ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008 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 measurement date provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* as of June 30, 2009.

KPMG LLP

Omaha, Nebraska
September 3, 2009

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ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2009 and 2008

(Amounts in thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	$ 88,388	$ 60,606
Patient accounts receivable, net of allowance for doubtful accounts of $52,765 in 2009 and $46,839 in 2008	120,129	123,422
Other accounts receivable	7,006	13,770
Inventories	17,884	18,501
Prepaid expenses	3,601	5,244
Total current assets	237,008	221,543
Assets limited as to use:		
Long-term investments	352,368	498,092
Other investments	16,934	13,951
Total assets limited as to use	369,302	512,043
Property and equipment:		
Land	16,574	15,120
Land improvements	22,392	21,447
Buildings and improvements	569,635	527,043
Equipment	464,852	423,161
Construction in progress	223,944	81,828
	1,297,397	1,068,599
Less accumulated depreciation	621,515	565,695
Property and equipment, net	675,882	502,904
Other assets:		
Property held for investment or future expansion	4,496	4,497
Investment in joint ventures	14,656	14,174
Investments held for deferred compensation plans	2,800	7,714
Other assets	993	158
Total other assets	22,945	26,543
Total assets	$ 1,305,137	$ 1,263,033

(Continued)

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2009 and 2008

(Amounts in thousands)

Liabilities and Net Assets	2009	2008
Current liabilities:		
Current portion of long-term debt	$ 9,610	$ 9,284
Accounts payable	58,156	29,940
Accrued salaries, wages, and benefits	51,530	44,576
Accrued vacation and sick leave	28,193	28,547
Estimated third-party payor settlements	1,260	6,496
Other liabilities and accrued expenses	35,654	32,678
Line of credit	50,000	—
Total current liabilities	234,403	151,521
Long-term debt, net of current portion	185,079	194,072
Other long-term liabilities	7,127	5,848
Liability for pension benefits	43,039	19,731
Payable under deferred compensation plans	817	5,243
Total liabilities	470,465	376,415
Net assets:		
Unrestricted	826,454	878,424
Temporarily restricted	4,636	4,852
Permanently restricted	3,582	3,342
Total net assets	834,672	886,618
Total liabilities and net assets	$ 1,305,137	$ 1,263,033

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Unrestricted revenues, gains, and other support:		
Net patient service revenue	$ 986,508	$ 965,687
Cafeteria, building rental, sales to nonpatients, and other	48,495	47,940
Total revenues, gains, and other support	1,035,003	1,013,627
Operating expenses:		
Salaries and wages	382,584	374,192
Employee benefits	110,195	101,012
Supplies	168,695	162,093
Purchased services	84,524	79,815
Professional services	87,304	77,448
Provision for bad debts	46,045	38,215
Other expenses	28,624	30,706
Catalyst Fund expenditures	1,548	4,507
Depreciation and amortization	67,693	62,155
Rentals and leases	17,232	17,035
Interest	3,324	8,365
Total operating expenses	997,768	955,543
Operating income	37,235	58,084
Other income (loss):		
Interest and investment income	902	2,966
Equity in loss of investment limited partnership	(74,241)	(9,570)
Other, net	(112)	(633)
Total other loss, net	(73,451)	(7,237)
Excess (deficiency) of revenues over expenses	(36,216)	50,847
Other changes in unrestricted net assets:		
Contributions for the purchase of property and equipment	2,853	15,078
Liability for pension benefits adjustment	(14,357)	1,326
Pension measurement date transition adjustment	(1,630)	—
Transfers to Sponsors	(2,540)	(3,105)
Transfers to non-Alegent entity	(80)	—
Increase (decrease) in unrestricted net assets	$ (51,970)	$ 64,146

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2009 and 2008

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Deficiency of revenues over expenses	(36,216)	—	—	(36,216)
Restricted interest and investment loss, net	—	(139)	—	(139)
Contributions for the purchase of property and equipment	2,853	—	—	2,853
Net assets released from restrictions for use in operations	—	(1,348)	—	(1,348)
Change in unrealized gains and losses on investments, net	—	(762)	—	(762)
Contributions restricted by donor	—	2,033	240	2,273
Liability for pension benefits adjustment	(14,357)	—	—	(14,357)
Pension measurement date transition adjustment	(1,630)	—	—	(1,630)
Transfers to Sponsors	(2,540)	—	—	(2,540)
Transfers to non-Alegent entity	(80)	—	—	(80)
Increase (decrease) in net assets	(51,970)	(216)	240	(51,946)
Balance, June 30, 2009	$ 826,454	$ 4,636	$ 3,582	$ 834,672

