KPMG

ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

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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, 2007 and 2006, 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, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 7 to the combined financial statements, Alegent adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

KPMG LLP

Omaha, Nebraska
September 20, 2007

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2007 and 2006

(Amounts in thousands)

Assets	2007	2006
Current assets:		
Cash and cash equivalents	$ 88,378	59,282
Patient accounts receivable, net of allowance for doubtful accounts of $48,002 in 2007 and $45,266 in 2006	107,320	93,607
Other accounts receivable	6,601	1,449
Inventories	15,419	14,945
Prepaid expenses	5,072	3,866
Total current assets	222,790	173,149
Assets limited as to use:		
Long-term investments	507,803	441,798
Alegent Health – Catalyst Fund	27,719	22,651
Other investments	15,048	14,597
Total assets limited as to use	550,570	479,046
Property and equipment:		
Land	10,859	10,315
Land improvements	21,156	21,001
Buildings and improvements	495,461	481,513
Equipment	389,693	334,704
Construction in progress	27,225	19,532
	944,394	867,065
Less accumulated depreciation	515,023	465,750
Property and equipment, net	429,371	401,315
Other assets:		
Property held for investment or future expansion	4,443	4,443
Investment in joint ventures	13,557	9,136
Other assets	67	1,692
Investments held for deferred compensation plans	6,983	5,627
Total other assets	25,050	20,898
Total assets	$ 1,227,781	1,074,408

(Continued)

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2007 and 2006

(Amounts in thousands)

Liabilities and Net Assets	**2007**	**2006**
Current liabilities:		
Current portion of long-term debt	$ 9,965	8,580
Accounts payable	49,663	31,957
Accrued salaries, wages, and benefits	42,910	36,228
Accrued vacation and sick leave	26,173	25,172
Estimated third-party payor settlements	9,375	8,108
Other liabilities and accrued expenses	33,716	21,223
Total current liabilities	171,802	131,268
Long-term debt, net of current portion	203,363	211,972
Other long-term liabilities	5,767	6,075
Liability for pension benefits	18,481	9,695
Payable under deferred compensation plans	4,549	3,978
Total liabilities	403,962	362,988
Net assets:		
Unrestricted	814,278	702,388
Temporarily restricted	6,136	5,430
Permanently restricted	3,405	3,602
Total net assets	823,819	711,420
Total liabilities and net assets	$ 1,227,781	1,074,408

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2007 and 2006

(Amounts in thousands)

		2007	2006
Unrestricted revenues, gains, and other support:			
Net patient service revenue	$	902,000	849,684
Cafeteria, building rental, sales to nonpatients, and other		41,776	30,291
Total revenues, gains, and other support		943,776	879,975
Operating expenses:			
Salaries and wages		343,058	315,837
Employee benefits		94,215	84,311
Supplies		155,933	147,040
Purchased services		71,189	64,356
Physician compensation		65,143	63,848
Provision for bad debts		51,394	50,836
Other expenses		24,762	27,305
Catalyst Fund expenditures		6,131	10,839
		811,825	764,372
Depreciation and amortization		53,094	49,130
Rentals and leases		13,995	13,293
Interest		11,081	12,016
		78,170	74,439
Total operating expenses		889,995	838,811
Operating income		53,781	41,164
Other income:			
Interest and investment income		5,427	2,157
Equity in earnings of investment limited partnership		67,683	41,379
Other, net		135	1,309
Total other income		73,245	44,845
Excess of revenues over expenses		127,026	86,009
Other changes in unrestricted net assets:			
Cumulative effect of change in accounting principle		(8,182)	(6,075)
Contributions for purchase of property and equipment		1,006	481
Minimum pension liability adjustment		2,840	4,643
Transfers to Sponsors		(10,800)	(6)
Increase in unrestricted net assets	$	111,890	85,052

