27,733,066</u>	<u>22,753,137</u>
EXCESS OF REVENUES OVER EXPENSES	<u>37,515,369</u>	<u>30,108,618</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net change in unrealized gains (losses) on investments	20,383,142	(1,902,210)
Unrealized (losses) gains on interest rate swap (Note 5)	(3,606,604)	5,511,128
Temporarily restricted contributions released for capital projects	<u>173,501</u>	<u>240,000</u>
Total other changes in unrestricted net assets — net	<u>16,950,039</u>	<u>3,848,918</u>
INCREASE IN UNRESTRICTED NET ASSETS PRIOR TO ADOPTION OF FASB STATEMENT NO. 158	54,465,408	33,957,536
Adjustment to adopt FASB Statement No. 158 (Note 7)	<u>(11,940,828)</u>	<u> </u>
INCREASE IN UNRESTRICTED NET ASSETS AFTER ADOPTION OF FASB STATEMENT NO. 158	<u>\$ 42,524,580</u>	<u>\$ 33,957,536</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, 2007 AND 2006

	2007	2006
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 37,515,369	\$ 30,108,618
Net change in unrealized gains (losses) on investments	20,383,142	(1,902,210)
Unrealized gains on interest rate swap (Note 5)	(3,606,604)	5,511,128
Temporarily restricted contributions released for capital projects	<u>173,501</u>	<u>240,000</u>
 Increase in unrestricted net assets prior to adoption of FASB Statement No. 158	 54,465,408	 33,957,536
 Adjustment to adopt FASB Statement No. 158 (Note 7)	 <u>(11,940,828)</u>	 <u> </u>
 Increase in unrestricted net assets after adoption of FASB Statement No. 158	 <u>42,524,580</u>	 <u>33,957,536</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions for medical education programs, capital purchases, and other purposes	1,961,580	1,067,886
Net assets released from restrictions and used for operations, capital purposes, and medical education programs	<u>(1,235,860)</u>	<u>(982,871)</u>
 Increase in temporarily restricted net assets	 <u>725,720</u>	 <u>85,015</u>
 PERMANENTLY RESTRICTED NET ASSETS — Contributions to endowment funds	 <u>39,448</u>	 <u>62,002</u>
 INCREASE IN NET ASSETS	 43,289,748	 34,104,553
 NET ASSETS — Beginning of year	 <u>387,633,946</u>	 <u>353,529,393</u>
 NET ASSETS — End of year	 <u>\$430,923,694</u>	 <u>\$387,633,946</u>

See notes to consolidated financial statements.

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 43,289,748	\$ 34,104,553
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	14,374,745	14,298,470
Loss on disposal of assets	29,677	1,691,707
Amortization of deferred financing costs	88,400	81,070
Change in unrealized gains on investments	(27,845,343)	(2,819,466)
Unrealized gains on interest rate swaps	(2,715,207)	(5,101,349)
Restricted contributions	(487,169)	(147,017)
Change in patient accounts receivable:		
Net decrease (increase) in patient accounts receivable	3,001,944	(5,460,125)
(Decrease) increase in contractual allowance reserves	(6,783,497)	11,476,483
Provision for bad debts	17,990,886	17,018,497
Write-offs of accounts receivable	(19,208,502)	(17,404,458)
Increase in prepaid pension, deferred financing costs, and other	(6,605,162)	(2,850,574)
Adjustment to adopt FASB Statement No. 158	11,940,828	
Loss on refunding of debt	355,465	
Net change in other assets and liabilities	23,669,369	(56,030)
	<u>51,096,182</u>	<u>44,831,761</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of buildings and equipment	(23,440,270)	(16,061,111)
Acquisition of land held for future use	(4,080,389)	(10,000)
Proceeds from sale of buildings and equipment	1,526,740	246,589
Purchases of investments	(172,597,190)	(98,929,324)
Proceeds from sales and maturities of investments	138,901,344	74,094,169
	<u>(59,689,765)</u>	<u>(40,659,677)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions — net of assets released from restrictions	487,169	147,017
Proceeds from new debt issuance	59,000,000	
Repayment of long-term debt	(51,531,271)	(3,678,890)
Payment of bond issue costs	(235,000)	
	<u>7,720,898</u>	<u>(3,531,873)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(872,685)	640,211
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>9,620,572</u>	<u>8,980,361</u>
End of year	<u>\$ 8,747,887</u>	<u>\$ 9,620,572</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Interest paid	<u>\$ 10,672,919</u>	<u>\$ 10,359,937</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY:		
Contributions of real estate	<u>\$ 975,000</u>	
Capital acquisitions funded through accounts payable	<u>\$ 352,800</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, 2007 AND 2006

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. Investments in real estate are measured at fair value based on current appraisal value. 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 based on

valuations by the fund managers or general partners. 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 bond 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. There were no other-than-temporary adjustments recorded.

Fair Value of Financial Instruments — Financial instruments consist of primarily cash and cash equivalents, investments, derivatives, patient accounts receivable, amounts due to/from third-party payers/payors, accounts payable, and long-term debt. Except for investments, derivatives and long-term debt, the fair value of these instruments approximated their financial statement carrying amount at June 30, 2007 and 2006, because of their short-term maturity.

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. Land improvements are depreciated over 25.5 to 40.5 years, buildings over 20.5 to 40.5 years and equipment over 3.5 to 20.5 years.

