ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
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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, 2010 and 2009, 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, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Omaha, Nebraska
September 1, 2010

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2010 and 2009

(Amounts in thousands)

Assets	2010	2009
Current assets:		
Cash and cash equivalents	$ 67,417	$ 88,388
Patient accounts receivable, net of allowance for doubtful accounts of $64,981 in 2010 and $52,765 in 2009	112,687	120,129
Other accounts receivable	4,701	7,006
Inventories	19,925	17,884
Prepaid expenses	7,154	3,601
Total current assets	211,884	237,008
Assets limited as to use:		
Long-term investments	492,426	369,302
Total assets limited as to use	492,426	369,302
Property and equipment:		
Land	17,745	16,574
Land improvements	29,690	22,392
Buildings and improvements	829,031	569,635
Equipment	514,242	464,852
Construction in progress	93,271	223,944
	1,483,979	1,297,397
Less accumulated depreciation	694,502	621,515
Property and equipment, net	789,477	675,882
Other assets:		
Property held for investment or future expansion	7,051	4,496
Investment in joint ventures	15,413	14,656
Investments held for deferred compensation plans	3,108	2,800
Other assets	2,557	993
Total other assets	28,129	22,945
Total assets	$ 1,521,916	$ 1,305,137

(Continued)

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2010 and 2009

(Amounts in thousands)

Liabilities and Net Assets	2010	2009
Current liabilities:		
Current portion of long-term debt	$ 13,835	$ 9,610
Accounts payable	32,926	58,156
Accrued salaries, wages, and benefits	59,046	51,530
Accrued vacation and sick leave	32,272	28,193
Estimated third-party payor settlements	5,318	1,260
Other liabilities and accrued expenses	34,872	35,654
Line of credit	—	50,000
Total current liabilities	178,269	234,403
Long-term debt, net of current portion	417,876	185,079
Other long-term liabilities	9,085	7,127
Liability for pension benefits	56,548	43,039
Payable under deferred compensation plans	1,000	817
Total liabilities	662,778	470,465
Net assets:		
Unrestricted	849,959	826,454
Temporarily restricted	5,596	4,636
Permanently restricted	3,583	3,582
Total net assets	859,138	834,672
Total liabilities and net assets	$ 1,521,916	$ 1,305,137

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2010 and 2009

(Amounts in thousands)

	2010	2009
Unrestricted revenues, gains, and other support:		
Net patient service revenue	$ 989,318	$ 986,508
Cafeteria, building rental, sales to nonpatients, and other	48,479	48,495
Total revenues, gains, and other support	1,037,797	1,035,003
Operating expenses:		
Salaries and wages	369,292	382,584
Employee benefits	119,055	110,195
Supplies	168,066	168,695
Purchased services	86,098	84,524
Professional services	99,474	87,304
Provision for bad debts	76,249	46,045
Other expenses	28,985	28,624
Catalyst Fund expenditures	1,498	1,548
Depreciation and amortization	75,626	67,693
Rentals and leases	18,536	17,232
Interest	9,371	3,324
Total operating expenses	1,052,250	997,768
Operating income (loss)	(14,453)	37,235
Other income (loss):		
Interest and investment income	821	902
Equity in income (loss) of investment limited partnership	48,420	(74,241)
Other, net	66	(112)
Total other income (loss), net	49,307	(73,451)
Excess (deficiency) of revenues over expenses	34,854	(36,216)
Other changes in unrestricted net assets:		
Contributions for the purchase of property and equipment	518	2,853
Liability for pension benefits adjustment	(13,047)	(14,357)
Pension measurement date transition adjustment	—	(1,630)
Transfers to Sponsors	—	(2,540)
Transfers to non-Alegent entity	—	(80)
Other	1,180	—
Increase (decrease) in unrestricted net assets	$ 23,505	$ (51,970)

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Excess of revenues over expenses	34,854	—	—	34,854
Restricted interest and investment income, net	—	264	—	264
Contributions for the purchase of property and equipment	518	—	—	518
Net assets released from restrictions for use in operations	—	(632)	—	(632)
Change in unrealized gains and losses on investments, net	—	336	—	336
Contributions restricted by donor		992	1	993
Liability for pension benefits adjustment	(13,047)	—	—	(13,047)
Other	1,180	—	—	1,180
Increase in net assets	23,505	960	1	24,466
Balance, June 30, 2010	$ 849,959	$ 5,596	$ 3,583	$ 859,138

