KPMG

ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, 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 5, 2008

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2008 and 2007

(Amounts in thousands)

Assets	2008	2007
Current assets:		
Cash and cash equivalents	$ 60,606	$ 88,378
Patient accounts receivable, net of allowance for doubtful accounts of $46,839 in 2008 and $48,002 in 2007	123,422	107,320
Other accounts receivable	13,770	6,601
Inventories	18,501	15,419
Prepaid expenses	5,244	5,072
Total current assets	221,543	222,790
Assets limited as to use:		
Long-term investments	498,092	507,803
Alegent Health – Catalyst Fund	—	27,719
Other investments	13,951	15,048
Total assets limited as to use	512,043	550,570
Property and equipment:		
Land	15,120	10,859
Land improvements	21,447	21,156
Buildings and improvements	527,043	495,461
Equipment	423,161	389,693
Construction in progress	81,828	27,225
	1,068,599	944,394
Less accumulated depreciation	565,695	515,023
Property and equipment, net	502,904	429,371
Other assets:		
Property held for investment or future expansion	4,497	4,443
Investment in joint ventures	14,174	13,557
Other assets	158	67
Investments held for deferred compensation plans	7,714	6,983
Total other assets	26,543	25,050
Total assets	$ 1,263,033	$ 1,227,781

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ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2008 and 2007

(Amounts in thousands)

Liabilities and Net Assets	**2008**	**2007**
Current liabilities:		
Current portion of long-term debt	$ 9,284	$ 9,965
Accounts payable	29,940	49,663
Accrued salaries, wages, and benefits	44,576	42,910
Accrued vacation and sick leave	28,547	26,173
Estimated third-party payor settlements	6,496	9,375
Other liabilities and accrued expenses	32,678	33,716
Total current liabilities	151,521	171,802
Long-term debt, net of current portion	194,072	203,363
Other long-term liabilities	5,848	5,767
Liability for pension benefits	19,731	18,481
Payable under deferred compensation plans	5,243	4,549
Total liabilities	376,415	403,962
Net assets:		
Unrestricted	878,424	814,278
Temporarily restricted	4,852	6,136
Permanently restricted	3,342	3,405
Total net assets	886,618	823,819
Total liabilities and net assets	$ 1,263,033	$ 1,227,781

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2008 and 2007

(Amounts in thousands)

	2008	2007
Unrestricted revenues, gains, and other support:		
Net patient service revenue	$ 965,687	$ 902,000
Cafeteria, building rental, sales to nonpatients, and other	47,940	41,776
Total revenues, gains, and other support	1,013,627	943,776
Operating expenses:		
Salaries and wages	374,192	343,058
Employee benefits	101,012	94,215
Supplies	162,093	155,933
Purchased services	79,815	71,189
Professional services	77,448	65,143
Provision for bad debts	38,215	51,394
Other expenses	30,706	24,762
Catalyst Fund expenditures	4,507	6,131
Depreciation and amortization	62,155	53,094
Rentals and leases	17,035	13,995
Interest	8,365	11,081
Total operating expenses	955,543	889,995
Operating income	58,084	53,781
Other income (loss):		
Interest and investment income	2,966	5,427
Equity in earnings of investment limited partnership	(9,570)	67,683
Other, net	(633)	135
Total other income (loss), net	(7,237)	73,245
Excess of revenues over expenses	50,847	127,026
Other changes in unrestricted net assets:		
Cumulative effect of change in accounting principle	—	(8,182)
Contributions for the purchase of property and equipment	15,078	1,006
Liability for pension benefits adjustment	1,326	2,840
Transfers to Sponsors	(3,105)	(10,800)
Increase in unrestricted net assets	$ 64,146	$ 111,890

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2008 and 2007

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Net assets released from restrictions for use in operations	—	(1,783)	—	(1,783)
Change in unrealized gains and losses on investments, net	—	381	—	381
Contributions restricted by donor	—	1,792	26	1,818
Liability for pension benefits adjustment	2,840	—	—	2,840
Transfers to Sponsors	(10,800)	—	(223)	(11,023)
Increase (decrease) in net assets	111,890	706	(197)	112,399
Balance, June 30, 2007	814,278	6,136	3,405	823,819
Excess of revenues over expenses	50,847	—	—	50,847
Restricted interest and investment income	—	189	—	189
Contributions for the purchase of property and equipment	15,078	—	—	15,078
Net assets released from restrictions for use in operations	—	(3,963)	—	(3,963)
Change in unrealized gains and losses on investments, net	—	(314)	—	(314)
Contributions restricted by donor	—	2,804	70	2,874
Liability for pension benefits adjustment	1,326	—	—	1,326
Transfers to Sponsors	(3,105)	—	—	(3,105)
Transfers to non-Alegent entity	—	—	(133)	(133)
Increase (decrease) in net assets	64,146	(1,284)	(63)	62,799
Balance, June 30, 2008	$ 878,424	$ 4,852	$ 3,342	$ 886,618