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 — Gains and losses on nonhedging or the ineffective portion of hedging derivative instruments are recorded as components of nonoperating income, and gains and losses on the effective portion of hedging instruments are recorded as components of Other Changes in Unrestricted Net Assets within the Statement of Operations and Changes in Unrestricted Net Assets (see Note 5).

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 effective interest rate swaps, adjustment for adoption of FASB Statement No. 158 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 payors 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 payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, 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 — In September 2006, FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. As disclosed in Note 7, Elmhurst has adopted the provisions of FASB Statement No. 158 that require Elmhurst to (1) recognize on its balance sheet the over funded or under funded status of its defined benefit retirement plans as the difference between the fair value of the plan assets and the projected benefit obligations, (2) recognize the actuarial and experienced gains or losses and prior service costs or credits as a component of unrestricted net assets, and (3) measure the funded status of the plan as of the date of its year-end balance sheet. The required date of adoption of FASB Statement No. 158 for Elmhurst is June 30, 2007, for the recognition provision of the standard, and June 30, 2008, for the measurement date provision. Management is currently evaluating the impact the measurement date provision will have on the consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, as an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN No. 48 defines an approach for recognizing and measuring tax benefits on the financial statements in which there is uncertainty as to whether the tax position will ultimately be sustained as filed within a tax return. FIN No. 48 will become effective during the 2008 fiscal year. Management is currently evaluating the impact that FIN No. 48 will have on the consolidated financial statements.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurement. FASB Statement No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The standard will be effective for Elmhurst beginning July 1, 2008. Management is currently evaluating the impact that FASB Statement No. 157 will have on the consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115*. This standard permits entities to choose to measure many financial instruments and certain other items at fair value,

following the provisions of FASB Statement No. 157. Included within the scope of the standard are all recognized financial assets and financial liabilities, except consolidated investments, consolidated interest in a variable interest entity, obligations for pension and certain other benefits, leases, and financial instruments that are classified as a component of shareholder's equity. Also included in the scope of the standard are firm commitments that would otherwise not be recognized at inception and that involve only financial instruments, nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services, and host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument. FASB Statement No. 159 is effective for Elmhurst beginning July 1, 2008. Management is currently evaluating the impact that FASB Statement No. 159 will have on the consolidated financial statements.

2. NET PATIENT SERVICE REVENUE

The mix of net patient service revenue for the years ended June 30, 2007 and 2006, was as follows:

	2007	2006
Medicare	32 %	33 %
Medicaid	3	4
Other	<u>65</u>	<u>63</u>
 Total	 <u>100 %</u>	 <u>100 %</u>

Elmhurst has agreements with third-party payors 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 payors, 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 \$3,302,915 and \$228,521 in fiscal years 2007 and 2006, 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 Statements of Operations and Changes in Unrestricted Net Assets 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 2007 and 2006 was \$8,988,954 and \$8,988,954, respectively, and is presented as Medicaid Tax expense. The amount allocated to Elmhurst in 2007 and 2006 was \$7,410,476 and \$10,210,476, respectively, and is included in Net Patient Service Revenue. In 2007, Elmhurst received a grant from the Illinois Hospital Association in the amount of \$1,627,285 to reimburse Elmhurst for the deficit created by the Medicaid Tax. This amount is included in Other Revenue. At June 30, 2007 and 2006, the tax payable to the state for fiscal year 2007 and 2006, respectively, is included on the balance sheet in Accounts Payable and the funds due back to Elmhurst under the program and from the grant are included in Prepaid Expenses, Interest Receivable and Other.

3. INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS

Assets limited as to use and short-term investments at June 30, 2007 and 2006, consisted of the following:

	2007	2006
Cash	\$ 18,321,292	\$ 5,247,735
Certificates of deposit	1,022,705	2,331,863
Real estate	975,000	
Commercial paper		2,146,008
Corporate bonds	6,666,401	3,857,019
United States government obligations	13,003,399	9,241,293
Funds invested in fixed-income securities	138,081,066	136,969,673
Equity securities	205,938,346	170,222,671
Mutual funds invested in commodities	19,337,942	19,250,900
Hedge funds	<u>63,397,538</u>	<u>55,935,338</u>
Total	<u>\$466,743,689</u>	<u>\$405,202,500</u>

Presented as:

	2007	2006
Short-term investments	\$ 2,242,404	\$ 5,326,835
Assets limited to use	<u>464,501,285</u>	<u>399,875,665</u>
Total investments	<u>\$466,743,689</u>	<u>\$405,202,500</u>

The fair values of investments are based on quoted market prices with the exception of real estate, equity securities and hedge funds. Equity securities are managed through partnerships in commingled funds. The valuations of these investments are based upon the quoted market prices of the underlying securities. The fair value of real estate is based on current appraised value. The unrealized gains and losses on these investments are reported as other changes in unrestricted net assets.