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Amounts in thousands)

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 24,466	$ (51,946)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	75,626	67,693
Provision for bad debts	76,249	46,045
Equity in (income) loss of investment limited partnership	(48,420)	74,241
Restricted interest and investment loss (income)	(264)	139
Contributions for the purchase of property and equipment	(518)	(2,853)
Transfers to Sponsors	—	2,540
Transfers to non-Alegent entity	—	80
Change in unrealized gains and losses on investments, net	(336)	762
Contributions restricted by donor	(993)	(2,273)
Liability for pension benefits adjustment	13,047	14,357
Other changes in net assets	(1,180)	—
Pension measurement date transition adjustment	—	1,630
Decrease (increase) in assets:		
Receivables:		
Patients	(68,807)	(42,752)
Other	2,305	6,764
Inventories	(2,041)	617
Prepaid expenses	(3,553)	1,643
Increase (decrease) in liabilities:		
Accounts payable	(11,131)	15,502
Accrued salaries, wages, and benefits	7,516	6,954
Accrued vacation and sick leave	4,079	(354)
Estimated third-party payor settlements	4,058	(5,236)
Other liabilities and accrued expenses	(782)	2,976
Liability for pension benefits	462	7,321
Net cash provided by operating activities	69,783	143,850
Cash flows from investing activities:		
Purchases of assets limited as to use	(75,312)	(2,262)
Sales of assets limited as to use	944	70,000
Additions to property and equipment	(203,320)	(227,014)
Decrease (increase) in other long-term assets and liabilities	(3,043)	451
Net cash used in investing activities	(280,731)	(158,825)
Cash flows from financing activities:		
Principal payments on long-term debt	(7,011)	(9,610)
Proceeds from the issuance of long-term debt	244,033	—
Proceeds from line of credit	—	50,000
Payments on line of credit	(50,000)	—
Restricted contributions and interest	1,257	2,134
Contributions for the purpose of property and equipment	518	2,853
Transfers to sponsors	—	(2,540)
Transfers to non-Alegent entity	—	(80)
Other changes in net assets	1,180	—
Net cash provided by financing activities	189,977	42,757
Net increase (decrease) in cash and cash equivalents	(20,971)	27,782
Cash and cash equivalents, beginning of year	88,388	60,606
Cash and cash equivalents, end of year	$ 67,417	$ 88,388
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of amount capitalized)	$ 9,371	$ 3,324
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.
- 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

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

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

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

The Agreement provides for, among other things, joint management of Immanuel, Bergan, and Alegent Health, a separate not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code. 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.

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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. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(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, 2010 and 2009, 97% and 96% of Alegent's investment portfolio is invested in the CHI investment limited partnership, respectively (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 and losses reported as other income (loss) in the accompanying combined financial statements. Other investment securities consist of certificates of deposit, annuities, mutual funds, and bonds. These securities are set aside by the board of directors for future projects and mission activities.

The fair value of the investment in the CHI investment limited partnership is based on the net asset value reported by the limited partnership.

(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, 2010 and 2009, Alegent capitalized approximately $7,082 and $5,146, 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.

Temporarily and permanently restricted net assets held by Alegent are recorded and accounted for in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, *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* (FASB Staff Position No. 117-1).

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 $82,194 and $63,516 in 2010 and 2009, 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 carrying amount of the investment in the CHI investment limited partnership is based on the net asset value reported by the limited partnership, which approximates fair value. The fair value of long-term debt as of June 30, 2010 and 2009 is approximately $441,667 and $221,000, respectively.

Alegent follows the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures* (FASB Statement No. 157, *Fair Value Measurements*) 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 and nonrecurring basis. Fair value is defined 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

(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, 2010 and 2009, this liability totaled $4,870 and $5,551, 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.

In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, included in FASB ASC Subtopic 740-10, *Income Taxes – Overall*, Alegent recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2010 and 2009, management determined that there are no income tax positions requiring recognition in the combined financial statements.