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2007 and 2006

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, June 30, 2005	$ 617,336	3,825	3,599	624,760
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 sponsors	(6)	—	—	(6)
Net assets released from restrictions	—	(905)	—	(905)
Increase in net assets	85,052	1,605	3	86,660
Balance, June 30, 2006	702,388	5,430	3,602	711,420
Excess of revenues over expenses	127,026	—	—	127,026
Cumulative effect of change in accounting principle	(8,182)	—	—	(8,182)
Restricted interest and investment income	—	316	—	316
Contributions for the purchase of property and equipment	1,006	—	—	1,006
Change in unrealized gains and losses on investments, net	—	381	—	381
Contributions restricted by donor	—	1,792	26	1,818
Minimum pension liability adjustment	2,840	—	—	2,840
Transfers to sponsors	(10,800)	—	(223)	(11,023)
Net assets released from restrictions	—	(1,783)	—	(1,783)
Increase (decrease) in net assets	111,890	706	(197)	112,399
Balance, June 30, 2007	$ 814,278	6,136	3,405	823,819

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2007 and 2006

(Amounts in thousands)

		2007	2006
Cash flows from operating activities:			
Increase in net assets	$	112,399	86,660
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		53,094	49,130
Provision for bad debts		51,394	50,836
Equity in earnings of investment limited partnership		(67,683)	(41,379)
Cumulative effect of change in accounting principle		8,182	6,075
Restricted interest and investment income		(316)	(441)
Contributions for the purchase of property and equipment		(1,006)	(481)
Transfers to sponsors		11,023	6
Change in unrealized gains on investments, net		(381)	(36)
Contributions restricted by donor		(1,818)	(2,036)
Minimum pension liability adjustment		(2,840)	(4,643)
Decrease (increase) in current assets:			
Receivables:			
Patients		(65,107)	(57,819)
Other		(5,152)	538
Inventories		(474)	(1,101)
Prepaid expenses		(1,206)	(359)
Increase (decrease) in current liabilities:			
Accounts payable		17,706	11,122
Accrued salaries, wages, and benefits		6,682	(472)
Accrued vacation and sick leave		1,001	576
Estimated third-party payor settlements		1,267	(7,001)
Other liabilities and accrued expenses		12,493	(2,395)
Net cash provided by operating activities		129,258	86,780
Cash flows from investing activities:			
Increase in assets limited as to use		(3,460)	(19,579)
Additions to property and equipment		(78,575)	(62,918)
Decrease in other long-term assets and liabilities		(445)	(2,767)
Net cash used in investing activities		(82,480)	(85,264)
Cash flows from financing activities:			
Principal payments on long-term debt		(8,793)	(8,129)
Restricted contributions and interest		2,134	2,958
Transfers to Sponsors		(11,023)	(6)
Net cash used in financing activities		(17,682)	(5,177)
Net increase (decrease) in cash and cash equivalents		29,096	(3,661)
Cash and cash equivalents, beginning of year		59,282	62,943
Cash and cash equivalents, end of year	$	88,378	59,282
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	11,081	12,016
Supplemental disclosures of noncash activity:			
Capital lease obligations entered into during the year	$	1,569	695

See accompanying notes to combined financial statements.

(1) Organization

Alegent Health and related entities (Alegent) is a not-for-profit integrated health care delivery system. The combined financial statements of Alegent include the accounts of the following entities or operating divisions, which are subject to the provisions of a Joint Operating Agreement (the Agreement) as discussed herein:

- Alegent Health (which includes):
  - Alegent Health Clinic
  - Alegent Health–Midlands Community Hospital
  - Alegent Health–Lakeside Hospital
- Alegent Health–Bergan Mercy Health System (Bergan) (which includes):
  - The Archbishop Bergan Mercy Medical Center, Omaha, Nebraska
  - Alegent Health–Mercy Hospital, Council Bluffs, Iowa
  - Mercy Medical Office Buildings, Inc.
- Bergan Mercy Foundation, Inc.
- Alegent Health–Mercy Hospital, Inc. and Affiliate, Corning, Iowa
- Alegent Health–Immanuel Medical Center (Immanuel)
- Alegent Health–Community Memorial Hospital, Inc. and Affiliate, Missouri Valley, Iowa
- Alegent Health–Memorial Hospital, Inc. and Affiliate, Schuyler, Nebraska
- Immanuel Charitable Foundation, Inc.

Significant intercompany accounts and transactions have been eliminated in the combination.

Alegent was established to improve the health status of the community through the development of a network to provide integrated health care services to the Midlands region. Alegent was formed pursuant to the Agreement between Alegent Health, Bergan, and Immanuel, which was effective January 1, 1996. The accompanying combined financial statements are prepared for the purpose of presenting all entities under the common control of Alegent Health on a combined basis, as provided by the Agreement.