Investments designated as hedge funds are investments in partnerships that do not meet the scope of an investment held by a not-for-profit organization in accordance with paragraph three of FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. As a result, these investments are accounted for using the equity method in accordance with Emerging Issues Task Force (EITF) Issue No. 03-16, *Accounting for Investments in Limited Liability Companies*, and EITF Issue

No. D-46, *Accounting for Limited Partnership Investments*. Audited information of the hedge funds is only available annually based on the partnerships or funds' year-end. Generally, redemptions may be made with written notice ranging from one month to one year. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed. The valuations of the hedge funds are based on the fair value of the underlying securities provided by the fund manager or general partner. The equity method requires that the unrealized gain or loss in the fair value of the hedge funds be recorded as Nonoperating Income (Expense) on the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

Investment returns for the years ended June 30, 2007 and 2006, consisted of the following:

	2007	2006
Interest and dividend income	\$ 29,189,480	\$ 23,434,773
Realized (losses) gains — net	<u>(4,649,090)</u>	<u>4,466,679</u>
Investment income	<u>\$ 24,540,390</u>	<u>\$ 27,901,452</u>

Investment returns on externally designated investments related to Elmhurst's debt were \$1,210,296 and \$475,162 for fiscal year 2007 and 2006, respectively. These amounts are presented as other revenue on the Consolidated Statements of Operations and Changes in Unrestricted Net Assets and all other investment returns are presented as investment income.

At June 30, 2007, the aggregate unrealized losses and related market values for investments that were in a loss position for less than 12 months was as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Funds invested in fixed-income securities	\$ 992,684	\$ 87,577,422
Mutual funds invested in commodities	<u>1,694,831</u>	<u>19,337,942</u>
Total	<u>\$ 2,687,515</u>	<u>\$ 106,915,364</u>

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. Factored into this evaluation are general market conditions, the issuer's financial condition, conditions in the issuer's industry and the recommendations of advisors.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are stated at cost, less accumulated depreciation, at June 30, 2007 and 2006, are as follows:

	2007	2006
Land and land improvements	\$ 23,163,452	\$ 22,782,431
Buildings	174,588,944	167,521,304
Equipment	135,632,351	132,014,887
Construction in progress	14,096,653	7,160,481
Land held for future use	<u>31,675,750</u>	<u>27,595,360</u>
	379,157,150	357,074,463
Less accumulated depreciation	<u>220,066,591</u>	<u>209,573,402</u>
Total	<u>\$ 159,090,559</u>	<u>\$ 147,501,061</u>

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. Construction could start in the spring of 2008 and is expected to take 30 to 36 months to complete. The campus will include a replacement hospital and additional physician offices. The project is estimated to cost \$450,000,000. 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 at June 30, 2007 and 2006, consists of the following:

	2007	2006
Taxable convertible variable rate unsecured revenue bonds (5.30% at June 30, 2006) dated February 11, 1998 (Series 1998B), maturing January 1, 2028, refunded in December 2006	\$ -	\$ 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	134,390,660	136,128,928
Variable rate direct note obligation Series 1985C and 1985D (3.8% and 4.0% at June 30, 2007 and 2006, respectively), maturing on December 15, 2008	21,333,315	12,333,318
Variable rate direct note obligation Series 2004A (3.77% and 3.97% at June 30, 2007 and 2006, respectively), maturing on January 1, 2024	6,482,000	6,482,000
Taxable convertible variable rate demand direct note obligation Series 2004B (5.29% at June 30, 2006) maturing on January 1, 2024, refunded in December 2006		7,393,000
Variable rate direct note obligation Series 2006E (4.3% at June 30, 2007), maturing on January 1, 2014	47,000,000	
Other long-term borrowings	<u>143,700</u>	<u>143,700</u>
Total	209,349,675	201,880,946
Less current maturities of long-term debt	<u>5,847,504</u>	<u>4,522,504</u>
Long-term debt less current maturities	<u>\$203,502,171</u>	<u>\$197,358,442</u>

In August, 2006, Elmhurst entered into a \$12,000,000 loan through the Illinois Facilities Authority's Pooled Financing Program related to the Series 1985C and 1985D Project Loan Agreements. Proceeds of the loan were used to reimburse Elmhurst for routine capital expenditures with tax-exempt uses.

In December 2006, Elmhurst redeemed the taxable convertible variable rate unsecured revenue bonds, Series 1998B and the taxable convertible variable rate demand direct note obligation bonds, Series 2004B. A loss of \$355,465 was recorded on the Statements of Operations and Changes in Unrestricted Net Assets related to the redemption.

In December 2006, Elmhurst issued \$47,000,000 variable rate direct note obligation bonds, Series 2006E. The proceeds were used to establish a project fund to reimburse Elmhurst for routine capital purchases.

The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues, was approximately \$7,073,873 and \$7,584,920 more than its carrying value at June 30, 2007 and 2006, respectively.

The maturities and annual sinking fund requirements for the fiscal years ending June 30, 2008 through 2012, on the outstanding long-term debt are as follows, assuming remarketing of variable rate unsecured

demand revenue bonds: 2008—\$4,980,004; 2009—\$20,003,310; 2010—\$1,970,000; 2011—\$2,077,500; 2012—\$2,187,500; and thereafter—\$178,131,360.

