

**COMMUNITY MEDICAL CENTER, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**COMMUNITY MEDICAL CENTER, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Community Medical Center, Inc.  
Missoula, Montana

We have audited the accompanying consolidated balance sheets of Community Medical Center, Inc. (the Hospital) as of June 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2009 and 2008, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not required part of the basic consolidated financial statements. Such information has been subjected to the procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
October 15, 2009



**COMMUNITY MEDICAL CENTER, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 17,203,889	\$ 10,926,112
Assets Limited as to Use, Required for Current Liabilities	334,203	267,384
Short-Term Investments	8,077,695	10,367,397
Patient Receivables, Net of Allowance for Doubtful Accounts of \$3,180,000 in 2009 and \$2,579,000 in 2008	16,543,328	19,321,717
Other Receivables	2,187,429	2,445,899
Inventory	3,338,797	2,695,024
Prepaid and Other Assets	768,978	901,059
Total Current Assets	48,454,319	46,924,592
 <b>LONG-TERM INVESTMENTS</b>	 8,188,661	 5,361,697
 <b>ASSETS LIMITED AS TO USE</b>		
By Board	73,183	99,841
Under Indenture Agreement, Held by Trustee	2,802,709	2,829,230
Total Assets Limited as to Use, Net of Current Portion	2,875,892	2,929,071
 <b>BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION</b>		
	5,545,963	7,262,610
 <b>PROPERTY AND EQUIPMENT, NET</b>		
	33,567,597	30,622,951
 <b>OTHER ASSETS</b>		
Unamortized Bond Issuance Costs	470,286	520,375
Notes Receivable, Net of Impairment Reserve	5,154,301	-
Investment in Joint Ventures	2,946,902	2,843,446
Total Other Assets	8,571,489	3,363,821
Total Assets	\$ 107,203,921	\$ 96,464,742

See accompanying Notes to Consolidated Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES</b>		
Current Obligations under Bond Indenture	\$ 1,250,000	\$ 1,175,000
Current Portion of Notes Payable and Capital Lease Obligations	1,406,939	3,011,740
Accounts Payable	8,495,319	9,080,771
Estimated Third-Party Payor Settlements	5,328,900	3,625,000
Accrued Salaries and Related Liabilities	9,500,691	6,921,316
Accrued Interest Payable	98,637	105,741
Total Current Liabilities	<u>26,080,486</u>	<u>23,919,568</u>
 <b>LONG-TERM OBLIGATIONS, Less Current Maturities</b>		
Obligations under Bond Indenture	13,530,000	14,780,000
Notes Payable and Capital Lease Obligations	<u>6,210,414</u>	<u>5,940,861</u>
Total Long-Term Obligations	<u>19,740,414</u>	<u>20,720,861</u>
Total Liabilities	45,820,900	44,640,429
<b>MINORITY INTEREST IN SUBSIDIARY</b>	<u>128,392</u>	<u>105,120</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets	55,707,638	44,418,715
Temporarily Restricted Net Assets	2,582,291	4,347,633
Permanently Restricted Net Assets	<u>2,964,700</u>	<u>2,952,845</u>
Total Net Assets	<u>61,254,629</u>	<u>51,719,193</u>
Total Liabilities and Net Assets	<u>\$ 107,203,921</u>	<u>\$ 96,464,742</u>

**COMMUNITY MEDICAL CENTER, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
<b>UNRESTRICTED REVENUES AND GAINS</b>		
Net Patient Service Revenue	\$ 129,135,286	\$ 124,750,973
Other Operating Revenue	1,949,106	1,889,768
Total Unrestricted Revenue and Gains	131,084,392	126,640,741
<b>OPERATING EXPENSES</b>		
Salaries and Wages	54,533,679	50,720,556
Employee Benefits	13,085,155	12,286,506
Professional Fees	6,002,601	4,241,324
Purchased Services	11,276,667	14,167,769
Medical Supplies	18,288,314	16,833,269
Non-Medical Supplies	2,897,124	2,824,840
Utilities	1,666,030	1,599,212
Depreciation and Amortization	5,344,427	4,922,641
Bad Debt Expense	6,548,262	6,236,029
Interest Expense	1,477,169	1,696,967
Leases and Rents	1,911,919	1,784,858
Education and Travel	769,183	781,637
Other Direct Expenses	4,326,273	3,881,372
Total Operating Expenses	128,126,803	121,976,980
<b>OPERATING INCOME</b>	2,957,589	4,663,761
<b>OTHER INCOME AND EXPENSE</b>		
Investment Income	827,277	781,892
Minority Interest in Net Income of Subsidiary	(22,917)	-
Change in Valuation of Impairment Reserve	5,154,301	-
Equity Earnings in Joint Venture Income	2,597,251	2,734,723
Other Nonoperating Loss, Net	(476,596)	(106,419)
Total Other Income and Expense	8,079,316	3,410,196
<b>EXCESS OF REVENUE OVER EXPENSES</b>	11,036,905	8,073,957
Net Change in Unrealized Gain on Marketable Securities	64,925	13,621
Net Assets Released from Restriction	187,093	203,389
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	\$ 11,288,923	\$ 8,290,967

See accompanying Notes to Consolidated Financial Statements.

**COMMUNITY MEDICAL CENTER, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>UNRESTRICTED NET ASSETS</b>		
Excess of Revenue Over Expenses	\$ 11,036,905	\$ 8,073,957
Net Change in Unrealized Gain on Marketable Securities	64,925	13,621
Net Assets Released from Restriction	187,093	203,389
Increase in Unrestricted Net Assets	<u>11,288,923</u>	<u>8,290,967</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Temporarily Restricted Donations	150,253	152,078
Net Assets Released from Restriction	(187,093)	(203,389)
Change in Beneficial Interest in Net Assets of Community Medical Center Foundation	<u>(1,728,502)</u>	<u>(1,007,985)</u>
Decrease in Temporarily Restricted Net Assets	<u>(1,765,342)</u>	<u>(1,059,296)</u>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Change in Beneficial Interest in Net Assets of Community Medical Center Foundation	<u>11,855</u>	<u>205,051</u>
<b>INCREASE IN NET ASSETS</b>	9,535,436	7,436,722
Net Assets - Beginning of Year	<u>51,719,193</u>	<u>44,282,471</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 61,254,629</u></u>	<u><u>\$ 51,719,193</u></u>

See accompanying Notes to Consolidated Financial Statements.

