ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2011 and 2010

(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, 2011 and 2010, 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, 2011 and 2010 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 8, 2011

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2011 and 2010

(Amounts in thousands)

Assets	**2011**	**2010**
Current assets:		
Cash and cash equivalents	$ 143,275	$ 67,417
Patient accounts receivable, net of allowance for doubtful accounts of $67,464 in 2011 and $64,981 in 2010	103,139	112,687
Other accounts receivable	3,997	4,701
Inventories	19,580	19,925
Prepaid expenses	8,411	7,154
Total current assets	278,402	211,884
Assets limited as to use:		
Long-term investments	567,973	479,807
Other investments	7,486	12,619
Total assets limited as to use	575,459	492,426
Property and equipment:		
Land	20,130	17,745
Land improvements	29,903	29,690
Buildings and improvements	918,379	829,031
Equipment	541,570	514,242
Construction in progress	22,467	93,271
	1,532,449	1,483,979
Less accumulated depreciation	767,897	694,502
Property and equipment, net	764,552	789,477
Other assets:		
Property held for investment or future expansion	4,583	7,051
Investment in joint ventures	30,235	15,413
Investments held for deferred compensation plans	2,591	3,108
Other assets	148	2,557
Total other assets	37,557	28,129
Total assets	$ 1,655,970	$ 1,521,916

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ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2011 and 2010

(Amounts in thousands)

Liabilities and Net Assets	**2011**	**2010**
Current liabilities:		
Current portion of long-term debt	$ 18,588	$ 13,835
Accounts payable	25,780	32,926
Accrued salaries, wages, and benefits	65,693	59,046
Accrued vacation and sick leave	34,983	32,272
Estimated third-party payor settlements	11,222	5,318
Other liabilities and accrued expenses	37,238	34,872
Total current liabilities	193,504	178,269
Long-term debt, net of current portion	436,978	417,876
Other long-term liabilities	9,341	9,085
Liability for pension benefits	32,162	56,548
Payable under deferred compensation plans	46	1,000
Total liabilities	672,031	662,778
Net assets:		
Unrestricted	973,709	849,959
Temporarily restricted	6,392	5,596
Permanently restricted	3,838	3,583
Total net assets	983,939	859,138
Total liabilities and net assets	$ 1,655,970	$ 1,521,916

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2011 and 2010

(Amounts in thousands)

	2011	2010
Unrestricted revenues, gains, and other support:		
Net patient service revenue	$ 976,695	$ 989,318
Cafeteria, building rental, sales to nonpatients, and other	46,270	48,479
Total revenues, gains, and other support	1,022,965	1,037,797
Operating expenses:		
Salaries and wages	361,110	369,449
Employee benefits	101,398	119,072
Supplies	151,662	168,087
Purchased services	81,163	87,030
Professional services	102,581	99,646
Provision for bad debts	58,937	76,249
Other expenses	28,137	29,184
Gain on sale of spine operations	(18,692)	—
Loss on impairment	7,097	—
Depreciation and amortization	88,688	75,626
Rentals and leases	18,743	18,536
Interest	18,611	9,371
Total operating expenses	999,435	1,052,250
Operating income (loss)	23,530	(14,453)
Other income :		
Interest and investment income	506	821
Equity in income of investment limited partnership	87,022	48,420
Other, net	60	66
Total other income, net	87,588	49,307
Excess of revenues over expenses	111,118	34,854
Other changes in unrestricted net assets:		
Contributions for the purchase of property and equipment	458	518
Liability for pension benefits adjustment	11,666	(13,047)
Other	508	1,180
Increase in unrestricted net assets	$ 123,750	$ 23,505

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Excess of revenues over expenses	111,118	—	—	111,118
Restricted interest and investment income, net	—	379	—	379
Contributions for the purchase of property and equipment	458	—	—	458
Net assets released from restrictions for use in operations	—	(787)	—	(787)
Change in unrealized gains and losses on investments, net	—	588	—	588
Contributions restricted by donor	—	800	255	1,055
Liability for pension benefits adjustment	11,666	—	—	11,666
Other	508	(184)	—	324
Increase in net assets	123,750	796	255	124,801
Balance, June 30, 2011	$ 973,709	$ 6,392	$ 3,838	$ 983,939

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Amounts in thousands)