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 (interest rate 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 of the swaps to be reported in a variety of places as described below. During the years ended June 30, 2007 and 2006, Elmhurst had the following interest rate swap agreements in place:

- *Floating Interest Rate Agreement (“Basis Swap”)* — Elmhurst entered a Basis Swap in May 2002 to lower total interest cost by earning 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 \$50,000,000 notional amount, extending over a 20-year period. The Basis Swap does not qualify for hedge accounting. Gains and losses are recorded as Nonoperating Income in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.
- *Fixed Receiver Interest Rate Swap Agreement (“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. Gains and losses are recorded as Nonoperating Income in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.
- *2008 Fixed Payer Interest Rate Swap Agreement (“2008 Fixed Payer”)* — Elmhurst entered this swap strategy with three separate counterparties in July 2005 to hedge its fixed interest rate exposure for the planned 2008 bond issue related to the new facility. While terms with the three counterparties differ slightly the following express the aggregate terms of the entire strategy. The exchange of payments is not effective until January 2008 to coincide with the planned bond issue. Elmhurst will pay a fixed rate of 4.135% in exchange for the BMA floating rate index on a notional amount of \$120,000,000 for 30 years. The term of the swap is matched to the expected life and amortization on 50% of the 2008 bonds. The 2008 Fixed Payer Swap has been designated for hedge accounting. Gains and losses are recorded as Changes in Unrestricted Net Assets in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.
- *Fixed Spread Floating Interest Rate Agreement (“Fixed Spread Basis Swap”)* — Elmhurst entered this swap strategy with three separate counterparties in July 2005 with the objective of reducing total interest cost by earning income from spreads between taxable and tax-exempt interest rates. Effective January 2008, Elmhurst will pay the BMA floating rate index and receive 67% of one-month LIBOR plus 0.76% on a \$120,000,000 notional amount, extending over a 30-year period. The Fixed Spread Basis Swap does not qualify for hedge accounting. Gains and losses are recorded

as Changes in Unrestricted Net Assets in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

- *Constant Maturity Swaps* — Elmhurst entered this swap strategy with two counterparties in June 2006 with the objective of reducing total interest cost by earning income from spreads between one-month and five-year interest rates. Under the agreements with both counterparties, payments began January 2007. Elmhurst pays 67% of 1-month LIBOR in exchange for 61.3% of 5-year LIBOR on \$60,000,000 or 50% of the LIBOR exposure of the fixed spread basis swap until 2032. Elmhurst also pays 76.21% of 1-month LIBOR in exchange for 76.21% of 5-year LIBOR — 0.35% on \$25,000,000 or 50% its LIBOR exposure on the basis swap. The Constant Maturity Swaps are not designated for hedge accounting. Gains and losses are recorded as Nonoperating Income in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

The following tables provide details on the swap agreements and reconciliation to the financial statements:

Derivative Contract Terms	Basis Swap	Fixed Receiver	2008 Fixed Payer	Fixed Spread Basis Swap	Constant Maturity Swap
Execution date	May '02	August '03	July '05	July '05	June '06
Notional amount	\$50,000,000	\$40,000,000	\$120,000,000	\$120,000,000	\$85,000,000
Elmhurst pays the counterparty	BMA	BMA	0.04135	BMA	5-yr LIBOR
Counterparty pays Elmhurst	76.2% 1-mo. LIBOR	3.08%	BMA	67% LIBOR + 0.76	% 1-mo. LIBOR
Termination date	May '22	August '08	January '38	January '38	January '27
Qualifies for hedge accounting	no	no	yes	no	no

Market Value Asset (Liability) of Derivative Contracts (1)	Basis Swap	Fixed Receiver	2008 Fixed Payer	Fixed Spread Basis Swap	Constant Maturity Swap
Balance — June 30, 2005	\$ (1,398,736)	\$ 1,264,755	\$ -	\$ -	\$ -
Changes in value	<u>1,657,469</u>	<u>(2,397,776)</u>	<u>5,511,128</u>	<u>1,525,882</u>	<u>(1,195,354)</u>
Balance — June 30, 2006	258,733	(1,133,021)	5,511,128	1,525,882	(1,195,354)
Changes in value	<u>864,156</u>	<u>1,298,893</u>	<u>(3,606,604)</u>	<u>3,921,506</u>	<u>237,256</u>
Balance — June 30, 2007	<u>\$ 1,122,889</u>	<u>\$ 165,872</u>	<u>\$ 1,904,524</u>	<u>\$ 5,447,388</u>	<u>\$ (958,098)</u>

(1) Amounts are presented within prepaid pension, deferred financing costs and other within the balance sheets.

Net Cash Flow Received (Paid) by Elmhurst under Derivative Contracts	Basis Swap	Fixed Receiver	2008 Fixed Payer	Fixed Spread Basis Swap	Constant Maturity Swap	Total Swap Cash Flow
Year Ended June 30, 2006						
Cash from contractual payments	<u>\$ 218,549</u>	<u>\$ 722,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 941,420</u>
Total	<u>\$ 218,549</u>	<u>\$ 722,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 941,420</u>
Year Ended June 30, 2007						
Cash from contractual payments	<u>\$ 247,838</u>	<u>\$ 416,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (180,697)</u>	<u>\$ 484,073</u>
Total	<u>\$ 247,838</u>	<u>\$ 416,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (180,697)</u>	<u>\$ 484,073</u>

Financial Reporting of Derivatives	Basis Swap	Fixed Receiver	2008 Fixed Payer	Fixed Spread Basis Swap	Constant Maturity Swap
Year Ended June 30, 2006					
Nonoperating income (expense):					
Interest expense	\$ -	\$ -	\$ -	\$ -	\$ -
Unrealized gain (loss) on interest rate swaps	1,657,469 (1)	(2,397,776) (1)		1,525,882 (1)	(1,195,354) (1)
Cash settlements on interest rate swaps	218,549 (2)	722,871 (2)			
Other changes in unrestricted net assets — unrealized gain on interest rate swap			5,511,128 (3)		
Year Ended June 30, 2007					
Nonoperating income (expense):					
Interest expense	\$ -	\$ -	\$ -	\$ -	\$ -
Unrealized gain (loss) on interest rate swaps	864,156 (4)	1,298,893 (4)		3,921,506 (4)	237,256 (4)
Cash settlements on interest rate swaps	247,838 (5)	416,932 (5)			(180,697) (5)
Other changes in unrestricted net assets— unrealized gain (loss) on interest rate swap			(3,606,604) (6)		