**COMMUNITY MEDICAL CENTER, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 9,535,436	\$ 7,436,722
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Changes in Beneficial Interest in Net Assets of Community Medical Center Foundation	1,716,647	802,934
Depreciation	5,294,337	4,868,862
Amortization	50,090	53,779
Provision for Bad Debts	6,548,262	6,236,029
Unrealized Gains on Investments	(64,925)	(13,621)
Equity in Earnings from Joint Ventures	(2,597,251)	(2,734,723)
Change in Valuation of Impairment Reserve	(5,154,301)	-
Impairment of Construction in Progress	464,002	-
(Increase) Decrease in:		
Accounts Receivable and Other Receivables	(3,511,403)	(5,538,151)
Inventory	(643,773)	567,342
Prepaid Expenses	132,081	(48,379)
Increase (Decrease) in:		
Accounts Payable	(585,453)	3,403,333
Estimated Third-Party Payor Settlements	1,703,900	1,912,213
Accrued Salaries and Related Liabilities	2,579,375	314,809
Accrued Interest Payable	(7,104)	(12,442)
Net Cash Provided by Operating Activities	15,459,920	17,248,707
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(8,636,071)	(4,842,432)
Transfer of Trustee Funds for Investment in Assets, Payments of Bond Principal and Interest, and Bond Issue Costs	(40,298)	3,727
Purchase of Investments and Assets Limited as to Use by Board	(445,679)	(12,095,486)
Distributions from Investments in Joint Ventures	2,493,795	3,593,852
Net Cash Acquired in Purchase of Majority Interest	-	699,052
Net Cash Used by Investing Activities	(6,628,253)	(12,641,287)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Notes Payable and Capital Lease Obligations	(1,902,162)	(2,231,113)
Proceeds from Notes Payable	500,000	-
Other Financing Activities	23,272	-
Payments of Obligations under Bond Indenture	(1,175,000)	(1,105,000)
Net Cash Used by Financing Activities	(2,553,890)	(3,336,113)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	6,277,777	1,271,307
Cash and Cash Equivalents - Beginning of Year	10,926,112	9,654,805
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 17,203,889	\$ 10,926,112
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Payments for Interest	\$ 1,484,273	\$ 1,709,409
Issuance of Capital Lease Obligations for Equipment	\$ 66,914	\$ 124,684

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Community Medical Center, Inc. (the Hospital) is a private, not-for-profit corporation exempt from income tax under Section 501(C)(3) of the Internal Revenue Code. The Hospital operates an acute care hospital and rehabilitation center for Western Montana patients whose bills are paid in whole or in part by third-party payors, e.g. Medicare, Medicaid, and private insurance carriers. The accompanying consolidated financial statements include the accounts and transactions of Community Medical Center, Inc. and its majority owned limited liability company Montana Heart Angio Lab, LLC. All intercompany transactions and balances have been eliminated in the consolidation.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting policies generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited under indenture agreement, or by board for capital improvements.

**Patient Receivables**

The Hospital maintains an allowance for uncollectible self-pay accounts. Patients are not required to provide collateral for services rendered. Payment for services is required at the time of service when the amount due is known or upon receipt of an invoice, after payment by insurance, if any. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts and by considering the patients' financial history, credit history and current economic conditions. When all collection efforts have been exhausted, the account is written off against the related allowance. At June 30, 2009 and 2008, the allowance for uncollectible accounts was approximately \$3,180,000 and \$2,579,000, respectively.

**Inventories**

Inventories are stated at the lower of cost or market using a weighted average of the latest invoice cost which approximates the first-in, first-out method.

**Investments and Investment Income**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated Balance Sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments and Investment Income (Continued)**

Investments are regularly reviewed for impairment and a charge is recognized when the decline in fair value is below cost basis and is judged to be other than temporary.

**Assets Limited as to Use**

Assets limited as to use include assets held by trustees under indenture agreements and assets designated by the board of trustees for capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are reported as current assets.

Included in assets held by trustee is approximately \$2,803,000 and \$2,829,000 at June 30, 2009 and 2008, respectively, which is required to be held in reserves pursuant to various indenture agreements.

**Property and Equipment**

Property and equipment acquisitions are carried at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the consolidated financial statements. 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.

Gifts of long-lived assets such as land, buildings, or equipment are recorded 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 long 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.

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Hospital 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 the Hospital in perpetuity.

**Unamortized Bond Issuance Costs**

Unamortized bond issuance costs are being amortized over the period the related obligations are outstanding using the interest method.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from their 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 with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

The amount of charges forgone for services and supplies furnished under the Hospital's charity policy aggregated approximately \$3,810,000 and \$3,530,000 for the years ended June 30, 2009 and 2008, respectively.

**Excess of Revenues over Expenses**

Excess of revenue over expenses includes operating expenses, interest, dividends, and realized gains and losses. Changes in unrestricted net assets which are excluded from excess of support and revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for purposes of acquiring such assets).

**Donor-Restricted Gifts**

Contributions received, including unconditional promises to give cash and other assets, are recognized as revenues in the period received at their fair values. Unconditional promises to give with payments due in future periods are reported as restricted support. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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 statement of operations as net assets released from restrictions.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

The Hospital is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Hospital's majority owned limited liability company, Montana Heart Angio Lab, LLC is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for, by Montana Heart Angio Lab, LLC.

**Reclassification**

Certain items in the prior year financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on the previously reported excess of revenues over expenses or net assets.

**Fair Value of Financial Instruments**

On June 1, 2008, the Hospital adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to December 31, 2009. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access.

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. See Note 5 to the consolidated financial statements for the fair market value disclosures of the Hospital's financial instruments as of June 30, 2009.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value of Financial Instruments (Continued)**

Available for Sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, and corporate debt securities. The Hospital does not have any securities that are valued using Level 3 inputs.

The Hospital also adopted Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159) on July 1, 2008. SFAS 159 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Hospital has not elected to measure any existing financial instruments at fair value at July 1, 2008, as permitted under SFAS 159. However, the Hospital may elect to measure newly acquired financial instruments at fair value in the future.

**Subsequent Events**

In preparing these financial statements, the Hospital has considered event and transactions that have occurred through October 15, 2009.