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (51,946)	$ 62,799
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	67,693	62,155
Provision for bad debts	46,045	38,215
Equity in earnings of investment limited partnership	74,241	9,570
Restricted interest and investment loss (income)	139	(189)
Contributions for the purchase of property and equipment	(2,853)	(15,078)
Transfers to Sponsors	2,540	3,105
Transfers to non-Alegent entity	80	133
Change in unrealized gains and losses on investments, net	762	314
Contributions restricted by donor	(2,273)	(2,874)
Liability for pension benefits adjustment	14,357	(1,326)
Pension measurement date transition adjustment	1,630	—
Decrease (increase) in assets:		
Receivables:		
Patients	(42,752)	(54,317)
Other	6,764	(7,169)
Inventories	617	(3,082)
Prepaid expenses	1,643	(172)
Increase (decrease) in liabilities:		
Accounts payable	15,502	(24,014)
Accrued salaries, wages, and benefits	6,954	1,666
Accrued vacation and sick leave	(354)	2,374
Estimated third-party payor settlements	(5,236)	(2,879)
Other liabilities and accrued expenses	2,976	(1,038)
Liability for pension benefits	7,321	2,576
Net cash provided by operating activities	143,850	70,769
Cash flows from investing activities:		
Decrease in assets limited as to use	67,738	28,643
Additions to property and equipment	(227,014)	(131,397)
Decrease (increase) in other long-term assets and liabilities	451	(718)
Net cash used in investing activities	(158,825)	(103,472)
Cash flows from financing activities:		
Principal payments on long-term debt	(9,610)	(9,972)
Proceeds from line of credit	50,000	—
Restricted contributions and interest	2,134	3,063
Contributions for the purpose of property and equipment	2,853	15,078
Transfers to sponsors	(2,540)	(3,105)
Transfers to non-Alegent entity	(80)	(133)
Net cash provided by financing activities	42,757	4,931
Net increase (decrease) in cash and cash equivalents	27,782	(27,772)
Cash and cash equivalents, beginning of year	60,606	88,378
Cash and cash equivalents, end of year	$ 88,388	$ 60,606
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of amount capitalized)	$ 3,324	$ 8,365
Supplemental disclosure of noncash activity:		
Capital lease obligations entered into during the year	$ 943	$ —

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

At June 30, 2009 and 2008, 96% and 98% of Alegent’s investment portfolio is invested in the CHI investment limited partnership, respectively (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 losses reported as other income (loss) 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. During the years ended June 30, 2009 and 2008, Alegent capitalized approximately $5,146 and $1,853, respectively, of interest.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess (deficiency) 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.

In 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to be considered when managing and investing

donor restricted endowment funds. 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. On July 1, 2008, Alegent adopted 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*.

Alegent holds endowment funds for support of its programs and operations. As required by U.S. generally accepted accounting principles, net assets and the changes therein associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Alegent Health Foundation's board of directors has interpreted UPMIFA as requiring the preservation of the whole dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Alegent classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Interest, dividends, and net appreciation of the donor-restricted endowment funds are classified according to donor stipulations. Absent any donor-imposed restrictions, interest, dividends, and net appreciation are deemed appropriated for expenditure when earned. In accordance with UPMIFA, Alegent considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the endowment fund;
(2) the purposes of Alegent and the donor-restricted endowment fund;
(3) general economic conditions;
(4) the possible effect of inflation or deflation;
(5) the expected total return from income and the appreciation of investments;
(6) other resources of Alegent; and
(7) the investment policies of Alegent.

Endowment assets are invested in the CHI investment limited partnership (see note 4).

(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 – Benefits for the Poor and Underserved

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 $63,516 and $70,087 in 2009 and 2008, respectively.

(l) Excess (Deficiency) of Revenues over Expenses

The combined statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (deficiency) 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), 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 due to the short duration of these instruments. Fair value for investments is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The fair value of the investment in the CHI investment limited partnership is based on the net asset value

reported by the limited partnership. The fair value of long-term debt as of June 30, 2009 is approximately $221,000.

On July 1, 2008, Alegent adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the combined financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the combined financial statements on a nonrecurring basis.

On July 1, 2009, Alegent will be required to apply the provisions of SFAS 157 to fair value measurements of nonfinancial assets and liabilities that are recognized and disclosed at fair value in the combined financial statements on a nonrecurring basis. Alegent is in the process of evaluating the impact, if any, of applying these provisions on its financial position and results of operations.

(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, 2009 and 2008, this liability totaled $5,551 and $5,848, respectively.

