Elmhurst Memorial Healthcare and Subsidiaries

Financial Report
June 30, 2012

ATTACHMENT 6

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McGladrey

Independent Auditor's Report

To the Board of Trustees
Elmhurst Memorial Healthcare
Elmhurst, Illinois

We have audited the accompanying consolidated balance sheets of Elmhurst Memorial Healthcare and Subsidiaries ("Elmhurst") as of June 30, 2012 and 2011, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elmhurst Memorial Healthcare and Subsidiaries as of June 30, 2012 and 2011, and the results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
September 24, 2012, except for
Note 16, as to which the date is
November 14, 2012

Member of the RSM International network of independent accounting, tax and consulting firms.

Elmhurst Memorial Healthcare and Subsidiaries

Consolidated Balance Sheets
June 30, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 19,639,323	$ 23,339,411
Short-term investments	1,112,672	1,111,519
Patient accounts receivable - less allowances for uncollectible accounts of $12,640,000 in 2012 and $11,262,000 in 2011	66,626,246	58,609,224
Inventories	7,149,569	7,518,757
Prepaid expenses, interest receivable, and other	10,530,647	8,955,528
Amounts due from third-party payors	11,455,785	12,362,561
Total current assets	116,514,242	111,897,000
Investments and Assets Limited as to Use		
Internally designated for capital improvements	188,934,325	254,728,404
Externally designated investments under bond agreements	36,116,963	31,772,065
Other investments and assets limited as to use	5,041,422	5,184,913
Total investments and assets limited as to use	230,092,710	291,685,382
Cash and Investments Posted as Swap Collateral	33,006,309	3,071,351
Land, Buildings, and Equipment - net	573,787,554	617,754,041
Prepaid Pension, Deferred Financing Costs, and Other	14,512,217	14,190,865
	$ 967,913,032	$ 1,038,598,639
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 21,031,487	$ 70,032,811
Accrued payroll and other	29,753,122	25,843,876
Amounts due to third-party payors	30,602,314	28,351,919
Current maturities of debt	5,849,267	5,330,004
Borrowings under lines of credit	20,000,000	-
Total current liabilities	107,236,190	129,558,610
Long-Term Debt, excluding current maturities	501,167,655	506,862,261
Other Liabilities	57,268,757	36,924,815
Accrued Pension	59,986,565	15,422,911
Total liabilities	725,659,167	688,768,597
Net Assets		
Unrestricted	237,274,671	344,521,228
Temporarily restricted	4,489,679	4,819,299
Permanently restricted	489,515	489,515
	242,253,865	349,830,042
	$ 967,913,032	$ 1,038,598,639

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, 2012 and 2011

	2012	2011
Revenues:		
Net patient service revenue	**$ 388,422,359**	$ 351,433,096
Other revenue	**21,523,880**	17,640,810
	409,946,239	369,073,906
Expenses:		
Salaries and benefits	**182,648,092**	170,002,163
Supplies	**62,882,821**	56,741,466
Purchased services and other	**105,218,796**	96,349,018
Provision for bad debts	**22,650,261**	24,585,166
Depreciation and other charges relating to buildings and equipment	**53,538,658**	34,158,449
Medicaid tax	**7,312,614**	7,310,342
One-time costs associated with new hospital	**-**	4,628,954
	434,251,242	393,775,558
Operating loss	**(24,305,003)**	(24,701,652)
Nonoperating income (expense):		
Investment income	**9,599,382**	12,529,020
Unrealized (losses) gains on investments	**(10,388,862)**	35,352,995
Interest expense	**(15,044,147)**	(7,662,371)
Expenses related to debt and investments	**(2,527,184)**	(969,232)
Amortization of deferred financing costs	**(140,494)**	(145,481)
Cash settlements on interest rate swaps	**(1,929,526)**	1,008,257
Unrealized (loss) gain on interest rate swaps	**(19,810,840)**	4,694,741
Change in unrealized gain on hedge fund investments	**1,532,821**	(677,730)
	(38,708,850)	44,130,199
Excess (deficit) of revenue over expenses	**(63,013,853)**	19,428,547
Other changes in unrestricted net assets:		
Discontinued operations (Note 14)	**(1,688,478)**	2,412,465
Amortization of gain on discontinuation of hedge accounting	**177,334**	178,463
Pension and supplemental plan related changes, other than net periodic pension cost	**(42,721,560)**	26,851,456
Temporarily restricted contributions released for capital projects	**-**	2,000,000
	(44,232,704)	31,442,384
(Decrease) increase in unrestricted net assets	**$ (107,246,557)**	$ 50,870,931

See Notes to Consolidated Financial Statements.

Elmhurst Memorial Healthcare and Subsidiaries

Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted net assets:		
Excess (deficit) of revenue over expenses	**$ (63,013,853)**	$ 19,428,547
Discontinued operations (Note 14)	**(1,688,478)**	2,412,465
Amortization of gain on discontinuation of hedge accounting	**177,334**	178,463
Pension and supplemental plan related changes, other than net periodic pension cost	**(42,721,560)**	26,851,456
Temporarily restricted contributions released for capital projects	**-**	2,000,000
(Decrease) increase in unrestricted net assets	**(107,246,557)**	50,870,931
Temporarily restricted net assets:		
Contributions for medical education programs, capital purchases, and other purposes	**2,060,828**	2,712,314
Net assets released from restrictions and used for operations, capital purposes, and medical education programs	**(2,390,448)**	(4,020,288)
Decrease in temporarily restricted net assets	**(329,620)**	(1,307,974)
(Decrease) increase in net assets	**(107,576,177)**	49,562,957
Net assets:		
Beginning of year	**349,830,042**	300,267,085
End of year	**$ 242,253,865**	$ 349,830,042

See Notes to Consolidated Financial Statements.

Elmhurst Memorial Healthcare and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
(Decrease) increase in net assets	**$ (107,576,177)**	$ 49,562,957
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and other charges relating to buildings and equipment	**53,538,658**	34,543,448
Loss on disposal of assets	**365,176**	27,939
Amortization of deferred financing costs	**140,494**	145,481
Amortization of bond discount/premium	**154,661**	140,466
Unrealized losses (gains) on investments	**8,856,041**	(34,675,265)
Unrealized loss (gain) on interest rate swaps	**19,810,840**	(4,694,741)
Restricted contributions	**-**	(2,000,000)
Change in patient accounts receivable:		
Net increase in patient accounts receivable	**(22,578,632)**	(46,542,020)
Increase in contractual allowances	**17,620,385**	36,810,486
Provision for bad debts	**22,650,261**	25,233,612
Write-offs of accounts receivable	**(25,709,036)**	(22,314,856)
(Decrease) increase in prepaid pension, deferred financing costs, and other	**512,154**	1,002,631
Net change in other assets and liabilities	**47,267,346**	(54,766,368)
Net cash provided by (used in) operating activities	**15,052,171**	(17,526,230)
Cash Flows from Investing Activities		
Acquisition of buildings and equipment	**(56,383,012)**	(125,812,087)
Proceeds from sale of buildings and equipment	**160,237**	31,350
Purchases of investments	**(23,544,006)**	(40,198,167)
Proceeds from sales and maturities of investments	**76,279,484**	198,947,521
Cash and investments posted as swap collateral	**(29,934,958)**	(3,071,351)
Net cash (used in) provided by investing activities	**(33,422,255)**	29,897,266
Cash Flows from Financing Activities		
Borrowings on lines of credit	**20,000,000**	-
Proceeds from restricted contributions - net of assets released from restrictions	**-**	2,000,000
Repayment of long-term debt	**(5,330,004)**	(5,225,004)
Net cash provided by (used in) financing activities	**14,669,996**	(3,225,004)
(Decrease) increase in cash and cash equivalents	**(3,700,088)**	9,146,032
Cash and cash equivalents:		
Beginning of year	**23,339,411**	14,193,379
End of year	**$ 19,639,323**	$ 23,339,411
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	**$ 11,594,310**	$ 11,296,800
Supplemental Schedule of Noncash Investing and Financing Activities		
Capital acquisitions funded through accounts payable	**$ 1,354,098**	$ 47,639,526

See Notes to Consolidated Financial Statements.

Note 1. Organization and Summary of Significant Accounting Policies

Organization: Elmhurst Memorial Healthcare and Subsidiaries ("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").

Principles of consolidation: 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. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of the net patient accounts receivable and settlements with third-party payors, the accrual for professional liability, accrued pension cost and the valuation of alternative investments and derivative financial instruments. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the consolidated financial statements.

Cash equivalents: Elmhurst considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

Throughout the year, Elmhurst may have amounts on deposit with financial institutions in excess of those insured by the Federal Deposit Insurance Corporation. Elmhurst has not experienced any losses in such accounts.

Patient accounts receivable, allowance for uncollectible accounts and amounts due from/to third party-payors: The collection of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual allowances or discounts provided to third-party payors.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Patient receivables due directly from patients are carried at the original charge for the service provided less amounts covered by third-party payors and less estimated allowances for uncollectible accounts and charity. Management estimates the allowance for uncollectible accounts based on the aging of its accounts receivable and its historical collection experience for each payor type. Management estimates the allowance for charity based on the Hospital's charity care policy and historical charity care experience. Recoveries of receivables previously written off as uncollectible are recorded as a reduction of the provision for bad debts when received. The provision for bad debts for the year ended June 30, 2011, was increased by a change in estimate related to prior year receivables of approximately $4,300,000.