**NOTE 2 BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION**

The Hospital's beneficial interest in the unrestricted and temporarily restricted net assets of the Foundation and its share of the change in those net assets are reported in the consolidated financial statements as temporarily restricted net assets. The Hospital's beneficial interest in permanently restricted net assets of the Foundation and its share of changes therein are reported in the consolidated financial statements as permanently restricted net assets.

Transfers the Hospital receives from the Foundation are reported in the consolidated financial statements as a reduction in the beneficial interest in the Foundation.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 3 CONTRACTS AND NOTES RECEIVABLE**

<u>Notes Receivable</u>	<u>2009</u>	<u>2008</u>
New West Health Plan (see Note 13), interest at 4%, payable on demand	\$ 5,154,301	\$ 5,154,301
Less: Impairment Reserve	-	(5,154,301)
Net Notes Receivable	<u>\$ 5,154,301</u>	<u>\$ -</u>

**NOTE 4 CONCENTRATIONS OF CREDIT RISK**

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The approximate mix of patient receivables from patients and third-party payors at June 30, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	26 %	21 %
Medicaid	10	18
Patients	25	23
Other Third-Party Payors	39	38
Total	<u>100 %</u>	<u>100 %</u>

**FDIC Coverage**

During the year ended June 30, 2009 the Hospital had cash balances in individual financial institutions in excess of FDIC insurance limits. Effective October 3, 2008 FDIC insurance coverage increased from \$100,000 per depositor account to \$250,000 per account and has subsequently been extended through December 2013. In addition, all non-interest bearing or low interest bearing accounts (less than .5%) are entirely covered by FDIC insurance through June 2010. Prior to the changes in FDIC insurance coverage, at times, cash balances may have been in excess of insured limits.

**NOTE 5 INVESTMENTS AND ASSETS LIMITED AS TO USE**

**Investments**

The composition of investments, stated at fair value, at June 30, 2009 and 2008 is set forth in the following table:

	<u>2009</u>	<u>2008</u>
Short-Term Investments:		
Cash and Short-Term Investments	\$ 1,192,424	\$ 665,438
U.S. Treasury Obligations	654,875	304,125
Mortgage Backed Government Securities	6,230,396	9,397,834
Total Short-Term Investments	<u>8,077,695</u>	<u>10,367,397</u>
Long-Term Investments:		
Mortgage Backed Government Securities	8,188,661	5,361,697
	<u>\$ 16,266,356</u>	<u>\$ 15,729,094</u>

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 5 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)**

**Assets Limited as to Use**

The composition of assets limited as to use, stated at fair value, at June 30, 2009 and 2008 is set forth in the following table:

	<u>2009</u>	<u>2008</u>
Held by Trustee under Indenture Agreement:		
Cash and Short-Term Investments	\$ 2,802,709	\$ 2,829,230
Other Investments Designated by the Board:		
Cash and Short-Term Investments	73,183	99,841
	<u>\$ 2,875,892</u>	<u>\$ 2,929,071</u>

**Investment Income**

Investment income and gains for assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investment Income	\$ 827,277	\$ 781,892
Net Change in Unrealized Gain on Marketable Securities	64,925	13,621
Total	<u>\$ 892,202</u>	<u>\$ 795,513</u>

**Unrealized Losses**

The following table reflects the fair value and gross unrealized losses under 12 months as there are no unrealized losses over 12 months, by investment category at June 30, 2009 and 2008.

	<u>2009</u>		<u>2008</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
US Treasury Obligations	\$ 654,875	\$ (1,625)	\$ -	\$ -
Mortgage Backed Government Securities	3,561,050	(31,451)	9,467,805	(36,790)
Total	<u>\$ 4,215,925</u>	<u>\$ (33,076)</u>	<u>\$ 9,467,805</u>	<u>\$ (36,790)</u>

The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Hospital has the ability and intent to hold these investments until a market price recovery, which may be at maturity, the Hospital does not consider the investment value declines to be other-than-temporary at June 30, 2009 and 2008.

The Hospital's investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 6 PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Land and Improvements	\$ 749,984	\$ 1,631,808
Buildings	37,756,235	36,566,750
Fixed Equipment	6,243,845	8,277,355
Major Movable Equipment	33,932,054	39,242,519
Construction in Progress	1,607,506	1,466,618
Subtotal	<u>80,289,624</u>	<u>87,185,050</u>
Less: Accumulated Depreciation	<u>(46,722,027)</u>	<u>(56,562,099)</u>
Property and Equipment, Net	<u>\$ 33,567,597</u>	<u>\$ 30,622,951</u>

Construction in progress at June 30, 2009 relates to various remodeling projects and equipment upgrades that are planned to be finished in fiscal 2010 and 2011. The total estimated costs to finish these projects are approximately \$3,137,000 and are expected to be financed with internal funds.

During the year ended June 30, 2009, the Hospital recorded an impairment on construction in progress in the amount of \$464,002 included in Other Direct Expenses on the Consolidated Statement of Operations.

**NOTE 7 LONG-TERM DEBT UNDER BOND INDENTURE**

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

	<u>2009</u>	<u>2008</u>
Bonds Payable:		
Series 1988 Bonds Payable, Bearing Fixed Rates of Interest Ranging from 5.50% to 9.00%, Maturing in Varying Amounts through 2013	\$ 1,455,000	\$ 1,755,000
Series 1996 Bonds Payable, Bearing Fixed Rates of Interest Ranging from 3.90% to 6.375%, Maturing in Varying Amounts through 2018	<u>13,325,000</u>	<u>14,200,000</u>
Total Long-Term Debt	14,780,000	15,955,000
Less: Current Portion	<u>(1,250,000)</u>	<u>(1,175,000)</u>
Obligations under Bond Indenture - Net of Current Maturities	<u>\$ 13,530,000</u>	<u>\$ 14,780,000</u>

**Bonds - Series 1996 Health Care Revenue Bonds**

On September 11, 1996, the Hospital issued Health Care Revenue Bonds, Series 1996, for \$20,730,000. The Bond Indenture agreement requires payments by the Hospital be made to the Bond Trustee to provide for interest and principal payments on the bonds and to ensure that specified amounts are maintained in the Debt Service Revenue Fund. Interest is due bi-annually on June 1 and December 1 of each year with principal due annually on June 1 of each year.

