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Consolidated Financial Statements and Details of Consolidation and Other Financial Information

Edward Health Services Corporation and Subsidiaries
Years Ended June 30, 2011 and 2010
With Reports of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

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Years Ended June 30, 2011 and 2010

Contents

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Report of Independent Auditors

The Board of Trustees
Edward Health Services Corporation

We have audited the accompanying consolidated balance sheets of Edward Health Services Corporation and Subsidiaries (the Corporation) as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Edward Health Services Corporation and Subsidiaries at June 30, 2011 and 2010, and the consolidated results of their operations, changes in net assets, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

September 28, 2011

1105-1257492

Edward Health Services Corporation and Subsidiaries

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30 2011	June 30 2010
Assets		
Current assets:		
Cash and cash equivalents	$ **13,222**	$ 20,737
Assets limited as to use, externally designated investments under debt agreements	**5,010**	4,870
Patient accounts receivable, less allowances for doubtful accounts (2011 – $16,936; 2010 – $9,557)	**71,567**	62,476
Estimated amounts due from third-party payors	**815**	5,136
Inventories	**8,758**	8,381
Prepaid expenses and other current assets	**11,838**	13,354
Total current assets	**111,210**	114,954
Assets limited as to use, less current portion:		
Externally designated investments under debt agreements	**2,227**	2,070
Externally designated for self-insurance	**89,448**	72,438
Board-designated investments	**384,869**	296,030
	476,544	370,538
Other assets:		
Deferred financing costs, net	**4,395**	4,512
Goodwill and other intangible assets, net	**31,902**	32,172
Investments in affiliates and other	**12,626**	10,686
Reinsurance recoverable for reinsured losses	**7,353**	6,529
	56,276	53,899
Land, buildings, and equipment:		
Land and improvements	**40,505**	40,484
Buildings and improvements	**474,175**	468,914
Furniture and equipment	**195,631**	193,571
Construction-in-progress	**36,959**	18,849
	747,270	721,818
Less allowances for depreciation	**373,539**	339,510
	373,731	382,308
	$ **1,017,761**	$ 921,699

	June 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 18,574	$ 16,360
Accrued expenses	48,688	48,966
Estimated amounts due to third-party payors	76,084	63,236
Current maturities of long-term debt	5,010	4,870
Total current liabilities	148,356	133,432
Long-term debt, less current maturities	272,175	277,195
Professional and general liability	49,491	51,701
Minority interest in limited partnership	247	189
Reserve for reinsured losses	7,353	6,529
Other liabilities	24,957	28,305
Total liabilities	502,579	497,351
Net assets:		
Unrestricted net assets	513,771	422,989
Temporarily restricted net assets	1,018	966
Permanently restricted net assets	393	393
Total net assets	515,182	424,348
	$ 1,017,761	$ 921,699

See accompanying notes.

Edward Health Services Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended June 30	
	2011	**2010**
Revenues		
Net patient service revenue	**$ 538,715**	$ 524,029
Other operating revenue	**26,642**	25,863
	565,357	549,892
Expenses		
Salaries and wages	**221,011**	208,780
Employee benefits	**49,395**	46,802
Medical fees	**9,476**	9,635
Purchased services	**26,682**	36,030
Supplies and other	**137,601**	132,775
Depreciation and amortization	**45,589**	46,510
Provision for doubtful accounts	**26,400**	23,898
Interest	**12,583**	12,997
Medicaid tax	**16,089**	16,089
	544,826	533,516
Operating income	**20,531**	16,376
Nonoperating		
Realized gains and investment income	**14,825**	9,303
Unrealized gains on investments, net	**49,659**	30,691
Gain (loss) on interest rate swaps	**4,492**	(7,295)
Loss on defeasance of debt	**–**	(1,530)
Other nonoperating gains	**448**	6,929
	69,424	38,098
Excess of revenues and gains over expenses and losses	**89,955**	54,474

Edward Health Services Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended June 30 2011	Year Ended June 30 2010
Unrestricted net assets		
Excess of revenues and gains over expenses and losses	**$ 89,955**	$ 54,474
Other changes in unrestricted net assets	**–**	52
Net assets released from restriction used for purchase of fixed assets	**827**	3,002
Increase in unrestricted net assets	**90,782**	57,528
Temporarily restricted net assets		
Contributions	**1,216**	1,066
Net assets released from restrictions used for operations	**(337)**	(382)
Net assets released from restrictions used for purchase of fixed assets	**(827)**	(3,002)
Increase (decrease) in temporarily restricted net assets	**52**	(2,318)
Increase in net assets	**90,834**	55,210
Net assets at beginning of year	**424,348**	369,138
Net assets at end of year	**$ 515,182**	$ 424,348

See accompanying notes.

Edward Health Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended June 30 2011	2010
Operating activities		
Increase in net assets	$ 90,834	$ 55,210
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	45,589	46,510
Provision for doubtful accounts	26,400	23,898
Change in net unrealized loss on interest rate swaps	(4,492)	7,295
Restricted contributions	(1,216)	(1,066)
Loss on defeasance of debt	–	1,530
Loss on disposal of fixed assets	81	1,664
Gain on the sale of business/asset revaluation	–	(7,791)
Changes in operating assets and liabilities:		
Patient accounts receivable	(35,491)	(21,231)
Inventories, prepaid expenses, and other current assets	1,139	(4,398)
Accounts payable and accrued expenses	1,936	(7,438)
Other assets and liabilities	(1,141)	1,772
Investments	(106,146)	(63,663)
Estimated amounts due from/to third-party payors	17,169	12,423
Net cash provided by operating activities	34,662	44,715
Investing activities		
Additions to land, buildings, and equipment, net	(36,583)	(34,147)
Investments in affiliates and other	(1,940)	1,301
Acquisitions, net of cash acquired	–	(13,288)
Net cash used in investing activities	(38,523)	(46,134)
Financing activities		
Principal payments under bond obligations	(4,870)	(4,565)
Proceeds from issuance of bonds	–	43,500
Debt issuance costs	–	(692)
Defeasance of debt	–	(48,100)
Restricted contributions	1,216	1,066
Net cash used in financing activities	(3,654)	(8,791)
Net decrease in cash and cash equivalents	(7,515)	(10,210)
Cash and cash equivalents at beginning of year	20,737	30,947
Cash and cash equivalents at end of year	$ 13,222	$ 20,737
Supplemental disclosure of cash flow information		
Interest paid	$ 12,542	$ 12,997

See accompanying notes.

