KPMG

ALEGENT HEALTH AND RELATED ENTITIES

Combined Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

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, 2012 and 2011, 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 did not audit the financial statements of CHI Operating Investment Program Limited Partnership (a 7 percent owned limited partnership) at June 30, 2012. Alegent's investment in CHI Operating Investment Program Limited Partnership at June 30, 2012 was $385,010 and its equity in income of CHI Operating Investment Program Limited Partnership was $8,387 for the year ended June 30, 2012. The financial statements of CHI Operating Investment Program Limited Partnership were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CHI Operating Investment Program Limited Partnership for 2012, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors for 2012, 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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in Exhibits I, II, and III is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Omaha, Nebraska
September 13, 2012

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2012 and 2011

(Amounts in thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 143,477	$ 143,275
Patient accounts receivable, net of allowance for doubtful accounts of $79,358 in 2012 and $67,464 in 2011	113,438	103,139
Other accounts receivable	8,393	3,997
Inventories	16,943	19,580
Prepaid expenses	9,422	8,411
Total current assets	291,673	278,402
Assets limited as to use:		
Investment in CHI limited partnership	385,010	567,973
Other investments	253,310	10,077
Total assets limited as to use	638,320	578,050
Property and equipment:		
Land	21,732	20,130
Land improvements	31,354	29,903
Buildings and improvements	937,515	918,379
Equipment	540,388	541,570
Construction in progress	30,600	22,467
	1,561,589	1,532,449
Less accumulated depreciation	819,973	767,897
Property and equipment, net	741,616	764,552
Other assets:		
Property held for investment or future expansion	4,511	4,583
Investment in joint ventures	31,720	30,235
Other assets	864	148
Total other assets	37,095	34,966
Total assets	$ 1,708,704	$ 1,655,970

(Continued)

ALEGENT HEALTH AND RELATED ENTITIES

Combined Balance Sheets

June 30, 2012 and 2011

(Amounts in thousands)

Liabilities and Net Assets		**2012**		**2011**
Current liabilities:				
Current portion of long-term debt	$	18,093	$	18,588
Accounts payable		27,793		25,780
Accrued salaries, wages, and benefits		57,577		65,693
Accrued vacation and sick leave		38,099		34,983
Estimated third-party payor settlements		19,751		11,222
Other liabilities and accrued expenses		46,314		37,238
Total current liabilities		207,627		193,504
Long-term debt, net of current portion		433,166		436,978
Other long-term liabilities		8,206		9,387
Liability for pension benefits		47,683		32,162
Total liabilities		696,682		672,031
Net assets:				
Unrestricted		1,001,661		973,709
Temporarily restricted		6,523		6,392
Permanently restricted		3,838		3,838
Total net assets		1,012,022		983,939
Total liabilities and net assets	$	1,708,704	$	1,655,970

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Operations

Years ended June 30, 2012 and 2011

(Amounts in thousands)

	2012	2011
Unrestricted revenues, gains, and other support:		
Net patient service revenue	$ 1,015,524	$ 976,695
Cafeteria, building rental, sales to nonpatients, and other	65,145	46,270
Total revenues, gains, and other support	1,080,669	1,022,965
Operating expenses:		
Salaries and wages	362,359	361,110
Employee benefits	103,566	101,398
Supplies	150,127	151,662
Purchased services	90,566	81,163
Professional services	116,679	102,581
Provision for bad debts	69,155	58,937
Other expenses	31,020	35,234
Gain on sale of spine operations	—	(18,692)
Depreciation and amortization	84,403	88,688
Rentals and leases	18,408	18,743
Interest	19,439	18,611
Total operating expenses	1,045,722	999,435
Operating income	34,947	23,530
Other income (expense):		
Interest and investment income	2,852	506
Equity in income of investment limited partnership	8,387	87,022
Other, net	(403)	60
Total other income, net	10,836	87,588
Excess of revenues over expenses	45,783	111,118
Other changes in unrestricted net assets:		
Contributions for the purchase of property and equipment	79	458
Liability for pension benefits adjustment	(18,986)	11,666
Net assets released from restrictions for the purchase of property and equipment	990	—
Other	86	508
Increase in unrestricted net assets	$ 27,952	$ 123,750

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

(Amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Excess of revenues over expenses	45,783	—	—	45,783
Restricted interest and investment income, net	—	224	—	224
Contributions for the purchase of property and equipment	79	—	—	79
Net assets released from restrictions for the purchase of property and equipment	990	(990)	—	—
Net assets released from restrictions for use in operations	—	(413)	—	(413)
Change in unrealized gains and losses on investments, net	—	(115)	—	(115)
Contributions restricted by donor	—	1,461	—	1,461
Liability for pension benefits adjustment	(18,986)	—	—	(18,986)
Other	86	(36)	—	50
Increase in net assets	27,952	131	—	28,083
Balance, June 30, 2012	$ 1,001,661	$ 6,523	$ 3,838	$ 1,012,022

See accompanying notes to combined financial statements.

