

Elmhurst Memorial Healthcare and Subsidiaries

*Consolidated Financial Statements for the
Years Ended June 30, 2004 and 2003 and
Supplemental Consolidating Schedules for the
Year Ended June 30, 2004 and
Independent Auditors' Report*

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003:	
Balance Sheets	2
Statements of Operations and Changes in Unrestricted Net Assets	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-19
SUPPLEMENTAL CONSOLIDATING SCHEDULES FOR THE YEAR ENDED JUNE 30, 2004:	
Supplemental Consolidating Balance Sheet	20-21
Supplemental Consolidating Statement of Operations and Changes in Unrestricted Net Assets	22

INDEPENDENT AUDITORS' REPORT

Board of Trustees
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, 2004 and 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Memorial Healthcare and Subsidiaries at June 30, 2004 and 2003, 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 1 to the financial statements, in 2003 Elmhurst adopted Statement of Financial Accounting Standards No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, Revision to FASB Statement No. 132 and Statement of Position 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations*, and *Clarification of the Performance Indicator*.

Our 2004 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 2004 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2004 consolidated financial statements taken as a whole.

Deloitte + Touche LLP

September 10, 2004

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2004 AND 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,067,417	\$ 7,198,141
Short-term investments (Note 6)	1,275,726	1,829,146
Patient accounts receivable—less allowances for uncollectible accounts of \$12,325,000 in 2004 and \$12,631,000 in 2003	50,085,421	54,213,835
Inventories	3,971,761	3,880,002
Prepaid expenses, interest receivable, and other	<u>4,933,333</u>	<u>4,491,894</u>
Total current assets	<u>65,333,658</u>	<u>71,613,018</u>
INVESTMENTS—ASSETS LIMITED AS TO USE (Note 6):		
Internally designated for capital improvements	315,683,004	265,139,344
Externally designated investments under bond agreements	23,315,076	16,726,391
Internally designated for medical education and other healthcare services	1,866,335	1,437,433
Externally designated for medical education	<u>294,792</u>	<u></u>
Total assets limited as to use	<u>341,159,207</u>	<u>283,303,168</u>
LAND, BUILDINGS, AND EQUIPMENT—Net (Note 4)	<u>151,230,113</u>	<u>138,865,626</u>
PREPAID PENSION, DEFERRED FINANCING COSTS, AND OTHER (Note 8)	<u>28,554,596</u>	<u>29,960,732</u>
TOTAL ASSETS	<u>\$ 586,277,574</u>	<u>\$ 523,742,544</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 12,886,836	\$ 11,531,316
Accrued payroll and other	19,153,365	18,413,246
Amounts due to third-party payors	5,865,907	7,882,179
Current maturities of long-term debt (Note 7)	<u>4,839,004</u>	<u>3,557,504</u>
Total current liabilities	42,745,112	41,384,245
LONG-TERM DEBT (Note 7)	204,344,271	194,709,750
OTHER LIABILITIES	<u>8,178,576</u>	<u>7,699,861</u>
Total liabilities	<u>255,267,959</u>	<u>243,793,856</u>
NET ASSETS:		
Unrestricted	330,705,098	278,636,222
Temporarily restricted (Note 5)	9,725	1,040,000
Permanently restricted (Note 5)	<u>294,792</u>	<u>272,466</u>
Total net assets	<u>331,009,615</u>	<u>279,948,688</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 586,277,574</u>	<u>\$ 523,742,544</u>

See notes to consolidated financial statements.

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
REVENUES:		
Net patient service revenue	\$ 287,927,816	\$ 268,794,431
Other revenue	<u>11,092,270</u>	<u>11,268,695</u>
Total revenues	<u>299,020,086</u>	<u>280,063,126</u>
EXPENSES:		
Salaries and benefits	149,907,443	142,497,923
Supplies	48,970,439	43,671,911
Purchased services and other	53,277,384	49,140,709
Provision for bad debts	17,879,824	18,373,701
Depreciation	<u>15,114,153</u>	<u>15,032,600</u>
Total expenses (Note 11)	<u>285,149,243</u>	<u>268,716,844</u>
OPERATING INCOME	<u>13,870,843</u>	<u>11,346,282</u>
NONOPERATING INCOME (EXPENSE):		
Investment income (loss) (Note 6)	25,216,779	(553,909)
Interest expense	(9,864,014)	(7,698,247)
Amortization expense	(69,212)	(96,502)
Loss on early extinguishment of debt (Note 7)		(2,710,182)
Realized gain on terminated interest rate swap (Note 7)	1,182,000	
Cash settlements on interest rate swaps (Note 7)	1,579,805	
Unrealized gain (loss) on interest rate swaps (Note 7)	<u>1,306,964</u>	<u>(285,024)</u>
Total nonoperating income (expense)—net	<u>19,352,322</u>	<u>(11,343,864)</u>
EXCESS OF REVENUES OVER EXPENSES	<u>33,223,165</u>	<u>2,418</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net change in unrealized gains on investments	15,272,075	15,238,788
Realized loss on terminated interest rate swap (Note 7)		(3,400,000)
Unrealized gains (losses) on interest rate swap (Note 7)	1,964,201	(3,887,906)
Unrestricted contributions in excess of amounts used for capital purchases, operations and other	<u>1,609,435</u>	<u>439,742</u>
Total other changes in unrestricted net assets—net	<u>18,845,711</u>	<u>8,390,624</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 52,068,876</u>	<u>\$ 8,393,042</u>

See notes to consolidated financial statements.