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Amounts in thousands)

	2008	2007
Cash flows from operating activities:		
Increase in net assets	$ 62,799	$ 112,399
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	62,155	53,094
Provision for bad debts	38,215	51,394
Equity in earnings of investment limited partnership	9,570	(67,683)
Cumulative effect of change in accounting principle	—	8,182
Restricted interest and investment income	(189)	(316)
Contributions for the purchase of property and equipment	(15,078)	(1,006)
Transfers to sponsors	3,105	11,023
Transfers to non-Alegent entity	133	—
Change in unrealized gains and losses on investments, net	314	(381)
Contributions restricted by donor	(2,874)	(1,818)
Liability for pension benefits adjustment	(1,326)	(2,840)
Increase in current assets:		
Receivables:		
Patients	(54,317)	(65,107)
Other	(7,169)	(5,152)
Inventories	(3,082)	(474)
Prepaid expenses	(172)	(1,206)
Increase (decrease) in current liabilities:		
Accounts payable	(24,014)	17,706
Accrued salaries, wages, and benefits	1,666	6,682
Accrued vacation and sick leave	2,374	1,001
Estimated third-party payor settlements	(2,879)	1,267
Other liabilities and accrued expenses	(1,038)	12,493
Net cash provided by operating activities	68,193	129,258
Cash flows from investing activities:		
(Increase) decrease in assets limited as to use	28,643	(3,460)
Additions to property and equipment	(131,397)	(78,575)
(Increase) decrease in other long-term assets and liabilities	1,858	(445)
Net cash used in investing activities	(100,896)	(82,480)
Cash flows from financing activities:		
Principal payments on long-term debt	(9,972)	(8,793)
Restricted contributions and interest	3,063	2,134
Contributions for the purpose of property and equipment	15,078	—
Transfers to sponsors	(3,105)	(11,023)
Transfers to non-Alegent entity	(133)	—
Net cash provided by (used in) financing activities	4,931	(17,682)
Net increase (decrease) in cash and cash equivalents	(27,772)	29,096
Cash and cash equivalents, beginning of year	88,378	59,282
Cash and cash equivalents, end of year	$ 60,606	$ 88,378
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 8,365	$ 11,081
Supplemental disclosure of noncash activity:		
Capital lease obligations entered into during the year	$ —	$ 1,569

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 Foundation

Alegent Health – Bergan Mercy Health System and Affiliates (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
- Avantas, LLC

Alegent Health – Immanuel Medical Center and Affiliates (Immanuel) (which includes):
- Alegent Health – Immanuel Medical Center
- 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.

Effective July 1, 2007, Alegent Health Foundation was formed. The purpose of Alegent Health Foundation is to support all Alegent entities and operating divisions, as well as the Midlands region. Upon formation, the net assets of Bergan Mercy Foundation, Inc. and Immanuel Charitable Foundation, Inc. were transferred to Alegent Health Foundation. All charitable funds at Lakeside Hospital, Midlands Community Hospital, and Mercy Hospital, Council Bluffs were also transferred to Alegent Health Foundation. The resulting transactions are shown in the combined statements of changes in net assets as transfers to other Alegent affiliates.

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 and Alegent Health Foundation 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.

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.

(Continued)

(Amounts in thousands)

(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. During the year ended June 30, 2008, Alegent capitalized approximately $1,853 of interest. No interest was capitalized in 2007.

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.

Through June 30, 2007, Alegent's management and investment of donor-restricted endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In

2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

The states of Nebraska and Iowa enacted UPMIFA effective July 1, 2007 and July 1, 2008, respectively, the provisions of which apply to funds existing on or established after those dates. Based on its interpretation of the provisions of UPMIFA, Alegent has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate as of June 30, 2008 based on accounting standards in effect.

In August 2008, Financial Accounting Standards Board (FASB) Staff Position No. 117-1, *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP 117-1) was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The adoption of FSP 117-1 by Alegent is not expected to have a material impact on Alegent's financial position, results of operations or cash flows.

(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 $70,087 and $43,644 in 2008 and 2007, 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 certain changes in the liability for pension benefits.