ALEGENT HEALTH AND RELATED ENTITIES

Combined Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Amounts in thousands)

		2012		2011
Cash flows from operating activities:				
Increase in net assets	$	28,083	$	124,801
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation and amortization		84,403		88,688
Provision for bad debts		69,155		58,937
Gain on sale of spine operations		—		(18,692)
Loss on impairment		6,652		7,097
Equity in income of investment limited partnership		(8,387)		(87,022)
Equity in income of joint ventures		(17,047)		(7,429)
Restricted interest and investment income		(224)		(379)
Contributions for the purchase of property and equipment		(79)		(458)
Change in unrealized gains and losses on investments, net		(2,505)		(588)
Contributions restricted by donor		(1,461)		(1,055)
Liability for pension benefits adjustment		18,986		(11,666)
Other changes in net assets		(50)		(324)
Decrease (increase) in assets:				
Receivables:				
Patients		(79,454)		(49,389)
Other		(4,396)		704
Inventories		2,637		345
Prepaid expenses		(1,011)		(1,257)
Increase (decrease) in liabilities:				
Accounts payable		1,512		(11,462)
Accrued salaries, wages, and benefits		(8,116)		6,647
Accrued vacation and sick leave		3,116		2,711
Estimated third-party payor settlements		8,529		5,904
Other liabilities and accrued expenses		9,076		2,366
Liability for pension benefits		(3,465)		(12,720)
Net cash provided by operating activities		105,954		95,759
Cash flows from investing activities:				
Purchases of assets limited as to use		(245,700)		(48,743)
Sales of assets limited as to use		193,731		53,320
Additions to property and equipment		(54,734)		(67,593)
Proceeds from sale of spine operations		—		21,943
Contributions to joint ventures		(1,627)		(13,485)
Distributions from joint ventures		17,189		6,092
Increase in other long-term assets and liabilities		766		2,952
Net cash used in investing activities		(90,375)		(45,514)
Cash flows from financing activities:				
Principal payments on long-term debt		(14,872)		(14,108)
Principal payments on capital leases		(2,245)		—
Proceeds from the issuance of long-term debt		5		37,963
Restricted contributions and interest		1,685		1,434
Other changes in net assets		50		324
Net cash provided by (used in) financing activities		(15,377)		25,613
Net increase in cash and cash equivalents		202		75,858
Cash and cash equivalents, beginning of year		143,275		67,417
Cash and cash equivalents, end of year	$	143,477	$	143,275
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	$	19,439	$	18,611
Supplemental disclosure of noncash activity:				
Capital lease obligations entered into during the year	$	12,805	$	—

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 corporate members of Alegent Health.

(Continued)

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 (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 (see note 15).

(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 (U.S. GAAP) 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, 2012 and 2011, 60% and 99% of Alegent's investment portfolio is invested in the CHI investment limited partnership, respectively (note 3). Investment in the CHI investment limited partnership is 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.

During the year ended June 30, 2012, Alegent invested in a fixed income commingled fund structured as a common trust fund which is recorded in other investments on the combined balance sheets. Upon investing in the fund, Alegent elected the fair value option as allowed by U.S. GAAP to record its interest in the fund at fair value. Alegent elected to record this investment at fair value in order to measure this investment at amounts that more accurately reflect the nature of the investment. The financial reporting results of accounting for the investment under fair value are consistent with the results if Alegent had utilized the equity method. In order to estimate fair value, Alegent utilizes net asset value as reported by the fund manager as a practical expedient to fair value. As Alegent has elected to record this investment at fair value, changes in fair value of this investment are recorded in investment and other income, which is included within excess of revenue and expenses, in the combined statements of operations. Alegent has the ability to liquidate its interest in the fund each quarter with 30 days notice. Alegent has not committed any additional funding to this fund as of June 30, 2012.

(Amounts in thousands)

Other investment securities consist of marketable debt and equity securities (i.e., certificates of deposit, annuities, mutual funds, and bonds). Marketable debt and equity securities are recorded at fair value. 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, 2012 and 2011, Alegent capitalized approximately $293 and $1,981, 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.

During 2012, Alegent recognized a loss of $6,651 related to the impairment of certain information technology system assets, which is reflected in operating expenses in the accompanying combined statements of operations.

(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.

(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 cost of services and supplies furnished under Alegent's charity policy aggregated approximately $32,726 and $31,387 in 2012 and 2011, 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 and securities in which the fair value option has been elected, 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 recorded on the equity method which equals the net asset value reported by the limited partnership, which approximates fair value. The fair value of long-term debt as of June 30, 2012 and 2011 is approximately $469,493 and $480,019, 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.

(Amounts in thousands)

(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, 2012 and 2011, this long-term liability totaled $3,691 and $4,119, respectively.

(p) Income Taxes

All related entities (see note 1) have been recognized as not-for-profit corporations by the Internal Revenue Service (IRS) as described in Section 501(c)(3) of 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 multimember 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 2012 and 2011, management determined that there are no income tax positions requiring recognition in the combined financial statements.

(q) Reclassifications

Certain balances from 2011 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, 2012 and 2011 is set forth in the following table.