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 33,223,165	\$ 2,418
Net change in unrealized gains on investments	15,272,075	15,238,788
Realized loss on terminated swap (Note 7)		(3,400,000)
Unrealized gains (losses) on interest rate swap (Note 7)	1,964,201	(3,887,906)
Unrestricted contributions in excess of amounts used for capital purchases, operations and other	<u>1,609,435</u>	<u>439,742</u>
Increase in unrestricted net assets	<u>52,068,876</u>	<u>8,393,042</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions for medical education programs, capital purchases, and other purposes	901,767	1,101,395
Net assets released from restrictions and used for operations, capital purposes, and medical education programs	<u>(1,932,042)</u>	<u>(1,204,819)</u>
Decrease in temporarily restricted net assets	<u>(1,030,275)</u>	<u>(103,424)</u>
PERMANENTLY RESTRICTED NET ASSETS—		
Contributions to endowment funds	<u>22,326</u>	<u>126,066</u>
INCREASE IN NET ASSETS	51,060,927	8,415,684
NET ASSETS—Beginning of year	<u>279,948,688</u>	<u>271,533,004</u>
NET ASSETS—End of year	<u>\$ 331,009,615</u>	<u>\$ 279,948,688</u>

See notes to consolidated financial statements.

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 51,060,927	\$ 8,415,684
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	15,114,153	15,032,600
Amortization of deferred financing costs	69,212	96,502
Change in unrealized gains on investments	(15,272,075)	(15,238,788)
Unrealized (gains) losses on interest rate swaps	(3,271,165)	4,172,930
Restricted contributions—net of assets released from restrictions and used for operations	(1,007,949)	(22,642)
Change in patient accounts receivable:		
Net (increase in) collection of patient accounts receivable	(12,425,324)	28,687,598
Increase (decrease) in contractual allowance reserves	17,240,790	(11,354,900)
Provision for bad debts	17,879,824	18,373,701
Write-offs of accounts receivable	(18,566,876)	(23,283,731)
Decrease (increase) in prepaid pension, deferred financing costs, and other	1,336,924	(2,223,762)
Net change in other assets and liabilities	<u>3,296,049</u>	<u>9,972,058</u>
Net cash provided by operating activities	<u>55,454,490</u>	<u>32,627,250</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of buildings and equipment	(16,227,682)	(11,926,463)
Acquisition of other long-term assets	(11,250,958)	(9,143,641)
Purchases of investments	(164,026,305)	(89,878,645)
Sales and maturities of investments	<u>121,995,761</u>	<u>41,145,285</u>
Net cash used in investing activities	<u>(69,509,184)</u>	<u>(69,803,464)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions—net of assets released from restrictions	1,007,949	22,642
Proceeds from new debt issuance	13,558,792	158,723,555
Repayment of long-term debt	(2,958,979)	(124,045,000)
Payment of bond issue costs	<u>316,208</u>	<u>982,499</u>
Net cash provided by financing activities	<u>11,923,970</u>	<u>35,683,696</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(2,130,724)	(1,492,518)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>7,198,141</u>	<u>8,690,659</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,067,417</u>	<u>\$ 7,198,141</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 10,017,255</u>	<u>\$ 3,737,899</u>

See notes to consolidated financial statements.

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2004 AND 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Elmhurst Memorial Healthcare (“Elmhurst”) is an integrated delivery system that provides healthcare 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, Inc. (“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 a maturity of three months or less when purchased 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 value in the consolidated balance sheets. Investment income is included in unrestricted revenues unless the income or loss is restricted by donor or law (see Note 6). 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, 2004 and 2003.

Assets limited as to use consist of investments set aside by the Board of Trustees for future capital acquisitions and improvements, 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.

Land, Buildings, and Equipment—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.

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 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 April 2002, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds Statement 4, *Reporting Gains and Losses from Extinguishment of Debt—An Amendment of APB Opinion No. 30*, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item and reported as an other change in net assets. As a result, the criteria set forth by APB Opinion 30 will now be used to determine whether those gains and losses meet the criteria of an extraordinary item. It is expected that most early extinguishment of debt transactions will not meet the criteria and would, therefore, be reported as a nonoperating expense. Elmhurst adopted SFAS No. 145 effective July 1, 2002 and recorded the loss on early extinguishment of debt as nonoperating expense (see Note 7).