The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. Interest is generally not charged on past due accounts.

Receivables or payables related to estimated settlements on various third-party payor contracts, primarily Medicare and Blue Cross, are reported as amounts due from or to third-party payors. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the Hospital's collection of accounts receivable, cash flows and results of operations.

Inventories: Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist mainly of supplies.

Investments and assets limited as to use: Investments in equity securities, mutual funds, and debt securities are measured at fair value in the consolidated financial statements, based on prices available in active markets for identical instruments. Elmhurst has designated its investments as trading securities. Accordingly, investment gains and losses (including interest, dividends, and realized and unrealized gains and losses) are included in excess of revenue over expenses unless the income or loss is restricted by donor or law (see Note 5). The fair values of investments in hedge funds and equity securities held in commingled funds are valued based on the net asset value provided by the respective fund manager or general partners, where the fair value of the underlying securities, which may or may not be traded in an active market, is the most significant input to the resulting net asset value. Elmhurst is a passive participant in these funds and manages its holdings in these funds similar to its holdings in other financial instruments. Investments in real estate are measured at fair value based on current appraisal value. Unrealized gains and losses on hedge funds are included in excess (deficit) of revenue over expenses (see Note 5). 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 health care 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.

Fair value of financial instruments: Financial instruments consist primarily of cash and cash equivalents, investments, derivatives, patient accounts receivable, amounts due to/from third-party payors, accounts payable, and long-term debt. Except for derivatives and long-term debt, the fair value of these instruments approximated their financial statement carrying amount at June 30, 2012 and 2011, because of their short-term maturity. See Note 6 for additional fair value disclosures.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Joint ventures: Elmhurst Memorial Hospital has a joint venture arrangement with Elmhurst Outpatient Surgery Center, LLC which includes a 51.6 percent interest in the entity. This investment, which totaled $2,932,615 and $2,916,787 as of June 30, 2012 and 2011, respectively, is accounted for on the equity basis and is included in other assets in the accompanying consolidated balance sheets.

Elmhurst Memorial Healthcare has a joint venture arrangement with Cyberknife Center of Chicago, LLC, which includes a 20.0 percent interest in the entity. This investment, which totaled $182,423 and $109,807 as of June 30, 2012 and 2011, respectively, is accounted for on the equity basis and is included in other assets in the accompanying consolidated balance sheets.

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 the straight-line method and the half-year convention. 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. Interest expense incurred during the development and construction of properties, net of interest income earned on unspent bond proceeds, is capitalized as part of the property cost and is depreciated over the useful life of the property. Net interest expense of $9,198,075 was capitalized for the year ended June 30, 2011.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are included in the income or loss from operations unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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: Derivative instruments are recorded at fair value, which considers, among other factors, nonperformance risk. 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 Consolidated Statements of Operations and Changes in Unrestricted Net Assets (see Note 8). When a hedge is dedesignated but the hedged transactions are still probable to occur, gains and losses on the hedging instrument arising subsequent to the date of dedesignation are recorded as components of nonoperating income, and gains or losses previously recorded as components of Other Changes in Unrestricted Net Assets are amortized to nonoperating income when the hedged transactions affect income.

Accrued professional liability: The provision for accrued professional liability includes estimates of the ultimate costs of claims incurred but not reported and is actuarially determined.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Net assets: Elmhurst may classify its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of Elmhurst and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of Elmhurst and/or the passage of time. 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.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by Elmhurst.

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 Unrestricted Net Assets as net assets released from restrictions.

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. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. See Note 2 for additional information.

Charity care: Elmhurst provides care to all patients regardless of their ability to pay. Uncompensated care and community service provided by Elmhurst are excluded from net patient service revenue. See Note 4 for additional information.

Medicare and Medicaid Electronic Health Records ("EHR") Incentive Programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in Federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the Federal Register. Elmhurst has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the incentive programs. The initial incentive payments received for both the Medicare and Medicaid EHR incentive programs are estimates based upon data from prior year's cost reports. The final settlements will be determined after the submission of the current annual cost reports and subsequent audits by the fiscal intermediary. The EHR Incentive Programs are expected to continue through September 30, 2014, and the incentive payments will be calculated annually. After that date, hospitals that are not meaningful users of certified users of certified EHR technology will be subject to a potential decrease in their Medicare and Medicaid payments. Elmhurst accounts for EHR incentive funds using the grant accounting model.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Elmhurst successfully registered for the Medicare EHR Incentive Program in April 2012. Elmhurst completed the attestation process in May 2012 after demonstrating the ninety days of continuous use as a meaningful user. In June 2012, Elmhurst received $2,878,870 of Medicare EHR incentive for the Federal fiscal year ending September 30, 2012, and has recorded this amount as Other Operating Revenue in the accompanying Consolidated Statement of Operation and Changes in Unrestricted Net Assets for the year ended June 30, 2012.

Elmhurst successfully registered for the Illinois Medicaid EHR Incentive Program in April 2012 and completed the attestation process in May 2012. As of June 30, 2012, Elmhurst has recorded $300,000 for Medicaid EHR incentive for the State's fiscal year ended June 30, 2012. This amount is other operating revenue in the accompanying Consolidated Statement of Operations and Changes in Unrestricted Net Assets for the year ended June 30, 2012. The related receivable is included in Prepaid Expenses, Interest Receivable, and Other Assets in the accompanying June 30, 2012 Consolidated Balance Sheet.

Excess (deficit) of revenue over expenses: The Consolidated Statements of Operations and Changes in Unrestricted Net Assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess (deficit) of revenue over expenses, include the effective portion of interest rate swaps, pension and supplemental plan related changes other than net periodic pension cost, the results of discontinued operations, 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.

Operating income (loss): The Consolidated Statements of Operations and Changes in Unrestricted Net Assets include operating income. Changes in unrestricted net assets, which are excluded from operating income (loss), include unrestricted contributions, interest and financing costs, and other income which management views as outside of normal operating activity.

Income and other taxes: Elmhurst Memorial Healthcare, Elmhurst Memorial Hospital, Elmhurst Memorial Home Health and Elmhurst Memorial Hospital Foundation have received determination letters from the Internal Revenue Service stating that they are exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying consolidated financial statements.

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

For the year ended June 30, 2012, HTI had net operating income of $33,432 for financial statement purposes that was offset by previous years' net operating losses (NOL). In accordance with Internal Revenue Service regulations, an NOL may be carried forward 20 years to offset taxable income that exists in those years. At June 30, 2012, approximately $4,566,397 of NOL was available to be carried forward.

As a result of the NOL, HTI has no Federal tax expense or tax liability for the years ended June 30, 2012 and 2011. The deferred tax asset related to the NOL is offset by a valuation allowance, as realization of the tax benefits of the NOL carryforward is not assured.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Elmhurst Memorial Healthcare and Elmhurst Memorial Healthcare Group each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: the tax exempt status of each entity, the continued tax exempt status of bonds issued by the obligated group, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income (UBIT). UBIT is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Upon the adoption of the Financial Accounting Standards Board (FASB)-issued guidance at July 1, 2008, and as of each subsequent fiscal year-end, there were no unrecognized tax benefits identified and recorded as a liability.

Forms 990 and 990T filed by Elmhurst Memorial Healthcare and its subsidiaries are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by Elmhurst Memorial Healthcare and its subsidiaries are no longer subject to examination for the tax years 2007 and prior.

New accounting guidance: During the year ended June 30, 2012, Elmhurst adopted the disclosure guidance contained in FASB Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure – a consensus of the FASB Emerging Issues Task Force*. This ASU requires that the measurement of charity care by a health care entity for disclosure purposes be based on the direct and indirect costs of providing the charity care, and that Elmhurst provide disclosure regarding the method used to identify or determine such costs. See Note 4 for further information.

During the year ended June 30, 2012, Elmhurst adopted the provisions of FASB ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. In connection with Elmhurst's retrospective application of ASU 2010-24, Elmhurst recorded an increase to its Prepaid Pension, Deferred Financing Costs, and Other Assets and Other Liabilities as of June 30, 2012 and 2011 of $4,094,000 and $3,120,000, respectively. This increase represents Elmhurst's estimate of its recoveries for certain claims in excess of Elmhurst's self-insured retention levels for professional liability claims. The adoption of ASU 2010-24 had no impact on Elmhurst's results of operations, net assets or cash flows.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Pending pronouncement: In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities – a consensus of the FASB Emerging Issues Task Force. ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, ASU 2011-07 requires those health care entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

For public entities such as Elmhurst, the provisions of ASU 2011-07 are effective for fiscal years and interim periods within those years beginning after December 15, 2011, with early adoption permitted. The changes to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by ASU 2011-07 should be provided for the period of adoption and subsequent reporting periods. Elmhurst is assessing the impact of the implementation of ASU 2011-07 on its consolidated financial statements.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2. Net Patient Service Revenue

Net patient service revenue in 2012 and 2011 was increased by the effect of favorable third-party payor settlements and related changes in estimates of approximately $2,839,000 and $845,000, respectively. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Hospital is paid for inpatient acute care and outpatient care services rendered to Medicare program beneficiaries under prospectively determined rates per discharge (Prospective Payment Systems). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's classification of patients under Prospective Payment Systems and the appropriateness of the patient's admissions are subject to validation reviews. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual reimbursement reports by the Hospital and audits by the Medicare fiscal intermediary.