1. Corporate Organization

The accompanying consolidated financial statements represent the accounts of Edward Health Services Corporation (the Corporation) and its affiliates. Included among the affiliates are Edward Hospital (the Hospital), an acute care hospital located in Naperville, Illinois, serving residents of Naperville and its surrounding communities; Edward Health Ventures (EHV), an organization that provides the services of physician practices, holds real estate investments, and invests in joint venture medical practices and other health care services; Edward Foundation (the Foundation), a charitable foundation organized to solicit gifts for the maintenance and benefit of the Corporation and its affiliates; and EHSC Cayman Segregated Portfolio Co. (the Captive), which provides general and professional liability insurance coverage to the Corporation and its affiliates. EHV is the sole corporate member of Edward Health & Fitness Center (EHFC), an Illinois not-for-profit corporation, and is the sole shareholder of Edward Management Corporation (EMC), an Illinois for-profit corporation, which provides physician billing services. EHV has a 99% ownership interest in Naperville Psychiatric Ventures, an Illinois general partnership, d/b/a Linden Oaks Hospital (Linden Oaks), a psychiatric hospital located on the campus of the Hospital, and the Corporation owns the remaining 1% interest. EHV is also the general partner of the Edward Physician Office Center Limited Partnership (EPOCLP), an Illinois for-profit limited partnership, which owns a medical office building on the Hospital campus. EHV and the Hospital together own 96% of the limited and general partnership units of EPOCLP.

Significant intercompany transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Accounts Receivable

The Corporation evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future uncollectible amounts based on historical experience. Accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible.

Assets Limited as to Use and Investment Income

Assets limited as to use include assets set aside by the Board of Trustees (the Board) for future capital improvements, which the Board, at its discretion, may subsequently use for other purposes. Additionally, assets limited as to use include assets held by trustees under debt agreements and assets externally designated by reinsurers for the self-insured professional and general liability.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Dividends, realized gains and losses, and unrealized gains and losses are reported as nonoperating gains and losses in the consolidated statements of operations and changes in net assets. Investment income from assets limited as to use under debt agreements is included as other operating revenue in the consolidated statements of operations and changes in net assets.

Interest Rate Swaps

Interest rate swaps are measured at fair value based on quoted market interest rates. In accordance with Accounting Standards Codification Section 815-10-50-1 on Derivatives and Hedging Disclosures, gains and losses resulting from changes in market interest rates are reported as nonoperating gains and losses in the consolidated statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

Inventories

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

Deferred Financing Costs and Goodwill

Debt issuance and financing costs are capitalized and amortized over the life of the debt issue using methods that approximate the effective interest method. Goodwill is reviewed annually for impairment.

Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost, except donated assets, which are recorded at fair market value as of the date of donation. The Corporation records depreciation expense, including amortization of assets recorded under capital leases, using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying values of an asset are appropriate. Impairment write-downs are recognized in the consolidated statements of operations and changes in net assets at the time the impairment is identified.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the pledge is received to the extent estimated to be collectible by the Corporation. Pledges received with donor restrictions that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

2. Summary of Significant Accounting Policies (continued)

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Corporation. Temporarily restricted gifts are recorded as an addition to temporarily restricted net assets in the period received. Resources restricted by donors for specific operating purposes are reported as revenue to the extent expended within the period.

Permanently restricted net assets consist of amounts held in perpetuity, as designated by donors. Earnings on investments of endowment funds are included in revenue unless restricted by donors.

Net Patient Service Revenue

The Corporation has agreements with various third-party payors that provide for payments to the Corporation 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 received or due from patients, third-party payors, and others for services rendered. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined (see Note 5).

Charity Care

The Corporation provides care to all patients regardless of their ability to pay. Charity care provided by the Corporation is excluded from net patient service revenue.

Excess of Revenues and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses and losses. Changes in unrestricted net assets, which are excluded from excess of revenues and gains over expenses and losses, include contributions of long-lived assets, including assets acquired using donor-restricted contributions.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Corporation, the Hospital, EHV, EHFC, the Foundation, and Linden Oaks are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on income related to their exempt purposes. Accordingly, there is no material provision for income tax for these entities.

EMC is a taxable entity having taxable income in 2011 and 2010. As of June 30, 2011, EMC has a net operating loss carryforward estimated at $809, expiring in the years 2011 through 2024. A deferred tax asset in the amount of $323 in 2011 has been recorded in the consolidated financial statements, as this is the amount of these tax benefits that has been determined to be reasonably assured.

EPOCLP is a partnership and, as such, income taxes are paid directly by the partners. Accordingly, no provision for income taxes has been recorded.

There is presently no tax imposed by the government of the Cayman Islands on the Captive. The only taxes payable by the Captive are withholding taxes of other countries applicable to certain investment income. As a result, no tax liability or expense has been recorded in the financial statements of the Captive.

Adoption of New Accounting Standard

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions,* which establishes accounting and disclosure requirements for how a not-for profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to FASB's Accounting Standards Codification (the Codification or ASC) Topic 350, *Intangibles – Goodwill and Other*, and Topic 810, *Consolidation,* to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. ASC Topic 810 clarifies the accounting for noncontrolling interest and establishes accounting and reporting standards for

2. Summary of Significant Accounting Policies (continued)

noncontrolling interest in a subsidiary, including classification as a component of net assets.

The Corporation adopted the guidance relative to ASU 2010-07 and performed a transitional impairment test as of July 1, 2010 and determined there was no impairment. The Corporation reviewed goodwill for impairment again as of March 31, 2011, and determined that no impairment was necessary.

Reclassifications

Certain reclassifications were made to the 2010 financial statements to conform with the classifications used in 2011.

3. Purchase of ECI

On October 22, 2009, the Hospital purchased 50% of Edward Cardiovascular Institute (ECI). At that time, EHV transferred its 50% ownership interest in ECI and 50% ownership interest in ECD to the Hospital. The purchase price was $14,500.

This transaction was accounted for under purchase accounting rules, and a gain of $5,233 is included in other nonoperating gains (losses) in the accompanying consolidated statement of operations and changes in net assets for the year ended June 30, 2010. Net liabilities of $2,060 were assumed, and goodwill in the amount of $26,535 was recorded in conjunction with this transaction. The valuation of ECI's business included acquired assets and assumed liabilities; fair values were based on, but not limited to, discounted cash flow models and analysis of market valuations for similar public companies and purchase transactions of similar companies.