On December 27, 2002, the American Institute of Certified Public Accountants issued Statement of Position (“SOP”) 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, which amends requirements for reporting of gains and losses on hedging and nonhedging derivative instruments consistent with for-profit enterprise accounting. Elmhurst adopted this statement in 2003 and has recorded the ineffective portion of interest rate swaps as nonoperating expense (see Note 7).

On July 1, 2003, Elmhurst adopted Statement of Position (“SOP”) 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, which amends the Health Care Organizations Audit and Accounting Guide to require reporting of gains and losses on hedging and non-hedging derivative instruments consistent with for-profit enterprise accounting. In accordance with the provisions of the SOP, the interest rate swaps have been determined to be ineffective and the net mark-to-market fair value adjustment of the swaps has been recorded as a component of treasury (see Note 7).

In December 2003, the Financial Accounting Standards Board issued a revision to SFAS No. 132, *Employers’ Disclosures about Pensions and Other Postretirement Benefits*, which revises employers’ disclosures but does not change the measurement or recognition of those plans. Elmhurst implemented the requirements of SFAS No. 132 for the year ended June 30, 2004.

On March 20, 2003, Elmhurst adopted Emerging Issues Task Force (“EITF”) Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. EITF Issue No. 03-1 addresses how to determine the meaning of other-than-temporary in accounting for impairments and how that concept should be applied to investments accounted for under the cost method, the equity method, as either available-for-sale, or held-to-maturity under SFAS No. 115 or in accordance with SFAS No. 124.

Reclassifications—Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

2. CONTRACTUAL ARRANGEMENTS WITH THIRD-PARTY PAYORS

Elmhurst provides care to certain patients under payment arrangements with Medicare, Medicaid, Blue Cross, and various health maintenance and preferred provider organizations. Services provided under these arrangements are paid at predetermined rates and/or reimbursable costs, as defined. Reported costs and/or services provided under the arrangements are subject to audit by the administering agencies. Changes in Medicare and Medicaid programs and reduction of funding levels could have an adverse effect on the future amounts recognized as net patient service revenue.

Amounts received under Medicare payment arrangement account for 33% and 32% of Elmhurst’s net patient service revenue in 2004 and 2003, respectively. Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the standard charges for services and actual or estimated payment. Elmhurst’s concentration of credit risk relating to accounts receivable is limited due to the diversity of patients and payors.

The mix of gross receivables from patients and third-party payors at June 30, 2004 and 2003 was as follows:

	2004	2003
Medicare	34 %	32 %
Medicaid	13	9
Managed care	39	42
Self-pay	7	9
Other	<u>7</u>	<u>8</u>
Total	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Elmhurst believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

3. COMMUNITY COMMITMENT

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

	2004	2003
Charity care (foregone charges)	\$ 7,886,943	\$ 5,859,024
Unreimbursed cost (cost less reimbursement)	<u>6,120,532</u>	<u>4,410,948</u>
Total	<u>\$14,007,475</u>	<u>\$10,269,972</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 approximately \$1,425,000 and \$1,489,000 in 2004 and 2003, respectively.

4. LAND, BUILDINGS, AND EQUIPMENT

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

	2004	2003
Land and land improvements	\$ 21,643,172	\$ 20,966,412
Buildings	174,170,467	172,911,289
Equipment	144,374,091	134,853,076
Construction in progress	6,818,128	5,257,942
Land held for future use	<u>21,145,056</u>	<u>9,894,098</u>
	368,150,914	343,882,817
Less accumulated depreciation	<u>216,920,802</u>	<u>205,017,191</u>
Total	<u><u>\$ 151,230,112</u></u>	<u><u>\$ 138,865,626</u></u>

Elmhurst is constructing a free-standing ambulatory services building in Lombard, Illinois, which is expected to be completed in 2005. The estimated cost of this project is \$13,875,000, of which \$2,145,000 has been incurred as of June 30, 2004.

On July 29, 2004, the Board of Trustees of Elmhurst Memorial Healthcare 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 2006 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. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$9,725 and \$1,040,000 at June 30, 2004 and 2003, respectively, are available for medical education, other healthcare programs and capital purchases.

Permanently restricted net assets of \$294,792 and \$272,466 at June 30, 2004 and 2003, respectively, are investments to be held in perpetuity, the income from which is expendable to support healthcare services.

During 2004 and 2003, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of medical education and other healthcare programs amounting to \$322,607 and \$765,077, respectively.

6. INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS

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

	2004	2003
Cash	\$ 1,016,470	\$ -
Certificates of deposit	1,275,726	1,829,146
Commercial paper	8,127,710	4,532,311
Corporate bonds	1,263,482	1,013,150
United States government obligations	11,686,262	10,428,619
Mutual funds invested in fixed-income securities	125,591,925	129,922,780
Equity securities	162,505,008	137,406,308
Hedge funds	<u>30,968,350</u>	<u> </u>
Total	<u>\$ 342,434,933</u>	<u>\$ 285,132,314</u>

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

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

	2004	2003
Interest and dividend income	\$ 16,676,527	\$ 8,476,497
Realized gains (losses)	<u>8,540,252</u>	<u>(9,030,406)</u>
Total investment income	<u>\$ 25,216,779</u>	<u>\$ (553,909)</u>

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 \$3,281,400 and \$10,573,988 more than its carrying value (see Note 7) at June 30, 2004 and 2003, respectively.

At June 30, 2004, the aggregate unrealized losses and related market values for investments were as follows:

	Aggregate Unrealized Losses	Aggregate Market Value
Investments in an unrealized loss position for less than twelve months	<u>\$ 1,210,806</u>	<u>\$ 149,115,596</u>
Investments in an unrealized loss position for twelve months or more	<u>\$ -</u>	<u>\$ -</u>

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.

7. LONG-TERM DEBT

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

	2004	2003
Taxable convertible variable rate unsecured revenue bonds (1.15% and 1.09% at June 30, 2004 and 2003, 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	139,431,249	140,390,224
Variable rate direct note obligation Series 1985C and 1985D (1.08% at June 30, 2004), maturing on December 15, 2008	16,333,326	18,333,330
Variable rate direct note obligation Series 2004A (1.08% at June 30, 2004), maturing on January 1, 2024	6,482,000	
Taxable convertible variable rate demand direct note obligation Series 2004B (1.29% at June 30, 2004), maturing on January 1, 2024	7,393,000	
Other long-term borrowings	<u>143,700</u>	<u>143,700</u>
	209,183,275	198,267,254
Less current maturities of long-term debt	<u>4,839,004</u>	<u>3,557,504</u>
Total	<u>\$204,344,271</u>	<u>\$194,709,750</u>

In April 2004, Elmhurst issued \$13,875,000 Series 2004 A&B variable rate unsecured direct obligation bonds. The proceeds are being 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 acquire land for the planned integrated healthcare campus.

In December 2002, Elmhurst issued \$141,540,000 Series 2002D Revenue Refunding Bonds. The proceeds were used to legally extinguish the Series 1991 Revenue Bonds, the Series 1993A Revenue Refunding Bonds, the Series 1993B Demand Revenue Bonds and the Series 1998A Revenue Bonds. In connection with the extinguishment, a loss of \$2,710,182 was recorded in 2003 representing the write-off of unamortized bond issue costs and related call premiums.

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, 2004), 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, 2004.

The maturities and annual sinking fund requirements for the fiscal years ending June 30, 2005 through 2009, on the outstanding long-term debt are as follows, assuming remarketing of variable rate unsecured demand revenue bonds: 2005—\$4,839,004; 2006—\$4,915,510; 2007—\$5,041,504; 2008—\$5,188,004; 2009—\$5,305,504; and thereafter—\$183,893,749.

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, 2004 and 2003, 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 rate 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 1-month LIBOR on a notional amount of \$39.4 million. The swap generally matches the terms of the \$39.4 million Series 1998B taxable bonds but expires on October 2, 2006. The Fixed Payer qualifies for hedge accounting treatment as a cash flow hedge.
- 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 million, extending over a twenty-year period. The Basis Swap does not qualify for hedge accounting.
- In July 2002, Elmhurst entered into a Fixed Receiver Interest Rate Swap (“Rate Lock”) agreement to fix its interest rate at 4.33% on the Series 2002D fixed rate financing (completed December 2002). The swap was an effective hedge as of November 1, 2002, had a twenty-six year term and a notional amount of \$88.9 million. Elmhurst terminated the Rate Lock in December 2002 with a payment to the counterparty of \$3.4 million since rates had dropped from July levels. The loss on the terminated swap was treated as a realized loss in other changes in unrestricted net assets for the year ended June 30, 2003.
- 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 \$40.0 million. This agreement also includes a counterparty termination option effective August 2011 and anytime thereafter. The swap extends over a twenty-seven-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 \$40.0 million. 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 \$1.182 million. 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.