(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) Catalyst Fund (Childhood Obesity Initiative)

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 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, 2009 and 2008, Alegent transferred $2,540 and $3,105, 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, 2009 and 2008 is set forth in the following table. Investments are stated at fair value:

	2009	2008
Investment in CHI investment limited partnership	$ 355,975	$ 501,005
Cash and cash equivalents	9,931	8,553
Marketable debt securities	112	120
Marketable equity securities	38	81
Pledges receivable	1,761	1,508
Other	1,485	776
Total	$ 369,302	$ 512,043

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, 2009 and 2008, the value of the CHI investment limited partnership approximated $3.7 billion and $4.8 billion, respectively, with Alegent's ownership interest approximating 10%. Alegent's investment in the CHI investment limited partnership is comprised of the following as of June 30, 2009 and 2008 (all investments are at fair value):

	2009	2008
Fixed income securities	$ 196,570	$ 261,477
Equity securities	159,405	239,528
Total	$ 355,975	$ 501,005

The CHI investment limited partnership is comprised of the following investment classifications as of June 30, 2009 and 2008:

	2009	2008
Cash and cash equivalents	13%	4%
Marketable debt securities	36	38
Marketable equity securities	32	36
Real estate	5	5
Other	14	17
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, 2009 and 2008:

	2009	2008
Statements of operations:		
Interest and investment income	$ 902	$ 2,966
Equity in loss of investment limited partnership	(74,241)	(9,570)
Total investment income, gains, and losses	$ (73,339)	$ (6,604)

(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:

(a) 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.

(b) 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 25% and 8%, respectively, of Alegent's net patient revenue for the year ended June 30, 2009, and 27% and 7%, respectively, of Alegent's net patient revenue for the year ended June 30, 2008. 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 2009 and 2008 net patient service revenue increased approximately $7,336 and $4,284, 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:

	2009	2008
Gross patient charges:		
Inpatient charges	$ 1,316,615	$ 1,305,168
Outpatient charges	1,024,525	944,069
Total gross patient charges	2,341,140	2,249,237
Less:		
Deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	1,354,632	1,283,550
Net patient service revenue	$ 986,508	$ 965,687

(6) Long-Term Debt

Long-term debt as of June 30, 2009 and 2008 consists of the following:

	2009	2008
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2028, with a weighted average yield of 4.3% during 2009	$ 192,883	$ 201,711
Other long-term obligations	1,806	1,645
Total long-term debt	194,689	203,356
Less current maturities	9,610	9,284
Long-term debt, excluding current maturities	$ 185,079	$ 194,072

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.

During 2009, Alegent entered into an Unsecured Revolving Credit agreement that permits Alegent to borrow up to $50,000 through June 23, 2010, bearing interest at LIBOR plus 1.75%. At June 30, 2009, Alegent had drawn on the entire $50,000 available under this facility, which is reflected in current liabilities in the accompanying combined balance sheets. The terms of the agreement require Alegent to meet certain covenants and ratios related to days cash on hand, unrestricted cash and investments to indebtedness ratio, indebtedness to capitalization ratio, and debt service coverage ratio.

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

2010	$	9,610
2011		10,161
2012		10,296
2013		10,803
2014		11,339
Thereafter		142,480

(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 $18,146 and $16,563 during 2009 and 2008, respectively.

The Plan's approximate net periodic pension cost for the years ended June 30, 2009 and 2008 is included in the following components:

(a) Defined Contribution Option

The Plan provides employees with a noncontributory defined contribution retirement option. During 2009 and 2008, Alegent incurred expense of $10,863 and $10,210, respectively, in connection with this option.

(b) Defined Benefit Option (Measurement Dates June 30, 2009 and March 31, 2008)

Alegent adopted the measurement date provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158) during 2009, which required Alegent to change its measurement date for plan assets and benefit obligations to June 30. Prior to 2009, Alegent measured its plan assets and benefit obligations as of March 31 of each year. In connection with the adoption of measurement date provisions of SFAS 158, Alegent recorded a pension measurement date transition adjustment of $(1,630), which is reflected in other changes in unrestricted net assets in the combined statements of operations and combined statements of changes in net assets.

During 2009, Alegent's board of directors approved a resolution to freeze the Plan effective January 1, 2010. This resulted in a curtailment loss of $798, which is included in total benefit cost as required by FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pensions Plans and for Termination Benefits*.