(Amounts in thousands)

(q) Reclassifications

Certain balances from 2009 have been reclassified to conform to the current year presentation.

(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 prevent and 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 share Alegent's purpose to create healthier communities by addressing 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 year ended June 30, 2009, Alegent transferred $2,540 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, 2010 and 2009 is set forth in the following table. Investments are stated at fair value:

	2010	2009
Investment in CHI investment limited partnership	$ 479,807	$ 355,975
Cash and cash equivalents	9,016	9,931
Marketable debt securities	35	112
Marketable equity securities	203	38
Pledges receivable	1,571	1,761
Other	1,794	1,485
Total	$ 492,426	$ 369,302

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, 2010 and 2009, the value of the CHI investment limited partnership approximated $5.0 billion and $3.7 billion, 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, 2010 and 2009 (all investments are at fair value):

	2010	2009
Fixed income securities	$ 249,921	$ 196,570
Equity securities	229,886	159,405
Total	$ 479,807	$ 355,975

(Amounts in thousands)

The CHI investment limited partnership is comprised of the following investment classifications as of June 30, 2010 and 2009:

	2010	2009
Cash and cash equivalents	8%	13%
Marketable debt securities	37	36
Marketable equity securities	37	32
Real estate	3	5
Other	15	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, 2010 and 2009:

	2010	2009
Combined statements of operations:		
Interest and investment income	$ 821	$ 902
Equity in income (loss) of investment limited partnership	48,420	(74,241)
Total investment income, gains, and losses	$ 49,241	$ (73,339)

See fair value disclosure in note 8.

(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.

(Amounts in thousands)

(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 26% and 9%, respectively, of Alegent's net patient revenue for the year ended June 30, 2010, and 25% and 8%, respectively, of Alegent's net patient revenue for the year ended June 30, 2009. 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 2010 and 2009 net patient service revenue increased approximately $5,392 and $7,336, 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:

	2010	2009
Gross patient charges:		
Inpatient charges	$ 1,333,819	$ 1,316,615
Outpatient charges	1,090,993	1,024,525
Total gross patient charges	2,424,812	2,341,140
Less:		
Deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	1,435,494	1,354,632
Net patient service revenue	$ 989,318	$ 986,508

(Amounts in thousands)

(6) Long-Term Debt

Long-term debt as of June 30, 2010 and 2009 consists of the following:

		2010		2009
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2028, with a weighted average yield of 4.45% during 2010	$	183,611	$	192,883
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2039, with a weighted average yield of 4.45% during 2010		242,640		—
Other long-term obligations		5,460		1,806
Total long-term debt		431,711		194,689
Less current maturities		13,835		9,610
Long-term debt, excluding current maturities	$	417,876	$	185,079

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.

On November 10, 2009, Bergan, Immanuel, and Alegent issued additional promissory notes to CHI for $282 million. During 2010, Alegent received approximately $244 million of the $282 million in debt proceeds from CHI, and the remaining $38 million in debt proceeds will be drawn down during 2011 as financed assets are placed into service.

During 2009, Alegent entered into an Unsecured Revolving Credit agreement permitting 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. There is no balance owed related to this credit facility at June 30, 2010. 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.

(Amounts in thousands)

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

2011	$	13,835
2012		15,390
2013		16,155
2014		16,962
2015		17,812
Thereafter		351,557

(7) Retirement Plans

Alegent Health Retirement 403(b) Plan

Beginning January 1, 2010, Alegent sponsors a 403(b) savings plan. Participating employees can contribute a portion of their salary to the plan, subject to IRS regulations. Alegent makes matching contributions up to a maximum of 3% based on salary and a fixed contribution up to 6% based on years of service. Alegent's pension expense related to the 403(b) savings plan was $9,200 in 2010.

Alegent Health Multioptional Pension Plan

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). During 2009, Alegent's board of directors approved a resolution to freeze the Plan effective January 1, 2010.

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 $10,102 and $18,146 during 2010 and 2009, respectively.

The Plan's approximate net periodic pension cost for the years ended June 30, 2010 and 2009 is included in the following components:

(a) Defined Contribution Option

The Plan provides employees with a noncontributory defined contribution retirement option. During 2010 and 2009, Alegent incurred expense of $4,081 and $10,863, respectively, in connection with this option.

