



ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Directors
Alegent Health and Related Entities:

We have audited the accompanying combined balance sheets of Alegent Health and related entities (Alegent) as of June 30, 2006 and 2005, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of Alegent's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Alegent's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Alegent Health and related entities as of June 30, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Omaha, Nebraska
August 7, 2006

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2006 and 2005

(Amounts in thousands)

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 59,282	\$ 62,943
Patient accounts receivable, net of allowance for doubtful accounts of \$45,266 in 2006 and \$30,703 in 2005	93,607	86,624
Other accounts receivable	1,449	1,987
Inventories	14,945	13,844
Prepaid expenses	3,866	3,507
Total current assets	173,149	168,905
Assets limited as to use:		
Board-designated investments	441,798	383,913
Alegent Health—Community Benefit Trust	22,651	21,780
Other	14,597	12,359
Total assets limited as to use	479,046	418,052
Property and equipment:		
Land	10,315	9,635
Land improvements	21,001	20,469
Buildings and improvements	481,513	459,947
Equipment	334,704	314,467
Construction in progress	19,532	19,759
	867,065	824,277
Less accumulated depreciation	465,750	437,445
Property and equipment, net	401,315	386,832
Other assets:		
Property held for investment or future expansion	4,443	4,443
Investment in joint ventures	9,136	4,795
Other assets	1,692	1,057
Investments held for deferred compensation plans	5,627	6,592
Total other assets	20,898	16,887
Total assets	\$ 1,074,408	\$ 990,676

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2006 and 2005

(Amounts in thousands)

Liabilities and Net Assets	<u>2006</u>	<u>2005</u>
Current liabilities:		
Current portion of long-term debt	\$ 8,580	\$ 8,259
Accounts payable	31,957	20,835
Accrued salaries, wages, and benefits	36,228	36,700
Accrued vacation and sick leave	25,172	24,596
Estimated third-party payor settlements	8,108	15,109
Other liabilities and accrued expenses	21,223	23,618
Total current liabilities	<u>131,268</u>	<u>129,117</u>
Long-term debt, net of current portion	211,972	219,727
Other long-term liabilities	6,075	76
Minimum pension liability	9,695	14,338
Payable under deferred compensation plans	3,978	2,658
Total liabilities	<u>362,988</u>	<u>365,916</u>
Net assets:		
Unrestricted	702,388	617,336
Temporarily restricted	5,430	3,825
Permanently restricted	3,602	3,599
Total net assets	<u>711,420</u>	<u>624,760</u>
Total liabilities and net assets	\$ <u>1,074,408</u>	\$ <u>990,676</u>

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2006 and 2005

(Amounts in thousands)

	2006	2005
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 849,684	\$ 764,900
Cafeteria, building rental, sales to nonpatients, and other	30,291	31,122
Total revenues, gains, and other support	879,975	796,022
Operating expenses:		
Salaries and wages	315,837	303,839
Employee benefits	84,311	74,466
Supplies	147,040	137,643
Purchased services	64,356	63,402
Physician compensation	63,848	58,395
Provision for bad debts	50,836	28,737
Other expenses	20,871	17,477
Community Benefit Trust expenditures	10,839	1,293
	757,938	685,252
Depreciation and amortization	49,130	46,208
Rentals and leases	19,727	18,676
Interest	12,016	9,780
	80,873	74,664
Total operating expenses	838,811	759,916
Operating income	41,164	36,106
Other income:		
Interest and investment income	2,157	1,856
Equity in earnings of investment limited partnership	41,379	23,714
Other, net	1,309	767
Total other income	44,845	26,337
Excess of revenues over expenses	86,009	62,443
Other changes in unrestricted net assets:		
Cumulative effect of change in accounting principle	(6,075)	—
Net assets released from restrictions for the purchase of property and equipment	—	990
Contributions for purchase of property and equipment	481	2,248
Change in unrealized gains and losses on investments, net	—	9,101
Minimum pension liability adjustment	4,643	1,587
Transfers to other Alegend affiliates	(6)	—
Transfers to non-Alegend affiliate	—	(15,803)
Increase in unrestricted net assets	\$ 85,052	\$ 60,566