	2012	2011
Investment in CHI investment limited partnership	$ 385,010	$ 567,973
Fixed income common trust fund	244,216	—
Cash and cash equivalents	3,677	4,338
Marketable equity securities	—	275
Pledges receivable	781	945
Other	4,636	4,519
Total	$ 638,320	$ 578,050

(Amounts in thousands)

Alegent has an undivided interest in the CHI investment limited partnership. Alegent accounts for its investment in the investment partnership using the equity method of accounting. At June 30, 2012 and 2011, the value of the CHI investment limited partnership approximated $5.5 billion and $6.0 billion, with Alegent's ownership interest approximating 7% and 9%, respectively. Alegent's investment in the CHI investment limited partnership is comprised of the following as of June 30, 2012 and 2011:

	2012	2011
Fixed income	$ 200,248	$ 269,882
Equity	184,762	298,091
Total	$ 385,010	$ 567,973

The CHI investment limited partnership is comprised of the following investment classifications as of June 30, 2012 and 2011:

	2012	2011
Cash and cash equivalents	5%	9%
Common stocks	41	40
Corporate and other bonds	10	11
U.S. government securities	3	3
Fixed income funds	20	15
Hedge funds	8	8
Private equity funds	6	6
Real estate funds	4	4
Foreign currency exchange contracts	2	3
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, 2012 and 2011:

	2012	2011
Combined statements of operations:		
Interest and investment income	$ 2,852	$ 506
Equity in income of investment limited partnership	8,387	87,022
Total investment income	$ 11,239	$ 87,528

(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 8%, respectively, of Alegent's net patient revenue for the year ended June 30, 2012, and 28% and 9%, respectively, of Alegent's net patient revenue for the year ended June 30, 2011. 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 2012 and 2011 net patient service revenue increased approximately $5,692 and $3,556, 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.

(Amounts in thousands)

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

	2012	2011
Gross patient charges:		
Inpatient charges	$ 1,319,206	$ 1,321,000
Outpatient charges	1,269,193	1,153,597
Total gross patient charges	2,588,399	2,474,597
Less:		
Deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	1,572,875	1,497,902
Net patient service revenue	$ 1,015,524	$ 976,695

(5) Long-Term Debt

Long-term debt as of June 30, 2012 and 2011 consists of the following:

	2012	2011
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2028, with a weighted average yield of 4.35% during 2012	$ 163,657	$ 173,877
Promissory notes payable to CHI, principal maturing in varying annual amounts through December 1, 2039, with a weighted average yield of 4.35% during 2011	272,383	276,970
Other long-term obligations	15,219	4,719
Total long-term debt	451,259	455,566
Less current maturities	18,093	18,588
Long-term debt, excluding current maturities	$ 433,166	$ 436,978

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.

(Continued)

(Amounts in thousands)

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:

2013	$	18,093
2014		22,251
2015		19,376
2016		20,322
2017		20,516
Thereafter		350,701

(6) Retirement Plans

(a) Alegent Health Retirement 403(b) Plan

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 $20,410 and $17,693 in 2012 and 2011, respectively.

(b) Alegent Health Multioptional Pension Plan

Alegent sponsors a noncontributory multioptional pension plan (the Plan), which was frozen 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 approximated $1,809 and $2,552 during 2012 and 2011, respectively.

(Amounts in thousands)

The Plan's approximate net periodic pension cost for the years ended June 30, 2012 and 2011 is included in the following components:

Defined Benefit Option

The following table summarizes the projected benefit obligation, the fair value of plan assets, and the funded status at June 30, 2012 and 2011:

		2012		2011
Changes to benefit obligation:				
Benefit obligation at beginning of period	$	112,208	$	112,534
Service cost		100		100
Interest cost		6,102		6,416
Actuarial loss (gain)		16,172		(944)
Plan expenses		(41)		(55)
Benefits paid		(6,135)		(5,843)
Benefit obligation at end of period		128,406		112,208
Changes in plan assets:				
Fair value of plan assets at beginning of period		80,046		55,986
Actual return on plan assets		1,553		14,658
Employer contributions		5,300		15,300
Plan expenses		(41)		(55)
Benefits paid		(6,135)		(5,843)
Fair value of plan assets at end of period		80,723		80,046
Funded status at end of period	$	(47,683)	$	(32,162)
Amounts recognized in the combined balance sheets:				
Noncurrent liabilities	$	(47,683)	$	(32,162)
Accumulated reduction in unrestricted net assets		48,436		29,450
Net amount recognized	$	753	$	(2,712)

Amounts recognized in accumulated reduction in unrestricted net assets consist of the net actuarial loss of $48,436 and $29,450 at June 30, 2012 and 2011, respectively.

The accumulated benefit obligation as of June 30, 2012 and 2011 was $128,406 and $112,208, respectively.

(Amounts in thousands)

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2012 and 2011:

		2012		2011
Service cost during the period	$	100	$	100
Interest cost on projected benefit obligation		6,102		6,416
Expected return on plan assets		(6,279)		(5,858)
Amortization of unrecognized loss		1,912		1,922
Total benefit cost	$	1,835	$	2,580

Other changes in plan assets and benefit obligation recognized in other changes in unrestricted net assets in 2012 and 2011 consist of the amortization of net gain (loss) of $(18,986) and $11,666, 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 $3,511.

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 asset allocation in the pension plan consists of 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, 2012.