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.

Medicaid: The Hospital is reimbursed at prospectively determined rates for each Medicaid inpatient discharge. Outpatient services are reimbursed based on established fee screens. For inpatient acute care services, payment rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program.

Note 2. Net Patient Service Revenue (Continued)

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. The Hospital 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 including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Medicaid Hospital Tax Assessment Program: The Hospital is part of the State of Illinois hospital tax assessment program which is administered by the Illinois Department of Public Aid. The laws and regulations authorizing this Program have been extended through June 30, 2014. There is no assurance of the continuation of this program after June 30, 2014. Under this program, the Hospital is to receive annually approximately $8,678,000 from the State and pay annually a provider tax assessment approximating $7,304,000. For the years ended June 30, 2012 and 2011, the Hospital has recorded $8,677,882 in assessment revenue (included in net patient service revenue) and $7,312,614 and $7,310,342, respectively, in assessment expense (Medicaid tax).

On June 14, 2012, the Governor of Illinois signed the Save Medicaid Access and Resources Together (SMART) Act. The SMART Act reduces by 3.5 percent all Illinois Medicaid payments received by hospitals (excluding Safety Net Providers, as defined, and Critical Access Hospitals) effective July 1, 2012.

The SMART Act also includes an enhanced hospital tax assessment program that, if approved by the Centers for Medicare and Medicaid Services (CMS), will extend the program through December 31, 2014 and generate additional funds that will be used to attract additional Federal matching funds. The additional funds will be used to provide new hospital payments designed to preserve and improve access to hospital services for residents throughout Illinois. Management believes that the enhanced hospital tax assessment program, if approved by CMS, will not have a significant effect on the Hospital.

Blue Cross: Substantially all of the Hospital's reimbursement from Blue Cross is derived from three managed care contracts, that provide cost-based reimbursement to the Hospital. The Hospital also participates as a provider of health care services under another cost-based reimbursement agreement with Blue Cross.

Managed care organizations: The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis of payment under these agreements includes discounts from established charges, prospectively determined per diem and case rates, and cost-based methodologies.

Note 3. Concentrations 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 net patient accounts receivable from patients and third-party payors as of June 30, 2012 and 2011 was as follows:

	2012	2011
Medicare	26 %	19 %
Medicaid	10	6
Managed care (other than Blue Cross)	33	37
Blue Cross	10	10
Self-pay	11	13
Other	10	15
	100 %	100 %

Note 4. Charity Care

In the ordinary course of business, Elmhurst renders services to patients who are financially unable to pay for medical care. Elmhurst provides care to these patients who meet certain criteria under its charity care policy without charge or at amounts less than the established rates. Charity care eligibility is established based on limited or no insurance coverage, income compared to published poverty levels and family size, as well as other factors. Because Elmhurst does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Elmhurst maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Elmhurst's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The amount of charity care provided during the years ended June 30, 2012 and 2011 was approximately $7,096,000 and $7,482,000, respectively.

Note 5. Investments and Assets Limited as to Use

Investments and assets limited as to use as of June 30, 2012 and 2011, consisted of the following:

	2012	2011
Cash and cash equivalents	$ 15,581,971	$ 9,783,278
Certificates of deposit	-	300,495
Equity securities:		
U.S.	69,847,649	70,638,673
Non-U.S.	22,813,912	25,699,977
Global real estate	17,206,263	17,362,959
Fixed income securities:		
U.S. government obligations	15,145,907	29,691,115
Corporate bonds	7,811,005	22,410,548
Mutual funds and trusts invested in U.S. fixed-income securities	22,523,180	46,025,258
Trust invested in global fixed-income securities	19,074,236	23,538,334
Hedge funds	29,805,561	34,860,762
Mutual fund invested in TIPS and commodities	10,420,698	11,510,502
Real estate	975,000	975,000
	$ 231,205,382	$ 292,796,901

Assets limited as to use and short-term investments are classified at June 30, 2012 and 2011, as follows:

	2012	2011
Short-term investments	$ 1,112,672	$ 1,111,519
Investments and assets limited as to use	230,092,710	291,685,382
	$ 231,205,382	$ 292,796,901

Other investments and assets limited as to use as of June 30, 2012 and 2011, consisted of the following:

	2012	2011
Internally designated for medical education and other health care services	$ 4,081,029	$ 4,549,283
Temporarily restricted donor assets	470,878	146,115
Donor assets restricted into perpetuity	489,515	489,515
	$ 5,041,422	$ 5,184,913

Note 5. Investments and Assets Limited as to Use (Continued)

Investment returns for the years ended June 30, 2012 and 2011, consisted of the following:

	2012	2011
Interest and dividend income	$ 4,074,393	$ 5,465,990
Realized income - net	5,524,989	7,063,030
Investment income	$ 9,599,382	$ 12,529,020

Investment returns on externally designated investments related to Elmhurst's debt were $722,702 and $763,490 during the years ended June 30, 2012 and 2011, respectively. These amounts are presented as other operating revenue in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets and all other investment returns are presented as nonoperating investment income.

Note 6. Fair Value Disclosures

Fair value measurements: Guidance provided by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, Elmhurst uses various methods including market, income and cost approaches. Based on these approaches, Elmhurst often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Elmhurst utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques Elmhurst is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1. Quoted prices for identical instruments in active markets.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

For the years ended June 30, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Note 6. Fair Value Disclosures (Continued)

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Alternative Investments

The fair value of alternative investments (hedge funds) is $29,805,561 and $34,860,762 at June 30, 2012 and 2011, respectively. Of these amounts, $15,772,361 and $17,652,139 was invested in a fund of hedge funds with quarterly liquidity requiring 95 days notice for redemption and $14,033,200 and $17,208,623 was invested in a fund of hedge funds with quarterly liquidity requiring 60 days notice for redemption as of June 30, 2012 and 2011, respectively. Alternative investments with no market activity are valued using the market values of the underlying investments held by the investment fund. Management's estimate of the fair value of hedge funds and equities held in commingled funds are based on information provided by the fund managers or general partners, which in turn is based on the most recent information available to the fund manager for the underlying investments.

In determining the appropriate levels, Elmhurst performs a detailed analysis of the assets and liabilities that are subject to the FASB-issued guidance. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Interest Rate Swaps

Currently, Elmhurst uses interest rate swaps to manage interest rate risks. The valuation of these instruments is determined by utilizing widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity and uses observable market-based inputs, including LIBOR rate curves.

	Liability Derivatives			
	2012		2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments*				
Interest rate contracts	Other liabilities	$ 32,722,314	Other liabilities	$ 13,088,685
Total derivatives		$ 32,722,314		$ 13,088,685

* Note 8 provides additional information on Elmhurst's purpose for entering into derivatives.

Note 6. Fair Value Disclosures (Continued)

	Location of Gain (Loss) Recognized in Excess of Revenue over Expenses	Amount of Gain (Loss) Recognized in Excess of Revenue over Expenses	
		2012	2011
Derivatives not designated as hedging instruments:			
Interest rate contracts	Nonoperating income (expense)	$ (21,740,366)	$ 5,702,998

Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of June 30, 2012 and 2011.

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash	$ 15,581,971	$ -	$ -	$ 15,581,971
Certificates of deposit	-	-	-	-
Equity securities:				
U.S.	15,088,448	54,759,201	-	69,847,649
Non-U.S.	-	22,813,912	-	22,813,912
Global real estate	17,206,263	-	-	17,206,263
Fixed income securities:				
U.S. government and government agency obligations	15,145,907	-	-	15,145,907
Corporate bonds	-	7,811,005	-	7,811,005
Mutual funds and trusts invested in U.S. fixed-income securities	11,031,651	11,491,529	-	22,523,180
Trust invested in global fixed-income securities	-	19,074,236	-	19,074,236
Hedge funds	-	29,805,561	-	29,805,561
Mutual fund invested in TIPS and commodities	10,420,698	-	-	10,420,698
Real estate	-	975,000	-	975,000
Total investments	$ 84,474,938	$ 146,730,444	$ -	$ 231,205,382
Interest rate swaps	$ -	$ (32,722,315)	$ -	$ (32,722,315)

Note 6. Fair Value Disclosures (Continued)

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash	$ 9,783,278	$ -	$ -	$ 9,783,278
Certificates of deposit	-	300,495	-	300,495
Equity securities:				-
U.S.	15,657,019	54,981,654	-	70,638,673
Non-U.S.	168,904	25,531,073	-	25,699,977
Global real estate	17,362,959	-	-	17,362,959
Fixed income securities:				
U.S. government and government agency obligations	29,691,115	-	-	29,691,115
Corporate bonds	13,557,416	8,853,132	-	22,410,548
Mutual funds and trusts invested in U.S. fixed-income securities	15,815,030	30,210,228	-	46,025,258
Trust invested in global fixed-income securities	-	23,538,334	-	23,538,334
Hedge funds	-	34,860,762	-	34,860,762
Mutual fund invested in TIPS and commodities	11,510,502	-	-	11,510,502
Real estate	-	975,000	-	975,000
Total investments	$ 113,546,223	$ 179,250,678	$ -	$ 292,796,901
Interest rate swaps	$ -	$ (13,088,685)	$ -	$ (13,088,685)

Fair value of financial instruments: The following methods and assumptions were used by Elmhurst to estimate the fair value of other financial instruments not described above:

The carrying values of cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses and amounts due to or from third-party payors 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 $15,714,000 more than its carrying value at June 30, 2012, and approximately $9,132,000 less than its carrying value at June 30, 2011.