Bergan and Immanuel are voluntary not-for-profit organizations that operate health care delivery systems in eastern Nebraska and western Iowa. The sole corporate member of Bergan is Catholic Health Initiatives (CHI). The sole corporate member of Immanuel is Immanuel Health System. Bergan and Immanuel are the sole corporate members of Alegent Health.

The Agreement provides for, among other things, joint management of Immanuel, Bergan, and Alegent Health, a separate not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code). Alegent Health operates certain community health care clinics; Midlands Community Hospital located in Papillion, Nebraska; Lakeside Hospital in Omaha, Nebraska; and provides management services to the system.

Under the terms of the Agreement, the combined operating results and capital expenditures of Immanuel and Bergan are shared on an equal basis. Each entity continues to own its respective assets and is responsible for its own liabilities.

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In connection with the activities and events described above, certain administrative functions of Immanuel and Bergan are performed at Alegent. These administrative functions include human resources, information systems, planning and marketing, legal, system management, accounting and finance, and other centralized functions.

The Agreement contains provisions related to dissolution, which generally provides for distribution of the assets based on fair market value. Distribution percentages vary depending upon the manner in which dissolution occurs.

(2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Alegent. These policies are in accordance with U.S. generally accepted accounting principles.

(a) Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles 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 combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of 12 months or less.

(c) Investments

Ninety-eight percent of Alegent's investment portfolio is invested in the CHI investment limited partnership (see note 4). Investments in partnerships with underlying interest in equity and debt securities are recorded using the equity method of accounting with the related equity in earnings reported as other income in the accompanying combined financial statements.

(d) Assets Limited as to Use

Assets limited as to use include pledges receivable, assets restricted by donors, and designated assets set aside by the board of directors for future capital improvements and mission activities over which the board retains control and may, at its discretion, subsequently use for other purposes.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally using the first-in, first-out method.

(f) Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method based on the following useful lives:

Land improvements	10 – 40 years
Buildings and improvements	5 – 40 years
Equipment	3 – 20 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized in 2007 and 2006.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess of revenues over expenses 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 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.

(g) Investment in Joint Ventures

Alegent has invested in certain joint ventures and accounts for such investments using either the cost or equity method of accounting based on the relative percentage of ownership and the level of influence over the investee.

(h) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Alegent in perpetuity.

(i) Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 combined statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

(j) Net Patient Service Revenue

Alegent has agreements with third-party payors that provide for payments to Alegent 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 estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(k) Charity Care

Alegent provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Alegent does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenue in the combined statements of operations. The amount of charges foregone for services and supplies furnished under Alegent's charity policy aggregated approximately $43,644 and $32,698 in 2007 and 2006, respectively.

(l) Excess of Revenues over Expenses

The combined statements of operations include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets), cumulative effect of change in accounting principle, and changes in the minimum pension liability.

(m) Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(n) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, and payables approximate fair value. Fair value for investments is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The carrying value of long-term debt as of June 30, 2007 approximates fair value.

(o) Asset Retirement Obligations

Alegent recognizes the fair value of liabilities for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*, and Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations-an interpretation of FASB Statement No. 143*, if a reasonable estimate of the fair value of the obligation can be made. Over time, the obligation is accreted to its present value each period. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the combined statement of operations.

(p) Income Taxes

All related entities have been recognized as not-for-profit corporations by the Internal Revenue Service as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

(q) Reclassifications

Certain balances from 2006 have been reclassified to conform to the current year presentation.

(3) Benefits for the Poor and Broader Communities

In accordance with its mission and philosophy, Alegent commits substantial resources to sponsor a broad range of community services. Benefits for the poor include the cost of services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. These benefits include traditional charity care; unpaid costs of Medicaid and other indigent public programs; services for the poor, such as health promotion and education, health clinics, and screenings, all of which cannot be billed or can be operated only on a deficit basis; and cash and in-kind donations of equipment, supplies, or staff time made on behalf of the community.