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

		2012	2011
Beginning balance	$	80,046	55,986
Actual return on plan assets		1,553	14,658
Purchases		5,300	15,300
Sales		(6,176)	(5,898)
Ending balance	$	80,723	80,046

(Amounts in thousands)

The current investment mix of the portfolio is as follows:

	Target allocations	2012	2011
Equity securities	53%	51%	54%
Debt securities	27	30	26
Other	20	19	20
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, 2012 and 2011:

	2012	2011
Discount rate	5.65%	5.90%
Rate of increase in compensation levels	N/A	N/A
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, 2012 and 2011:

	2012	2011
Discount rate	4.45%	5.65%

The benefits expected to be paid in each year from 2013 to 2017 are $8,596, $4,474, $4,160, $5,797, and $6,633, respectively. The aggregate benefits expected to be paid in the five years from 2018 to 2022 are $32,911. The expected benefits to be paid are based on the same assumptions used to measure Alegent's benefit obligation at June 30, 2012 and include estimated employee service.

Alegent expects to contribute $600 to the defined benefit portion of its retirement plan in fiscal year 2013.

(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:

(Amounts in thousands)

- 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. The investment in the fixed income common trust fund is valued based on the funds' net asset value, as supplied by the trust and this valuation is reviewed by Alegent's management and used as a practical expedient to fair value. Classification as Level 2 is based on Alegent's ability to redeem its interest in the near term.
- 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. There were no transfers between Level 1 and Level 2 measurements during the year ended June 30, 2012.

The following tables present assets and liabilities that are measured at fair value on a recurring basis at June 30, 2012 and 2011:

		Fair value measurements at reporting date using		
	June 30, 2012	**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	$ 143,477	$ 142,567	$ 910	$ —
Assets limited as to use:				
Cash and cash equivalents	3,677	282	3,395	—
Fixed income common trust fund	244,216	—	244,216	—
Other	4,636	1,747	2,889	—
Total	$ 396,006	$ 144,596	$ 251,410	$ —

(Amounts in thousands)

	June 30, 2011	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	$ 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	$ —

For the year ended June 30, 2012, 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 in 2011 utilizing discounted cash flow analyses (Level 3).

(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, 2012 and 2011 approximated the following:

	2012	2011
Medicare	32%	32%
Medicaid	17	16
Managed care	30	31
Self-pay	19	20
Commercial and other	2	1
	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.

(Amounts in thousands)

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 for both Nebraska and Iowa with a fronting policy whereby the responsibility for the initial $450 of each claim resides with the workers' compensation self-insurance program. A specific stop-loss agreement covers claims amounts in excess of $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. Included in the accompanying combined statements of operations are 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) 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.

(11) 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, 2012 and 2011:

	2012	2011
Health care services	$ 933,595	$ 894,992
General and administrative	112,127	104,443
Total operating expenses	$ 1,045,722	$ 999,435

(Amounts in thousands)

(12) Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 to certain hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement, or upgrade certified EHR technology. However, in order to receive additional Medicaid incentive payments in subsequent years, providers must demonstrate continued meaningful use of EHR technology.

Alegent accounts for meaningful use incentive payments under the gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of the incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. For fiscal year 2012, Alegent recognized $9,500 of Medicare meaningful use revenues and $3,600 of Medicaid meaningful use revenues in its combined statement of operations.

(13) EPIC

During 2012, Alegent's board of directors approved the implementation of the Epic system. Epic provides a single-platform integrated Electronic Health Record for hospital and ambulatory patients. The first ambulatory clinic go-live is scheduled for September 2013 and first hospital go-live is scheduled for late 2013. Phased go-lives continue through early 2015. The estimated capital investment is $74,000 and total five-year project-related expenses are estimated at $32,600.

(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:

	2012	2011
Investment in joint ventures:		
Nebraska Spine Hospital, LLC	$ 14,312	$ 16,228
Memorial Community Hospital Corporation and Affiliate	7,772	6,878
Lakeside Surgery Center, LLC	2,125	3,701
Prairie Health Ventures, LLC	4,119	2,595
Other	3,392	833
Total investment in joint ventures	$ 31,720	$ 30,235

(Amounts in thousands)

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

		2012		2011
Financial position:				
Total assets	$	93,762	$	93,646
Total liabilities	$	31,381	$	31,659
Net assets		62,381		61,987
Total liabilities and net assets	$	93,762	$	93,646
Results of operations:				
Revenue	$	97,828	$	79,094
Change in equity		30,885		34,385

Total equity in income of joint ventures was $17,047 and $7,429 in 2012 and 2011, respectively.

(15) Subsequent Events

On July 1, 2012, Immanuel's parent corporation entered into a letter of intent with CHI stating their intent to resign their sponsorship, thereby CHI would become the sole corporate member of Alegent and all of the related entities. The change in sponsorship would result in CHI obtaining full control over Alegent and its affiliates, thus dissolving the Joint Operating Agreement discussed in note 1.

On September 1, 2012, Alegent acquired certain assets, licenses, and contracts of Creighton University Medical Center (CUMC) for $40 million. CUMC is a 220-bed acute care hospital located in Omaha, Nebraska. Commensurate with the purchase, Alegent entered into a Strategic Affiliation Agreement with Creighton University (Creighton) whereby Alegent hospitals (including the former CUMC location) will become the primary teaching sites for the Creighton School of Medicine. The related agreements require payments by Alegent for costs associated with medical residents and other educational support. Alegent received a contribution of $50 million from Creighton to support its new academic mission. Creighton also contributed all of the assets and liabilities of its medical practice operations (Creighton Medical Associates) to Alegent.