(b) Defined Benefit Option

Alegent adopted the measurement date provisions of ASC Subtopic 715-30, *Defined Benefit Plans – Pension* (FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other*

(Amounts in thousands)

Postretirement Plans), 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 ASC Subtopic 715-30 during 2009, Alegent recorded a pension measurement date transition adjustment of $(1,630), which is reflected in other changes in unrestricted net assets in the 2009 combined statements of operations and combined statements of changes in net assets.

During 2009, the approval of the Plan freeze resulted in a curtailment loss of $798, which is included in total benefit cost as required by ASC Subtopic 715-30 (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, 2010 and 2009:

	2010	2009
Changes to benefit obligation:		
Benefit obligation at beginning of period	$ 90,899	$ 83,738
Service cost	3,958	5,538
Interest cost	5,792	5,500
Actuarial loss	16,264	4,741
Plan expenses	(141)	(82)
Benefits paid	(4,238)	(3,441)
Plan change	—	904
Curtailments	—	(8,759)
Adjustment to reflect change in measurement date	—	2,760
Benefit obligation at end of period	112,534	90,899
Changes in plan assets:		
Fair value of plan assets at beginning of period	47,860	64,007
Actual return on plan assets	6,905	(12,624)
Employer contributions	5,600	—
Plan expenses	(141)	(82)
Benefits paid	(4,238)	(3,441)
Fair value of plan assets at end of period	55,986	47,860
Funded status at end of period	(56,548)	(43,039)
Amounts recognized in the combined balance sheets:		
Noncurrent liabilities	(56,548)	(43,039)
Accumulated reduction in unrestricted net assets	42,746	29,699
Net amount recognized	$ (13,802)	$ (13,340)

(Continued)

(Amounts in thousands)

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

		2010		2009
Net actuarial loss	$	41,116	$	28,069
Prior service costs		—		—
Adjustment to reflect change in measurement date		—		1,630
Net amount recognized	$	41,116	$	29,699

The accumulated benefit obligation as of June 30, 2010 and 2009 was $112,534 and $90,817, respectively.

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2010 and 2009:

		2010		2009
Service cost during the period	$	3,958	$	5,538
Interest cost on projected benefit obligation		5,792		5,500
Expected return on plan assets		(4,574)		(4,960)
Amortization of unrecognized:				
Prior service cost		—		67
Loss		887		376
Net periodic pension cost		6,063		6,521
Cost of curtailment event		—		798
Total benefit cost	$	6,063	$	7,319

Other changes in plan assets and benefit obligation recognized in other changes in unrestricted net assets in 2010 and 2009 are as follows:

		2010		2009
Net loss	$	(13,047)	$	(14,336)
Prior service credit		—		(21)
Adjustment to reflect change in measurement date		—		(1,630)
Total recognized in unrestricted net assets	$	(13,047)	$	(15,987)

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 $1,922.

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. Alegent's overall investment strategy is to achieve a mix of approximately 60% equity securities, 20% debt securities, and 20% other types of investments.

(Amounts in thousands)

The participants in the Plan are invested in a commingled investment vehicle offered by Catholic Health Initiatives (CHI). As these investments are commingled with other funds, the postretirement fund investments were measured as reported by CHI using Level 3 inputs as defined in ASC topic 820. The investment policies and strategies for the plan assets are to maintain these asset allocations consistent with the allocations as of June 30, 2010.

The reconciliation of the beginning and ending balances of the comingled investment vehicle are as follows:

		2010		2009
Beginning balance	$	47,860	$	64,007
Actual return on plan assets		6,905		(12,624)
Purchases, sales, and settlements, net		1,221		(3,523)
Ending Balance	$	55,986	$	47,860

	Target allocations	2010	2009
Equity securities	60%	54%	51%
Debt securities	20	25	26
Other	20	21	23
Total	100%	100%	100%

The following are the actuarial assumptions used by the Plan to develop the components of pension cost for the years ended June 30, 2010 and 2009:

	2010	2009
Discount rate	6.70%	6.75%
Rate of increase in compensation levels	3.00	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.