	Fixed Payer	Basis Swap	Fixed Receiver Rate Lock	Long-Term Fixed Receiver	Short-Term Fixed Receiver	
Execution date	Oct-01	May-02	Jul-02	Aug-03	Aug-03	
Notional amount	\$ 39,400,000	\$ 50,000,000	\$ 88,900,000	\$ 40,000,000	\$ 40,000,000	
Elmhurst pays the counterparty	4.54 %	BMA	BMA	BMA	BMA	
Counterparty pays Elmhurst	LIBOR	76.2% LIBOR	4.33 %	4.64 %	3.08 %	
Termination date	Oct-06	May-22	Aug-28	Aug-30	Aug-08	
Qualifies for hedge accounting	yes	no	yes	no	no	
Market Value (Liability) of Derivative Contracts	Fixed Payer	Basis Swap	Fixed Receiver Rate Lock	Long-Term Fixed Receiver	Short-Term Fixed Receiver	Other Liabilities
Balance at June 30, 2002	\$ (438,299)	\$ (663,581)	\$ -	\$ -	\$ -	\$(1,101,880)
Changes in value:						
Prior to adopting SOP 02-2		(1,130,525)	(1)			(1,130,525)
After adopting SOP 02-2	<u>(2,757,381)</u>	<u>(285,024)</u>	(3)			<u>(3,042,405)</u>
Balance at June 30, 2003	(3,195,680)	(2,079,130)				(5,274,810)
Changes in value	<u>1,964,201</u>	<u>1,435,426</u>	(5)	<u>(128,462)</u>	(5)	<u>3,271,165</u>
Balance at June 30, 2004	<u>\$(1,231,479)</u>	<u>\$(643,704)</u>	<u>\$ -</u>	<u>\$(128,462)</u>	<u>\$ -</u>	<u>\$(2,003,645)</u>
Net Cash Flow Received (Paid) by Elmhurst under Derivative Contracts Year Ended June 30, 2003	Fixed Payer	Basis Swap	Fixed Receiver Rate Lock	Long-Term Fixed Receiver	Short-Term Fixed Receiver	Cash Flow
Cash from contractual payments	\$(1,290,281)	(6)	\$ -	\$ -	\$ -	\$(1,290,281)
Termination cash flows			<u>(3,400,000)</u>	(9)		<u>(3,400,000)</u>
Total	<u>\$(1,290,281)</u>	<u>\$ -</u>	<u>\$(3,400,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(4,690,281)</u>
Year Ended June 30, 2004						
Cash from contractual payments	\$(1,269,324)	(7)	\$(16,574)	(8)	\$ 498,929	(8) \$ 310,481
Termination cash flows					<u>1,182,000</u>	(9) <u>1,182,000</u>
Total	<u>\$(1,269,324)</u>	<u>\$(16,574)</u>	<u>\$ -</u>	<u>\$1,097,450</u>	<u>\$1,680,929</u>	<u>\$ 1,492,481</u>

Financial Reporting: Year Ended June 30, 2003	Fixed Payer	Basis Swap	Fixed Receiver Rate Lock	Long-Term Fixed Receiver	Short-Term Fixed Receiver
Nonoperating income (expense):					
Interest expense	\$(1,290,281) ⁽⁶⁾	\$ -	\$ -	\$ -	\$ -
Unrealized gain (loss) on interest rate swaps		(285,024) ⁽³⁾			
Other changes in unrestricted net assets:					
Unrealized gain (loss) on interest rate swaps	(2,757,381) ⁽²⁾				
Realized loss on terminated interest rate swap			(3,400,000) ⁽⁹⁾		
Year Ended June 30, 2004					
Nonoperating income (expense):					
Interest expense	(1,269,324) ⁽⁷⁾				
Realized gain on terminated interest rate swap					1,182,000 ⁽⁹⁾
Unrealized gain (loss) on interest rate swaps		1,435,426 ⁽⁵⁾		(128,462) ⁽⁵⁾	
Cash settlements on interest rate swaps		(16,574) ⁽⁸⁾		1,097,450 ⁽⁸⁾	498,929 ⁽⁸⁾
Other changes in unrestricted net assets:					
Unrealized gain (loss) on interest rate swap	1,964,201 ⁽⁴⁾				

- (1) Elmhurst adopted SOP 02-2 on January 1, 2003 and began to include market value changes for non-qualifying swaps in the performance indicator. A change in market value between 6/30/03 and 12/31/03 totaling \$(1,130,525) was excluded from the performance indicator.
- (2) The change in market value for the Fixed Payer during FY '03 was classified as an unrealized loss of \$(2,757,381) in the 6/30/03 Schedule of other changes in unrestricted net assets.
- (3) The change in market value for the Basis Swap since the adoption of SOP 02-2 (01/01/03) was classified as an unrealized loss of \$(285,024) in the nonoperating income section of the 6/30/04 income statement.
- (4) On March 8, 2004, Elmhurst terminated its Short-Term Fixed Receiver in exchange for a payment of \$1.182 million from its counterparty. The payment was classified as a realized gain in the nonoperating income section of the 6/30/04 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 6/30/04 Schedule of other changes in unrestricted net assets.
- (6) The changes in market values for the Basis Swap and the Long-Term Fixed Receiver during FY '04 were classified as an unrealized gain of \$1,306,964 in the 6/30/04 nonoperating section of the income statement.
- (7) The cash settlements completed under the Fixed Payer agreement during FY '03 totaled a loss of \$(1,290,281) and was classified as interest expense on the 6/30/03 income statement.
- (8) 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 6/30/04 income statement.
- (9) The cash settlements completed under the Basis Swap, the Long-Term Fixed Receiver and the Short-Term Fixed Receiver 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 6/30/04 income statement.