**COMMUNITY MEDICAL CENTER, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**NOTE 7 LONG-TERM DEBT UNDER BOND INDENTURE (CONTINUED)**

**Bonds - Series 1996 Health Care Revenue Bonds (Continued)**

Under the terms of the Series 1996 Bonds, the Hospital is required to maintain rates, fees and charges so that excess revenues (excluding depreciation and interest) in any fiscal year during the life of the bonds will not be less than 125% of the Maximum Annual Debt Service Requirement. If in any year this provision is not met, the Hospital is to retain an Independent Consultant to make recommendations to increase the Debt Service Coverage ratio for subsequent years to at least 125%.

Management believes the Hospital is in compliance with the Debt Service Coverage Ratio requirement for June 30, 2009.

**Bonds Series 1988 Refunding and Improvement Bonds**

The Series 1988 bonds were issued August 30, 1988 and are secured by the revenues of the Hospital. Interest is due bi-annually on June 1 and December 1 of each year with principal due annually on June 1 of each year.

**Principal Requirements**

The following is a schedule of future annual principal requirements of the Series 1988 and 1996 bonds:

<u>Bond Year Ending June 30.</u>	<u>1988 Bonds</u>	<u>1996 Bonds</u>	<u>Total</u>
2010	\$ 325,000	\$ 925,000	\$ 1,250,000
2011	350,000	990,000	1,340,000
2012	375,000	1,055,000	1,430,000
2013	405,000	1,120,000	1,525,000
2014	-	1,625,000	1,625,000
Subsequent Years	-	7,610,000	7,610,000
Total	<u>\$ 1,455,000</u>	<u>\$ 13,325,000</u>	<u>\$ 14,780,000</u>

**NOTE 8 NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS**

<u>Notes Payable</u>	<u>Interest Rate</u>	<u>2009</u>	<u>2008</u>
Promissory Note, First Interstate Bank, unsecured, fixed monthly interest and principal payments of \$38,347 through July 2013	(5.65%)	\$ 1,674,109	\$ -
Rocky Mountain Women's Health, P.C., secured by real property, fixed monthly interest and principal payments of \$14,762 through January 2012	(4%)	434,086	-
Montana Health Facility Authority 1985 Pooled Loan Program, beginning December 1999, variable monthly interest payments, monthly principal payments of \$14,957 through December 2019	VAR	-	2,079,060

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 8 NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS (CONTINUED)**

<u>Notes Payable</u>	<u>Interest Rate</u>	<u>2009</u>	<u>2008</u>
Montana Facility Finance Authority Series 2001A Bonds, beginning June 2002, variable semi-annual interest payments of \$81,622 through 2013, beginning December 2013, variable semi-annual interest and principal payments through December 2021	(4.6% - 5.2%) VAR	3,280,000	3,280,000
Montana Facility Finance Authority Series 2001B Bonds, beginning June 2002, variable semi-annual payments through December 2012	(5.2% - 6.2%) VAR	950,000	1,155,000
<u>Capital Lease Obligations</u>			
Various capital leases with interest rates ranging from 3.0% to 24.9%, monthly interest and principal payments through 2013	VAR	<u>1,279,158</u>	<u>2,438,541</u>
Total Notes Payable and Capital Lease Obligations		7,617,353	8,952,601
Less: Current Maturities		<u>(1,406,939)</u>	<u>(3,011,740)</u>
Non-Current Notes Payable and Capital Lease Obligations		<u>\$ 6,210,414</u>	<u>\$ 5,940,861</u>

Scheduled principal repayments on notes payable and payments on capital lease obligations for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Notes Payable</u>	<u>Obligations Under Capital Lease</u>
2010	\$ 752,899	\$ 719,803
2011	796,283	502,714
2012	766,800	141,279
2013	704,269	9,113
2014	337,944	-
Thereafter	<u>2,980,000</u>	<u>-</u>
	<u>\$ 6,338,195</u>	<u>\$ 1,372,909</u>
Less: Amount Representing Interest on Obligation Under Capital Leases		<u>(93,751)</u>
Total		<u>\$ 1,279,158</u>

**NOTE 9 LINE OF CREDIT**

The Hospital has a revolving line of credit from a local bank which allows the Hospital to borrow up to \$3,000,000. The interest rate on any outstanding balance is variable, and is indexed with the Prime Rate which was 5.0% on June 30, 2009. The revolving line of credit is unsecured. As of June 30, 2009 and 2008, the Hospital has \$-0- outstanding on the line of credit, respectively. The line of credit expires December 31, 2009.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 10 DESCRIPTION OF LEASING ARRANGEMENTS**

**Capital Leases – Equipment**

The Hospital has entered into capital lease contracts for the use of medical and office equipment, varying in maturity through 2012. These leases are collateralized by leased equipment with a cost of \$2,505,568 and \$2,438,654 and accumulated depreciation of \$1,580,007 and \$1,153,546 as of June 30, 2009 and 2008, respectively.

**Operating Leases**

The Hospital leases various equipment and facilities under operating leases expiring at various dates. The total rental expense in fiscal 2009 and 2008 for all operating leases was \$1,187,900 and \$1,053,247, respectively.

The following is a schedule by year of the future minimum lease payments under operating leases as of June 30, 2009.

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 253,200
2011	58,595
Total	<u>\$ 311,795</u>

**NOTE 11 NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Medicare pays outpatient services under the Ambulatory Payment Classification (APC) method. Under this method, Medicare reimburses the Hospital a predetermined amount for most outpatient services. The following services are excluded from the APC payment methodology; services already paid on a fee schedule and certain drugs, biologicals and medical devices identified as pass-through items. The APC payments are not based on the provider's annual cost report. Professional fees for clinic and other services are paid according to the Medicare fee schedule.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11 NET PATIENT SERVICE REVENUE (CONTINUED)**

**Montana Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology similar to inpatient Medicare, with the exception of the Neonatal Intensive Care Unit (NICU). Prior to October 1, 2008 the NICU was reimbursed by Medicaid on a cost based reimbursement methodology, with interim payments received throughout the year, with final settlement being calculated through completion of an annual cost report with Montana Medicaid program. Effective October 1, 2008 the NICU reimbursement transitioned to a prospective payment system. Outpatient Medicaid services are reimbursed under the lower of usual or customary charge fee structure.