(Amounts in thousands)

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, 2010 and 2009:

	2010	**2009**
Discount rate	5.90%	6.70%
Rate of increase in compensation levels	N/A	3.00

The benefits expected to be paid in each year from 2011 to 2015 are $7,584, $4,534, $5,225, $5,092, and $4,828, respectively. The aggregate benefits expected to be paid in the five years from 2016 to 2020 are $35,606. The expected benefits to be paid are based on the same assumptions used to measure Alegent's benefit obligation at June 30, 2010 and include estimated employee service.

Alegent expects to contribute $15,300 to the defined benefit portion of its retirement plan in fiscal year 2011.

(8) Fair Value Measurements

Alegent adopted ASC Topic 820 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 financial statements on a recurring basis. On July 1, 2009, the Company adopted the provisions of ASC Topic 820 for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. ASC Topic 820 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.

(Amounts in thousands)

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. Alegent's overall investment strategy is to achieve a mix of approximately 60% equity securities, 20% debt securities, and 20% other types of investments.

The participants in the Plan are invested in a commingled investment vehicle offered by Catholic Health Initiatives (CHI). As these investments are commingled with other funds, the postretirement fund investments were measured as reported by CHI using Level 3 inputs as defined in ASC topic 820. The investment policies and strategies for the plan assets are to maintain these asset allocations consistent with the allocations as of June 30, 2010.

The reconciliation of the beginning and ending balances of the comingled investment vehicle are as follows:

	2010	2009
Beginning balance	$ 47,860	$ 64,007
Actual return on plan assets	6,905	(12,624)
Purchases, sales, and settlements, net	1,221	(3,523)
Ending Balance	$ 55,986	$ 47,860

	Target allocations	2010	2009
Equity securities	60%	54%	51%
Debt securities	20	25	26
Other	20	21	23
Total	100%	100%	100%

The following are the actuarial assumptions used by the Plan to develop the components of pension cost for the years ended June 30, 2010 and 2009:

	2010	2009
Discount rate	6.70%	6.75%
Rate of increase in compensation levels	3.00	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.

(Amounts in thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010 and 2009:

	June 30, 2010	Fair value measurements at reporting date using: 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	$ 67,417	$ 64,471	$ 2,946	$ —
Assets limited as to use:				
Cash and cash equivalents	9,016	133	8,883	—
Investment funds	266	—	266	—
Corporate and asset-backed securities	160	—	160	—
Other	1,606	80	1,526	—
Total	$ 78,465	$ 64,684	$ 13,781	$ —

	June 30, 2009	Fair value measurements at reporting date using: 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	$ 88,388	$ 84,445	$ 3,943	$ —
Assets limited as to use:				
Cash and cash equivalents	9,931	3,444	6,487	—
Other	1,634	113	1,521	—
Total	$ 99,953	$ 88,002	$ 11,951	$ —

For the year ended June 30, 2010, Alegent did not have nonfinancial assets or nonfinancial liabilities, which require measurement at fair value on a nonrecurring basis in accordance with ASC Topic 820, other than its investment in a joint venture valued at $3,262, which was a Level 3 valuation for which Alegent obtained an independent appraisal.

(Amounts in thousands)

(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, 2010 and 2009 approximated the following:

	2010	2009
Medicare	31%	28%
Medicaid	15	15
Managed care	34	34
Self-pay	18	15
Commercial and other	2	8
	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, 2011. 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 and $450, for Nebraska and Iowa, respectively, of each claim resides with the workers' compensation self-insurance program. A specific stop-loss agreement covers claims amounts in excess of $400 and $450 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.

(Continued)

(Amounts in thousands)

(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, 2010 and 2009 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, 2010 and 2009:

	2010	2009
Health care services	$ 930,752	$ 881,930
General and administrative	121,498	115,838
Total operating expenses	$ 1,052,250	$ 997,768

(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, 2010 and 2009, total costs incurred relating to Generation Patient projects for all Alegent entities approximated $317,379 and $213,154, respectively.

(Continued)

(15) Subsequent Events

Alegent has evaluated subsequent events from the combined balance sheet date through September 1, 2010, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.