The following table summarizes the projected benefit obligation, the fair value of plan assets, and the funded status at June 30, 2009 and 2008:

	2009	2008
Changes to benefit obligation:		
Benefit obligation at beginning of period	$ 83,738	$ 82,239
Service cost	5,538	5,059
Interest cost	5,500	4,982
Actuarial (gain) loss	4,741	(4,581)
Plan expenses	(82)	(78)
Benefits paid	(3,441)	(3,883)
Plan change	904	—
Curtailments	(8,759)	—
Adjustment to reflect change in measurement date	2,760	—
Benefit obligation at end of period	90,899	83,738
Changes in plan assets:		
Fair value of plan assets at beginning of period	64,007	63,758
Actual return on plan assets	(12,624)	410
Employer contributions	—	3,800
Plan expenses	(82)	(78)
Benefits paid	(3,441)	(3,883)
Fair value of plan assets at end of period	47,860	64,007
Funded status at end of period	(43,039)	(19,731)
Amounts recognized in the combined balance sheets:		
Noncurrent liabilities	(43,039)	(19,731)
Accumulated reduction in unrestricted net assets	28,069	13,712
Net amount recognized	$ (14,970)	$ (6,019)

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

	2009	2008
Net actuarial loss	$ 28,069	$ 13,733
Prior service costs	—	(21)
Adjustment to reflect change in measurement date	1,630	—
Net amount recognized	$ 29,699	$ 13,712

The accumulated benefit obligation as of June 30, 2009 and 2008 was $90,817 and $76,003, respectively.

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2009 and 2008:

	2009	2008
Service cost during the period	$ 5,538	$ 5,059
Interest cost on projected benefit obligation	5,500	4,982
Expected return on plan assets	(4,960)	(4,684)
Amortization of unrecognized:		
Prior service cost	67	(8)
Loss	376	1,027
Net periodic pension cost	6,521	6,376
Cost of curtailment event	798	—
Total benefit cost	$ 7,319	$ 6,376

Other changes in plan assets and benefit obligation recognized in other changes in unrestricted net assets in 2009 and 2008 are as follows:

	2009	2008
Net gain (loss)	$ (14,336)	$ 1,334
Prior service credit	(21)	(8)
Adjustment to reflect change in measurement date	(1,630)	—
Total recognized in unrestricted net assets	$ (15,987)	$ 1,326

The net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $888.

Plan asset allocations and target allocations are comprised of the following investment classifications at June 30, 2009 and 2008:

	Target allocations	2009	2008
Equity securities	60%	51%	56%
Debt securities	20	26	22
Other	20	23	22
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.

The following are the actuarial assumptions used by the Plan to develop the components of pension cost for the years ended June 30, 2009 and 2008:

	2009	2008
Discount rate	6.75%	6.25%
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, 2009 and 2008:

	2009	2008
Discount rate	6.70%	6.75%
Rate of increase in compensation levels	3.00	4.75

The benefits expected to be paid in each year from 2010 to 2014 are $6,236, $3,666, $4,614, $5,156, and $5,001, respectively. The aggregate benefits expected to be paid in the five years from 2015 to 2019 are $33,127. The expected benefits to be paid are based on the same assumptions used to measure Alegent's benefit obligation at June 30, 2009 and include estimated employee service.

Alegent expects to contribute $5,600 to the defined benefit portion of its retirement plan in fiscal year 2010.

(8) Fair Value Measurements

Alegent adopted SFAS 157 on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the combined financial statements on a recurring basis. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Alegent has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009:

		Fair value measurements at reporting date using		
	June 30, 2009	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 84,922	$ 84,922	$ —	$ —
Investment funds	9,166	3,004	6,162	—
Corporate and asset-backed securities	4,268	—	4,268	—
Other	1,597	76	1,521	—
Total	$ 99,953	$ 88,002	$ 11,951	$ —

The combined financial statements as of and for the year ended June 30, 2009 do not include any nonrecurring fair value measurements relating to assets or liabilities for which Alegent has adopted the provisions of SFAS 157. All nonrecurring fair value measurements for 2009 involved nonfinancial assets and Alegent will not adopt the provisions of SFAS 157 for nonrecurring fair value measurements involving nonfinancial assets and nonfinancial liabilities until July 1, 2009 as discussed in note 2(n).

(9) 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, 2009 and 2008 approximated the following:

	2009	2008
Medicare	28%	29%
Medicaid	15	14
Managed care	34	34
Self-pay	15	20
Commercial and other	8	3
	100%	100%

(10) Insurance Programs

Alegent is currently insured under an occurrence-based trust for its hospital professional and general liability insurance coverage, which expires July 1, 2009. 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.

(11) 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, 2009 and 2008 is reflected as payable under deferred compensation plans in the accompanying combined balance sheets.

(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, 2009 and 2008:

	2009	2008
Health care services	$ 881,930	$ 847,465
General and administrative	115,838	108,078
Total operating expenses	$ 997,768	$ 955,543

(14) Facility Plan

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, 2009 and 2008, total costs incurred relating to Generation Patient projects for all Alegent entities approximated $213,154 and $79,807, respectively.