Benefits for the broader communities include the cost of services provided to other populations who may not qualify as poor but may need special services and support. These benefits include the unpaid costs of Medicare and other programs for seniors; services for the community such as health promotion and education, health clinics, and screenings, all of which cannot be billed or can be operated only on a deficit basis; the unpaid costs of training health professionals such as medical residents, nursing students, and students in allied health professions; and the unpaid costs of testing medical equipment and controlled studies of therapeutic protocols.

In May 2003, Alegent's board of directors authorized creation of a Community Benefit Trust (the Trust). The Trust is a board-designated fund which is used to extend Alegent's healing mission beyond its hospitals into the communities it serves. Through partnerships with other not-for-profit agencies and organizations whose missions are compatible with Alegent's, the Trust fosters innovative projects and services to improve the health status of all. Alegent believes the Trust can make a profound difference in the quality of people's lives and the communities in which they live. Alegent further believes that as a faith-based, not-for-profit

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(Amounts in thousands)

health care system, it is Alegent's responsibility to generously give back to the communities it serves. Each year the Alegent board of directors will use its discretion to fund the Trust to support innovative, community-based programs that improve community health and wellness. Alegent Health's board of directors recently announced plans to sharpen the Trust's focus in an effort to make an even more significant impact on the important health needs of our community, and renamed the Trust the Catalyst Fund. Its initial focus will be on childhood nutrition and activity as a way to combat childhood obesity. In connection therewith, Alegent transferred $10,800 to its sponsors to assist in expanding support for unmet community needs.

(4) Assets Limited as to Use

The composition of assets limited as to use at June 30, 2007 and 2006 is set forth in the following table. Investments are stated at fair value:

	2007	2006
Investment in CHI investment limited partnership	$ 538,766	$ 465,911
Cash and cash equivalents	9,955	9,195
Marketable debt securities	58	1,077
Marketable equity securities	93	574
Pledges receivable	1,225	2,214
Other	473	75
Total	$ 550,570	$ 479,046

Alegent has an undivided interest in the CHI investment limited partnership. Alegent accounts for its investment in the investment partnership using the equity method of accounting. At June 30, 2007, the value of the CHI investment limited partnership approximated $5.0 billion, with Alegent's ownership interest approximating 11%. Alegent's investment in the CHI investment limited partnership is comprised of the following as of June 30, 2007 and 2006 (all investments are at fair value):

	2007	2006
Fixed income securities	$ 259,040	$ 177,464
Equity securities	279,726	288,447
Total	$ 538,766	$ 465,911

(Amounts in thousands)

The CHI investment limited partnership is comprised of the following investment classifications as of June 30, 2007 and 2006:

	2007	2006
Cash and cash equivalents	2%	3%
Marketable debt securities	34	34
Marketable equity securities	46	48
Real estate	4	4
Other	14	11
Total	100%	100%

Investment income, gains, and losses for assets limited as to use and cash and cash equivalents are comprised of the following for the years ending June 30, 2007 and 2006:

	2007	2006
Statements of operations:		
Interest and investment income	$ 5,427	$ 2,157
Equity in earnings of investment limited partnership	67,683	41,379
Total investment income, gains, and losses	$ 73,110	$ 43,536

(5) Net Patient Service Revenue

Alegent has agreements with third-party payors that provide for payments to Alegent at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. In addition, Alegent Health – Mercy Hospital, Inc., Corning, Iowa; Alegent Health – Community Memorial Hospital, Inc., Missouri Valley, Iowa; and Alegent Health – Memorial Hospital, Inc., Schuyler, Nebraska, have been designated Critical Access Hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries.

Nebraska & Iowa Medicaid

Nebraska and Iowa inpatient and Iowa outpatient services rendered to Medicaid program beneficiaries are primarily paid at prospectively determined rates per discharge or procedure. Certain Nebraska outpatient services are reimbursed based on a percentage rate representing the average ratio of cost to charges discounted by 18%. Physician clinic services are paid based on fee schedule amounts. The hospitals designated as Critical Access Hospitals are reimbursed their reasonable costs.