Note 7. Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, less accumulated depreciation, at June 30, 2012 and 2011, as follows:

	2012	2011
Land and land improvements	$ 104,768,334	$ 103,369,601
Buildings	563,527,658	571,667,791
Equipment	242,424,391	234,735,258
Construction in progress	2,761,831	3,612,826
Land held for future use	954,860	954,860
	914,437,074	914,340,336
Less accumulated depreciation	(340,649,520)	(296,586,295)
	$ 573,787,554	$ 617,754,041

In June 2011, Elmhurst opened its new integrated health care campus. The campus currently includes a replacement hospital and additional physician offices. As of June 30, 2012, the old campus was still being used for cancer treatment services and is expected to be used for cancer services through 2013 up until the new cancer center is built on the new health care campus. The Hospital recognized an impairment charge of $8,186,000 in 2012 related to the fair value of its Berteau campus as of September 2011 when the decision was made to relocate all services off of the Berteau campus. This charge is included in Depreciation and Other Charges Relating to Buildings and Equipment in the accompanying Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2012. The Hospital also reassessed the depreciable lives associated with the buildings and equipment remaining at Berteau and will depreciate the remaining book value over the period ending June 30, 2013. The net book value of the fixed assets and land at the old hospital campus was $7,947,053 and $18,970,719 as of June 30, 2012 and 2011, respectively. The fixed assets at the old hospital campus will be fully depreciated by June 30, 2013.

Net interest cost capitalized during the year ended June 30, 2011 was $9,198,074. The accumulated capitalized interest cost as of June 30, 2011 was $17,401,539.

Note 8. Long-Term Debt

Long-term debt at June 30, 2012 and 2011 consists of the following:

	2012	2011
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	$ 124,546,719	$ 126,688,396
Variable rate direct note obligation Series 1985C and 1985D (0.18% and 0.10% at June 30, 2012 and 2011, respectively), maturing on December 15, 2012	5,333,296	8,533,300
Variable rate direct note obligation Series 2004A (0.30% and 0.25% at June 30, 2012 and 2011, respectively), maturing on January 1, 2034	6,482,000	6,482,000
Secured revenue bonds Series 2008A (4.5% to 5.625%), dated May 15, 2008, due in varying annual principal installments through January 1, 2037	120,511,207	120,344,869
Variable rate demand revenue bonds, Series 2008B (0.17% and 0.04% at June 30, 2012 and 2011, respectively), maturing on January 1, 2048	100,000,000	100,000,000
Variable rate demand revenue bonds, Series 2008C (0.31% and 0.10% at June 30, 2012 and 2011, respectively), maturing on January 1, 2048	75,000,000	75,000,000
Variable rate demand revenue bonds, Series 2008D (0.14% and 0.06% at June 30, 2012 and 2011, respectively), maturing on January 1, 2048	50,000,000	50,000,000
Variable rate demand revenue bonds, Series 2008E (0.30% and 0.24% at June 30, 2012 and 2011, respectively), maturing on January 1, 2048	25,000,000	25,000,000
Other long-term borrowings	143,700	143,700
	507,016,922	512,192,265
Less current maturities of long-term debt	(5,849,267)	(5,330,004)
Long-term debt less current maturities	$ 501,167,655	$ 506,862,261

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 from the loan were used to reimburse Elmhurst for routine capital expenditures with tax-exempt uses.

Note 8. Long-Term Debt (Continued)

In May 2008, Elmhurst issued $124,820,000 fixed-rate revenue bonds (Series 2008A). The proceeds were used to establish a Project Fund (to reimburse Elmhurst for costs related to the construction of the new hospital campus), establish a Capitalized Interest Fund (to pay the interest costs during construction), and to establish a Debt Service Reserve Fund.

In May 2008, Elmhurst also issued $250,000,000 variable rate revenue bonds (Series 2008B through E). A portion of the proceeds were used to redeem the Series 2006E Direct Note Bonds. The remainder of the proceeds were used to establish Project Funds (to reimburse Elmhurst for cost related to the construction of the new hospital campus) and Capitalized Interest Funds (to pay the interest costs during construction). The bonds are puttable on demand by the bondholders. Elmhurst uses a remarketing agent to resell any tendered bonds to new investors. Elmhurst has obtained irrevocable letters of credit to secure repayment of the bond financing, and to provide short-term liquidity in the event bonds are put to Elmhurst and are not able to be immediately remarketed. If the letters of credit were to be drawn upon as a result of failed efforts to remarket any tendered bonds, amounts drawn would be repayable in quarterly installments over a 36-month period commencing 367 days after being drawn, or sooner if the bonds are subsequently remarketed to new investors.

The maturities and annual sinking fund requirements for the fiscal years ending June 30, 2013 through 2017, on the outstanding long-term debt are as follows, assuming remarketing of variable rate unsecured demand revenue bonds: 2013 - $5,849,267; 2014 - $7,121,325; 2015 - $5,362,813; 2016 - $5,545,625; 2017 - $5,516,755 and thereafter - $477,621,137. As described above, if variable rate unsecured demand revenue bonds fail to remarket, Elmhurst would have to make accelerated debt repayments.

The revenue bonds are collateralized by substantially all assets of Elmhurst. The provisions of the indenture require the Obligated Group (comprised of Elmhurst Memorial Hospital, Elmhurst Memorial Healthcare, and Elmhurst Memorial Home Health) to maintain certain financial covenants, including a minimum annual debt service coverage level, and a minimum number of days cash on hand.

During 2012, Elmhurst obtained an unsecured $10,000,000 working capital line of credit with JP Morgan Chase Bank that matures on January 4, 2013. Borrowings bear interest at a variable rate (1.48 percent at June 30, 2012). The balance outstanding on the line of credit at June 30, 2012 was $10,000,000.

During 2012, Elmhurst obtained an unsecured $10,000,000 working capital line of credit with RBS Citizens, NA that matures on January 16, 2013. Borrowings bear interest at a variable rate (1.74 percent at June 30, 2012). The balance outstanding on the line of credit at June 30, 2012 was $10,000,000.

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 percent fixed and 50 percent 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.

Note 8. Long-Term Debt (Continued)

During the years ended June 30, 2012 and 2011, 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 SIFMA floating rate index and receives 76.21 percent 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 (Expense) 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 paid the SIFMA floating rate index and received a fixed rate of 4.64 percent on a notional amount of $40,000,000. This agreement was terminated in July 2011. Gains and losses are recorded as Nonoperating Income (Expense) 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 was not effective until January 2008 to coincide with the planned bond issue. Elmhurst pays a fixed rate of 4.135 percent in exchange for the SIFMA 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 percent of the 2008 bonds. The 2008 Fixed Payer Swap was designated for hedge accounting through June 30, 2008. Gains and losses through June 30, 2008, were recorded as Changes in Unrestricted Net Assets in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets. On July 1, 2008, Elmhurst dedesignated the hedge. Gains and losses on the hedging instrument arising subsequent to the date of dedesignation are recorded as components of Nonoperating Income, and gains or losses previously recorded as components of Other Changes in Unrestricted Net Assets are amortized to Nonoperating Income when the previously hedged interest expense is recognized.

Fixed Spread Floating Interest Rate Agreements ("Fixed Spread Basis Swaps") – 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 began paying the SIFMA floating rate index and receive 67 percent of one-month LIBOR, plus 0.76 percent on a $120,000,000 notional amount, extending over a 30-year period. In April 2008, Elmhurst entered into another Fixed Spread Basis Swap with two counterparties. Elmhurst pays the SIFMA floating rate index and receives 61.3 percent of one-month LIBOR, plus a fixed spread of 0.73 percent on a $140,000,000 notional amount over a 30-year period. The Fixed Spread Basis Swaps do not qualify for hedge accounting. Gains and losses are recorded as Nonoperating Income (Expense) in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

Note 8. Long-Term Debt (Continued)

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 in January 2007. Elmhurst pays 67 percent of one-month LIBOR in exchange for 61.3 percent of five-year LIBOR on $60,000,000 or 50 percent of the LIBOR exposure of the Fixed Spread Basis Swap until 2032. In addition, Elmhurst had paid 76.21 percent of one-month LIBOR in exchange for 76.21 percent of five-year LIBOR - 0.35 percent on $25,000,000 or 50 percent its LIBOR exposure on the basis swap. This swap was terminated during fiscal year 2011, resulting in a gain of $1,482,000 that was recorded in cash settlements on interest rate swaps under non-operating income (expense). The remaining Constant Maturity Swap is not designated for hedge accounting. Gains and losses are recorded as Nonoperating Income (Expenses) in the Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

Elmhurst has provisions in its swap agreements that require the posting of collateral. The amount of collateral to be posted is determined based on a combination of Elmhurst's credit rating and the mark-to-market valuation. Based on Elmhurst's credit rating as of June 30, 2012, collateral is required to be posted when the counterparty mark-to-market valuation results in a liability ranging from more than $0 to more than $3,000,000. At June 30, 2012 and 2011, Elmhurst has posted $33,006,309 and $3,071,351, respectively, of collateral, in the form of cash and investments, with the counterparties. The maximum amount of collateral if conditions were different as of June 30, 2012 is an additional $3,000,000.