4. General and Professional Liability Claims

The Corporation was a party to an agreement with the Illinois Provider Trust (IPT) for primary and excess coverage of general and professional liability claims through December 31, 2004. Effective January 1, 2005, the Captive began providing claims-made health care professional liability and occurrence-based general liability coverage to the Corporation and its affiliates. From January 1, 2005 through December 31, 2007, the Captive's primary limits were $3,000 per occurrence without an aggregate limit and a buffer layer of $2,000 in the aggregate. From

4. General and Professional Liability Claims (continued)

January 1, 2008 through December 31, 2008, the Captive's primary limits were $2,000 per occurrence with an aggregate of $32,000 and a buffer layer of $2,000 in the aggregate. Beginning January 1, 2009, the Captive's primary limits were $2,000 per occurrence with an aggregate of $12,000 and a buffer layer of $2,000 in the aggregate.

From January 1, 2003 through December 31, 2004, the Corporation's primary layer of general and professional liability coverage with IPT was on a claims-made basis, and from January 1, 2002 through December 31, 2004, the Corporation's excess general and professional liability coverage with IPT was on a claims-made basis. The professional liability coverage under the Captive is also on a claims-made basis, beginning January 1, 2005. However, the Captive includes tail coverage retroactive to the dates of the claims-made primary and excess coverages through IPT (January 2003 and January 2002, respectively). In January 2007, the Captive began providing professional liability coverage to certain employed physicians of the Hospital and EHV. The Corporation has recorded a tail coverage liability representing incurred but not reported claims of $8,402 and $9,770 (undiscounted) at June 30, 2011 and 2010, respectively. The Corporation is also covered by an excess liability policy with limits of $80,000 in the aggregate for the period January 1, 2009 through December 31, 2011.

The Captive has also recorded a liability of $41,089 and $41,931 for claims reported to the Captive at June 30, 2011 and 2010, respectively.

Annual premiums paid to IPT or deposited in the Captive are based on actuarial valuations. The premiums for primary coverage under IPT are subject to retrospective adjustments based on the loss experience of the Corporation and other IPT members, subject to certain maximum limitations. No retrospective premium adjustments were assessed to the Corporation during fiscal years 2011 and 2010.

Actuarial estimates are subject to uncertainty, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different than the estimates. The Corporation and its subsidiaries recorded $343 and $4,591 of general and professional liability expense in 2011 and 2010, respectively. The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's financial condition or operations.

5. Contractual Arrangements With Third-Party Payors

The Medicare and Medicaid programs pay the Hospital for inpatient and outpatient services at predetermined rates based on treatment diagnosis. Medicare reimbursement for certain outpatient and extended care services rendered by Linden Oaks is primarily based on allowable costs, which are subject to retroactive audit and adjustment. Changes in the Medicare and Medicaid programs or reduction of funding levels for the programs could have an adverse effect on future amounts recognized as net patient service revenue.

The laws and regulations governing the Medicare and Medicaid programs are extremely 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.

Payment for services provided to health maintenance organization and preferred provider organization (HMO/PPO) patients is made at predetermined fixed rates. Payment for services provided to Blue Cross program inpatients is based on allowable reimbursable costs and is subject to retroactive audit and adjustment.

Net patient revenues received under the HMO/PPO and Medicare payment arrangements account for 64% and 24% of net patient service revenue, respectively, for the year ended June 30, 2011, and 67% and 24%, respectively, for the year ended June 30, 2010. A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between standard charges for services and actual or estimated payment.

The Hospital, Linden Oaks, and EHV grant credit without collateral to their patients, most of whom are local residents and are insured under third-party arrangements. Major components of net patient accounts receivable include 19% and 25%, respectively, at June 30, 2011, and 21% and 34% at June 30, 2010, respectively, from Medicare and Blue Cross.

Adjustments arising from reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. Changes in third-party payor settlements that relate to prior years are reported in net patient service revenue in the consolidated statements of operations and changes in net assets. The impact of such items resulted in an increase in net patient service revenue in the amounts of $186 and $2,304 in 2011 and 2010, respectively.

(Dollars in Thousands)

5. Contractual Arrangements With Third-Party Payors (continued)

The Centers for Medicare and Medicaid Services approved the State of Illinois' Hospital Assessment Program with an effective date beginning July 1, 2008 (the beginning of the state's fiscal year 2008) through June 30, 2013 (the end of the state's fiscal year 2013).

The Corporation recognized in its year ended June 30, 2011, Illinois hospital assessment revenue and assessment expense in the amounts of $12,675 and $16,089, respectively, resulting in a decrease in the Corporation's fiscal 2011 excess of revenues and gains over expenses and losses of $3,414. The Corporation recognized in its year ended June 30, 2010, Illinois hospital assessment revenue and assessment expense in the amounts of $12,675 and $16,089, respectively, resulting in a decrease in the Corporation's fiscal 2010 excess of revenues and gains over expenses and losses of $3,414.

The Corporation recognized $3,136 and $2,022 as unrestricted contributions from the Illinois Hospital Research and Educational Foundation (IHREF), representing financial assistance to certain hospitals participating in the 2011 and 2010 Illinois Medicaid Provider Tax program, respectively. This amount has been recorded as other operating revenues in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2011 and 2010.

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2011	2010
Temporarily restricted:		
Animal assisted therapy	$ 153	$ 134
Oncology programs	119	100
Cardiovascular programs	93	85
Other special uses	653	647
Total temporarily restricted net assets	$ 1,018	$ 966

(Dollars in Thousands)

6. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets at June 30 are summarized below, the income from which is expendable to support the following expenses:

	2011	2010
Permanently restricted:		
Cardiovascular endowment	$ **100**	$ 100
Animal assisted therapy endowment	**155**	155
Other special uses	**138**	138
Total permanently restricted net assets	$ **393**	$ 393

Net assets were released from donor restrictions by incurring expenditures for the following purposes during the years ended June 30:

	2011	2010
KidsCare campaign	$ **892**	$ –
Cancer campaign	**(73)**	2,683
Share memorial garden campaign	**8**	159
Linden Oaks expansion campaign	**–**	160
Health care services	**337**	382
Total net assets released from restriction	$ **1,164**	$ 3,384

Pledges receivable, which are included in the consolidated balance sheets in prepaid expenses and other current assets for the current portion, and in investments in affiliates and other for the long-term portion, are due over the following time periods:

	June 30	
	2011	2010
Less than one year	$ **543**	$ 338
One through five years	**479**	503
	$ **1,022**	$ 841

(Dollars in Thousands)

7. Investments in Affiliates

Investments in affiliates include a 33% interest in Northern Illinois Surgery Center Limited Partnership, an Illinois limited partnership; a 50% membership interest and 100% ownership interest in Naperville Health Care Associates (NHCA), an Illinois for-profit corporation; a 50% interest in Charles E. Miller, MD & Associates: Specialists in Reproductive Health, an Illinois limited liability company; a 12.5% investment in DMG Surgical Center, LLC; and a 45% interest in the Plainfield Surgery Center LLC. These investments are recorded using the equity method of accounting. Net income from these investments is included in other nonoperating gains in the accompanying consolidated statements of operations and changes in net assets.