(Amounts in thousands)

Revenue from Medicare and Medicaid programs accounted for approximately 25% and 7%, respectively, of Alegent's net patient revenue for the year ended June 30, 2007, and 26% and 8%, respectively, of Alegent's net patient revenue for the year ended June 30, 2006. 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. The 2007 and 2006 net patient service revenue increased approximately $853 and $4,795, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Alegent also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Alegent under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Net patient service revenue, as reflected in the accompanying combined statements of operations, consists of the following:

		2007		2006
Gross patient charges:				
Inpatient charges	$	1,162,282	$	1,065,842
Outpatient charges		892,344		809,718
Total gross patient charges		2,054,626		1,875,560
Less:				
Deductions from gross patient charges:				
Contractual adjustments – Medicare, Medicaid, and other		1,152,626		1,025,876
Net patient service revenue	$	902,000	$	849,684

(6) Long-Term Debt

Long-term debt as of June 30, 2007 and 2006 consists of the following:

		2007		2006
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2028, with a weighted average yield of 5.05% during 2007	$	210,119	$	218,127
Other long-term obligations		3,209		2,425
Total long-term debt		213,328		220,552
Less current maturities		9,965		8,580
Long-term debt, excluding current maturities	$	203,363	$	211,972

(Amounts in thousands)

Bergan, Immanuel, and Alegent have entered into the Alegent Financing Agreement (AFA) with CHI, which provides access to the capital markets. Under the terms of the AFA, Bergan is defined as a Participant and Alegent and Immanuel as Designated Affiliates. These categories define the level of participation and control of CHI. The terms of the AFA require the Alegent system to meet certain financial covenants and ratios and provide other limits relating to additional indebtedness and transfers of property, among others.

Under the terms of the AFA, each party has issued promissory notes to CHI. The obligations issued under the AFA represent the individual obligations of the issuer. In the unlikely event that CHI would have insufficient funds to make required payments on its financial obligations, Bergan, Immanuel, and Alegent and all other Participants and Designated Affiliates of CHI may be required to contribute funds to CHI to enable it to meet its obligations.

Scheduled principal payments on long-term debt for the next five years are approximately as follows:

2008	$	9,965
2009		9,294
2010		9,326
2011		9,793
2012		10,284
Thereafter		164,666

(7) Retirement Plans

Alegent sponsors a noncontributory multioptional pension plan that includes both a defined benefit and defined contribution option. Substantially all employees participate in the Alegent Health Retirement Plan (the Plan). Generally, employees are eligible for participation after completing one year of service in which the employee completes 1,000 hours or more of service and has attained the age of 19. For each plan year, a retirement benefit is provided for as a percentage of the eligible participant's annual compensation based on length of service. Employee contributions to the Plan are not permitted except for certain rollover provisions. Benefits are available to participants at a normal retirement age of 65, with early retirement available to participants who have reached the age of 55 and are 100% vested. Benefits vest after five years of service. Total net periodic pension cost, including both the defined benefit and contribution options, approximated $15,757 and $13,939 during 2007 and 2006, respectively.

The Plan's approximate net periodic pension cost for the years ended June 30, 2007 and 2006 are included in the following components:

(a) Defined Contribution Option

The Plan provides employees with a noncontributory defined contribution retirement option. During 2007 and 2006, Alegent incurred expense of $10,133 and $9,098, respectively, in connection with this option.

(Amounts in thousands)

(b) Defined Benefit Option (Measurement Dates March 31, 2007 and 2006)

Effective June 30, 2007, Alegent adopted the recognition and disclosure provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability, and to recognize changes in that funded status in the year in which the changes occur through other changes in net assets, to the extent those changes are not included in the net periodic cost. The funded status reported on the combined balance sheet as of June 30, 2007 under SFAS 158 was measured as the difference between the fair value of plan assets and the benefit obligation. The adoption of SFAS 158 did not impact Alegent's compliance with debt covenants or its cash position. The incremental effect of applying SFAS 158 on Alegent's financial position as of June 30, 2007 was as follows:

	Before application of SFAS 158	Adjustments	After application of SFAS 158
Liabilities and net assets:			
Accrued salaries, wages, and benefits	$ 46,353	$ (3,443)	$ 42,910
Total current liabilities	175,245	(3,443)	171,802
Minimum pension liability	6,855	(6,855)	—
Liability for pension benefits	—	18,481	18,481
Total liabilities	395,780	8,182	403,962
Total net assets (cumulative effect of change in accounting principle)	832,001	(8,182)	823,819
Total liabilities and net assets	1,219,599	(8,182)	1,227,781