Alegent has evaluated subsequent events from the combined balance sheet date through September 13, 2012, the date at which the combined financial statements were available to be issued, and determined there are no additional items to disclose.

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Assets	Alegent Health	Alegent Health—Foundation	Alegent Health—Midlands Community Hospital	Alegent Health Clinic	Alegent Health—Lakeside Hospital	Eliminations	Alegent Health and Affiliates Consolidated
Current assets:							
Cash and cash equivalents	$ (7,290)	$ —	$ 2	$ 423	$ (126)	$ —	$ (6,991)
Patient accounts receivable	3,943	—	13,984	15,852	26,014	—	59,793
Less allowance for uncollectible accounts	545	—	7,695	5,653	8,865	—	22,758
Net patient accounts receivable	3,398	—	6,289	10,199	17,149	—	37,035
Intercorporate receivable	—	—	34,571	—	172,444	(207,015)	—
Other accounts receivable	2,269	—	164	107	264	—	2,804
Inventories	630	—	1,444	599	2,541	—	5,214
Prepaid expenses	8,644	—	—	86	101	—	8,831
Total current assets	7,651	—	42,470	11,414	192,373	(207,015)	46,893
Assets limited as to use:							
Investment in CHI limited partnership	—	14,967	—	—	—	—	14,967
Other investments	4,307	781	—	—	—	—	5,088
Total assets limited as to use	4,307	15,748	—	—	—	—	20,055
Property and equipment:							
Land	7,276	—	2,263	—	6,933	—	16,472
Land improvements	523	—	1,397	141	7,003	—	9,064
Buildings and improvements	55,647	27	105,299	3,974	132,753	—	297,700
Equipment	190,088	96	33,006	10,405	44,807	—	278,402
Construction in progress	23,779	—	266	1,321	737	—	26,103
	277,313	123	142,231	15,841	192,233	—	627,741
Less accumulated depreciation	166,805	78	70,096	10,719	67,419	—	315,117
Property and equipment, net	110,508	45	72,135	5,122	124,814	—	312,624
Other assets:							
Property held for investment or future expansion	2,492	—	—	—	1,860	—	4,352
Investment in subsidiaries	121,637	—	—	—	—	(121,637)	—
Investment in joint ventures	19,572	—	—	—	—	—	19,572
Other assets	3,482	—	21	3	19	—	3,525
Total other assets	147,183	—	21	3	1,879	(121,637)	27,449
Total assets	$ 269,649	$ 15,793	$ 114,626	$ 16,539	$ 319,066	$ (328,652)	$ 407,021

(Continued)

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Liabilities and Net Assets	**Alegent Health**	**Alegent Health—Foundation**	**Alegent Health—Midlands Community Hospital**	**Alegent Health Clinic**	**Alegent Health—Lakeside Hospital**	**Eliminations**	**Alegent Health and Affiliates Consolidated**
Current liabilities:							
Current portion of long-term debt	$ 2,955	$ —	$ 1,897	$ —	$ 2,152	$ —	$ 7,004
Accounts payable	16,488	—	2,669	7	1,301	—	20,465
Accrued salaries, wages, and benefits	47,891	—	70	7,928	174	—	56,063
Accrued vacation and sick leave	38,099	—	—	—	—	—	38,099
Intercorporate payable	11,030	339	—	195,646	—	(207,015)	—
Estimated third-party payor settlements	170	—	586	—	1,380	—	2,136
Other liabilities and accrued expenses	30,001	6	901	14	1,170	—	32,092
Total current liabilities	146,634	345	6,123	203,595	6,177	(207,015)	155,859
Long-term debt, net of current portion	14,869	—	53,596	—	74,363	—	142,828
Other long-term liabilities	4,763	—	188	—	—	—	4,951
Liability for pension benefits	47,683	—	—	—	—	—	47,683
Total liabilities	213,949	345	59,907	203,595	80,540	(207,015)	351,321
Net assets:							
Unrestricted	45,961	5,709	54,719	(187,056)	238,526	(111,898)	45,961
Temporarily restricted	6,157	6,157	—	—	—	(6,157)	6,157
Permanently restricted	3,582	3,582	—	—	—	(3,582)	3,582
Total net assets	55,700	15,448	54,719	(187,056)	238,526	(121,637)	55,700
Total liabilities and net assets	$ 269,649	$ 15,793	$ 114,626	$ 16,539	$ 319,066	$ (328,652)	$ 407,021

See accompanying independent auditors' report.