1. The changes in market value for the Basis Swap of \$1,657,469, the Fixed Receiver of \$(2,397,776), the Fixed Spread Basis Swap of \$1,525,882 and the Constant Maturity Swaps of \$(1,195,354) were combined and reported as an unrealized loss of \$(409,779) in the June 30, 2006, nonoperating section of the Consolidated Statement of Operations and Changes in Unrestricted Net Assets.
2. Cash settlements completed under the Basis Swap of \$218,549 and the Fixed Receiver of \$722,871 during fiscal year 2006 totaled \$941,420 and was classified as Cash settlements from interest rate swaps in the non operating section of the June 30, 2006, Consolidated Statement of Operations and Changes in Unrestricted Net Assets.
3. The change in market value for the 2008 Fixed Payer during fiscal year 2006 was classified as an unrealized gain of \$5,511,128 in the June 30, 2006, Consolidated Statement of Changes in Net Assets.
4. The changes in market value for the Basis Swap of \$864,156, the Fixed Receiver of \$1,298,893, the Fixed Spread Basis Swap of \$3,921,506, and the Constant Maturity Swaps of \$237,255 were combined and reported as an unrealized gain of \$6,321,811 in the June 30, 2007, nonoperating section of the Consolidated Statement of Operations and Changes in Unrestricted Net Assets.
5. Cash settlements completed under the Basis Swap of \$247,838, the Fixed Receiver of \$416,932, and Constant Maturity Swaps during fiscal year 2007 totaled \$484,073 and was classified as Cash settlements from interest rate swaps in the nonoperating section of the June 30, 2007, Consolidated Statement of Operations and Changes in Unrestricted Net Assets.
6. The change in market value for the 2008 Fixed Payer during fiscal year 2007 was classified as an unrealized loss of \$3,606,604 in the June 30, 2007, Consolidated Statement of Changes in Net Assets.

6. OPERATING LEASES

Elmhurst Memorial Hospital has operating leases for specific property, plant, and equipment.

Rent paid and recorded under operating leases was \$2,443,687 and \$1,675,702 for the years ended June 30, 2007 and 2006, respectively.

The future minimum lease commitments under these operating leases as of June 30, 2007, are as follows:

2008	\$2,903,836
2009	2,388,880
2010	2,211,916
2011	<u>598,031</u>
Total	<u>\$8,102,663</u>

7. EMPLOYEE RETIREMENT PLANS

Elmhurst has a noncontributory retirement plan which qualifies as a pension plan under FASB Statement No. 87, *Employers' Accounting for Pensions*. The plan 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.

In September 2006, FASB issued FASB Statement No. 158. This statement requires Elmhurst to recognize a defined benefit postretirement plan's funded status in the Consolidated Balance Sheets effective June 30, 2007, and recognize changes in the plan's funded status in comprehensive income in the year in which the changes occur. The following table shows the incremental effects of applying FASB Statement No. 158 on Elmhurst's Consolidated Balance Sheet at June 30, 2007.

	Before Application of FASB Statement No. 158	Adjustments	After Application of FASB Statement No. 158
Prepaid Pension, Deferred Financing Costs, and Other	\$ 37,244,148	\$(11,101,923)	\$ 26,142,225
Other Liabilities	15,782,244	838,905	16,621,149
Unrestricted Net Assets	441,112,518	(11,940,828)	429,171,690

Information regarding the benefit obligations and assets of the pension plan as of and for the years ended June 30, 2007 and 2006, with a measurement date of March 31, are as follows:

	Pension Benefits	
	2007	2006
Projected benefit obligation:		
Projected benefit obligation — beginning of year	\$ 119,918,371	\$ 111,517,727
Service cost	5,239,676	5,071,969
Interest cost	7,092,494	6,594,805
Actuarial losses	(211,390)	149,910
Benefits paid	<u>(3,700,838)</u>	<u>(3,416,040)</u>
Projected benefit obligation — end of year	<u>\$ 128,338,313</u>	<u>\$ 119,918,371</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ 127,211,066	\$ 116,480,588
Actual return on plan assets	11,426,325	14,146,518
Contributions	7,000,000	
Benefits paid	<u>(3,700,838)</u>	<u>(3,416,040)</u>
Fair value of plan assets — end of year	<u>\$ 141,936,553</u>	<u>\$ 127,211,066</u>
Funded status:		
Excess of plan assets over projected benefit obligation	\$ 13,598,240	\$ 7,292,695
Unrecognized prior service cost		11,472,055
Unrecognized net transitional asset		1,207,375
Contributions		<u>2,000,000</u>
Prepaid pension expense included in prepaid pension, deferred financing costs, and other	<u>\$ 13,598,240</u>	<u>\$ 21,972,125</u>
Amounts recognized in changes in unrestricted net assets:		
Net transition obligation	\$ -	
Prior service cost	1,038,953	
Net actuarial loss	<u>10,062,970</u>	
Adjustment to adopt FASB Statement No. 158	<u>\$ 11,101,923</u>	
Assumptions:		
Discount rate	6.00 %	6.00 %
Rate of increase in compensation levels	5.10	5.00
Expected long-term rate of return on assets	8.50	8.50

Subsequent to June 30, 2007, Elmhurst made a \$1,500,000 voluntary contribution to the plan. There are no further contributions expected to be made.