(Amounts in thousands)

The following table summarizes the projected benefit obligation, the fair value of plan assets, and the funded status at the measurement dates of June 30, 2007 and 2006:

	2007	2006
Changes to benefit obligation:		
Benefit obligation at beginning of period	$ 77,520	$ 73,029
Service cost	4,254	3,567
Interest cost	4,521	4,091
Actuarial gain	(190)	(85)
Plan expenses	(99)	(107)
Benefits paid	(3,767)	(2,975)
Benefit obligation at end of period	82,239	77,520
Changes in plan assets:		
Fair value of plan assets at beginning of period	58,451	52,335
Actual return on plan assets	6,273	6,898
Employer contributions	2,900	2,300
Plan expenses	(99)	(107)
Benefits paid	(3,767)	(2,975)
Fair value of plan assets at end of period	63,758	58,451
Funded status at end of period	(18,481)	(19,069)
Amounts recognized in the combined balance sheets:		
Current liabilities	—	(705)
Noncurrent liabilities	(18,481)	(9,695)
Accumulated reduction in unrestricted net assets	15,038	9,695
Net amount recognized	$ (3,443)	$ (705)

Amounts recognized in accumulated reduction in unrestricted net assets consists of:

	2007	2006
Minimum pension liability	$ —	$ (9,695)
Net actuarial gain	15,067	—
Prior service costs	(29)	—
	$ 15,038	$ (9,695)

The accumulated benefit obligation as of June 30, 2007 and 2006 was $74,058 and $68,852, respectively.

(Amounts in thousands)

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2007 and 2006:

		2007		2006
Service cost during the period	$	4,254	$	3,567
Interest cost on projected benefit obligation		4,521		4,091
Expected return on plan assets		(4,375)		(4,165)
Amortization of unrecognized:				
Prior service cost		(8)		(8)
Loss		1,246		1,356
Net periodic pension cost	$	5,638	$	4,841

Other changes in plan assets and benefit obligation recognized in other changes in unrestricted net assets in 2007 and 2006 are as follows:

		2007		2006
Adjustment to minimum liability	$	2,840	$	4,643
Net loss		(15,067)		—
Prior service credit		30		—
Elimination of minimum liability		6,855		—
Total recognized in unrestricted net assets	$	(5,342)	$	4,643

The net loss and prior service credit for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $1,027 and $(8), respectively.

Plan asset allocations and target allocations are comprised of the following investment classifications at June 30, 2007 and 2006:

	Target allocations	2007	2006
Equity securities	62%	60%	60%
Debt securities	20	20	20
Other	18	20	20
	100%	100%	100%

Alegent's investment objective with respect to the pension plan is to produce sufficient current income and capital growth through a portfolio of equity and fixed income investments that, together with appropriate employer contributions, is sufficient to provide for the pension benefit obligations. Pension assets are managed by outside investment managers in accordance with the investment policies and guidelines established by the pension trustees and are diversified by investment style, asset category, sector, industry, issuer, and maturity.

(Amounts in thousands)

The following are the actuarial assumptions used by the Plan to develop the components of pension cost for the years ended June 30, 2007 and 2006:

	2007	**2006**
Discount rate	6.00%	5.75%
Rate of increase in compensation levels	4.75	4.75
Expected long-term rate of return on plan assets	8.00	8.00

Alegent's overall expected long-term rate of return on assets is 8.0%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The following are the actuarial assumptions used by the Plan to develop the components of the pension projected benefit obligation for the years ended June 30, 2007 and 2006:

	2007	**2006**
Discount rate	6.25%	6.00%
Rate of increase in compensation levels	4.75	4.75

The benefits expected to be paid in each year from 2008 to 2012 are $3,091, $3,060, $4,104, $4,441, and $6,170, respectively. The aggregate benefits expected to be paid in the five years from 2013 to 2017 are $39,494. The expected benefits to be paid are based on the same assumptions used to measure Alegent's benefit obligation at June 30, 2007 and include estimated employee service.

Alegent expects to contribute $3,800 to the defined benefit portion of its retirement plan in fiscal year 2008.