Summarized unaudited financial results for the investments in affiliates accounted for under the equity method as of and for the years ended June 30 are as follows:

	2011	2010
Assets	$ **44,336**	$ 30,158
Liabilities	**17,973**	13,392
Net income	**5,554**	1,460

8. Investments

Board-designated investments represent assets invested in a pooled investment fund, which aggregates investments of all the entities of the Corporation. Board-designated investments, along with trustee-held investments, consisted of the following at June 30:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	$ **416,776**	$ **383,758**	$ 318,772	$ 328,360
Equity securities	**52,007**	**44,685**	47,070	46,806
Municipal bonds	**4,618**	**5,227**	4,755	5,358
Money market funds and short-term investments	**8,153**	**8,152**	4,811	4,811
	$ **481,554**	$ **441,822**	$ 375,408	$ 385,335

(Dollars in Thousands)

8. Investments (continued)

Return on investments for the years ended June 30 are as follows:

		2011		2010
Investment return:				
Interest and dividend income	$	**7,258**	$	8,546
Unrealized gains and losses on investments, net		**49,659**		30,691
Net realized gains on investments		**7,906**		1,272
Total investment return	$	**64,823**	$	40,509
Reported as:				
Other operating revenue	$	**339**	$	515
Net realized gains and investment income		**14,825**		9,303
Unrealized gains and losses on investments, net		**49,659**		30,691
	$	**64,823**	$	40,509

9. Derivatives and Other Financial Instruments

The Corporation has interest rate-related derivative instruments to manage its exposure on its variable-rate debt instruments and does not enter into derivative instruments for any purpose other than risk management purposes. By using derivative financial instruments to manage the risk of changes in interest rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Corporation, which creates credit risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, it does not possess credit risk. The Corporation minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the Corporation based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

(Dollars in Thousands)

9. Derivatives and Other Financial Instruments (continued)

The Corporation has not experienced any financial losses or changes in counterparty collateral posting requirements due to changes in the credit ratings or risk profiles of its derivative counterparties for fiscal years ended June 30, 2011 and 2010.

The Corporation maintains interest rate swap programs on its variable rate demand revenue bonds. These bonds expose the Corporation to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the Corporation entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps limit the variable-rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

The following is a summary of the outstanding positions under these interest swap agreements at June 30, 2011:

Bond Series	Notional Amount		Maturity Date	Rate Paid	Rate Received
2008B-1	$	**53,595**	February 2040	**3.93%**	61.8% of one-month LIBOR plus 0.31%
2008B-2	$	**21,438**	February 2040	**4.05%**	61.8% of one-month LIBOR plus 0.31%
2008B-2	$	**32,157**	February 2040	**3.93%**	61.8% of one-month LIBOR plus 0.31%
2009A	$	**30,000**	February 2031	**3.59%**	67.0% of one-month LIBOR

The following is a summary of the outstanding positions at June 30, 2010:

Bond Series	Notional Amount		Maturity Date	Rate Paid	Rate Received
2008B-1	$	54,535	February 2040	3.93%	61.8% of one-month LIBOR plus 0.31%
2008B-2	$	54,535	February 2040	3.93%	61.8% of one-month LIBOR plus 0.31%
2009A	$	30,000	February 2031	3.59%	67.0% of one-month LIBOR

(Dollars in Thousands)

9. Derivatives and Other Financial Instruments (continued)

As required in ASC 815-10-25-1, the Corporation is required to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated as hedging instruments, the Corporation must designate the hedging instrument based upon the exposure being hedged as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

The fair value of derivative instruments at June 30, 2011 and 2010, is as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815-10	Balance Sheets Location	June 30, 2011	June 30, 2010
Interest rate swap agreements	Other liabilities	$ (20,266)	$ (24,758)

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for the years ended June 30, 2011 and 2010, are as follows:

Derivatives Not Designated as Hedging Instruments Under ASC 815-10	Location of Gain/ (Loss) Recognized in Nonoperating Gains (Losses) in Statements of Operations and Changes in Net Assets	June 30, 2011	June 30, 2010
Interest rate swap agreements	Gain/(loss) on interest rate swaps	$ 4,492	$ (7,295)

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the gain or loss is recorded as a change in unrestricted net assets, whereas, for derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. At June 30, 2011 and 2010, the Corporation had no derivative instruments that are designated and qualify as a fair value hedge or hedge of a net investment in a foreign currency.

(Dollars in Thousands)

9. Derivatives and Other Financial Instruments (continued)

In November 2001, the Corporation entered into a 30-year interest rate swap agreement with a counterparty. The agreement effectively converted $30,000 of the Corporation's Series 2001C Bond issue (refunded in October 2009 by Series 2009A) from a variable rate that approximates the Securities Industry and Financial Markets Association (SIFMA) 30-day rate (0.09% and 0.22% at June 30, 2011 and 2010, respectively), reset on a weekly basis, to a fixed rate of 3.59%. Financial settlement of the terms of the agreement occurs on a monthly basis. The agreement expires in 2031.

In April 2006, the Corporation entered into two 33-year interest rate swap agreements with two counterparties with notional amounts of $57,140 for each swap. The swaps effectively locked in future refunding savings by exchanging a variable rate of 61.8% of one-month LIBOR plus 0.31% with a fixed rate of 3.93%. The agreements became effective on February 1, 2007, at the option of the Corporation.

In April 2011, the Corporation entered into a swap novation agreement for its 2008B-2 swap with an additional counterparty for a notional amount of $21,438. This swap novation effectively locked in future cash flows by exchanging a variable rate of 61.8% of one-month LIBOR plus 0.31% with a fixed rate of 4.0485% and raised the collateral posting threshold on the novated portion of the swap to $10,000. The agreement became effective May 4, 2011.