Note 8. Long-Term Debt (Continued)

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

Derivative Contract Terms	Basis Swap	Fixed Receiver	Fixed Payer	Fixed Spread Basis Swaps	Constant Maturity Swaps	Fixed Spread Basis Swaps	Total of Interest Rate Swap Contracts
Execution date	May 2002	August 2003	July 2005	July 2005	June 2006	April 2008	
2011 Notional amount	$ 50,000,000	$ 40,000,000	$ 120,000,000	$ 120,000,000	$ 60,000,000	$ 140,000,000	$ 530,000,000
2012 Notional amount	50,000,000	-	120,000,000	120,000,000	60,000,000	140,000,000	490,000,000
Elmhurst pays the counterparty	SIFMA	SIFMA	4.135%	SIFMA	5-yr LIBOR	SIFMA	
Counterparty pays Elmhurst	76.2% 1-mo. LIBOR	4.64%	SIFMA	67% LIBOR + 0.76%	1-mo. LIBOR	61.3% LIBOR + 0.73%	
Termination date	May 2022	Terminated July 2011	January 2038	January 2038	January 2032	June 2038	
Qualifies for hedge accounting	no	no	no	no	no	no	
Market Value Asset (Liability) of Derivative Contracts (1)							
Balance, July 1, 2010	$ (1,341,358)	$ 955,665	$ (14,835,028)	$ (231,352)	$ 3,932,424	$ (6,440,985)	$ (17,960,634)
Changes in value	692,442	(715,192)	1,043,250	2,058,109	(330,414)	2,123,754	4,871,949
Balance, June 30, 2011	(648,916)	240,473	(13,791,778)	1,826,757	3,602,010	(4,317,231)	(13,088,685)
Changes in value	115,158	(240,473)	(23,557,336)	1,868,698	(787,840)	2,968,163	(19,633,630)
Balance, June 30, 2012	$ (533,758)	$ -	$ (37,349,114)	$ 3,695,455	$ 2,814,170	$ (1,349,068)	$ (32,722,315)

(1) Amounts are presented within other liabilities within the consolidated balance sheets.

Net Cash Flow Received (Paid) by Elmhurst Under Derivative Contracts	Basis Swap	Fixed Receiver	Fixed Payer	Fixed Spread Basis Swaps	Constant Maturity Swaps	Fixed Spread Basis Swaps	Total Swap Cash Flow
Year Ended June 30, 2011							
Cash from contractual payments	$ (30,145)	$ 1,812,817	$ (4,659,918)	$ 857,637	$ 2,163,866	$ 864,000	$ 1,008,257
Year Ended June 30, 2012							
Cash from contractual payments	$ 16,406	$ 450,608	$ (4,795,396)	$ 951,613	$ 403,020	$ 1,044,223	$ (1,929,526)

Note 9. Operating Leases

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

Rent paid and recorded under operating leases was $3,697,466 and $3,248,457 for the years ended June 30, 2012 and 2011, respectively.

The future minimum lease commitments under these operating leases as of June 30, 2012, are as follows:

Years ending June 30:	
2013	$ 2,475,779
2014	1,830,900
2015	555,208
	$ 4,861,887

Note 10. Employee Retirement Plans

Elmhurst has a noncontributory retirement plan which qualifies as a pension plan under ASC Topic 715, *Compensation – Retirement Benefits.* 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 addition, Elmhurst also maintains an unfunded noncontributory, supplemental defined benefit retirement plan (SERP) for certain executive employees.

Note 10. Employee Retirement Plans (Continued)

Information regarding the benefit obligations and assets of the pension plan and SERP as of and for the years ended June 30, 2012 and 2011 is as follows:

	2012		2011	
	Pension	SERP	Pension	SERP
Accumulated benefit obligation	$ 196,749,032	$ 2,164,860	$ 160,040,495	$ 1,732,378
Projected benefit obligation:				
Projected benefit obligation, beginning of year	$ 181,385,944	$ 1,732,378	$ 179,632,937	$ 5,815,475
Service cost	6,866,783	126,806	6,997,084	118,288
Interest cost	10,253,497	89,690	9,726,499	289,011
Plan changes	-	129,476	-	
Actuarial (gains) losses	33,260,462	310,643	(9,865,127)	(168,933)
Benefits paid	(5,827,813)	-	(5,105,449)	(4,321,463)
Projected benefit obligation, end of year	225,938,873	2,388,993	181,385,944	1,732,378
Change in plan assets:				
Fair value of plan assets, beginning of year	165,963,033	-	138,716,172	-
Actual return on plan assets	817,088	-	26,852,310	-
Contributions	5,000,000	-	5,500,000	4,321,463
Benefits paid	(5,827,813)	-	(5,105,449)	(4,321,463)
Fair value of plan assets, end of year	165,952,308	-	165,963,033	-
Funded status, end of year	$ (59,986,565)	$ (2,388,993)	$ (15,422,911)	$ (1,732,378)

The unfunded pension liability is reported as Accrued Pension on the accompanying Consolidated Balance Sheets. At June 30, 2012 and 2011, $2,008,993 and $1,382,378, respectively, of the unfunded SERP liability is included in Other Liabilities and $380,000 and $350,000, respectively, is included in Accrued Payroll and Other Liabilities on the accompanying Consolidated Balance Sheets.

Plan items not yet recognized as a component of periodic pension expense, but included as a separate component of unrestricted net assets at June 30, 2012 and 2011, are as follows:

	2012		2011	
	Pension	SERP	Pension	SERP
Unrecognized prior service cost	$ 154,737	$ 351,708	$ 323,159	$ 323,130
Unrecognized net actuarial loss	97,447,916	379,777	54,557,934	69,134
	$ 97,602,653	$ 731,485	$ 54,881,093	$ 392,264

Note 10. Employee Retirement Plans (Continued)

Pension related changes other than net periodic pension cost that have been included as a reduction of unrestricted net assets consist of:

	2012		2011	
	Pension	SERP	Pension	SERP
Net actuarial (gain) loss arising during the period	$ 46,201,423	$ 310,643	$ (22,744,701)	$ (168,933)
Prior service cost	-	129,476	-	-
Prior service cost amortized during the period	(168,422)	(100,898)	(168,422)	(160,399)
Net actuarial loss amortized during the period	(3,311,441)	-	(3,899,838)	(262,582)
	$ 42,721,560	$ 339,221	$ (26,812,961)	$ (591,914)

	2012		2011	
	Pension	SERP	Pension	SERP
Assumptions:				
Discount rate used to determine benefit obligation	4.75 %	4.75 %	5.75 %	5.75 %
Discount rate used to determine net periodic benefit cost	5.75 %	5.75 %	5.50 %	5.50 %
Rate of increase in compensation levels	5.00 %	5.00 %	5.00 %	5.00 %
Expected long-term rate of return on assets	8.00 %	N/A	8.00 %	N/A

The estimated net actuarial loss and prior service cost that will be amortized as a component of net periodic benefit cost during fiscal 2013 are $7,312,834 and $154,737, respectively, for the pension plan. The estimated net actuarial loss and prior service cost that will be amortized as a component of net periodic benefit costs during fiscal 2013 is $20,125 and $92,574, respectively, for the SERP.

Elmhurst expects to contribute $5,000,000 to the Plan during fiscal 2013, and $380,000 to the SERP during fiscal 2013.

In June 2012, Elmhurst Memorial Healthcare (EMHC) amended its defined benefit plan to allow for a one-time lump sum distribution to certain terminated vested but not yet retired participants that have earned benefits within a certain range. In July 2012, EMHC sent letters to 1,047 participants to offer the one-time lump sum distribution. EMHC anticipates that these distributions will be made from plan assets in October 2012 and will not exceed $20,000,000.

Note 10. Employee Retirement Plans (Continued)

The allocation of pension plan assets at June 30, 2012 and 2011 is as follows:

	Target	2012	2011
Equity securities	55 %	58 %	55 %
Fixed-income securities	25	28	31
Alternative investments	20	14	14
Total	100 %	100 %	100 %

The pension fund is managed in accordance with the policies established by the Investment Committee of the Board (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.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Plan's investment portfolio. Assumed projected rates of return for each asset category are selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio is developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

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

Pension Plan	2012	
	Pension	SERP
2013	$ 6,969,000	$ 380,000
2014	7,737,000	-
2015	8,541,000	2,220,000
2016	9,384,000	-
2017	10,230,000	-
2018-2022	64,297,000	2,460,000

Note 10. Employee Retirement Plans (Continued)

Net periodic benefit cost for the years ended June 30, 2012 and 2011, includes the following components:

	2012		2011	
	Pension	SERP	Pension	SERP
Service cost - benefits earned during the year	$ 6,866,783	$ 126,806	$ 6,997,084	$ 118,287
Interest cost on projected benefit obligation	10,253,497	89,690	9,726,499	289,011
Expected return on plan assets	(13,758,049)	-	(13,972,736)	-
Amortization of prior service cost	168,422	100,898	168,422	160,399
Amortization of actuarial loss	3,311,441	-	3,899,838	-
Settlement expense	-	-	-	262,582
	$ 6,842,094	$ 317,394	$ 6,819,107	$ 830,279

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 percent of the first 3 percent of pay and 25 percent of the second 3 percent of pay. Certain matching benefits were suspended in 2010. EMH did not have a matching program in 2011, but did match during 2012. Additional contributions may be made by Elmhurst at its discretion. Costs of the Savings Plans charged to salaries and benefits totaled $1,758,564 and $105,299 for the years ended June 30, 2012 and 2011, respectively.