8. EMPLOYEE RETIREMENT PLANS

On December 8, 2003, the Medicare Act was signed into law. The Medicare Act introduced a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

In January 2004, the Financial Accounting Standards Board (“FASB”) issued FSP No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. This FSP provides companies with initial guidance on recognizing the effects of the prescription drug provisions of the Medicare Act. As allowed by the FSP, Elmhurst elected to defer recognition until further guidance is issued by the FASB. As such, any measurement of the accumulated post-retirement benefit obligations or net periodic benefit cost in the 2004 financial statements and accompanying footnotes do not reflect the effects of the Medicare Act. Upon issuance of further guidance, Elmhurst may be required to change previously reported information.

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. Elmhurst may contribute approximately \$500,000 to the plan in fiscal year 2005, although none is actuarially determined to be required.

Information regarding the benefit obligations and assets of the pension plan as of and for the years ended June 30, 2004 and 2003 are as follows:

	Pension Benefits	
	2004	2003
Projected benefit obligation:		
Projected benefit obligation—beginning of year	\$ 91,957,419	\$ 71,411,354
Service cost	4,317,645	3,214,953
Interest cost	5,661,814	5,091,198
Plan changes		1,658,245
Actuarial losses	1,193,566	13,102,335
Benefits paid	<u>(2,891,675)</u>	<u>(2,520,666)</u>
Projected benefit obligation—end of year	<u>\$ 100,238,769</u>	<u>\$ 91,957,419</u>
Change in plan assets:		
Fair value of plan assets—beginning of year	\$ 88,200,589	\$ 106,525,713
Actual return (loss) on plan assets	29,297,754	(15,804,458)
Benefits paid	<u>(2,891,675)</u>	<u>(2,520,666)</u>
Fair value of plan assets—end of year	<u>\$ 114,606,668</u>	<u>\$ 88,200,589</u>
Funded status:		
Unrecognized net actuarial loss	\$ 14,367,899	\$ (3,756,830)
Unrecognized prior service cost	6,599,099	24,900,623
Unrecognized net transitional asset	<u>1,541,984</u>	<u>1,699,230</u>
Prepaid pension expense included in prepaid pension, deferred financing costs and other	<u>22,508,982</u>	<u>22,843,023</u>
Net amount recognized	<u>\$ 22,508,982</u>	<u>\$ 22,843,023</u>
Assumptions:		
Discount rate	6.25 %	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):

	2004	2003
Equity securities	59.1 %	62.3 %
Fixed income securities	34.2 %	37.3 %
Cash and cash equivalents	<u>6.7 %</u>	<u>0.4 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

The pension fund is managed in accordance with the policies established by the 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:

Year Ending December 31	Amount
2005	\$ 2,890,778
2006	3,323,215
2007	3,632,269
2008	3,981,356
2009	4,386,272
2010-2014	28,724,701

Net periodic benefit cost (credit) for 2004 and 2003 includes the following components:

	Pension Benefits	
	2004	2003
Service cost—benefits earned during the year	\$ 4,317,645	\$ 3,214,953
Interest cost on projected benefit obligation	5,661,814	5,091,198
Expected (return) loss on plan assets	(9,802,664)	(9,697,635)
Amortization of prior service costs	157,246	(195,757)
Amortization of unrecognized net loss	<u> </u>	<u>(1,175,062)</u>
Net periodic benefit cost (credit)	<u>\$ 334,041</u>	<u>\$ (2,762,303)</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 \$1,283,159 and \$1,211,610 for the years ended June 30, 2004 and 2003, respectively.

In addition, Elmhurst also maintains a noncontributory, supplemental defined-benefit retirement plan (the “Supplemental Plan”) for certain executive employees. As of June 30, 2004 and 2003, the projected benefit obligation amounted to approximately \$3,314,000 and \$2,309,000, respectively. As of June 30, 2004 and 2003, the unrecognized prior service cost amounted to approximately \$673,000 and \$623,000, respectively. At June 30, 2004 and 2003, accrued pension cost of \$1,856,000 and \$1,429,000, respectively, is included in other liabilities. The weighted-average discount rate utilized in determining the actuarial present value of the projected benefit obligation was 6.25% in 2004 and 2003.

9. 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, 2004 and 2003, Elmhurst recorded in other liabilities a reserve for incurred but not reported claims of approximately \$2,760,000 and \$996,000, 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 as 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.

10. TAX STATUS

Elmhurst Memorial Health Technologies, Inc., a wholly owned subsidiary of Elmhurst, is a for-profit corporation.