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Combining Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Assets	Alegent Health— Bergan Mercy Health System and Affiliates Consolidated	Alegent Health— Immanuel Medical Center and Affiliates Consolidated	Alegent Health and Affiliates Consolidated	Eliminations	Alegent Health and Related Entities Combined
Current assets:					
Cash and cash equivalents	$ 68,846	$ 81,622	$ (6,991)	$ —	$ 143,477
Patient accounts receivable	86,543	46,460	59,793	—	192,796
Less allowance for uncollectible accounts	36,816	19,784	22,758	—	79,358
Net patient accounts receivable	49,727	26,676	37,035	—	113,438
Intercorporate receivable	7,791	—	—	(7,791)	—
Other accounts receivable	3,519	2,070	2,804	—	8,393
Inventories	8,502	3,227	5,214	—	16,943
Prepaid expenses	276	315	8,831	—	9,422
Total current assets	138,661	113,910	46,893	(7,791)	291,673
Assets limited as to use:					
Investment in CHI limited partnership	157,426	212,617	14,967	—	385,010
Other investments	105,951	142,271	5,088	—	253,310
Total assets limited as to use	263,377	354,888	20,055	—	638,320
Property and equipment:					
Land	3,349	1,911	16,472	—	21,732
Land improvements	13,809	8,481	9,064	—	31,354
Buildings and improvements	403,117	236,698	297,700	—	937,515
Equipment	173,506	88,480	278,402	—	540,388
Construction in progress	1,052	3,445	26,103	—	30,600
	594,833	339,015	627,741	—	1,561,589
Less accumulated depreciation	309,401	195,455	315,117	—	819,973
Property and equipment, net	285,432	143,560	312,624	—	741,616
Other assets:					
Property held for investment or future expansion	—	159	4,352	—	4,511
Investment in Alegent Health	27,850	27,850	—	(55,700)	—
Investment in joint ventures	250	11,898	19,572	—	31,720
Other assets	51	38	3,525	(2,750)	864
Total other assets	28,151	39,945	27,449	(58,450)	37,095
Total assets	$ 715,621	$ 652,303	$ 407,021	$ (66,241)	$ 1,708,704

(Continued)

Exhibit I

ALEGENT HEALTH AND RELATED ENTITIES

Combining Balance Sheet Information

June 30, 2012

(Amounts in thousands)

Liabilities and Net Assets	**Alegent Health— Bergan Mercy Health System and Affiliates Consolidated**	**Alegent Health— Immanuel Medical Center and Affiliates Consolidated**	**Alegent Health and Affiliates Consolidated**	**Eliminations**	**Alegent Health and Related Entities Combined**
Current liabilities:					
Current portion of long-term debt	$ 6,527	$ 4,562	$ 7,004	$ —	$ 18,093
Accounts payable	4,974	2,354	20,465	—	27,793
Accrued salaries, wages, and benefits	1,041	473	56,063	—	57,577
Accrued vacation and sick leave	—	—	38,099	—	38,099
Intercorporate payable	—	7,791	—	(7,791)	—
Estimated third-party payor settlements	8,976	8,639	2,136	—	19,751
Other liabilities and accrued expenses	10,208	4,014	32,092	—	46,314
Total current liabilities	31,726	27,833	155,859	(7,791)	207,627
Long-term debt, net of current portion	167,375	125,713	142,828	(2,750)	433,166
Other long-term liabilities	2,437	818	4,951	—	8,206
Liability for pension benefits	—	—	47,683	—	47,683
Total liabilities	201,538	154,364	351,321	(10,541)	696,682
Net assets:					
Unrestricted	509,117	492,544	45,961	(45,961)	1,001,661
Temporarily restricted	3,175	3,348	6,157	(6,157)	6,523
Permanently restricted	1,791	2,047	3,582	(3,582)	3,838
Total net assets	514,083	497,939	55,700	(55,700)	1,012,022
Total liabilities and net assets	$ 715,621	$ 652,303	$ 407,021	$ (66,241)	$ 1,708,704

See accompanying independent auditors' report.

Exhibit II

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Statement of Operations Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health	Alegent Health— Foundation	Alegent Health— Midlands Community Hospital	Alegent Health Clinic	Alegent Health— Lakeside Hospital	Eliminations	Alegent Health and Affiliates Consolidated
Unrestricted revenues, gains, and other support:							
Gross patient charges:							
Inpatient charges	$ 1,278	$ —	$ 58,219	$ —	$ 212,767	$ —	$ 272,264
Outpatient charges	18,007	—	101,685	141,560	184,834	—	446,086
	19,285	—	159,904	141,560	397,601	—	718,350
Less:							
Deductions from gross patient charges:							
Contractual adjustments and other	8,068	—	105,190	34,979	242,727	—	390,964
Net patient service revenue	11,217	—	54,714	106,581	154,874	—	327,386
Cafeteria, building rental, sales to nonpatients, and other	18,589	1,644	3,712	7,148	9,699	(17,845)	22,947
Total revenues, gains, and other support	29,806	1,644	58,426	113,729	164,573	(17,845)	350,333
Operating expenses:							
Salaries and wages	75,134	526	15,659	28,871	35,195	(49,966)	105,419
Employee benefits	24,210	85	4,345	8,354	9,164	(15,260)	30,898
Supplies	3,598	25	7,112	6,065	20,878	(1,122)	36,556
Intercorporate services	(169,418)	—	10,668	13,555	23,188	122,007	—
Purchased services	35,782	300	4,531	9,750	7,125	(27,460)	30,028
Professional services	8,126	—	1,385	66,146	3,559	(4,261)	74,955
Provision for bad debts	294	—	5,029	5,840	7,577	—	18,740
Other expenses	19,156	87	375	2,938	1,273	(22,325)	1,504
Depreciation and amortization	20,214	10	6,612	1,709	10,281	(13,981)	24,845
Rentals and leases	3,664	3	823	7,244	4,450	(5,380)	10,804
Interest	497	—	2,487	—	3,339	(97)	6,226
Equity in loss of operating subsidiaries	(1,809)	—	—	—	—	1,809	—
Total operating expenses	19,448	1,036	59,026	150,472	126,029	(16,036)	339,975
Operating income (loss)	10,358	608	(600)	(36,743)	38,544	(1,809)	10,358
Other income (expense):							
Interest and investment income	114	(96)	1	—	9	—	28
Equity in income of investment limited partnership	—	236	—	—	—	—	236
Equity in other income of subsidiaries	150	—	—	—	—	(150)	—
Other, net	(110)	—	—	—	—	—	(110)
Total other income	154	140	1	—	9	(150)	154
Excess (deficiency) of revenues over expenses	10,512	748	(599)	(36,743)	38,553	(1,959)	10,512
Other changes in unrestricted net assets:							
Contributions for the purchase of property and equipment	3	—	38	2	8	—	51
Liability for pension benefits adjustment	(18,986)	—	—	—	—	—	(18,986)
Transfers to other Alegent affiliates	(37,358)	—	—	—	—	—	(37,358)
Equity in other changes in unrestricted net assets of subsidiaries	48	—	—	—	—	(48)	—
Other	134	—	—	—	—	—	134
Increase (decrease) in unrestricted net assets	$ (45,647)	$ 748	$ (561)	$ (36,741)	$ 38,561	$ (2,007)	$ (45,647)