The estimated net actuarial loss and prior service cost that will be amortized as a component of net periodic benefit cost during fiscal year 2008 are \$0 and \$168,422, respectively.

The allocation of pension plan assets at March 31, 2007 and 2006 (measurement date), is as follows:

	Target	2007	2006
Equity securities	55 %	61 %	57.3 %
Fixed income securities	35	23	31.7
Alternatives	10	15	10.4
Cash and cash equivalents	<u> </u>	<u> 1</u>	<u> 0.6</u>
 Total	 <u>100 %</u>	 <u>100 %</u>	 <u>100.0 %</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 plan years ending December 31 are as follows:

Year Ending December 31	Amount
2008	\$ 4,055,610
2009	4,476,455
2010	4,876,484
2011	5,421,646
2012	5,899,176
2013–2016	32,442,816

Net periodic benefit cost for the years ended June 30, 2007 and 2006, includes the following components:

	Pension Benefits	
	2007	2006
Service cost — benefits earned during the year	\$ 5,239,676	\$ 5,071,969
Interest cost on projected benefit obligation	7,092,494	6,594,805
Expected return on plan assets	(10,424,370)	(10,096,330)
Net actuarial loss	195,707	
Amortization of prior service costs	<u>168,422</u>	<u>168,422</u>
 Net periodic benefit cost	 <u>\$ 2,271,929</u>	 <u>\$ 1,738,866</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 \$1,718,620 and \$1,505,267 for the years ended June 30, 2007 and 2006, respectively.

In addition, Elmhurst also maintains a noncontributory, supplemental defined benefit retirement plan (the “Supplemental Plan”) for certain executive employees. As of June 30, 2007 and 2006, the projected

benefit obligation amounted to \$4,311,232 and \$4,083,969, respectively. As of June 30, 2007 and 2006, the unrecognized prior service cost amounted to \$404,177 and \$493,726, respectively, and the net actuarial loss was \$434,728 and \$687,175, respectively. At June 30, 2007 and 2006, accrued pension cost of \$4,194,125 and \$3,007,571, respectively, is included in other liabilities. The FASB Statement No. 158 adjustment recorded in the current year related to the supplemental plan was \$838,905. The weighted-average discount rate utilized in determining the actuarial present value of the projected benefit obligation was 6.00% in 2007 and 2006. The estimated net actuarial loss and prior service cost that will be amortized as a component of net periodic benefit cost during fiscal year 2008 are \$0 and \$89,549, respectively.

8. 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. On July 1, 1979, the Hospital entered into a contractual agreement with the Chicago Hospital Risk Pooling Program (CHRPP) that, through its risk-sharing provisions, provided 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. Substantially all claims made between July 1, 1979 and December 1, 2005, are covered by CHRPP. For the period July 1, 1979 to December 31, 2002, CHRPP coverage was on the occurrence-basis. Effective January 1, 2003, CHRPP changed its coverage from occurrence-basis to claims-made.

CHRPP 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.

The Hospital has a self-insured retention program in which the Hospital retains the risk for all claims with a value under \$3,000,000. The Hospital has obtained insurance coverage on a claims-made basis for amounts exceeding \$3,000,000 up to \$33,000,000. The Hospital has engaged an independent actuary to determine the estimated cost of the retained risk and has recorded expense in accordance with the actuary's estimate. At June 30, 2007 and 2006, the Hospital recorded a reserve, discounted at 5.75%, of \$10,730,000 and \$6,468,000, respectively, for incurred but not reported claims arising under both its own self insurance program and the CHRPP program. This reserve consists of \$252,000 and \$152,000 reported under Accounts Payable in 2007 and 2006, respectively, and \$10,478,000 and \$6,316,000 reported under Other Liabilities in 2007 and 2006, respectively, on the Consolidated Balance Sheet. The Hospital has elected to not establish a corresponding self insured trust asset to fund this liability as of June 30, 2007, because management believes that it has enough liquidity in its cash, short term investments, and capital reserve fund.

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$1,275,580 and \$549,860 at June 30, 2007 and 2006, respectively, are available for medical education, other health care programs, and capital purchases.

Permanently restricted net assets of \$476,424 and \$436,976 at June 30, 2007 and 2006, respectively, are investments to be held in perpetuity, the income from which is expendable for medical education.

During 2007 and 2006, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of medical education, and other health care programs amounting to \$1,062,359 and \$742,871, respectively, and was recorded as other revenue.

10. 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, 2007 and 2006, was as follows:

	2007	2006
Medicare	34 %	34 %
Medicaid	16	16
Managed care	37	37
Self-pay	5	5
Other	<u>8</u>	<u>8</u>
Total	<u>100 %</u>	<u>100 %</u>

11. 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, 2007 and 2006, are as follows:

	2007	2006
Charity care (foregone charges)	\$ 7,450,931	\$ 6,624,364
Self pay patient discount	6,684,432	5,260,779
Unreimbursed cost (cost less reimbursement)	<u>42,740,405</u>	<u>42,049,814</u>
Total	<u>\$56,875,768</u>	<u>\$53,934,957</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 \$1,518,959 and \$2,019,074 in 2007 and 2006, respectively.