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2006 and 2005

(Amounts in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance, June 30, 2004	\$ 556,770	\$ 4,032	\$ 5,096	\$ 565,898
Excess of revenues over expenses	62,443	—	—	62,443
Restricted interest and investment income	—	315	—	315
Net assets released from restrictions for the purchase of property and equipment	990	(990)	—	—
Contributions for the purchase of property and equipment	2,248	—	—	2,248
Change in unrealized gains and losses on investments, net	9,101	97	—	9,198
Contributions restricted by donor	—	1,720	8	1,728
Minimum pension liability adjustment	1,587	—	—	1,587
Transfers to non-Alegent affiliate	(15,803)	(26)	(1,505)	(17,334)
Net assets released from restrictions	—	(1,323)	—	(1,323)
Increase (decrease) in net assets	<u>60,566</u>	<u>(207)</u>	<u>(1,497)</u>	<u>58,862</u>
Balance, June 30, 2005	<u>617,336</u>	<u>3,825</u>	<u>3,599</u>	<u>624,760</u>
Excess of revenues over expenses	86,009	—	—	86,009
Cumulative effect of change in accounting principle	(6,075)	—	—	(6,075)
Restricted interest and investment income	—	441	—	441
Contributions for the purchase of property and equipment	481	—	—	481
Change in unrealized gains and losses on investments, net	—	36	—	36
Contributions restricted by donor	—	2,033	3	2,036
Minimum pension liability adjustment	4,643	—	—	4,643
Transfers to other Alegent affiliates	(6)	—	—	(6)
Net assets released from restrictions	—	(905)	—	(905)
Increase in net assets	<u>85,052</u>	<u>1,605</u>	<u>3</u>	<u>86,660</u>
Balance, June 30, 2006	<u>\$ 702,388</u>	<u>\$ 5,430</u>	<u>\$ 3,602</u>	<u>\$ 711,420</u>

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Amounts in thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ 86,660	\$ 58,862
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	49,130	46,208
Provision for bad debts	50,836	28,737
Cumulative effect of change in accounting principle	6,075	—
Restricted interest and investment income	(441)	(315)
Contributions for the purchase of property and equipment	(481)	(2,241)
Transfers to other Alegend affiliates	6	—
Transfers to non-Alegend affiliate	—	17,334
Change in unrealized gains on investments, net	(36)	(9,198)
Contributions restricted by donor	(2,036)	(1,728)
Minimum pension liability adjustment	(4,643)	(1,587)
Decrease (increase) in current assets:		
Receivables:		
Patients	(57,819)	(39,691)
Other	538	287
Inventories	(1,101)	(1,288)
Prepaid expenses	(359)	1,312
Increase (decrease) in current liabilities:		
Accounts payable	11,122	(1,428)
Accrued salaries, wages, and benefits	(472)	2,342
Accrued vacation and sick leave	576	4,844
Estimated third-party payor settlements	(7,001)	6,954
Other liabilities and accrued expenses	(2,395)	(5,466)
Net cash provided by operating activities	<u>128,159</u>	<u>103,938</u>
Cash flows from investing activities:		
Increase in assets limited as to use	(60,958)	(56,381)
Additions to property and equipment	(62,918)	(73,814)
Increase (decrease) in other long-term assets and liabilities	(2,767)	859
Net cash used in investing activities	<u>(126,643)</u>	<u>(129,336)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(8,129)	(8,280)
Proceeds from the issuance of long-term debt	—	1,131
Cash paid to non-Alegend affiliate	—	(3,358)
Restricted contributions and interest	2,958	4,284
Transfers to other Alegend affiliates	(6)	—
Net cash used in financing activities	<u>(5,177)</u>	<u>(6,223)</u>
Net decrease in cash and cash equivalents	<u>(3,661)</u>	<u>(31,621)</u>
Cash and cash equivalents, beginning of year	<u>62,943</u>	<u>94,564</u>
Cash and cash equivalents, end of year	\$ <u>59,282</u>	\$ <u>62,943</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 12,016	\$ 9,838
Supplemental disclosures of noncash activity:		
Capital lease obligations entered into during the year	695	—
Net assets transferred to non-Alegend affiliate	—	(13,976)

See accompanying notes to combined financial statements.