See accompanying independent auditors’ report.

Exhibit II

ALEGENT HEALTH AND RELATED ENTITIES

Combining Statement of Operations Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health— Bergan Mercy Health System and Affiliates Consolidated	Alegent Health— Immanuel Medical Center and Affiliates Consolidated	Alegent Health and Affiliates Consolidated	Eliminations	Alegent Health and Related Entities Combined
Unrestricted revenues, gains, and other support:					
Gross patient charges:					
Inpatient charges	$ 737,995	$ 308,947	$ 272,264	$ —	$ 1,319,206
Outpatient charges	570,732	252,375	446,086	—	1,269,193
	1,308,727	561,322	718,350	—	2,588,399
Less:					
Deductions from gross patient charges:				—	
Contractual adjustments and other	842,221	339,359	390,964	331	1,572,875
Net patient service revenue	466,506	221,963	327,386	(331)	1,015,524
Cafeteria, building rental, sales to nonpatients, and other	50,301	17,060	22,947	(25,163)	65,145
Total revenues, gains, and other support	516,807	239,023	350,333	(25,494)	1,080,669
Operating expenses (income):					
Salaries and wages	163,280	93,660	105,419	—	362,359
Employee benefits	45,766	27,033	30,898	(131)	103,566
Supplies	86,437	28,191	36,556	(1,057)	150,127
Purchased services	50,735	28,628	30,028	(18,825)	90,566
Professional services	22,318	19,520	74,955	(114)	116,679
Provision for bad debts	34,713	15,702	18,740	—	69,155
Other expenses	20,692	8,898	1,504	(74)	31,020
Depreciation and amortization	40,012	19,592	24,845	(46)	84,403
Rentals and leases	8,155	4,696	10,804	(5,247)	18,408
Interest	7,579	5,634	6,226	—	19,439
Equity in operating income of Alegent Health	(5,179)	(5,179)	—	10,358	—
Total operating expenses	474,508	246,375	339,975	(15,136)	1,045,722
Operating income (loss)	42,299	(7,352)	10,358	(10,358)	34,947
Other income (expense):					
Interest and investment income	1,311	1,513	28	—	2,852
Equity in income of investment limited partnership	2,934	5,217	236	—	8,387
Other, net	(252)	(41)	(110)	—	(403)
Equity in other income of Alegent Health	77	77	—	(154)	—
Total other income, net	4,070	6,766	154	(154)	10,836
Excess of revenues over expenses, before joint operating agreement adjustment	46,369	(586)	10,512	(10,512)	45,783
Joint operating agreement adjustment	(32,737)	32,737	—	—	—
Excess of revenues over expenses	13,632	32,151	10,512	(10,512)	45,783
Other changes in unrestricted net assets:					
Contributions for the purchase of property and equipment	4	24	51	—	79
Net assets released from restrictions for the purchase of property and equipment	990	—	—	—	990
Joint operating agreement adjustment – capital expenditures	330	(330)	—	—	—
Liability for pension benefits adjustment	—	—	(18,986)	—	(18,986)
Transfers (to) from other Alegent affiliates	18,679	18,679	(37,358)	—	—
Equity in other changes in unrestricted net assets of Alegent Health	(28,079)	(28,080)	—	56,159	—
Other	—	(48)	134	—	86
Increase (decrease) in unrestricted net assets	$ 5,556	$ 22,396	$ (45,647)	$ 45,647	$ 27,952

See accompanying independent auditors' report.