A summary of the market values of the outstanding swap agreements at June 30, 2011 and 2010, is as follows:

	Notional Amount	2011 Fair Value	2010 Fair Value
Fixed pay LIBOR swap (2008B-1)	$ 53,595	$ **(7,959)**	$ (9,929)
Fixed pay LIBOR swap (2008B-2)	32,157	**(5,186)**	(9,929)
Fixed pay LIBOR swap (2008B-2)	21,438	**(3,183)**	–
Fixed pay LIBOR swap (2009A)	30,000	**(3,938)**	(4,900)

9. Derivatives and Other Financial Instruments (continued)

Net interest paid or received under the interest rate swap agreements is included in interest expense. The net differential paid by the Corporation as a result of the interest rate swap agreements amounted to approximately $4,774 and $4,827 for the years ended June 30, 2011 and 2010, respectively. These amounts are reflected as an increase to interest expense. The net fair value of the swaps was a liability of $(20,266) and $(24,758) included in other liabilities at June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, the interest rate swap agreements do not qualify for hedge accounting; therefore, the change in the fair value has been reflected as loss on interest rate swaps in the nonoperating section of the consolidated statements of operations and changes in net assets.

For the year ended June 30, 2011, the Corporation recorded approximately $4,492 in nonoperating gains, which relates to a gain of $2,769 due to the change in swaps' value and a gain of $1,723 to reflect the fair value of the credit adjustment related to the uncollateralized portion of the swap balance.

For the year ended June 30, 2010, the Corporation recorded approximately $7,295 in nonoperating losses, which relates to a loss of $8,863 due to the change in swaps' value and a gain of $1,568 to reflect the fair value of the credit adjustment related to the uncollateralized portion of the swap balance.

Certain of the Corporation's derivative instruments contain provisions that require the Corporation's debt to maintain a certain long-term credit rating from each of the major credit rating agencies. If the Corporation's debt were to fall below these thresholds, the counterparties to the derivative instruments could request either immediate additional collateralization or ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2011 and 2010, is $20,266 and $24,758, respectively. The Corporation has posted collateral of $2,316 and $5,053 at June 30, 2011 and 2010, respectively, in the normal course of business. This amount is recorded as a current asset in the consolidated balance sheets. If ratings fell below the current levels and the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2011, the Corporation would be required to post total collateral as outlined in the table below to its counterparties.

(Dollars in Thousands)

9. Derivatives and Other Financial Instruments (continued)

Bond Rating	Collateral Requirement
S&P/Moody's	
A+/A2 (Current)	$ 1,661
A-/A3	3,661
BBB+/Baa1	12,797
BBB/Baa2	20,488
BBB-/Baa3	21,238
Below BBB-/Baa3	21,988

ASC 820-10-50-2 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 participants at the measurement date and establishes a framework for measuring fair value.

ASC 820-10-50-2 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

(Dollars in Thousands)

9. Derivatives and Other Financial Instruments (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value as of June 30, 2011, by caption, on the consolidated balance sheet by ASC 820-10-50-2 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents	$ 13,222	$ –	$ –	$ 13,222
Externally designated under debt agreements:				
Money market[a]	2,619	–	–	2,619
Municipal bonds[b]	–	4,618	–	4,618
Total externally designated under debt agreements	2,619	4,618	–	7,237
Externally designated for self-insurance mutual funds[a]	89,448	–	–	89,448
Board-designated investments:				
Cash and equivalents	5,534	–	–	5,534
Domestic common stocks[c]	48,041	–	–	48,041
Foreign stocks[c]	3,966	–	–	3,966
Mutual funds – equity[a]	154,928	–	–	154,928
Mutual funds – fixed income[a]	136,116	–	–	136,116
Mutual funds – balanced[a]	36,284	–	–	36,284
Total board-designated investments	384,869	–	–	384,869
Collateral (included in prepaid expenses and other current assets):				
Money market[a]	2,316	–	–	2,316
Total	$ 492,474	$ 4,618	$ –	$ 497,092
Liabilities				
Swaps[d]	$ –	$ 20,266	$ –	$ 20,266

(Dollars in Thousands)

9. Derivatives and Other Financial Instruments (continued)

The following table presents the financial instruments carried at fair value as of June 30, 2010, by caption, on the consolidated balance sheet by ASC 820-10-50-2 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents	$ 20,737	$ –	$ –	$ 20,737
Externally designated under debt agreements:				
Money market[a]	2,185	–	–	2,185
Municipal bonds[b]	–	4,755	–	4,755
Total externally designated under debt agreements	2,185	4,755	–	6,940
Externally designated for self-insurance mutual funds[a]	72,438	–	–	72,438
Board-designated investments:				
Cash and equivalents	2,690	–	–	2,690
Domestic common stocks[c]	44,211	–	–	44,211
Foreign stocks[c]	2,794	–	–	2,794
Mutual funds – equity[a]	130,525	–	–	130,525
Mutual funds – fixed income[a]	115,810	–	–	115,810
Total board-designated investments	296,030	–	–	296,030
Collateral (included in prepaid expenses and other current assets):				
Money market[a]	5,053	–	–	5,053
Total	$ 396,443	$ 4,755	$ –	$ 401,198
Liabilities				
Swaps[d]	$ –	$ 24,758	$ –	$ 24,758

[a] Pricing for mutual funds, money market funds, short-term investments, and government obligations is based on the open market and is valued on a daily basis.

9. Derivatives and Other Financial Instruments (continued)

[b] Pricing is based on the market value of the securities and is valued on a monthly basis. Information used to value this account is provided by International Data Corporation (IDC). In the event that a security is not actively traded in the open market, the characteristics are matched to a comparable issue from the market data to appropriately value the holding.

[c] Equities are priced based on the open market and are valued on a daily basis. Net asset values are based on the market value of fund assets minus the fund's liabilities. Generally accepted accounting principles are used for accrual-based accounting. Assets are valued using independent market quotations except to the extent that current independent market quotations are not readily available or do not reflect current market values, in which case, investments may be valued using fair value pricing. The frequency with which a fund's investments are valued using fair value pricing is primarily a function of the types of securities and other assets in which the fund invests, pursuant to its investment objectives, strategies, and limitations.

[d] Pricing is based on discounted cash flows to reflect a credit spread to the LIBOR discount curve in order to reflect "nonperformance" risk. The credit spread adjustment is derived from how other comparable entities' bonds price and trade in the market.