For the year ended June 30, 2004, HTI had net operating gains of \$190,043 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, 2004, approximately \$5,013,293 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, 2004. 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).

11. FUNCTIONAL EXPENSES

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

	2004	2003
Health care services	\$ 216,188,750	\$ 205,683,760
General and administrative	<u>68,960,493</u>	<u>63,033,084</u>
Total	<u><u>\$ 285,149,243</u></u>	<u><u>\$ 268,716,844</u></u>

* * * * *

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

JUNE 30, 2004

ASSETS	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 ASSETS:									
Cash and cash equivalents	\$ 5,067,417	\$ -	\$ 2,338,691	\$ 841,063	\$ 1,887,663	\$ -	\$ -	\$ -	\$1,887,663
Short-term investments	1,275,726		437,865		837,861				837,861
Patient accounts receivable—less allowances for uncollectible accounts	50,085,421		3,462,705	(311)	46,623,027		45,652,713	970,314	
Inventories	3,971,761		144,305	11,908	3,815,548		3,783,833	31,715	
Prepaid expenses, interest receivable, and other Due from affiliated organizations	4,933,333	(1,300,000)	453,345	1,340,999	4,438,989	(32,738)	4,374,908	57,925	6,156
		<u>(799,981)</u>			<u>799,981</u>		<u>804,218</u>	<u>28,501</u>	
Total current assets	<u>65,333,658</u>	<u>(2,099,981)</u>	<u>6,836,911</u>	<u>2,193,659</u>	<u>58,403,069</u>	<u>(32,738)</u>	<u>54,615,672</u>	<u>1,088,455</u>	<u>2,731,680</u>
INVESTMENTS—ASSETS LIMITED AS TO USE:									
Internally designated for capital improvements	315,683,004		315,683,004						
Externally designated investments under bond agreements	23,315,076		21,964,607		1,350,469		1,350,469		
Internally designated for medical education and other healthcare services	1,866,335				1,866,335				1,866,335
Externally designated for medical education	<u>294,792</u>				<u>294,792</u>				<u>294,792</u>
Total assets limited as to use	<u>341,159,207</u>	<u>-</u>	<u>337,647,611</u>	<u>-</u>	<u>3,511,596</u>	<u>-</u>	<u>1,350,469</u>	<u>-</u>	<u>2,161,127</u>
LAND, BUILDINGS, AND EQUIPMENT—Net	<u>151,230,113</u>	<u>-</u>	<u>42,016,442</u>	<u>4,976</u>	<u>109,208,695</u>	<u>-</u>	<u>108,889,295</u>	<u>319,400</u>	
INVESTMENT IN SUBSIDIARIES	<u>-</u>	<u>(1,265,837)</u>	<u>1,265,837</u>	<u>-</u>	<u>-</u>	<u>(4,859,575)</u>	<u>4,859,575</u>	<u>-</u>	<u>-</u>
PREPAID PENSION, DEFERRED FINANCING COSTS, AND OTHER	<u>28,554,596</u>		<u>5,036,348</u>		<u>23,518,248</u>		<u>23,518,248</u>		
TOTAL ASSETS	<u>\$586,277,574</u>	<u>\$(3,365,818)</u>	<u>\$392,803,149</u>	<u>\$2,198,635</u>	<u>\$194,641,608</u>	<u>\$(4,892,313)</u>	<u>\$193,233,259</u>	<u>\$1,407,855</u>	<u>\$4,892,807</u>

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET

JUNE 30, 2004

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	\$ 12,886,836	\$ (1,300,000)	\$ 2,755,598	\$ 45,353	\$ 11,385,885	\$ -	\$ 11,321,475	\$ 63,916	\$ 494
Accrued payroll and other	19,153,365		7,257,601	101,494	11,794,270		11,096,344	697,926	
Amounts due to third-party payors	5,865,907				5,865,907		5,893,579	(27,672)	
Current maturities of long-term debt	4,839,004		4,839,004						
Due to affiliated organizations		(799,981)	14,030	785,951		(32,738)			32,738
Total current liabilities	42,745,112	(2,099,981)	14,866,233	932,798	29,046,062	(32,738)	28,311,398	734,170	33,232
LONG-TERM DEBT	204,344,271		204,344,271						
OTHER LIABILITIES	8,178,576		3,562,318		4,616,258		4,616,258		
Total liabilities	255,267,959	(2,099,981)	222,772,822	932,798	33,662,320	(32,738)	32,927,656	734,170	33,232
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	330,705,098	10,088,919	170,030,327	(10,088,919)	160,674,771	(4,555,058)	160,001,086	673,685	4,555,058
Temporarily restricted net assets	9,725				9,725	(9,725)	9,725		9,725
Permanently restricted net assets	294,792				294,792	(294,792)	294,792		294,792
Total net assets/shareholder's equity	331,009,615	(1,265,837)	170,030,327	1,265,837	160,979,288	(4,859,575)	160,305,603	673,685	4,859,575
TOTAL LIABILITIES AND NET ASSETS/ SHAREHOLDER'S EQUITY	\$586,277,574	\$ (3,365,818)	\$392,803,149	\$ 2,198,635	\$194,641,608	\$ (4,892,313)	\$193,233,259	\$1,407,855	\$4,892,807