Exhibit III

ALEGENT HEALTH AND RELATED ENTITIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health	Alegent Health—Foundation	Alegent Health—Midlands Community Hospital	Alegent Health Clinic	Alegent Health—Lakeside Hospital	Eliminations	Alegent Health and Affiliates Consolidated
Unrestricted:							
Balance, June 30, 2011	$ 91,608	$ 4,961	$ 55,280	$ (150,315)	$ 199,965	$ (109,891)	$ 91,608
Excess (deficiency) of revenues over expenses	10,512	748	(599)	(36,743)	38,553	(1,959)	10,512
Contributions for the purchase of property and equipment	3	—	38	2	8	—	51
Liability for pension benefits adjustment	(18,986)	—	—	—	—	—	(18,986)
Transfers to other Alegent affiliates	(37,358)	—	—	—	—	—	(37,358)
Equtiy in other changes in unrestricted net assets of subsidiaries	48	—	—	—	—	(48)	—
Other	134	—	—	—	—	—	134
Increase (decrease) in unrestricted net assets	(45,647)	748	(561)	(36,741)	38,561	(2,007)	(45,647)
Balance, June 30, 2012	$ 45,961	$ 5,709	$ 54,719	$ (187,056)	$ 238,526	$ (111,898)	$ 45,961
Temporarily restricted:							
Balance, June 30, 2011	$ 5,128	$ 5,128	$ —	$ —	$ —	$ (5,128)	$ 5,128
Restricted interest and investment income, net	—	224	—	—	—	—	224
Net assets released from restrictions for use in operations	—	(353)	—	—	—	—	(353)
Change in unrealized gains on investments, net	—	(134)	—	—	—	—	(134)
Contributions restricted by donor	—	1,328	—	—	—	—	1,328
Equity in other changes in temporarily restricted net assets of subsidiary	1,029	—	—	—	—	(1,029)	—
Other	—	(36)	—	—	—	—	(36)
Increase in temporarily restricted net assets	1,029	1,029	—	—	—	(1,029)	1,029
Balance, June 30, 2012	$ 6,157	$ 6,157	$ —	$ —	$ —	$ (6,157)	$ 6,157
Permanently restricted:							
Balance, June 30, 2011	$ 3,582	$ 3,582	$ —	$ —	$ —	$ (3,582)	$ 3,582
Contributions restricted by donor	—	—	—	—	—	—	—
Increase in permanently restricted net assets	—	—	—	—	—	—	—
Balance, June 30, 2012	$ 3,582	$ 3,582	$ —	$ —	$ —	$ (3,582)	$ 3,582

See accompanying independent auditors’ report.

Exhibit III

ALEGENT HEALTH AND RELATED ENTITIES

Combining Statement of Changes in Net Assets Information

Year ended June 30, 2012

(Amounts in thousands)

	Alegent Health— Bergan Mercy Health System and Affiliates Consolidated	Alegent Health— Immanuel Medical Center and Affiliates Consolidated	Alegent Health and Affiliates Consolidated	Eliminations	Alegent Health and Related Entities Combined
Unrestricted:					
Balance, June 30, 2011	$ 503,561	$ 470,148	$ 91,608	$ (91,608)	$ 973,709
Excess of revenues over expenses	13,632	32,151	10,512	(10,512)	45,783
Contributions for the purchase of property and equipment	4	24	51	—	79
Net assets released from restrictions for the purchase of property and equipment	990	—	—	—	990
Joint operating agreement adjustment – capital expenditures	330	(330)	—	—	—
Liability for pension benefits adjustment	—	—	(18,986)	—	(18,986)
Transfers (to) from other Alegent affiliates	18,679	18,679	(37,358)	—	—
Equity in other changes in unrestricted net assets of Alegent Health	(28,079)	(28,080)	—	56,159	—
Other	—	(48)	134	—	86
Increase (decrease) in unrestricted net assets	5,556	22,396	(45,647)	45,647	27,952
Balance, June 30, 2012	$ 509,117	$ 492,544	$ 45,961	$ (45,961)	$ 1,001,661
Temporarily restricted:					
Balance, June 30, 2011	$ 3,607	$ 2,785	$ 5,128	$ (5,128)	$ 6,392
Restricted interest and investment income, net	—	—	224	—	224
Net assets released from restrictions for use in operations	(19)	(41)	(353)	—	(413)
Net assets released from restrictions for the purchase of property and equipment	(990)	—	—	—	(990)
Change in unrealized gains and losses on investments, net		19	(134)	—	(115)
Contributions restricted by donor	63	70	1,328	—	1,461
Equity in other changes in temporarily restricted net assets of Alegent Health	514	515	—	(1,029)	—
Other	—	—	(36)	—	(36)
Increase (decrease) in temporarily restricted net assets	(432)	563	1,029	(1,029)	131
Balance, June 30, 2012	$ 3,175	$ 3,348	$ 6,157	$ (6,157)	$ 6,523
Permanently restricted:					
Balance, June 30, 2011	$ 1,791	$ 2,047	$ 3,582	$ (3,582)	$ 3,838
Contributions restricted by donor	—	—	—	—	—
Increase in permanently restricted net assets	—	—	—	—	—
Balance, June 30, 2012	$ 1,791	$ 2,047	$ 3,582	$ (3,582)	$ 3,838

See accompanying independent auditors' report.