	2011	2010
Cash flows from operating activities:		
Increase in net assets	$ 124,801	$ 24,466
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	88,688	75,626
Provision for bad debts	58,937	76,249
Gain on sale of spine operations	(18,692)	—
Loss on impairment	7,097	—
Equity in income of investment limited partnership	(87,022)	(48,420)
Equity in income of joint ventures	(7,429)	(2,463)
Restricted interest and investment income	(379)	(264)
Contributions for the purchase of property and equipment	(458)	(518)
Change in unrealized gains and losses on investments, net	(588)	(336)
Contributions restricted by donor	(1,055)	(993)
Liability for pension benefits adjustment	(11,666)	13,047
Other changes in net assets	(324)	(1,180)
Decrease (increase) in assets:		
Receivables:		
Patients	(49,389)	(68,807)
Other	704	2,305
Inventories	345	(2,041)
Prepaid expenses	(1,257)	(3,553)
Increase (decrease) in liabilities:		
Accounts payable	(11,462)	(11,131)
Accrued salaries, wages, and benefits	6,647	7,516
Accrued vacation and sick leave	2,711	4,079
Estimated third-party payor settlements	5,904	4,058
Other liabilities and accrued expenses	2,366	(782)
Liability for pension benefits	(12,720)	462
Net cash provided by operating activities	95,759	67,320
Cash flows from investing activities:		
Purchases of assets limited as to use	(48,743)	(75,312)
Sales of assets limited as to use	53,320	944
Additions to property and equipment	(68,051)	(203,320)
Contributions for the purchase of property and equipment	458	518
Proceeds from sale of spine operations	21,943	—
Contributions to joint ventures	(13,485)	(4,021)
Distributions from joint ventures	6,092	5,727
Increase in other long-term assets and liabilities	2,952	(2,286)
Net cash used in investing activities	(45,514)	(277,750)
Cash flows from financing activities:		
Principal payments on long-term debt	(14,108)	(7,011)
Proceeds from the issuance of long-term debt	37,963	244,033
Payments on line of credit	—	(50,000)
Restricted contributions and interest	1,434	1,257
Other changes in net assets	324	1,180
Net cash provided by financing activities	25,613	189,459
Net increase (decrease) in cash and cash equivalents	75,858	(20,971)
Cash and cash equivalents, beginning of year	67,417	88,388
Cash and cash equivalents, end of year	$ 143,275	$ 67,417
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of amount capitalized)	$ 18,611	$ 9,371

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

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 (Immanuel parent corporation). Bergan and Immanuel are the sole corporate members of Alegent Health.

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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.

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 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, 2011 and 2010, 99% and 97% of Alegent's investment portfolio is invested in the CHI investment limited partnership, respectively (note 3). Investments in partnerships are recorded using the equity method of accounting with the related equity in earnings and losses reported as other income 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.

(d) Inventories

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

(e) 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, 2011 and 2010, Alegent capitalized approximately $1,981 and $7,082, 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 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.

(f) Investment in Joint Ventures

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

During 2011, Immanuel sold its spine operations to Nebraska Spine Hospital, LLC, an equity method joint venture of which Alegent owns 51%. The total gain on sale of $18,692 is reflected in operating income in the combined statements of operations.

(g) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, Alegent first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

During 2011, Alegent recognized a loss of $7,097 related to the impairment of goodwill and other long-lived assets at Bergan Mercy Surgery Center, LLC, a consolidated investee, which is reflected in operating expenses in the accompanying combined statements of operations. Fair value was determined based on discounted cash flow models.

(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*.

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 (note 3).

(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 $91,037 and $82,194 in 2011 and 2010, respectively.

(l) Excess of Revenues over Expenses

The combined statements of operations include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets), 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, estimated third-party payor settlements, 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, 2011 and 2010 is approximately $480,019 and $441,667, respectively.

Alegent follows the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, 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.

(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, 2011 and 2010, this long-term liability totaled $4,119 and $4,870, 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 recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2011 and 2010, management determined that there are no income tax positions requiring recognition in the combined financial statements.

(q) Reclassifications

Certain balances from 2010 have been reclassified to conform to the current year presentation.

(3) Assets Limited as to Use

The composition of assets limited as to use at June 30, 2011 and 2010 is set forth in the following table.

	2011	2010
Investment in CHI investment limited partnership	$ 567,973	$ 479,807
Cash and cash equivalents	4,338	9,016
Marketable debt securities	—	35
Marketable equity securities	275	203
Pledges receivable	945	1,571
Other	1,928	1,794
Total	$ 575,459	$ 492,426

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, 2011 and 2010, the value of the CHI investment limited partnership approximated $6.0 billion and $5.0 billion, with Alegent's ownership interest approximating 9% and 10%, respectively. Alegent's investment in the CHI investment limited partnership is comprised of the following as of June 30, 2011 and 2010:

	2011	2010
Fixed income	$ 269,882	$ 249,921
Equity	298,091	229,886
Total	$ 567,973	$ 479,807

The CHI investment limited partnership is comprised of the following investment classifications as of June 30, 2011 and 2010:

	2011	2010
Cash and cash equivalents	9%	5%
Common stocks	40	36
Corporate and other bonds	11	16
U.S. government securities	3	6
Fixed income funds	15	17
Hedge funds	8	9
Private equity funds	6	6
Real estate funds	4	3
Foreign currency exchange contracts	3	1
Other	1	1
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, 2011 and 2010:

	2011	2010
Combined statements of operations:		
Interest and investment income	$ 506	$ 821
Equity in income of investment limited partnership	87,022	48,420
Total investment income	$ 87,528	$ 49,241

(4) 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 is as 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 28% and 9%, respectively, of Alegent's net patient revenue for the year ended June 30, 2011, and 26% and 9%, respectively, of Alegent's net patient revenue for the year ended June 30, 2010. 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 2011 and 2010 net patient service revenue increased approximately $3,556 and $5,392, 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:

	2011	2010
Gross patient charges:		
Inpatient charges	$ 1,321,000	$ 1,333,819
Outpatient charges	1,153,597	1,090,993
Total gross patient charges	2,474,597	2,424,812
Less:		
Deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	1,497,902	1,435,494
Net patient service revenue	$ 976,695	$ 989,318

(5) Long-Term Debt

Long-term debt as of June 30, 2011 and 2010 consists of the following:

		2011		2010
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2028, with a weighted average yield of 4.6% during 2011	$	173,877	$	183,611
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2039, with a weighted average yield of 4.6% during 2011		276,970		242,640
Other long-term obligations		4,719		5,460
Total long-term debt		455,566		431,711
Less current maturities		18,588		13,835
Long-term debt, excluding current maturities	$	436,978	$	417,876

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 was received during 2011 as financed assets were placed into service.

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

2012	$	18,588
2013		15,637
2014		16,414
2015		17,234
2016		18,094
Thereafter		369,599

(6) 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 $17,693 and $9,200 in 2011 and 2010, respectively.

Alegent Health Multioptional Pension Plan

Alegent sponsors a noncontributory multioptional pension plan that includes both a defined benefit and defined contribution option. During 2009, Alegent's board of directors approved a resolution to freeze the Alegent Health Retirement Plan (the Plan) effective January 1, 2010.

Generally, employees were eligible for participation after completing one year of service in which the employee completed 1,000 hours or more of service and had attained the age of 19. This Plan covered eligible employees as of January 1, 2010. For each plan year, a retirement benefit was provided for as a percentage of the eligible participant's annual compensation based on length of service. Employee contributions to the Plan were 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 $2,552 and $10,102 during 2011 and 2010, respectively.

The Plan's approximate net periodic pension cost for the years ended June 30, 2011 and 2010 is included in the following components:

(a) Defined Contribution Option

The Plan provides employees with a noncontributory defined contribution retirement option. During 2010, Alegent incurred expense of $4,081 in connection with this option. This option was replaced with the 403(b) savings plan.

(b) Defined Benefit Option

The following table summarizes the projected benefit obligation, the fair value of plan assets, and the funded status at June 30, 2011 and 2010:

		2011		2010
Changes to benefit obligation:				
Benefit obligation at beginning of period	$	112,534	$	90,899
Service cost		100		3,958
Interest cost		6,416		5,792
Actuarial loss (gain)		(944)		16,264
Plan expenses		(55)		(141)
Benefits paid		(5,843)		(4,238)
Benefit obligation at end of period		112,208		112,534
Changes in plan assets:				
Fair value of plan assets at beginning of period		55,986		47,860
Actual return on plan assets		14,658		6,905
Employer contributions		15,300		5,600
Plan expenses		(55)		(141)
Benefits paid		(5,843)		(4,238)
Fair value of plan assets at end of period		80,046		55,986
Funded status at end of period	$	(32,162)	$	(56,548)
Amounts recognized in the combined balance sheets:				
Noncurrent liabilities	$	(32,162)	$	(56,548)
Accumulated reduction in unrestricted net assets		29,450		41,116
Net amount recognized	$	(2,712)	$	(15,432)

Amounts recognized in accumulated reduction in unrestricted net assets consist of the net actuarial loss of $29,450 and $41,116 at June 30, 2011 and 2010, respectively.

The accumulated benefit obligation as of June 30, 2011 and 2010 was $112,208 and $112,534, respectively.

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2011 and 2010:

		2011		2010
Service cost during the period	$	100	$	3,958
Interest cost on projected benefit obligation		6,416		5,792
Expected return on plan assets		(5,858)		(4,574)
Amortization of unrecognized loss		1,922		887
Total benefit cost	$	2,580	$	6,063

Other changes in plan assets and benefit obligation recognized in other changes in unrestricted net assets in 2011 and 2010 consist of the amortization of net gain (loss) of $11,666 and $(13,047), respectively.