**Idaho Medicaid**

Due to it's proximity to Idaho, the Hospital provides services to Idaho residents who receive health care benefits under the Idaho Medicaid program. Payments are received from Idaho Medicaid for inpatient and outpatient services throughout the year based on established interim payment amounts, with final settlement at year-end based on the Medicare cost report.

**Medicare and Medicaid Reimbursement**

Revenue from the Medicare and Medicaid programs accounted for approximately 23% and 22% and 15% and 12%, respectively, of the Hospital's net patient revenue for the years ended 2009 and 2008, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2009 and 2008 net patient service revenue increased approximately \$162,000 and \$440,000, respectively due to prior-year retroactive adjustments in excess of amounts previously estimated.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**Montana State Bed Tax**

During calendar 2003, the Montana State Legislature passed an act imposing a utilization fee on hospital facilities for inpatient bed days, and authorized the State Department of Revenue to collect and deposit fees in a state special revenue account for funding increases in Medicaid payments to Montana hospitals (the Montana State Bed Tax). The state special revenue account received an appropriation from a federal special revenue fund to match the state special revenue collected through the utilization fee, thereby providing increased Medicaid reimbursement for Montana hospitals.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 11 NET PATIENT SERVICE REVENUE (CONTINUED)**

**Montana State Bed Tax (Continued)**

The total utilization fee paid by the Hospital for the fiscal years ended June 30, 2009 and 2008 amounted to approximately \$1,381,000 and \$1,125,000, respectively, and is included in other direct expenses in the statement of operations. The increased Medicaid payment received by the Hospital from the state special revenue amounted to approximately \$6,431,000 and \$5,420,000 for the fiscal years ended June 30, 2009 and 2008, respectively, and is included in net patient service revenues in the statement of operations. Thus the net impact of the Montana State Bed Tax on the changes in net assets in the accompanying statement of operations was approximately \$5,050,000 and \$4,295,000 for the years ended June 30, 2009 and 2008, respectively.

A summary of patient revenue and contractual adjustments is as follows:

	<u>2009</u>	<u>2008</u>
Gross Patient Revenue	\$ 217,053,239	\$ 209,177,803
Contractual Adjustments:		
Medicare	47,442,779	42,631,163
Medicaid	15,949,759	21,951,942
Other Insurance	<u>24,525,415</u>	<u>19,843,725</u>
Total Contractual Adjustments	<u>87,917,953</u>	<u>84,426,830</u>
Net Patient Revenue	<u>\$ 129,135,286</u>	<u>\$ 124,750,973</u>

**NOTE 12 RETIREMENT PLAN**

The Hospital maintains a Defined Contribution Plan for employees with one or more year's service. Employees are allowed to contribute up to 15% of their compensation and the Hospital will contribute an amount equal to 3.25% for all Participants' wages. The Hospital shall make a Matching Contribution equal to 25% of the Elective Contributions, but not in excess of 6% of compensation for Participants.

Contributions to the total Elective Contributions for all Participants for contract employees only, but not in excess of 6% of compensation. The expense for the years ended June 30, 2009 and 2008 was \$1,786,369 and \$1,745,678, respectively.

The Hospital also maintains a Supplemental Retirement Plan [403(b)]. Substantially all employees may contribute up to 15% of their wages [401(k) and 403(b) combined] but not over \$9,500. The Hospital does not make a contribution to the 403(b) plan.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 13 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS**

Investment in joint ventures consists of the following at June 30:

	2009	2008
Big Sky Surgery Center	\$ 924,709	\$ 941,191
Partners in Home Care (through the Missoula Hospital Alliance)	1,159,165	867,272
Advanced Imaging Inc., LLC	272,618	454,689
Missoula Sleep Medicine, LLC	72,764	68,216
VHA Cooperative	32,358	26,790
VHA Captive Insurance Investment	258,621	258,621
New West Capital Investment	226,667	226,667
Total Investment in Joint Ventures	\$ 2,946,902	\$ 2,843,446

Equity in earnings of the joint venture investments for fiscal years 2009 and 2008 was \$2,597,251 and \$1,939,016, respectively. Distributions received by the Hospital from the joint ventures for fiscal years 2009 and 2008 were \$2,493,795 and \$3,763,535, respectively.

A description of investments in joint ventures and various related party transactions at June 30, 2009 and 2008 is as follows:

**Missoula Hospitals Alliance, Inc.**

The Hospital, along with St. Patrick Hospital, are the two members comprising the Missoula Hospital Alliance, Inc., a membership corporation. Missoula Hospital Alliance, Inc. is the parent company of Partners in Home Care, Inc. and Plains Hospital Corporation. Under terms of Missoula Hospital Alliance, Inc. bylaws, the Hospital is represented on their board of directors by one of the Hospital's management team members. There was no substantive activity in the membership entity Missoula Hospital Alliance, Inc. for the Hospital's fiscal years ended June 30, 2009 and 2008.

**Community Medical Center Foundation**

The Foundation's purpose is to educate the citizens of the Missoula area about services provided by the Hospital, to develop new facilities and services, and to raise funds for the operation, maintenance and development of those facilities and services.

The majority of the Foundation's administrative costs are billed to and paid by the Hospital; and reimbursement is made quarterly by the Foundation to the Hospital. Operating costs paid by the Hospital for the Foundation amounted to approximately \$417,000 and \$265,000 for fiscal years ended June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, the Foundation has reflected a liability to the Hospital of \$126,094 and \$26,357, respectively, related to these payments.

The Hospital and the Foundation are equally sharing grant expenses for an expansion grant. The Hospital owed the Foundation \$-0- for fiscal years ended June 30, 2009 and 2008, for its share of the grant expense.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 13 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS  
(CONTINUED)**

**Community Medical Center Foundation (Continued)**

Support payments made by the Foundation to the Hospital during the years ended June 30, 2009 and 2008 were \$50,941 and \$87,914, respectively.

The Foundation's unrestricted net assets, which represent the Foundation's unrestricted resources, are used for internal operation and administration and to benefit the Hospital at the discretion of the Foundation's Board of Trustees. Current restricted funds and assets obtained from income from endowment funds of the Foundation are distributed to the Hospital as required to comply with the purposes specified by the donor.