(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, 2008 and 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, 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 statements of operations. Alegent's obligations relate 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, 2008 and 2007, this liability totaled $5,848 and $5,767, respectively.

(Continued)

(Amounts in thousands)

(p) Income Taxes

All related entities (see note 1) 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, except Avantas, LLC. Avantas, LLC is a multi-member limited liability company treated as a partnership, and therefore is not subject to federal and state income taxes.

Alegent adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109* (FIN 48) during 2008. FIN 48 provides specific guidance on how to address uncertainty in accounting for income tax assets and liabilities, prescribing recognition thresholds and measurement attributes. The adoption of FIN 48 by Alegent did not have a material impact on Alegent's financial position, results of operations or cash flows.

(3) Benefits for the Poor and Broader Communities (Catalyst Fund)

In May 2003, Alegent's board of directors authorized creation of a Community Benefit Trust (the Trust). The Trust was a board-designated fund, which was used to extend Alegent's healing mission beyond direct patient care into the communities it serves. In 2007, the focus of the Trust was shifted, and the Trust was renamed the Catalyst Fund. The Catalyst Fund focuses on specific community health initiatives recommended to the board of directors by the Catalyst Fund committee of the board. Its initial focus is childhood nutrition and activity as a way to combat childhood obesity. The Catalyst Fund initiatives are funded from annual operations and represent additional expenses related to Alegent's commitment to the communities it serves. In 2008, Alegent's board of directors removed the balance sheet fund designation, consistent with its philosophy to fund Catalyst Fund initiatives out of current operations. In addition, Alegent sponsors participate in expanding support for unmet community needs, and receive Catalyst Fund monies to serve as an extension of the Catalyst Fund. These funds are spent in accordance with parameters agreed to by Alegent's board of directors. For the years ended June 30, 2008 and 2007, Alegent transferred $3,105 and $10,800, respectively, to its sponsors to assist in supporting these unmet community needs.

(4) Assets Limited as to Use

The composition of assets limited as to use at June 30, 2008 and 2007 is set forth in the following table. Investments are stated at fair value:

	2008	2007
Investment in CHI investment limited partnership	$ 501,005	$ 538,766
Cash and cash equivalents	8,553	9,955
Marketable debt securities	120	58
Marketable equity securities	81	93
Pledges receivable	1,508	1,225
Other	776	473
Total	$ 512,043	$ 550,570

(Amounts in thousands)

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, 2008 and 2007, the value of the CHI investment limited partnership approximated $4.8 billion and $5.0 billion, respectively, 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, 2008 and 2007 (all investments are at fair value):

	2008	2007
Fixed income securities	$ 261,477	$ 259,040
Equity securities	239,528	279,726
Total	$ 501,005	$ 538,766

The CHI investment limited partnership is comprised of the following investment classifications as of June 30, 2008 and 2007:

	2008	2007
Cash and cash equivalents	4%	2%
Marketable debt securities	38	34
Marketable equity securities	36	46
Real estate	5	4
Other	17	14
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 ended June 30, 2008 and 2007:

	2008	2007
Statements of operations:		
Interest and investment income	$ 2,966	$ 5,427
Equity in earnings of investment limited partnership	(9,570)	67,683
Total investment income, gains, and losses	$ (6,604)	$ 73,110

(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.

(Amounts in thousands)

Nebraska and 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.

Revenue from Medicare and Medicaid programs accounted for approximately 27% and 7%, respectively, of Alegent's net patient revenue for the year ended June 30, 2008, and 25% and 7%, respectively, of Alegent's net patient revenue for the year ended June 30, 2007. 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 2008 and 2007 net patient service revenue increased approximately $4,284 and $853, 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:

	2008	**2007**
Gross patient charges:		
Inpatient charges	$ 1,305,168	$ 1,162,282
Outpatient charges	944,069	892,344
Total gross patient charges	2,249,237	2,054,626
Less:		
Deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	1,283,550	1,152,626
Net patient service revenue	$ 965,687	$ 902,000

(Amounts in thousands)

(6) Long-Term Debt

Long-term debt as of June 30, 2008 and 2007 consists of the following:

	2008	2007
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2028, with a weighted average yield of 4.9% during 2008	$ 201,711	$ 210,119
Other long-term obligations	1,645	3,209
Total long-term debt	203,356	213,328
Less current maturities	9,284	9,965
Long-term debt, excluding current maturities	$ 194,072	$ 203,363

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:

2009	$ 9,284
2010	9,335
2011	9,801
2012	10,291
2013	10,799
Thereafter	153,846

(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 three years of service. Total net periodic pension cost, including both the defined benefit and contribution options, approximated $16,563 and $15,757 during 2008 and 2007, respectively.