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 $1,911.

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 53% equity securities, 27% debt securities, and 20% other types of investments.

The participants in the Plan are invested in a commingled investment vehicle offered by CHI. As these investments are commingled with other funds, the postretirement fund investments are measured using net asset value 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, 2011.

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

		2011		2010
Beginning balance	$	55,986	$	47,860
Actual return on plan assets		14,658		6,905
Purchases, sales, and settlements, net		9,402		1,221
Ending balance	$	80,046	$	55,986

The current investment mix of the portfolio is as follows:

	Target allocations	2011	2010
Equity securities	53%	54%	54%
Debt securities	27	26	25
Other	20	20	21
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, 2011 and 2010:

	2011	2010
Discount rate	5.90%	6.70%
Rate of increase in compensation levels	N/A	3.00
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, 2011 and 2010:

	2011	2010
Discount rate	5.65%	5.90%

The benefits expected to be paid in each year from 2012 to 2016 are $8,409, $4,639, $4,654, $4,498, and $6,055, respectively. The aggregate benefits expected to be paid in the five years from 2017 to 2021 are $34,029. The expected benefits to be paid are based on the same assumptions used to measure Alegent's benefit obligation at June 30, 2011 and include estimated employee service.

Alegent expects to contribute $5,300 to the defined benefit portion of its retirement plan in fiscal year 2012.

(7) Fair Value Measurements

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 value 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 tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011 and 2010:

		Fair value measurements at reporting date using		
	June 30, 2011	**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	$ 143,275	$ 141,156	$ 2,119	$ —
Assets limited as to use:				
Cash and cash equivalents	4,338	69	4,269	—
Investment funds	18	—	18	—
Corporate and asset-backed securities	275	—	275	—
Other	1,910	—	1,910	—
Total	$ 149,816	$ 141,225	$ 8,591	$ —

	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	$ —

For the year ended June 30, 2011, 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 except for certain long-lived assets and goodwill which were valued at $0 after recognizing an impairment loss of $7,097 utilizing discounted cash flow analyses (Level 3). For the year ended June 30, 2010, Alegent had an investment in a joint venture valued at $3,262, which was a Level 3 valuation for which Alegent obtained an independent appraisal.

(8) Concentrations of Credit Risk

Alegent grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010 approximated the following:

	2011	2010
Medicare	32%	31%
Medicaid	16	15
Managed care	31	34
Self-pay	20	18
Commercial and other	1	2
	100%	100%

(9) Insurance Programs

Alegent is currently insured under an occurrence-based trust for its hospital professional and general liability insurance coverage, which expires July 1, 2012. 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.

(10) Deferred Compensation Plans

Alegent has entered into deferred compensation agreements with certain physicians and employees. Funds set aside under such plans are invested in various annuities and marketable securities. These assets, which are owned by Alegent, are included in the accompanying combined balance sheets as investments held for deferred compensation and are stated at fair value. The amount payable under the plans as of June 30, 2011 and 2010 is reflected as payable under deferred compensation plans in the accompanying combined balance sheets.

(11) 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.

(Continued)

(12) 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, 2011 and 2010:

	2011	2010
Health care services	$ 894,992	$ 930,752
General and administrative	104,443	121,498
Total operating expenses	$ 999,435	$ 1,052,250

(13) 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. 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 and are expected to conclude in 2012. As of June 30, 2011 and 2010, total costs incurred relating to Generation Patient projects for all Alegent entities approximated $337,927 and $317,379, respectively.

(14) Joint Ventures

Alegent participates in several joint ventures. The following table represents the joint ventures and their respective balances as reflected in investments in joint ventures on the combined balance sheets:

	2011	2010
Investment in joint ventures:		
Nebraska Spine Hospital, LLC	$ 16,228	$ 387
Memorial Community Hospital Corporation and Affiliate	6,878	5,992
Lakeside Surgery Center, LLC	3,701	3,557
Prairie Health Ventures, LLC	2,595	2,006
Other	833	3,471
Total investment in joint ventures	$ 30,235	$ 15,413

The following table represents 100% of the combined financial position and results of operations of the joint ventures discussed above:

		2011		2010
Financial position:				
Total assets	$	93,646	$	55,618
Total liabilities	$	31,659	$	28,016
Net assets		61,987		27,602
Total liabilities and net assets	$	93,646	$	55,618
Results of operations:				
Revenue	$	79,094	$	46,782
Change in equity		34,385		731

Total equity in income of joint ventures was $7,429 and $2,463 in 2011 and 2010, respectively.

(15) Subsequent Events

Alegent has evaluated subsequent events from the combined balance sheet date through September 8, 2011, the date at which the combined financial statements were available to be issued, and determined there are no other items to disclose.