ELMHURST MEMORIAL HEALTHCARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS YEAR ENDED JUNE 30, 2004

	Consolidated	(Eliminations)	Elmhurst Memorial Healthcare	Health Technologies, Inc.	Elmhurst Memorial Hospital Consolidated	(Eliminations)	Elmhurst Memorial Hospital	Elmhurst Memorial Home Health	Elmhurst Memorial Hospital Foundation
REVENUES:									
Net patient service revenue	\$ 287,927,816	\$ -	\$ 25,263,539	\$ -	\$ 262,664,277	\$ -	\$ 253,774,535	\$ 8,889,742	\$ -
Other revenue	<u>11,092,270</u>	<u>(9,316,719)</u>	<u>1,175,722</u>	<u>9,895,392</u>	<u>9,337,875</u>		<u>8,128,884</u>	<u>118,736</u>	<u>1,090,255</u>
Total revenues	<u>299,020,086</u>	<u>(9,316,719)</u>	<u>26,439,261</u>	<u>9,895,392</u>	<u>272,002,152</u>	<u>-</u>	<u>261,903,419</u>	<u>9,008,478</u>	<u>1,090,255</u>
EXPENSES:									
Salaries and benefits	149,907,443		1,175,031	8,878,283	139,854,129		133,905,405	5,665,798	282,926
Supplies	48,970,439		1,839,213	3,467	47,127,759		46,661,853	465,136	770
Purchased services and other	53,277,384	(9,316,719)	24,226,518	635,205	37,732,380	319,695	36,287,387	967,513	157,785
Provision for bad debts	17,879,824		1,004,092	140,549	16,735,183		16,706,014	29,169	
Depreciation	<u>15,114,153</u>		<u>629,085</u>	<u>48,505</u>	<u>14,436,563</u>		<u>14,257,943</u>	<u>178,620</u>	
Total expenses	<u>285,149,243</u>	<u>(9,316,719)</u>	<u>28,873,939</u>	<u>9,706,009</u>	<u>255,886,014</u>	<u>319,695</u>	<u>247,818,602</u>	<u>7,306,236</u>	<u>441,481</u>
OPERATING INCOME (LOSS)	<u>13,870,843</u>	<u>-</u>	<u>(2,434,678)</u>	<u>189,383</u>	<u>16,116,138</u>	<u>(319,695)</u>	<u>14,084,817</u>	<u>1,702,242</u>	<u>648,774</u>
NONOPERATING INCOME (EXPENSE):									
Investment income	25,216,779		24,567,354	660	648,765		550,387		98,378
Interest expense	(9,864,014)		(9,864,014)						
Amortization expense	(69,212)		(69,212)						
Realized gain on terminated interest rate swap	1,182,000		1,182,000						
Cash settlements on interest rate swap	1,579,805		1,579,805						
Unrealized gains on interest rate swap	1,306,964		1,306,964						
Distribution of restricted revenue						856,715			(856,715)
Gain (loss) on investment in subsidiaries		(190,043)	190,043			109,563	(109,563)		
Total nonoperating income (expense)—net	<u>19,352,322</u>	<u>(190,043)</u>	<u>18,892,940</u>	<u>660</u>	<u>648,765</u>	<u>966,278</u>	<u>440,824</u>	<u>-</u>	<u>(758,337)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>33,223,165</u>	<u>(190,043)</u>	<u>16,458,262</u>	<u>190,043</u>	<u>16,764,903</u>	<u>646,583</u>	<u>14,525,641</u>	<u>1,702,242</u>	<u>(109,563)</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS:									
Net change in unrealized gains on investments	15,272,075		14,689,071		583,004	(96,186)	583,004		96,186
Unrealized gains on interest rate swap	1,964,201		1,964,201						
Unrestricted contributions in excess of amounts used for capital purchases, operations and other	<u>1,609,435</u>				<u>1,609,435</u>				<u>1,609,435</u>
Total other changes in unrestricted net assets—net	<u>18,845,711</u>	<u>-</u>	<u>16,653,272</u>	<u>-</u>	<u>2,192,439</u>	<u>(96,186)</u>	<u>583,004</u>	<u>-</u>	<u>1,705,621</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 52,068,876</u>	<u>\$ (190,043)</u>	<u>\$ 33,111,534</u>	<u>\$ 190,043</u>	<u>\$ 18,957,342</u>	<u>\$ 550,397</u>	<u>\$ 15,108,645</u>	<u>\$ 1,702,242</u>	<u>\$ 1,596,058</u>