(Amounts in thousands)

(8) Concentrations of Credit Risk

Alegent grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2007 and 2006 approximated the following:

	2007	2006
Medicare	28%	27%
Medicaid	13	14
Managed care	36	37
Self-pay	20	19
Commercial and other	3	3
	100%	100%

(9) Insurance Programs

Alegent is currently insured under an occurrence-based trust for its hospital professional and general liability insurance coverage, which expires July 1, 2007. The policy provides for a deductible of $2,000 per occurrence, with annual aggregates of $4,000 for general liability and $6,000 for hospital professional liability. In addition, Alegent has excess coverage purchased from the commercial insurance market providing for $30,000 per occurrence and in the aggregate. In the event that the current policy is not renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. Alegent has established reserves for possible losses on both asserted and unasserted claims based upon an independent actuarial study.

Alegent participates in a workers' compensation self-insurance program, which provides coverage for all workers' compensation claims. Coverage is provided through a self-insurance program with a fronting policy whereby the responsibility for the initial $400 of each claim resides with the workers' compensation self-insurance program. A specific stop-loss agreement covers claims amounts in excess of $400 up to each states' statutory requirements. Alegent has established reserves for possible losses on both asserted and unasserted claims based upon an independent actuarial study.

Alegent is also self-insured under its employee group health and dental programs up to certain limits. Included in the accompanying combined statements of operations is a provision for premiums for excess coverage and payments for claims, including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end related to such claims.

Management of Alegent is presently not aware of any unasserted general and professional liability or group health, dental, or workers' compensation claims that would have a material adverse impact on the accompanying combined financial statements.

(Continued)

(Amounts in thousands)

(10) Deferred Compensation Plans

Alegent has entered into deferred compensation agreements with certain physicians and employees. Funds set aside under such plans are invested in various annuities and marketable securities. These assets, which are owned by Alegent, are included in the accompanying combined balance sheets as investments held for deferred compensation and are stated at fair value. The amount payable under the plans as of June 30, 2007 and 2006 is reflected as payable under deferred compensation plans in the accompanying combined balance sheets.

(11) Guarantees

Consistent with its policy on physician relocation and recruitment, Alegent has provided income guarantee agreements to certain physicians who agree to relocate to its communities to fill a need in Alegent's service area and commit to remain in practice there. Under such agreements, Alegent is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically 12 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically three years. Alegent also provides minimum revenue guarantees to physician groups providing certain services at its hospitals with terms ranging from one to three years. As of June 30, 2007, Alegent had outstanding advances of approximately $1,474 under the agreements. Alegent is currently not committed to any future guarantees.

(12) Laws and Regulations

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. 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 Alegent is in compliance with government laws and regulations as they apply to the areas of fraud and abuse.

(13) Functional Expenses

Alegent provides health care services primarily to residents within its geographic location. Expenses included in the combined statements of operations as they relate to provision of these services are as follows for the years ended June 30, 2007 and 2006:

	2007	2006
Health care services	$ 793,730	$ 763,195
General and administrative	96,265	75,616
	$ 889,995	$ 838,811

(Continued)

(14) Conditional Asset Retirement Obligation

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143*. This interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. SFAS No. 143 requires the fair value of a liability for the legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred.

Alegent adopted FIN 47 effective June 30, 2006 and recorded a liability of $6,075, all of which was recorded as a cumulative effect of change in accounting principle. The cumulative effect of the adoption of FIN 47 reflects the accretion of the liability from the liability inception date through June 30, 2006. The impact of adopting FIN 47 relates to estimates of the costs to abate clinical and administrative facilities containing asbestos, to replace underground storage tanks, and to modify leased properties. At June 30, 2007, this liability totaled $5,767.

(15) Generation Patient

Alegent has developed an overall framework for integrating the elements of its strategic plan referred to as Generation Patient. Successful implementation of all elements of Generation Patient will enable the enhancement and innovation of clinical services, facilities, and hospital campuses across the Alegent system. Alegent's long-range financial plan includes a component that is intended to provide the resources required to fund Alegent's Generation Patient strategy. The investments in plant and equipment are anticipated to be funded through a combination of operating cash flows, investments, long-term debt and philanthropy. Total Generation Patient expenditures are projected to approximate $400,000. As of June 30, 2007, total costs incurred relating to Generation Patient projects for all Alegent entities approximated $16,400.