12. 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 at June 30, 2007 and 2006, are as follows:

	2007	2006
Health care services	\$ 249,582,837	\$ 242,208,611
General and administrative	<u>82,448,674</u>	<u>72,666,129</u>
Total	<u>\$ 332,031,511</u>	<u>\$ 314,874,740</u>

13. TAX STATUS

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

For the year ended June 30, 2007, HTI had net operating losses (NOL) of \$126,649 for financial statement purposes. 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, 2007, approximately \$5,083,416 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, 2006. 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 the remainder of its wholly owned subsidiaries are tax-exempt under Internal Revenue Code Section 501(c)(3).

* * * * *

SUPPLEMENTAL CONSOLIDATING SCHEDULES

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2007

	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, LLC	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 8,747,887	\$ -	\$ 6,543,225	\$ 1,564,845	\$ 639,817	\$ -	\$ -	\$ -	\$ 639,817
Short-term investments	2,242,404		251,871		1,990,533				1,990,533
Patient accounts receivable — less allowances for uncollectible accounts	45,781,554		3,621,806	3,223	42,156,525		40,886,434	1,270,091	
Inventories	4,360,229		239,368	12,918	4,107,943		4,061,550	46,393	
Prepaid expenses, interest receivable, and other	13,900,778	(5,103)	524,511	70,707	13,310,663		13,210,732	81,956	17,975
Due from third-party payers	-				-				
Due from affiliated organizations	-	(1,720,513)			1,720,513		1,725,375	(4,862)	
Total current assets	<u>75,032,852</u>	<u>(1,725,616)</u>	<u>11,180,781</u>	<u>1,651,693</u>	<u>63,925,994</u>	<u>-</u>	<u>59,884,091</u>	<u>1,393,578</u>	<u>2,648,325</u>
INVESTMENTS — Assets limited as to use:									
Internally designated for capital improvements	419,880,797		419,880,797		-				
Externally designated investments under bond agreements	40,083,899		36,807,569		3,276,330		3,276,330		
Internally designated for medical education and other health care services	2,784,585				2,784,585				2,784,585
Temporarily restricted donor assets	1,275,580				1,275,580				1,275,580
Donor restricted into perpetuity	476,424				476,424				476,424
Total assets limited as to use	464,501,285	-	456,688,366	-	7,812,919	-	3,276,330	-	4,536,589
LAND, BUILDINGS, AND EQUIPMENT — Net	159,090,559		64,244,434	23,809	94,822,316		94,285,925	536,391	
INVESTMENT IN SUBSIDIARIES	-	104,287	(104,287)		-	(7,168,679)	7,168,679		
PREPAID PENSION, DEFERRED FINANCING COSTS, AND OTHER	26,142,225		11,026,766		15,115,459		15,115,459		
TOTAL	<u>\$ 724,766,921</u>	<u>\$(1,621,329)</u>	<u>\$ 543,036,060</u>	<u>\$ 1,675,502</u>	<u>\$ 181,676,688</u>	<u>\$(7,168,679)</u>	<u>\$ 179,730,484</u>	<u>\$ 1,929,969</u>	<u>\$ 7,184,914</u>

(Continued)

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET AS OF JUNE 30, 2007

	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, LLC	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
LIABILITIES AND NET ASSETS/ SHAREHOLDER'S EQUITY									
CURRENT LIABILITIES:									
Accounts payable	\$ 25,183,887	\$ (5,103)	\$ 1,222,950	\$ 32,710	\$ 23,933,330	\$ -	\$ 23,899,497	\$ 21,752	\$ 12,081
Accrued payroll and other	18,263,025		5,947,444	48,642	12,266,939		11,316,834	945,951	4,154
Amounts due to third-party payers	24,425,491				24,425,491		24,438,937	(13,446)	
Current maturities of long-term debt	5,847,504		5,847,504		-				
Due to affiliated organizations	-	(1,720,513)	22,080	1,698,433	-				
Total current liabilities	73,719,907	(1,725,616)	13,039,978	1,779,785	60,625,760	-	59,655,268	954,257	16,235
LONG-TERM DEBT	203,502,171		203,502,171		-				
OTHER LIABILITIES	16,621,149		1,359,694		15,261,455		15,261,455		
Total liabilities	293,843,227	(1,725,616)	217,901,843	1,779,785	75,887,215	-	74,916,723	954,257	16,235
NET ASSETS/SHAREHOLDER'S EQUITY:									
Common stock — at par	-	(7,502,470)		7,502,470	-				
Additional paid-in capital	-	(2,552,286)		2,552,286	-				
Unrestricted net assets/retained earnings	429,171,690	10,159,043	325,134,217	(10,159,039)	104,037,469	(5,416,675)	103,061,757	975,712	5,416,675
Temporarily restricted net assets	1,275,580				1,275,580	(1,275,580)	1,275,580		1,275,580
Permanently restricted net assets	476,424				476,424	(476,424)	476,424		476,424
Total net assets/shareholder's equity	430,923,694	104,287	325,134,217	(104,283)	105,789,473	(7,168,679)	104,813,761	975,712	7,168,679
TOTAL	\$ 724,766,921	\$ (1,621,329)	\$ 543,036,060	\$ 1,675,502	\$ 181,676,688	\$(7,168,679)	\$ 179,730,484	\$ 1,929,969	\$ 7,184,914

(Concluded)