A summary of the Foundation's assets, liabilities, and results of operations and changes in net assets as of June 30, 2009 and 2008 follows:

	2009	2008
Assets	<u>\$ 5,754,466</u>	<u>\$ 7,368,623</u>
Liabilities	\$ 208,503	\$ 133,389
Net Assets:		
Unrestricted	838,709	1,844,206
Temporarily Restricted	1,742,554	2,438,183
Permanently Restricted	<u>2,964,700</u>	<u>2,952,845</u>
Total Net Assets	<u>5,545,963</u>	<u>7,235,234</u>
Total Liabilities and Net Assets	<u>\$ 5,754,466</u>	<u>\$ 7,368,623</u>
Support and Revenue	\$ (884,424)	\$ (242,146)
Expenses including Distributions to the Hospital	<u>804,847</u>	<u>588,164</u>
Excess of Support and Revenue over Expenses	<u>\$ (1,689,271)</u>	<u>\$ (830,310)</u>

**Big Sky Surgery Center**

The Hospital invested \$299,066 for a 35% general partner equity interest in the limited liability company. The investment is recorded on the equity method of accounting that approximates the Hospital's equity in the underlying book value of Big Sky Surgery Center. At June 30, 2009 and 2008, the Big Sky Surgery Center owes the Hospital \$6,273 and \$14,904, respectively, which is included in other receivables. The Hospital was billed and recorded expenses in the amount of \$22,889 and \$7,700 in 2009 and 2008, respectively.

**COMMUNITY MEDICAL CENTER, INC.**  
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**NOTE 13 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS  
(CONTINUED)**

**Big Sky Surgery Center (Continued)**

Summarized financial information from the unaudited financial statements of Big Sky Surgery Center at June 30, 2009 and 2008 follows:

	2009	2008
Assets	\$ 4,751,561	\$ 4,900,546
Liabilities	\$ 2,109,535	\$ 2,211,429
Equity	2,642,026	2,689,117
Total Liabilities and Equity	\$ 4,751,561	\$ 4,900,546
Revenue	\$ 8,439,770	\$ 8,030,762
Expenses	5,739,324	5,538,525
Net Income	\$ 2,700,446	\$ 2,492,237

**Partners in Home Care**

The Hospital participates on a 50/50 ownership basis with St. Patrick Hospital (through the Missoula Hospital's Alliance, Inc.) in the operations of Partners in Home Care, a Missoula based home health agency. During the most recent fiscal year, the Hospital did not make any equity contributions. The Hospital records this investment on the equity method which approximates their equity in the underlying book value of Partners in Home Care. The Hospital was billed nothing and recorded no expenses in 2009 and 2008.

Summarized financial information from the audited financial statements of Partners in Home Care at December 31, 2008 and 2007 follows:

	2008	2007
Assets	\$ 2,373,650	\$ 2,444,136
Liabilities	\$ 998,952	\$ 1,380,175
Equity	1,374,698	1,063,961
Total Liabilities and Equity	\$ 2,373,650	\$ 2,444,136
Revenue	\$ 8,504,852	\$ 9,538,122
Expenses	8,152,900	10,022,113
Net Income (Loss)	\$ 351,952	\$ (483,991)

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS  
(CONTINUED)**

**New West Health Services**

The Hospital, along with other health care providers, has invested in a Health Maintenance Organization (HMO), named New West Health Services. As of June 30, 2009 and 2008, the Hospital had invested capital of \$226,667. In addition to the capital investment, the Hospital has subordinated notes receivable from New West at June 30, 2009 and 2008 amounting to \$5,154,301, respectively. As of June 30, 2008 the Hospital had recorded an impairment reserve of \$5,154,301 on the subordinated notes receivable. During 2009, the Hospital determined that based on the improved financial position of New West over the past 5 years that the impairment reserve was no longer necessary on the notes receivable. As reflected in the Consolidated Statements of Operations the Hospital has recorded a \$5,154,301 "Change in Valuation of Impairment Reserve" for the year ending June 30, 2009.

**VHA Cooperative**

The Hospital is a member of VHA Cooperative, a cooperative of organizations put together to negotiate discount prices on various supplies and other items purchased by the Hospital. The investment balance in VHA Cooperative amounted to \$32,358 and \$26,790 at June 30, 2009 and 2008, respectively.

**VHA Mountain States**

The Hospital has joined the VHA Mountain States Captive Insurance Company. The captive company was organized to provide hospitals and physicians professional liability and general liability coverage to its subscribers and their affiliates on a claims-made basis. During the fiscal year ended June 30, 2007, CMC invested an additional \$33,477 in VHA Mountain States, increasing its capital investment to \$258,621 at year-end. An aggregate excess reinsurance policy provides the subscribers and their affiliates with an additional sum of funds for protection from the total cost of all losses not covered by the specific excess. Each member of the insurance reciprocal is required to pay a premium based on industry pure premiums, claims experience, scheduled credits and administration expenses.

**Advanced Imaging, LLC**

The Hospital has a 50% equity interest in the limited liability company. The investment is recorded on the equity method of accounting that approximates the Hospital's equity in the underlying book value of Advanced Imaging, LLC. At June 30, 2009 and 2008, Advanced Imaging, LLC owed the Hospital \$8,660 and \$6,059, respectively, which is included in other receivables and the Hospital owed Advanced Imaging, LLC \$29,246 and \$6,610, respectively. The Hospital was billed and recorded expenses in the amount of \$390,386 and \$257,812 in 2009 and 2008, respectively.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS  
(CONTINUED)**

**Advanced Imaging, LLC (Continued)**

Summarized financial information from the unaudited financial statements of Advanced Imaging, LLC at June 30, 2009 and 2008 follows:

	2009	2008
Assets	\$ 3,269,048	\$ 1,260,012
Liabilities	\$ 2,675,193	\$ 350,635
Equity	593,855	909,377
Total Liabilities and Equity	\$ 3,269,048	\$ 1,260,012
Revenue	\$ 7,913,218	\$ 8,066,941
Expenses	5,507,357	5,518,304
Net Income	\$ 2,405,861	\$ 2,548,637

**Missoula Sleep Medicine, LLC**

The Hospital purchased a 25% equity interest in the limited liability company in fiscal 2006. The investment is recorded on the equity method of accounting that approximates the Hospital's equity in the underlying book value of Missoula Sleep Medicine, LLC. For fiscal 2009 and 2008, there were no receivables, payables, or expenses between the Hospital and Missoula Sleep Medicine, LLC.