The Plan's approximate net periodic pension cost for the years ended June 30, 2008 and 2007 is included in the following components:

(a) Defined Contribution Option

The Plan provides employees with a noncontributory defined contribution retirement option. During 2008 and 2007, Alegent incurred expense of $10,210 and $10,133, respectively, in connection with this option.

(b) Defined Benefit Option (Measurement Dates March 31, 2008 and 2007)

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. In connection with the adoption of SFAS 158, Alegent recorded a cumulative effect of change in accounting principle of $(8,182), which is reflected in other changes in unrestricted net assets in the combined statements of operations and combined statements of changes in net assets.

(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, 2008 and 2007:

	2008	2007
Changes to benefit obligation:		
Benefit obligation at beginning of period	$ 82,239	$ 77,520
Service cost	5,059	4,254
Interest cost	4,982	4,521
Actuarial gain	(4,581)	(190)
Plan expenses	(78)	(99)
Benefits paid	(3,883)	(3,767)
Benefit obligation at end of period	83,738	82,239
Changes in plan assets:		
Fair value of plan assets at beginning of period	63,758	58,451
Actual return on plan assets	410	6,273
Employer contributions	3,800	2,900
Plan expenses	(78)	(99)
Benefits paid	(3,883)	(3,767)
Fair value of plan assets at end of period	64,007	63,758
Funded status at end of period	(19,731)	(18,481)
Amounts recognized in the combined balance sheets:		
Noncurrent liabilities	(19,731)	(18,481)
Accumulated reduction in unrestricted net assets	13,712	15,038
Net amount recognized	$ (6,019)	$ (3,443)

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

	2008	2007
Net actuarial gain	$ 13,733	$ 15,067
Prior service costs	(21)	(29)
Net amount recognized	$ 13,712	$ 15,038

The accumulated benefit obligation as of June 30, 2008 and 2007 was $76,003 and $74,058, respectively.

(Continued)

(Amounts in thousands)

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2008 and 2007:

	2008	2007
Service cost during the period	$ 5,059	$ 4,254
Interest cost on projected benefit obligation	4,982	4,521
Expected return on plan assets	(4,684)	(4,375)
Amortization of unrecognized:		
Prior service cost	(8)	(8)
Loss	1,027	1,246
Net periodic pension cost	$ 6,376	$ 5,638

Other changes in plan assets and benefit obligation recognized in other changes in unrestricted net assets in 2008 and 2007 are as follows:

	2008	2007
Adjustment to minimum liability	$ —	$ 2,840
Net gain (loss)	1,334	(15,067)
Prior service credit	(8)	30
Elimination of minimum liability	—	6,855
Total recognized in unrestricted net assets	$ 1,326	$ (5,342)

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 $362 and $(21), respectively.

Plan asset allocations and target allocations are comprised of the following investment classifications at June 30, 2008 and 2007:

	Target allocations	2008	2007
Equity securities	62%	56%	60%
Debt securities	20	22	20
Other	18	22	20
Total	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, 2008 and 2007:

	2008	**2007**
Discount rate	6.25%	6.00%
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, 2008 and 2007:

	2008	**2007**
Discount rate	6.75%	6.25%
Rate of increase in compensation levels	4.75	4.75

The benefits expected to be paid in each year from 2009 to 2013 are $2,666, $2,725, $3,710, $4,707, and $5,911, respectively. The aggregate benefits expected to be paid in the five years from 2014 to 2018 are $39,958. The expected benefits to be paid are based on the same assumptions used to measure Alegent's benefit obligation at June 30, 2008 and include estimated employee service.

Alegent does not expect to contribute to the defined benefit portion of its retirement plan in fiscal year 2009.

(Continued)

(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, 2008 and 2007 approximated the following:

	2008	2007
Medicare	29%	28%
Medicaid	14	13
Managed care	34	36
Self-pay	20	20
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, 2008. 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 state's 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.

(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

(Continued)

(Amounts in thousands)

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, 2008 and 2007 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, 2008, Alegent had outstanding advances of approximately $822 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, 2008 and 2007:

	2008	2007
Health care services	$ 847,465	$ 793,730
General and administrative	108,078	96,265
Total operating expenses	$ 955,543	$ 889,995

(14) Generation Patient

Alegent has developed an overall framework for integrating the elements of its facility 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, 2008 and 2007, total costs incurred relating to Generation Patient projects for all Alegent entities approximated $79,807 and $16,400, respectively.