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEAR ENDED JUNE 30, 2007

	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, LLC	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
REVENUES:									
Net patient service revenue	\$326,122,587	\$ -	\$ 30,433,391	\$ -	\$ 295,689,196	\$ -	\$ 285,854,998	\$ 9,834,198	\$ -
Other revenue	15,691,227	(11,802,199)	2,820,736	10,958,615	13,714,075		12,273,927	167,325	1,272,823
Total revenues	<u>341,813,814</u>	<u>(11,802,199)</u>	<u>33,254,127</u>	<u>10,958,615</u>	<u>309,403,271</u>	<u>-</u>	<u>298,128,925</u>	<u>10,001,523</u>	<u>1,272,823</u>
EXPENSES:									
Salaries and benefits	166,642,313		360,820	11,015,119	155,266,374		149,030,475	5,830,359	405,540
Supplies	55,291,403		2,499,744	7,011	52,784,648		52,390,292	393,203	1,153
Purchased services and other	68,743,210	(11,802,199)	29,651,637	57,923	50,835,849	502,009	48,319,608	1,268,099	746,133
Provision for bad debts	17,990,886		1,303,171	1,000	16,686,715		16,648,204	38,511	
Depreciation	14,374,745		1,336,204	4,211	13,034,330		12,878,266	156,064	
Medicaid tax	8,988,954				8,988,954		8,988,954		
Total expenses	<u>332,031,511</u>	<u>(11,802,199)</u>	<u>35,151,576</u>	<u>11,085,264</u>	<u>297,596,870</u>	<u>502,009</u>	<u>288,255,799</u>	<u>7,686,236</u>	<u>1,152,826</u>
OPERATING INCOME (LOSS)	<u>9,782,303</u>	<u>-</u>	<u>(1,897,449)</u>	<u>(126,649)</u>	<u>11,806,401</u>	<u>(502,009)</u>	<u>9,873,126</u>	<u>2,315,287</u>	<u>119,997</u>
NONOPERATING INCOME (EXPENSE):									
Investment income	24,540,390		22,083,742		2,456,648		1,872,086	(9)	584,571
Interest expense	(10,631,544)		(10,631,544)		-				
Amortization expense	(88,400)		(88,400)		-				
Realized loss on refunding of debt	(355,465)		(355,465)		-				
Cash settlements on interest rate swap	484,073		484,073		-				
Unrealized gains on interest rate swap	6,321,811		6,321,811		-				
Distribution of restricted revenue	-				-	675,510			(675,510)
Gain (loss) on investment in subsidiaries	-	126,649	(126,649)		-	(29,058)	29,058		
Change in unrealized gain on hedge fund investments	7,462,201		7,462,201		-				
Total nonoperating income (expense) — net	<u>27,733,066</u>	<u>126,649</u>	<u>25,149,769</u>	<u>-</u>	<u>2,456,648</u>	<u>646,452</u>	<u>1,901,144</u>	<u>(9)</u>	<u>(90,939)</u>

(Continued)

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEAR ENDED JUNE 30, 2007

	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, LLC	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ 37,515,369	\$126,649	\$23,252,320	\$ (126,649)	\$ 14,263,049	\$144,443	\$ 11,774,270	\$2,315,278	\$ 29,058
OTHER CHANGES IN UNRESTRICTED NET ASSETS:									
Net change in unrealized gains on investments	20,383,142		20,401,572		(18,430)	52,811	(18,430)		(52,811)
Unrealized gains on interest rate swap	(3,606,604)		(3,606,604)		-				
Unrestricted contributions in excess of amounts used for capital purchases, operations, and other	173,501				173,501				173,501
Total other changes in unrestricted net assets — net	16,950,039	-	16,794,968	-	155,071	52,811	(18,430)	-	120,690
INCREASE IN UNRESTRICTED NET ASSETS PRIOR TO FASB STATEMENT NO. 158	54,465,408	126,649	40,047,288	(126,649)	14,418,120	197,254	11,755,840	2,315,278	149,748
Adjustment to adopt FASB Statement No. 158	(11,940,828)				(11,940,828)		(11,940,828)		
INCREASE IN UNRESTRICTED NET ASSETS AFTER FASB STATEMENT NO. 158	\$ 42,524,580	\$126,649	\$40,047,288	\$ (126,649)	\$ 2,477,292	\$197,254	\$ (184,988)	\$2,315,278	\$149,748

(Concluded)

**SUPPLEMENTAL SCHEDULE REQUIRED
BY MASTER TRUST DEBT INDENTURE**

ELMHURST MEMORIAL HEALTHCARE OBLIGATED GROUP

SCHEDULE OF ANNUAL DEBT SERVICE COVERAGE RATIO FOR THE YEAR ENDED JUNE 30, 2007 (In thousands)

NET INCOME AVAILABLE FOR DEBT SERVICE:	
Total revenue	<u>\$341,385</u>
Total expenses	331,094
Total nonoperating (income) — net	(27,013)
Less:	
Interest expense	10,632
Amortization expense	88
Depreciation expense	14,371
Pension expense	2,272
Unrealized (gain) on swaps	(6,322)
Change in unrealized (gains) of hedge funds	(7,462)
Loss on early retirement of debt	355
Loss on disposition of fixed assets	<u>30</u>
	<u>290,117</u>
NET INCOME AVAILABLE FOR DEBT SERVICE (A)	<u>\$ 51,268</u>
ANNUAL DEBT SERVICE (B)	<u>\$ 14,679</u>
ANNUAL DEBT SERVICE COVERAGE RATIO (A/B)	3.49

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 US Bancorp, as Master Trustee, dated as of July 1, 1987, as amended through December 15, 2002.