Summarized financial information from the unaudited financial statements of Missoula Sleep Medicine, LLC at June 30, 2009 and 2008 follows:

	2009	2008
Assets	\$ 219,778	\$ 201,328
Liabilities	\$ 35,738	\$ 38,582
Equity	184,040	162,746
Total Liabilities and Equity	\$ 219,778	\$ 201,328
Revenue	\$ 912,033	\$ 861,863
Expenses	486,289	349,529
Net Income	\$ 425,744	\$ 512,334

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 14 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Hospital uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Hospital measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of the Hospital measured at fair value on a recurring basis as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Short-Term Investments:				
U.S. Treasury Obligations	\$ -	\$ 654,875	\$ -	\$ 654,875
Mortgage Backed				
Government Securities	-	6,230,396	-	6,230,396
Long-Term Investments:				
Mortgage Backed				
Government Securities	-	8,188,661	-	8,188,661
	<u>\$ -</u>	<u>\$ 15,073,932</u>	<u>\$ -</u>	<u>\$ 15,073,932</u>

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* (SFAS 107), requires the disclosure of the estimated fair value of financial instruments including those financial instruments for which the Hospital did not elect the fair value option. The fair values of such instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable value could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Hospital. The provisions of SFAS 107 do not require the disclosure of non financial assets. The following disclosures represent financial instruments in which the ending balances at June 30, 2009 and 2008, are not carried at fair value in their entirety on the balance sheet.

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds Payable	\$ 14,780,000	\$ 14,780,000	\$ 15,955,000	\$ 15,958,976
Montana Facility Finance Authority Bonds	4,230,000	4,289,495	4,435,000	4,506,449
	<u>\$ 19,010,000</u>	<u>\$ 19,069,495</u>	<u>\$ 20,390,000</u>	<u>\$ 20,465,425</u>

The fair value of Hospital's health care revenue bonds are estimated based on the quoted market prices for similar issues or by discounting expected cash flows at the rates currently offered to the Hospital for debt of the same remaining maturities, as advised by investment bankers.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 15 LONG-TERM ILLNESS BENEFIT**

Eligible Hospital employees accrue long-term illness hours up to a maximum of 600 hours per employee. The hours are a benefit granted to employees to protect against loss of income during absences due to employee illness. Additionally, employees with fifteen or more years of continuous service who leave hospital employment giving a minimum of thirty days written notice receive 50% to 75% of their accumulated illness balance depending on date of hire and contract status. The Hospital paid out approximately \$98,000 and \$132,000 during fiscal 2009 and 2008, respectively, and this has been recorded as an expense. As of June 30, 2009 and 2008, the Hospital has accrued a liability of \$135,000 as a potential payout, respectively.

**NOTE 16 FUNCTIONAL EXPENSES**

The Hospital provides general health care services and/or financial support for those services to residents within its geographic region. Expenses related to providing these services for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Healthcare Services	\$ 104,547,021	\$ 100,069,270
General and Administrative	23,579,782	21,907,710
Total	\$ 128,126,803	\$ 121,976,980

**NOTE 17 COMMITMENTS AND CONTINGENCIES**

**Guarantee**

The Hospital has entered into an agreement to guarantee loans made by Partners in Home Care, Inc. This guarantee is limited to the Hospital's percent of ownership times the total loans. Total Partners in Home Care, Inc. loans at June 30, 2009 and 2008 were \$227,836 and \$375,322, respectively. No provisions have been made in these consolidated financial statements for this commitment.

**Litigation**

The Hospital is involved in various legal actions in the normal course of business. The actions are in various stages of processing, and some may ultimately be brought to trial. As of the date of the audit report, specific cases and a possible range of potential loss are not identifiable, and as such no liability has been recorded related to these legal actions.

**COMMUNITY MEDICAL CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 17 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Healthcare Legislation and Regulation**

The healthcare 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 healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

## **SUPPLEMENTARY INFORMATION**

**COMMUNITY MEDICAL CENTER  
CONSOLIDATING BALANCE SHEET  
JUNE 30, 2009**

<b>ASSETS</b>	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 15,841,045	\$ 1,362,844	\$ -	\$ 17,203,889
Assets Limited as to Use, Required for Current Liabilities	334,203	-	-	334,203
Short-Term Investments	8,077,695	-	-	8,077,695
Patient Receivables, Net	16,478,099	270,360	(205,131)	16,543,328
Other Receivables	2,266,564	23,850	(102,985)	2,187,429
Inventory	3,192,653	146,144	-	3,338,797
Prepaid and Other Assets	763,428	5,550	-	768,978
Total Current Assets	<u>46,953,687</u>	<u>1,808,748</u>	<u>(308,116)</u>	<u>48,454,319</u>
<b>LONG-TERM INVESTMENTS</b>	8,188,661	-	-	8,188,661
<b>ASSETS LIMITED AS TO USE</b>				
By Board	73,183	-	-	73,183
Under Indenture Agreement, Held by Trustee	2,802,709	-	-	2,802,709
Total Assets Limited as to Use, Net of Current Portion	<u>2,875,892</u>	<u>-</u>	<u>-</u>	<u>2,875,892</u>
<b>BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION</b>				
	5,545,963	-	-	5,545,963
<b>PROPERTY AND EQUIPMENT, NET</b>	33,440,800	126,797	-	33,567,597
<b>OTHER ASSETS</b>				
Unamortized Bond Issuance Costs	470,286	-	-	470,286
Notes Receivable, Net of Impairment Reserve	5,154,301	-	-	5,154,301
Investment in Majority Owned Subsidiary	1,679,939	-	(1,679,939)	-
Investment in Joint Ventures	2,946,902	-	-	2,946,902
Total Other Assets	<u>10,251,428</u>	<u>-</u>	<u>(1,679,939)</u>	<u>8,571,489</u>
<b>Total Assets</b>	<u>\$ 107,256,431</u>	<u>\$ 1,935,545</u>	<u>\$ (1,988,055)</u>	<u>\$ 107,203,921</u>