The tables below present the balances of pension assets measured at fair value on a recurring basis, as of June 30, 2012 and 2011:

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash	$ 3,378,378	$ -	$ -	$ 3,378,378
Mutual funds invested in U.S. fixed-income securities	-	17,750,492	-	17,750,492
Trust invested in global fixed-income securities	-	25,688,979	-	25,688,979
Equity securities:				
U.S.	13,237,532	51,799,060	-	65,036,592
Non-U.S.		23,548,460	-	23,548,460
Global real estate	8,050,239	-	-	8,050,239
Hedge funds	-	22,499,168	-	22,499,168
Total investments	$ 24,666,149	$ 141,286,159	$ -	$ 165,952,308

Note 10. Employee Retirement Plans (Continued)

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash	$ 4,145,802	$ -	$ -	$ 4,145,802
Mutual funds invested in U.S. fixed-income securities	24,017,936	6,032,706	-	30,050,642
Trust invested in global fixed-income securities	-	16,793,957	-	16,793,957
Equity securities:				
U.S.	13,800,483	49,266,073	-	63,066,556
Non-U.S.	-	20,690,515	-	20,690,515
Global real estate	8,123,552	-	-	8,123,552
Hedge funds	-	23,092,009	-	23,092,009
Total investments	$ 50,087,773	$ 115,875,260	$ -	$ 165,963,033

Note 11. Professional and General Liabilities Insurance

Elmhurst 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.

In June 2010, CHRPP notified its current and former members that it had resolved to discontinue the issuance of hospital professional and comprehensive general liability coverage and commence a voluntary "run-off" of its claim portfolio effective January 1, 2011.

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.

Note 11. Professional and General Liabilities Insurance (Continued)

Since 2005, the Hospital has a self-insured retention program in which the Hospital retains the risk for all claims with individual values 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, 2012 and 2011, the Hospital recorded a liability, discounted at 4.50 percent in 2012 and 2011, of $23,765,000 and $23,447,428, respectively, for incurred but not reported claims arising under both its own self-insurance program and the CHRPP program. The effect of discounting the liability is approximately $4,280,000 and $4,446,000, respectively, at June 30, 2012 and 2011. This liability consists of $2,359,987 and $2,215,654 reported in Accounts Payable at June 30, 2012 and 2011, respectively, and $21,405,013 and $21,231,774 reported in Other Liabilities at June 30, 2012 and 2011, respectively, on the Consolidated Balance Sheets. The Hospital has elected to not establish a corresponding self-insured trust asset to fund this liability as of June 30, 2012, because management believes that it has enough liquidity in its cash, short-term investments, and the capital reserve fund.

Based on significant favorable loss experience that has emerged over several years for the Hospital, the Hospital adjusted certain assumptions in the June 30, 2012 actuarial valuation that resulted in a reduction of the liability and related expense of approximately $4,500,000.

Note 12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011, respectively, are available for the following purposes:

	2012	2011
Pledges restricted to benefit future periods	$ 4,018,801	$ 4,673,164
Medical education	91,300	63,000
Other health care programs	379,578	83,135
	$ 4,489,679	$ 4,819,299

Permanently restricted net assets of $489,515 at June 30, 2012 and 2011 are investments to be held in perpetuity, the income from which is expendable for medical education.

During 2012 and 2011, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of medical education, and other health care programs amounting to $2,390,448 and $2,020,288, respectively, and were recorded as Other Revenue in the accompanying Consolidated Statements of Operations and Changes in Unrestricted Net Assets.

Note 12. Temporarily and Permanently Restricted Net Assets (Continued)

The expected timing of pledge payments and value of pledges receivable recorded as of June 30, 2012, are as follows:

Years ending June 30:	
2013	$ 835,391
2014	700,100
2015	604,500
2016	538,499
2017	505,000
Thereafter	1,155,920
	4,339,410
Less - present value discounts	(265,163)
Less - allowance for uncollectible pledges	(55,446)
Pledges receivable, net	4,018,801
Less current portion included in prepaid expenses, interest receivable, and other assets	(835,391)
Noncurrent portion included in prepaid pension, deferred financing costs, and other assets	$ 3,183,410

Note 13. 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, 2012 and 2011 are as follows:

	2012	2011
Health care services	$ 342,585,902	$ 310,902,629
General and administrative	90,324,258	81,504,133
Fundraising	1,341,082	1,368,796
	$ 434,251,242	$ 393,775,558

Note 14. Discontinued Operations

Effective February 28, 2012, inpatient behavioral health and transitional care center services at the Berteau Campus were discontinued. Operating results for these discontinued operations are reported separately as discontinued operations in the consolidating statements of operations. As of June 30, 2011, Elmhurst had net patient accounts receivable of $1,616,800 recorded on the consolidated balance sheet related to these discontinued operations. As of June 30, 2012, there was no receivable recorded on the consolidated balance sheet related to the discontinued operations. Net patient service revenue for these discontinued operations during the years ended June 30, 2012 and 2011 were $5,464,079 and $9,464,284, respectively.

See Note 7 for information regarding impairment and accelerated depreciation of the Berteau Campus.

Note 15. Commitments and Contingencies

Medicare and Medicaid reimbursement: Significant cuts to both the Medicare and Medicaid programs are under consideration by the U.S. Congress as it looks to cut federal spending. Such cuts in Medicaid and Medicare reimbursement, if enacted, could have a significant adverse effect on the Corporation's financial statements.

Litigation: Elmhurst is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of the lawsuits cannot be determined with certainty, management believes the ultimate disposition of such matters will not have a material effect on Elmhurst's consolidated financial statements.

Regulatory investigation: The U.S. Department of Justice, other federal agencies and the Illinois Department of Public Aid routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on Elmhurst's financial position or results from operations.

Regulatory environment including fraud and abuse matters: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

CMS Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. CMS implemented the RAC program in Illinois in 2010. Management does not believe that RAC audits will have a material effect on the Corporation's results of operations or cash flows. At June 30, 2012 and 2011, the Hospital recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Hospital's RAC program experience to date.

Property and Sales Tax Exemption: On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals. Management believes that the Hospital meets the requirements under the law to maintain its property and sales tax exemption.

Note 15. Commitments and Contingencies (Continued)

Elmhurst has filed a property tax-exemption application for a portion of the Center for Health and for its new hospital, and awaits a decision from the Illinois Department of Revenue. As of June 30, 2012, Elmhurst has recorded a refund receivable of approximately $2,595,000 for a portion of property taxes paid relating to the Center for Health for tax years 2008, 2009, 2010, and 2011 and for all property taxes paid relating to the new hospital for tax year 2011. Management continues to believe that the application will be approved and that the related property taxes will be refunded.

Note 16. Subsequent Events

Elmhurst has evaluated subsequent events for potential recognition and/or disclosure through September 24, 2012, the date the consolidated financial statements were originally issued. With respect to the matter described in the following paragraph, Elmhurst has evaluated subsequent events for potential recognition and/or disclosure through November 14, 2012, the date the consolidated financial statements were reissued.

On November 14, 2012, the letters of credit supporting Elmhurst's variable rate revenue bonds Series 2008B through E (see Note 8) were renewed through July 15, 2013.

McGladrey

Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
Elmhurst Memorial Healthcare
Elmhurst, Illinois

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Chicago, Illinois
September 24, 2012, except for
Note 16, as to which the date is
November 14, 2012

Member of the RSM International network of independent accounting, tax and consulting firms.