The carrying values of cash and cash equivalents, assets limited as to use, patient accounts receivable, accounts payable, other accrued expenses, and estimated amounts due to/from third-party payors approximate their fair values at June 30, 2011 and 2010, due to the short-term nature of these financial instruments. The estimated fair value of long-term debt (including current portion) based on quoted market prices for the same or similar issues was $277,171 and $284,488 at June 30, 2011 and 2010, respectively.

(Dollars in Thousands)

10. Long-Term Debt

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

	2011	2010
Illinois Finance Authority		
Revenue Bonds, Series 2009A:		
Variable Rate Securities, interest payable monthly at a floating rate (0.09% and 0.22% at June 30, 2011 and 2010, respectively), and principal due in varying annual installments from 2011 to 2034	$ **43,395**	$ 43,500
Revenue Bonds, Series 2008A:		
Serial Bonds, interest at 6.0%, due in varying annual installments from 2021 to 2026	**15,375**	15,375
Term Bonds, interest at 6.0%, due in 2028	**6,150**	6,150
Term Bonds, interest at 6.25%, due in 2033	**8,450**	8,450
Term Bonds, interest at 5.50%, due in 2040	**56,125**	56,125
Revenue Bonds, Series 2008B-1:		
Variable Rate Securities, interest payable monthly at a floating rate (0.08% and 0.22% at June 30, 2011 and 2010, respectively), and principal due in varying annual installments from 2010 to 2040	**53,875**	54,820
Revenue Bonds, Series 2008B-2:		
Variable Rate Securities, interest payable monthly at a floating rate (0.07% and 0.23% at June 30, 2011 and 2010, respectively), and principal due in varying annual installments from 2010 to 2040	**53,875**	54,820
Revenue Bonds, Series 2008C:		
Variable Rate Securities, interest payable monthly at a floating rate (0.07% and 0.23% at June 30, 2011 and 2010, respectively), and principal due in varying annual installments from 2010 to 2040	**11,700**	12,155
Revenue Bonds, Series 2001A:		
Serial Bonds, interest at 4.1% to 5.5%, due in varying annual installments from 2010 to 2018	**17,520**	19,940
Term Bonds, interest at 5.0%, due in 2020	**11,050**	11,050
	277,515	282,385
Less current maturities	**5,010**	4,870
Unamortized premium (discount) net on bonds payable	**(330)**	(320)
Long-term debt	$ **272,175**	$ 277,195

(Dollars in Thousands)

10. Long-Term Debt (continued)

Edward Health Services Corporation and Subsidiaries' long-term debt is issued pursuant to the Amended and Restated Master Trust Indenture dated as of September 1, 1997, and subsequently amended and supplemented. The master trust indenture establishes an "Obligated Group," consisting of Edward Hospital, Edward Health Services Corporation, Edward Health Ventures, Edward Health & Fitness Center, and Naperville Psychiatric Ventures d/b/a Linden Oaks Hospital. All members of the Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers.

Annual maturities, assuming remarketing of the 2009A, 2008B, and 2008C obligations, on the debt (including mandatory sinking fund deposits) for each of the next five years are as follows:

2012	$	5,010
2013		5,325
2014		5,575
2015		5,835
2016		6,125

In April 2001, the Corporation issued Series 2001A, B, and C Revenue Bonds through the Illinois Health Facilities Authority. The bond proceeds were used to finance the costs of acquiring, constructing, renovating, and equipping certain health care facilities as part of a modernization and expansion program and to reimburse the Hospital for certain prior capital expenditures.

In April 2008, the Corporation issued Series 2008A, B, and C Revenue Bonds through the Illinois Finance Authority. The proceeds were used to refund the Series 2007 obligations.

In October 2009, the Corporation issued Series 2009A Revenue Bonds through the Illinois Finance Authority. The proceeds were used to refund the Series 2001C obligations.

(Dollars in Thousands)

10. Long-Term Debt (continued)

The Corporation has entered into several credit agreements, which expire on November 29, 2013 and April 29, 2013, with banks under the terms of which the banks agree to make liquidity loans to the Hospital in the amount necessary to purchase the variable rate demand direct obligations if not remarketed. The maximum amount of the liquidity loans would be principal of $162,845 at June 30, 2011, plus accrued interest. The liquidity loans would be payable quarterly in equal installments over five years with the initial payment being due 90 days following the expiration of the credit agreement.

Under the terms of the master trust indenture, various amounts are held on deposit with a trustee for bond redemption, interest payments, and certain construction expenditures. In addition, the master trust indenture requires the Corporation to maintain certain financial ratios and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness.

Externally designated investments under debt agreements consisted of the following at June 30:

	2011	2010
Debt service reserve funds	$ 7,237	$ 6,915
Sinking and interest funds	–	25
	$ 7,237	$ 6,940

Interest expense, including interest capitalized during 2011 and 2010, was $13,212 and $13,585, respectively. Interest capitalized during 2011 and 2010 was $670 and $588, respectively.

11. Employee Defined-Contribution Retirement Plan

The Corporation maintains two defined-contribution retirement plans for employees. Employees of the Corporation and its subsidiaries participate in the Corporation's 401(k). During 2008, the 403(b) plan was frozen, and employees of the Corporation and its tax-exempt subsidiaries began contributing employee contribution to the 401(k) plan.

The employer contributions include a discretionary basic contribution based upon a percentage of the employee's compensation and a matching contribution based upon the amount of the employee's contribution. Pension expense was approximately $9,216 and $7,249 in 2011 and 2010, respectively.

12. Related-Party Transactions

During the years ended June 30, 2011 and 2010, NHCA paid the Corporation $10,758 and $10,983, respectively, for medical services.

ECI provided contracted cardiac services to the Hospital's patients in the amount of $3,075 for the year ended June 30, 2010. Additionally, the Hospital and the Corporation provided administrative management and marketing services to ECI in the amount of $162 for the year ended June 30, 2010. ECI also rented space from the Hospital and the Corporation in the amount of $428 for the year ended June 30, 2010. There were no related-party transactions between the Corporation or Hospital and ECI for the year ended June 30, 2011.

13. Commitments

At June 30, 2011, the Corporation had commitments totaling approximately $12,638 related to construction and modernization projects.

(Dollars in Thousands)

13. Commitments (continued)

The Corporation leases office space under leases that are classified as operating leases. The future minimum lease payments for office space leases with initial or noncancelable lease terms in excess of one year are as follows:

Year ending June 30:		
2012	$	4,244
2013		4,200
2014		3,938
2015		3,894
Thereafter		15,264
	$	31,540

Rental expense amounted to approximately $4,293 and $3,953 for the years ended June 30, 2011 and 2010, respectively.

14. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this and general and administrative functions for the years ended June 30 are as follows:

		2011		2010
Health care services	**$**	**433,161**	$	434,816
General and administrative		**111,665**		98,700
	$	**544,826**	$	533,516

15. Goodwill and Other Intangible Assets

Goodwill and other intangible assets for the Corporation at June 30, 2011 and 2010, was $31,902 and $32,172, net of accumulated amortization of $6,340 and $6,067, respectively. Intangible assets primarily consist of goodwill and non-compete agreements related to physician practice acquisitions. Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily non-compete agreements, are amortized over their expected useful lives. Amortization relating to non-compete agreements was $273 for 2011 and 2010.

16. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to June 30, 2011 through September 28, 2011, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements.

Additionally, there were no nonrecognized subsequent events requiring disclosure.

Details of Consolidation
and
Other Financial Information

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Report of Independent Auditors on Details of Consolidation and Other Financial Information

The Board of Trustees
Edward Health Services Corporation

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying details of consolidation and other financial information are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

September 28, 2011

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Other Financial Information

Edward Health Services Corporation and Subsidiaries

Other Financial Information
(Dollars in Thousands)

Charity and Other Unreimbursed Care

The Corporation maintains a policy whereby patients in need of medical services are treated without regard to their ability to pay for such services. The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, as well as the estimated difference between the cost of services provided to Medicaid and Medicare patients and the expected reimbursement from Medicaid and Medicare. In addition, the Corporation reports the cost associated with services provided to the community as charity care. The following information measures the level of charity care provided during the years ended June 30:

	2011	**2010**
Charity care (forgone charges)	**$ 47,588**	$ 44,419
Excess of allocated cost over reimbursement for services provided to Medicaid patients	**12,667**	12,837
Excess of allocated cost over reimbursement for services provided to Medicare patients	**38,582**	40,532
Community services provided, at cost	**6,660**	5,836
	$ 105,497	$ 103,624

Details of Consolidation

Edward Health Services Corporation and Subsidiaries

Details of Consolidated Balance Sheet

June 30, 2011

(Dollars in Thousands)

	Consolidated Edward Health Services Corporation	Eliminations	Edward Health Services Corporation	Edward Hospital	Edward Foundation	EHSC Cayman Segregated Portfolio Co.	Edward Health Ventures	Linden Oaks Hospital	Edward Health & Fitness Center	Edward Physician Office Center Limited Partnership	Edward Management Corporation
Assets											
Current assets:											
Cash and cash equivalents	$ 13,222	$ –	$ 1,383	$ 9,314	$ 215	$ 1,018	$ 180	$ 546	$ 322	$ 177	$ 67
Assets limited as to use, externally designated investments under debt agreements	5,010	–	–	5,010	–	–	–	–	–	–	–
Patient accounts receivable, less allowances for doubtful accounts	71,567	–	–	64,943	–	–	2,196	4,428	–	–	–
Estimated amounts due from third-party payors	815	–	–	815	–	–	–	–	–	–	–
Inventories	8,758	–	–	8,434	–	–	–	133	191	–	–
Premium receivable	–	(4,926)	–	–	–	4,926	–	–	–	–	–
Prepaid expenses and other current assets	11,838	(1,276)	2,206	7,304	663	1,316	1,322	254	50	(109)	108
Total current assets	111,210	(6,202)	3,589	95,820	878	7,260	3,698	5,361	563	68	175
Assets limited as to use, less current portion:											
Externally designated investments under debt agreements	2,227	–	–	2,227	–	–	–	–	–	–	–
Externally designated for self-insurance	89,448	–	–	–	–	89,448	–	–	–	–	–
Board-designated investments	384,869	–	44,018	292,896	6,843	–	5,723	17,389	10,248	5,634	2,118
	476,544	–	44,018	295,123	6,843	89,448	5,723	17,389	10,248	5,634	2,118
Other assets:											
Interest in restricted net assets of the Foundation	–	(1,308)	–	1,268	–	–	–	40	–	–	–
Investments in EPOCLP and Linden Oaks	–	(18,883)	129	2,222	–	–	16,532	–	–	–	–
Deferred financing costs, net	4,395	–	–	4,365	–	–	–	–	–	30	–
Goodwill and other intangible assets, net	31,902	–	–	28,240	–	–	3,460	202	–	–	–
Due from affiliates	–	(28,875)	25,595	–	–	–	3,280	–	–	–	–
Investments in affiliates and other	12,626	(49,375)	50,055	6,436	479	–	4,708	–	–	–	323
Reinsurance recoverable for reinsured losses	7,353	–	–	–	–	7,353	–	–	–	–	–
	56,276	(98,441)	75,779	42,531	479	7,353	27,980	242	–	30	323
Land, buildings, and equipment:											
Land and improvements	40,505	–	–	9,743	–	–	30,277	485	–	–	–
Buildings and improvements	474,175	–	–	342,629	–	–	86,582	13,319	22,228	9,405	12
Furniture and equipment	195,631	–	–	185,416	–	–	4,381	1,882	3,071	96	785
Construction-in-progress	36,959	–	–	33,405	–	–	3,147	402	–	5	–
Less allowances for depreciation	373,539	–	–	311,765	–	–	34,390	8,469	12,795	5,328	792
	373,731	–	–	259,428	–	–	89,997	7,619	12,504	4,178	5
	$ 1,017,761	$ (104,643)	$ 123,386	$ 692,902	$ 8,200	$ 104,061	$ 127,398	$ 30,611	$ 23,315	$ 9,910	$ 2,621

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Edward Health Services Corporation and Subsidiaries

Details of Consolidated Balance Sheet (continued)

June 30, 2011
(Dollars in Thousands)