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Balance Sheet Information
June 30, 2012

	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	$ 19,639,323	$ -	$ 15,871,077	$ 1,655,148	$ 2,113,098	$ -	$ 1,274,322	$ 1	$ 838,775
Short-term investments	1,112,672	-	-	-	1,112,672	-	-	-	1,112,672
Patient accounts receivable - less allowances for uncollectible accounts	66,626,246	-	5,614,933	(27)	61,011,340	-	59,104,749	1,906,591	-
Inventories	7,149,569	-	-	-	7,149,569	-	7,084,339	65,230	-
Prepaid expenses, interest receivable, and other	10,530,647	(5,799)	1,393,312	80,295	9,062,839	-	8,176,498	9,902	876,439
Amounts due from third-party payors	11,455,785	-	-	-	11,455,785	-	11,455,785	-	-
Amounts due from affiliated organizations	-	(2,493,990)	-	24,435	2,469,555	-	2,455,410	-	14,145
Total current assets	116,514,242	(2,499,789)	22,879,322	1,759,851	94,374,858	-	89,551,103	1,981,724	2,842,031
Investments and Assets Limited as to Use									
Internally designated for capital improvements	188,934,325	-	188,934,325	-	-	-	-	-	-
Externally designated investments under bond agreements	36,116,963	-	34,615,563	-	1,501,400	-	1,501,400	-	-
Other investments and assets limited as to use	5,041,422	-	-	-	5,041,422	-	-	-	5,041,422
Total investments and assets limited as to use	230,092,710	-	223,549,888	-	6,542,822	-	1,501,400	-	5,041,422
Land, Buildings, and Equipment - net	573,787,554	-	81,703,007	-	492,084,547	-	491,649,084	435,463	-
Investment in Subsidiaries	-	(477,901)	477,901	-	-	(10,974,507)	10,974,507	-	-
Cash and Investments Posted as Swap Collateral	33,006,309	-	33,006,309	-	-	-	-	-	-
Prepaid Pension, Deferred Financing Costs, and Other	14,512,217	-	4,119,769	-	10,392,448	-	7,209,038	-	3,183,410
	$ 967,913,032	$ (2,977,690)	$ 365,736,196	$ 1,759,851	$ 603,394,675	$ (10,974,507)	$ 600,885,132	$ 2,417,187	$ 11,066,863

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Balance Sheet Information (Continued)
June 30, 2012

	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	$ 21,031,487	$ (5,799)	$ 2,332,816	$ 12,135	$ 18,692,335	$ -	$ 18,633,602	$ 54,106	$ 4,627
Accrued payroll and other	29,753,122	-	11,017,297	5,486	18,730,339	-	18,140,406	589,933	-
Amounts due to third-party payors	30,602,314	-	-	-	30,602,314	-	30,710,899	(108,585)	-
Current maturities of debt	5,849,267	-	5,849,267	-	-	-	-	-	-
Borrowings under lines of credit	20,000,000	-	20,000,000	-	-	-	-	-	-
Due to affiliated organizations	-	(2,493,990)	24,435	1,264,329	1,205,226	-	1,205,226	-	-
Total current liabilities	107,236,190	(2,499,789)	39,223,815	1,281,950	69,230,214	-	68,690,133	535,454	4,627
Long-Term Debt, excluding current maturities	501,167,655	-	501,167,655	-	-	-	-	-	-
Other Liabilities	57,268,757	-	33,767,022	-	23,501,735	-	23,414,006	-	87,729
Accrued Pension	59,986,565	-	-	-	59,986,565	-	59,986,565	-	-
Total liabilities	725,659,167	(2,499,789)	574,158,492	1,281,950	152,718,514	-	152,090,704	535,454	92,356
Net Assets/Shareholders' 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	237,274,671	9,576,855	(208,422,296)	(9,576,855)	445,696,967	(5,995,313)	443,815,234	1,881,733	5,995,313
Temporarily restricted net assets	4,489,679	-	-	-	4,489,679	(4,489,679)	4,489,679	-	4,489,679
Permanently restricted net assets	489,515	-	-	-	489,515	(489,515)	489,515	-	489,515
	242,253,865	(477,901)	(208,422,296)	477,901	450,676,161	(10,974,507)	448,794,428	1,881,733	10,974,507
	$ 967,913,032	$ (2,977,690)	$ 365,736,196	$ 1,759,851	$ 603,394,675	$ (10,974,507)	$ 600,885,132	$ 2,417,187	$ 11,066,863

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information
Year Ended June 30, 2012

	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	$ 388,422,359	$ -	$ 47,165,122	$ -	$ 341,257,237	$ -	$ 330,979,050	$ 10,278,187	$ -
Other revenue	21,523,880	-	2,026,312	1,522,455	17,975,113	-	15,810,019	5,753	2,159,341
	409,946,239	-	49,191,434	1,522,455	359,232,350	-	346,789,069	10,283,940	2,159,341
Expenses:									
Salaries and benefits	182,648,092	-	-	975,229	181,672,863	-	175,824,976	5,245,167	602,720
Supplies	62,882,821	-	1,142,121	114,936	61,625,764	-	60,672,626	765,063	188,075
Purchased services and other	105,218,796	-	45,565,851	398,858	59,254,087	2,754,299	54,753,315	1,198,300	548,173
Provision for bad debts	22,650,261	-	2,430,017	-	20,220,244	-	20,152,041	66,091	2,112
Depreciation and other charges relating to buildings and equipment	53,538,658	-	1,019,431	-	52,519,227	-	52,296,214	223,013	-
Medicaid tax	7,312,614	-	-	-	7,312,614	-	7,312,614	-	-
	434,251,242	-	50,157,420	1,489,023	382,604,799	2,754,299	371,011,786	7,497,634	1,341,080
Operating income (loss)	(24,305,003)	-	(965,986)	33,432	(23,372,449)	(2,754,299)	(24,222,717)	2,786,306	818,261
Nonoperating income (expense):									
Investment income	9,599,382	-	9,520,625	-	78,757	-	-	-	78,757
Unrealized (losses) gains on investments	(10,388,862)	-	(10,314,506)	-	(74,356)	-	16,530	-	(90,886)
Interest expense	(15,044,147)	-	(15,044,147)	-	-	-	-	-	-
Expenses related to debt and investments	(2,527,184)	-	(2,527,184)	-	-	-	-	-	-
Amortization of deferred financing costs	(140,494)	-	(140,494)	-	-	-	-	-	-
Cash settlements on interest rate swaps	(1,929,526)	-	(1,929,526)	-	-	-	-	-	-
Unrealized loss on interest rate swaps	(19,810,840)	-	(19,810,840)	-	-	-	-	-	-
Distribution of restricted revenue	-	-	-	-	-	2,754,299	-	-	(2,754,299)
Gain (loss) on investment in subsidiaries	-	(33,432)	33,432	-	-	1,502,204	(1,502,204)	-	-
Change in unrealized gain on hedge fund investments	1,532,821	-	1,532,821	-	-	-	-	-	-
	(38,708,850)	(33,432)	(38,679,819)	-	4,401	4,256,503	(1,485,674)	-	(2,766,428)

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information (Continued)
Year Ended June 30, 2012

	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 (deficit) of revenue over expenses	$ (63,013,853)	$ (33,432)	$ (39,645,805)	$ 33,432	$ (23,368,048)	$ 1,502,204	$ (25,708,391)	$ 2,786,306	$ (1,948,167)
Other changes in unrestricted net assets:									
Discontinued operations	(1,688,478)	-	-	-	(1,688,478)	-	(1,688,478)	-	-
Amortization of gain on discontinuation of hedge accounting	177,334	-	177,334	-	-	-	-	-	-
Pension and supplemental plan related changes, other than net periodic pension cost	(42,721,560)	-	-	-	(42,721,560)	-	(42,721,560)	-	-
	(44,232,704)	-	177,334	-	(44,410,038)	-	(44,410,038)	-	-
(Decrease) increase in unrestricted net assets	$ (107,246,557)	$ (33,432)	$ (39,468,471)	$ 33,432	$ (67,778,086)	$ 1,502,204	$ (70,118,429)	$ 2,786,306	$ (1,948,167)

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Balance Sheet Information
June 30, 2011

	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	$ 23,339,411	$ -	$ 17,444,553	$ 1,762,045	$ 4,132,813	$ -	$ 2,155,635	$ 1	$ 1,977,177
Short-term investments	1,111,519	-	-	-	1,111,519	-	-	-	1,111,519
Patient accounts receivable - less allowances for uncollectible accounts	58,609.224	-	5,005,236	(27)	53,604,015	-	52,539,400	1,064,615	-
Inventories	7,518,757	-	-	-	7,518,757	-	7,430,914	87,843	-
Prepaid expenses, interest receivable, and other	8,955,528	(10,959)	803,302	78,257	8,084,928	-	7,029,907	19,573	1,035,448
Amounts due from third-party payors	12,362,561	-	-	-	12,362,561	-	12,362,561	-	-
Amounts due from affiliated organizations	-	(2,401,387)	-	-	2,401,387	-	2,401,387	-	-
Total current assets	111,897,000	(2,412,346)	23,253,091	1,840,275	89,215,980	-	83,919,804	1,172,032	4,124,144
Investments and Assets Limited as to Use									
Internally designated for capital improvements	254,728,404	-	254,728,404	-	-	-	-	-	-
Externally designated investments under bond agreements	31,772,065	-	30,322,638	-	1,449,427	-	1,449,427	-	-
Other investments and assets limited as to use	5,184,913	-	-	-	5,184,913	-	-	-	5,184,913
Total investments and assets limited as to use	291,685,382	-	285,051,042	-	6,634,340	-	1,449,427	-	5,184,913
Land, Buildings, and Equipment - net	617,754,041	-	80,385,942	-	537,368,099	-	536,942,225	425,874	-
Investment in Subsidiaries	-	(444,469)	444,469	-	-	(12,806,331)	12,806,331	-	-
Cash and Investments Posted as Swap Collateral	3,071,351	-	3,071,351	-	-	-	-	-	-
Prepaid Pension, Deferred Financing Costs, and Other	14,190,865	-	4,386,857	-	9,804,008	-	6,146,594	-	3,657,414
	$ 1,038,598,639	$ (2,856,815)	$ 396,592,752	$ 1,840,275	$ 643,022,427	$ (12,806,331)	$ 641,264,381	$ 1,597,906	$ 12,966,471

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Balance Sheet Information (Continued)
June 30, 2011

	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	$ 70,032,811	$ (10,959)	$ 1,303,040	$ 14,136	$ 68,726,594	$ -	$ 68,574,026	$ 80,507	$ 72,061
Accrued payroll and other	25,843,876	-	6,785,796	11,537	19,046,543	-	18,296,397	750,146	-
Amounts due to third-party payors	28,351,919	-	-	-	28,351,919	-	28,435,908	(83,989)	-
Current maturities of debt	5,330,004	-	5,330,004	-	-	-	-	-	-
Due to affiliated organizations	-	(2,401,387)	1,031,254	1,370,133	-	-	-	-	-
Total current liabilities	129,558,610	(2,412,346)	14,450,094	1,395,806	116,125,056	-	115,306,331	746,664	72,061
Long-Term Debt, excluding current maturities	506,862,261	-	506,862,261	-	-	-	-	-	-
Other Liabilities	36,924,815	-	14,222,594	-	22,702,221	-	22,614,142	-	88,079
Accrued Pension	15,422,911	-	-	-	15,422,911	-	15,422,911	-	-
Total liabilities	688,768,597	(2,412,346)	535,534,949	1,395,806	154,250,188	-	153,343,384	746,664	160,140
Net Assets/Shareholders' 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	344,521,228	9,610,287	(138,942,197)	(9,610,287)	483,463,425	(7,497,517)	482,612,183	851,242	7,497,517
Temporarily restricted net assets	4,819,299	-	-	-	4,819,299	(4,819,299)	4,819,299	-	4,819,299
Permanently restricted net assets	489,515	-	-	-	489,515	(489,515)	489,515	-	489,515
	349,830,042	(444,469)	(138,942,197)	444,469	488,772,239	(12,806,331)	487,920,997	851,242	12,806,331
	$ 1,038,598,639	$ (2,856,815)	$ 396,592,752	$ 1,840,275	$ 643,022,427	$ (12,806,331)	$ 641,264,381	$ 1,597,906	$ 12,966,471

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information
Year Ended June 30, 2011

	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	$ 351,433,096	$ -	$ 44,899,936	$ -	$ 306,533,160	$ -	$ 298,089,734	$ 8,443,426	$ -
Other revenue	17,640,810	(9,309,165)	1,959,269	10,129,698	14,861,008	-	12,290,360	7,460	2,563,188
	369,073,906	(9,309,165)	46,859,205	10,129,698	321,394,168	-	310,380,094	8,450,886	2,563,188
Expenses:									
Salaries and benefits	170,002,163	-	145,188	9,540,369	160,316,606	-	155,252,817	4,529,898	533,891
Supplies	56,741,466	-	2,451,792	88,985	54,200,689	-	53,381,399	665,557	153,733
Purchased services and other	96,349,018	(9,309,165)	49,298,424	377,002	55,982,757	2,607,347	51,545,276	1,148,073	682,061
Provision for bad debts	24,585,166	-	1,999,907	250	22,585,009	-	22,484,881	101,018	(890)
Depreciation	34,158,449	-	1,269,552	25	32,888,872	-	32,629,954	258,918	-
Medicaid tax	7,310,342	-	-	-	7,310,342	-	7,310,342	-	-
One time costs associated with new hospital	4,628,954	-	-	-	4,628,954	-	4,628,954	-	-
	393,775,558	(9,309,165)	55,164,863	10,006,631	337,913,229	2,607,347	327,233,623	6,703,464	1,368,795
Operating income (loss)	(24,701,652)	-	(8,305,658)	123,067	(16,519,061)	(2,607,347)	(16,853,529)	1,747,422	1,194,393
Nonoperating income (expense):									
Investment income	12,529,020	-	12,301,052	-	227,968	-	-	-	227,968
Unrealized gains on investments	35,352,995	-	34,600,402	-	752,593	-	513,859	-	238,734
Interest expense	(7,662,371)	-	(7,662,467)	-	96	-	96	-	-
Expenses related to debt and investments	(969,232)	-	(969,232)	-	-	-	-	-	-
Amortization of deferred financing costs	(145,481)	-	(145,481)	-	-	-	-	-	-
Cash settlements on interest rate swaps	1,008,257	-	1,008,257	-	-	-	-	-	-
Unrealized gain on interest rate swaps	4,694,741	-	4,694,741	-	-	-	-	-	-
Distribution of restricted revenue	-	-	-	-	-	2,607,347	-	-	(2,607,347)
Gain (loss) on investment in subsidiaries	-	(123,067)	123,067	-	-	(1,650,693)	1,650,693	-	-
Change in unrealized gain on hedge fund investments	(677,730)	-	(677,730)	-	-	-	-	-	-
	44,130,199	(123,067)	43,272,609	-	980,657	956,654	2,164,648	-	(2,140,645)

Elmhurst Memorial Healthcare and Subsidiaries

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information (Continued)
Year Ended June 30, 2011

	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 (deficit) of revenue over expenses	$ 19,428,547	$ (123,067)	$ 34,966,951	$ 123,067	$ (15,538,404)	$ (1,650,693)	$ (14,688,881)	$ 1,747,422	$ (946,252)
Other changes in unrestricted net assets:									
Discontinued operations	2,412,465	-	-	-	2,412,465	-	2,412,465	-	-
Amortization of gain on discontinuation of hedge accounting	178,463	-	178,463	-	-	-	-	-	-
Pension and supplemental plan related changes other than net periodic pension cost	26,851,456	-	-	-	26,851,456	-	26,851,456	-	-
Temporarily restricted contributions released for capital projects	2,000,000		-	-	2,000,000	-	-		2,000,000
	31,442,384	-	178,463	-	31,263,921	-	29,263,921	-	2,000,000
Increase in unrestricted net assets	$ 50,870,931	$ (123,067)	$ 35,145,414	$ 123,067	$ 15,725,517	$ (1,650,693)	$ 14,575,040	$ 1,747,422	$ 1,053,748

MOODY'S
INVESTORS SERVICE

Announcement: MOODY'S AFFIRMS EDWARD HEALTH SERVICES CORPORATION'S (IL) A2 BOND RATING; OUTLOOK IS POSITIVE

Global Credit Research - 14 Nov 2011

EDWARD HEALTH SERVICES CORPORATION (IL) HAS A TOTAL OF $277.5 MILLION OF RATED DEBT OUTSTANDING

New York, November 14, 2011 – Moody's Investors Service has affirmed the A2 long-term bond rating assigned to Edward Health Services Corporation's (IL) $278 million of outstanding bonds issued by the Illinois Health Facilities Authority. The outlook is positive.

RATING RATIONALE:

The A2 rating is based on Edward's location in a solid demographic area, history of strong operating margins, and very good and liquid unrestricted investment position. These strengths are offset by increasing competition in a crowed and rapidly consolidating market, trend of modest revenue growth, relatively high variable rate debt, and expected increase in capital spending and possibly debt. The positive outlook is based on our expectation that operating margins and liquidity will be maintained; a rating upgrade will be considered upon further clarification of the funding of capital projects and our continued evaluation of Edward's ability to respond to competitive pressures, stabilize surgical volume and grow revenue.

STRENGTHS

- History of strong operating cash flow margins with 13.4% average operating cash flow over the last five years and 13.9% in FY 2011, which is strong relative to A2 medians despite low revenue growth

- Located in Aaa-rated Naperville and the fourth largest city in Illinois, EHSC benefits from strong population growth (10.5% from 2000-2010) and wealth measures ($100,503 median household income; $397,000 median home value)

- Strong cash with recent growth resulting in 291 days cash on hand at FYE 2011; cash-to-demand debt is strong at 245%

- Defined contribution pension plan

CHALLENGES

- Crowded competitive market 25 miles west of Chicago with a dozen similarly sized hospitals within a 20-mile radius; the market is becoming increasingly competitive with rapid consolidation among hospitals and more competition for physician groups

- Trend of low revenue growth averaging 2.5% between 2009 and 2011 in part due to declines in outpatient and total surgeries

- Relatively high variable rate debt load at 59%; swap exposure with a collateral posting in FY 2011

- Following two years of low capital spending, capital expenditures are projected to increase to $83 million in FY12, more than double FY11; the hospital is considering issuing debt to partly fund the program, which will weaken debt measures

Outlook

The positive outlook is based on our expectation that operating margins and liquidity will be maintained

WHAT COULD MAKE THE RATING GO UP

A rating upgrade will be considered upon further clarification of the funding of capital projects and our continued evaluation of Edward's ability to respond to competitive pressures, stabilize surgical volume and grow revenue.

WHAT COULD MAKE THE RATING GO DOWN

Material increase in debt beyond current projections that would weaken coverage ratios and weaken financial position without a commensurate increase in cash flow; loss of market share due to elevated competition; unexpected and prolonged decline in operating performance

The principal methodology used in this rating was Not-for-Profit Hospitals and Health Systems published in January 2008. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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