	Consolidated Edward Health Services Corporation	Eliminations	Edward Health Services Corporation	Edward Hospital	Edward Foundation	EHSC Cayman Segregated Portfolio Co.	Edward Health Ventures	Linden Oaks Hospital	Edward Health & Fitness Center	Edward Physician Office Center Limited Partnership	Edward Management Corporation
Liabilities and net assets											
Current liabilities:											
Accounts payable	$ 18,574	$ (7)	$ 2,380	$ 13,951	$ 63	$ 48	$ 1,349	$ 373	$ 268	$ 143	$ 6
Accrued expenses	48,688	(54)	6,377	33,111	135	54	5,484	2,197	976	250	158
Estimated amounts due to third-party payors	76,084	–	–	73,395	–	–	–	2,689	–	–	–
Current maturities of long-term debt	5,010	–	–	5,010	–	–	–	–	–	–	–
Total current liabilities	148,356	(61)	8,757	125,467	198	102	6,833	5,259	1,244	393	164
Long-term debt, less current maturities	272,175	–	–	272,175	–	–	–	–	–	–	–
Professional and general liability	49,491	–	198	7,113	–	41,089	481	471	136	3	–
Due to affiliates	–	(78,058)	–	–	–	49,183	25,595	–	–	3,280	–
Minority interest in limited partnership	247	247	–	–	–	–	–	–	–	–	–
Reserve for reinsured losses	7,353	–	–	–	–	7,353	–	–	–	–	–
Unearned premium reserve	–	(6,203)	–	–	–	6,203	–	–	–	–	–
Other liabilities	24,957	–	421	24,536	–	–	–	–	–	–	–
Total liabilities	502,579	(84,075)	9,376	429,291	198	103,930	32,909	5,730	1,380	3,676	164
Net assets:											
Unrestricted net assets	513,771	(19,260)	114,010	262,343	6,591	131	94,489	24,841	21,935	6,234	2,457
Temporarily restricted net assets	1,018	(996)	–	956	1,018	–	–	40	–	–	–
Permanently restricted net assets	393	(312)	–	312	393	–	–	–	–	–	–
Total net assets	515,182	(20,568)	114,010	263,611	8,002	131	94,489	24,881	21,935	6,234	2,457
	$ 1,017,761	$ (104,643)	$ 123,386	$ 692,902	$ 8,200	$ 104,061	$ 127,398	$ 30,611	$ 23,315	$ 9,910	$ 2,621

Edward Health Services Corporation and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011

(Dollars in Thousands)

	Consolidated Edward Health Services Corporation	Eliminations	Edward Health Services Corporation	Edward Hospital	Edward Foundation	EHSC Cayman Segregated Portfolio Co.	Edward Health Ventures	Linden Oaks Hospital	Edward Health & Fitness Center	Edward Physician Office Center Limited Partnership	Edward Management Corporation
Revenues											
Net patient service revenue	$ 538,715	$ (522)	$ –	$ 476,125	$ –	$ –	$ 27,588	$ 35,524	$ –	$ –	$ –
Other operating revenue	26,642	(88,571)	57,772	6,980	1,607	10,512	22,022	3,460	9,075	1,777	2,008
	565,357	(89,093)	57,772	483,105	1,607	10,512	49,610	38,984	9,075	1,777	2,008
Expenses											
Salaries and wages	221,011	(267)	26,138	148,833	267	–	25,053	16,442	3,430	–	1,115
Employee benefits	49,395	(684)	6,367	33,940	20	–	4,791	3,877	768	–	316
Medical fees	9,476	–	–	7,388	–	–	1,932	156	–	–	–
Purchased services	26,682	(67,549)	6,353	74,487	72	–	8,134	3,621	1,175	126	263
Supplies and other	137,601	(20,593)	9,722	112,540	813	19,503	9,633	3,061	2,299	456	167
Depreciation and amortization	45,589	–	–	37,711	–	–	5,851	834	879	313	1
Provision for doubtful accounts	26,400	–	–	23,143	–	–	806	2,451	–	–	–
Interest	12,583	(2,052)	–	12,583	–	–	1,814	–	–	238	–
Medicaid tax	16,089	–	–	12,596	–	–	–	3,493	–	–	–
	544,826	(91,145)	48,580	463,221	1,172	19,503	58,014	33,935	8,551	1,133	1,862
Operating income (loss)	20,531	2,052	9,192	19,884	435	(8,991)	(8,404)	5,049	524	644	146
Nonoperating											
Realized gain and investment income	14,825	(2,052)	3,569	9,918	236	1,491	541	513	346	191	72
Unrealized gains on investments, net	49,659	–	5,652	31,147	833	7,500	974	1,589	1,115	616	233
Gain on interest rate swaps	4,492	–	–	4,492	–	–	–	–	–	–	–
Other nonoperating gains	448	(8,602)	72	437	–	–	8,541	–	–	–	–
	69,424	(10,654)	9,293	45,994	1,069	8,991	10,056	2,102	1,461	807	305
Excess of revenues and gains over expenses and losses	89,955	(8,602)	18,485	65,878	1,504	–	1,652	7,151	1,985	1,451	451

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Edward Health Services Corporation and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

	Consolidated Edward Health Services Corporation	Eliminations	Edward Health Services Corporation	Edward Hospital	Edward Foundation	EHSC Cayman Segregated Portfolio Co.	Edward Health Ventures	Linden Oaks Hospital	Edward Health & Fitness Center	Edward Physician Office Center Limited Partnership	Edward Management Corporation
Unrestricted net assets											
Excess of revenues and gains over expenses and losses	$ 89,955	$ (8,602)	$ 18,485	$ 65,878	$ 1,504	$ –	$ 1,652	$ 7,151	$ 1,985	$ 1,451	$ 451
Transfers from affiliates and other, net	–	–	–	927	(927)	–	–	–	–	–	–
Net assets released from restriction used for purchase of fixed assets	827	–	–	–	827	–	–	–	–	–	–
Increase (decrease) in unrestricted net assets	90,782	(8,602)	18,485	66,805	1,404	–	1,652	7,151	1,985	1,451	451
Temporarily restricted net assets											
Contributions	1,216	(1,216)	–	1,193	1,216	–	–	23	–	–	–
Change in interest in restricted net assets of the Foundation	–	1,158	–	(1,141)	–	–	–	(17)	–	–	–
Net assets released from restrictions and used for operations	(337)	–	–	–	(337)	–	–	–	–	–	–
Net assets released from restrictions and used for purchase of fixed assets	(827)	–	–	–	(827)	–	–	–	–	–	–
Increase in temporarily restricted net assets	52	(58)	–	52	52	–	–	6	–	–	–
Increase in net assets	90,834	(8,660)	18,485	66,857	1,456	–	1,652	7,157	1,985	1,451	451
Net assets at beginning of year	424,348	(11,908)	95,525	196,754	6,546	131	92,837	17,724	19,950	4,783	2,006
Net assets at end of year	$ 515,182	$ (20,568)	$ 114,010	$ 263,611	$ 8,002	$ 131	$ 94,489	$ 24,881	$ 21,935	$ 6,234	$ 2,457