**COMMUNITY MEDICAL CENTER  
CONSOLIDATING BALANCE SHEET (CONTINUED)  
JUNE 30, 2009**

<b>LIABILITIES AND NET ASSETS</b>	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
<b>CURRENT LIABILITIES</b>				
Current Obligations under Bond Indenture	\$ 1,250,000	\$ -	\$ -	\$ 1,250,000
Current Portion of Notes Payable and Capital Lease Obligations	1,406,939	-	-	1,406,939
Accounts Payable	8,676,221	127,214	(308,116)	8,495,319
Estimated Third-Party Payor Settlements	5,328,900	-	-	5,328,900
Accrued Salaries and Related Liabilities	9,500,691	-	-	9,500,691
Accrued Interest Payable	98,637	-	-	98,637
Total Current Liabilities	<u>26,261,388</u>	<u>127,214</u>	<u>(308,116)</u>	<u>26,080,486</u>
<b>LONG-TERM OBLIGATIONS, Less Current Maturities</b>				
Obligations under Bond Indenture	13,530,000	-	-	13,530,000
Notes Payable and Capital Lease Obligations	6,210,414	-	-	6,210,414
Total Long-Term Obligations	<u>19,740,414</u>	<u>-</u>	<u>-</u>	<u>19,740,414</u>
<b>MINORITY INTEREST IN SUBSIDIARY</b>	<u>-</u>	<u>-</u>	<u>128,392</u>	<u>128,392</u>
Total Liabilities	46,001,802	127,214	(179,724)	45,949,292
<b>NET ASSETS</b>				
Unrestricted Net Assets	55,707,638	1,808,331	(1,808,331)	55,707,638
Temporarily Restricted Net Assets	2,582,291	-	-	2,582,291
Permanently Restricted Net Assets	2,964,700	-	-	2,964,700
Total Net Assets	<u>61,254,629</u>	<u>1,808,331</u>	<u>(1,808,331)</u>	<u>61,254,629</u>
Total Liabilities and Net Assets	<u>\$ 107,256,431</u>	<u>\$ 1,935,545</u>	<u>(1,988,055)</u>	<u>\$ 107,203,921</u>

**COMMUNITY MEDICAL CENTER  
CONSOLIDATING BALANCE SHEET  
JUNE 30, 2008**

<b>ASSETS</b>	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 10,227,060	\$ 699,052	\$ -	\$ 10,926,112
Assets Limited as to Use, Required for Current Liabilities	267,384	-	-	267,384
Short-Term Investments	10,367,397	-	-	10,367,397
Patient Receivables, Net	18,856,030	670,818	(205,131)	19,321,717
Other Receivables	2,523,865	25,019	(102,985)	2,445,899
Inventory	2,395,007	300,017	-	2,695,024
Prepaid and Other Assets	891,220	9,839	-	901,059
Total Current Assets	<u>45,527,963</u>	<u>1,704,745</u>	<u>(308,116)</u>	<u>46,924,592</u>
<b>LONG-TERM INVESTMENTS</b>	5,361,697	-	-	5,361,697
<b>ASSETS LIMITED AS TO USE</b>				
By Board	99,841	-	-	99,841
Under Indenture Agreement, Held by Trustee	2,829,230	-	-	2,829,230
Total Assets Limited as to Use, Net of Current Portion	<u>2,929,071</u>	<u>-</u>	<u>-</u>	<u>2,929,071</u>
<b>BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION</b>				
	7,262,610	-	-	7,262,610
<b>PROPERTY AND EQUIPMENT, NET</b>	30,431,620	191,331	-	30,622,951
<b>OTHER ASSETS</b>				
Unamortized Bond Issuance Costs	520,375	-	-	520,375
Investment in Majority Owned Subsidiary	1,351,712	-	(1,351,712)	-
Investment in Joint Ventures	2,843,446	-	-	2,843,446
Total Other Assets	<u>4,715,533</u>	<u>-</u>	<u>(1,351,712)</u>	<u>3,363,821</u>
<b>Total Assets</b>	<u>\$ 96,228,494</u>	<u>\$ 1,896,076</u>	<u>\$ (1,659,828)</u>	<u>\$ 96,464,742</u>

**COMMUNITY MEDICAL CENTER  
CONSOLIDATING BALANCE SHEET (CONTINUED)  
JUNE 30, 2008**

<b>LIABILITIES AND NET ASSETS</b>	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
<b>CURRENT LIABILITIES</b>				
Current Obligations under Bond Indenture	\$ 1,175,000	\$ -	\$ -	\$ 1,175,000
Current Portion of Notes Payable and Capital Lease Obligations	3,011,740	-	-	3,011,740
Accounts Payable	8,965,395	423,492	(308,116)	9,080,771
Estimated Third-Party Payor Settlements	3,625,000	-	-	3,625,000
Accrued Salaries and Related Liabilities	6,905,564	15,752	-	6,921,316
Accrued Interest Payable	105,741	-	-	105,741
Total Current Liabilities	<u>23,788,440</u>	<u>439,244</u>	<u>(308,116)</u>	<u>23,919,568</u>
<b>LONG-TERM OBLIGATIONS, Less Current Maturities</b>				
Obligations under Bond Indenture	14,780,000	-	-	14,780,000
Notes Payable and Capital Lease Obligations	5,940,861	-	-	5,940,861
Total Long-Term Obligations	<u>20,720,861</u>	<u>-</u>	<u>-</u>	<u>20,720,861</u>
<b>MINORITY INTEREST IN SUBSIDIARY</b>	<u>-</u>	<u>-</u>	<u>105,120</u>	<u>105,120</u>
Total Liabilities	44,509,301	439,244	(202,996)	44,745,549
<b>NET ASSETS</b>				
Unrestricted Net Assets	44,418,715	1,456,832	(1,456,832)	44,418,715
Temporarily Restricted Net Assets	4,347,633	-	-	4,347,633
Permanently Restricted Net Assets	2,952,845	-	-	2,952,845
Total Net Assets	<u>51,719,193</u>	<u>1,456,832</u>	<u>(1,456,832)</u>	<u>51,719,193</u>
Total Liabilities and Net Assets	<u>\$ 96,228,494</u>	<u>\$ 1,896,076</u>	<u>(1,659,828)</u>	<u>\$ 96,464,742</u>

**COMMUNITY MEDICAL CENTER  
CONSOLIDATING STATEMENT OF OPERATIONS  
YEAR ENDED JUNE 30, 2009**

	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
<b>UNRESTRICTED REVENUES AND GAINS</b>				
Net Patient Service Revenue	\$ 128,632,716	\$ 2,627,456	\$ (2,124,886)	\$ 129,135,286
Other Operating Revenue	2,048,696	119,399	(218,989)	1,949,106
Total Unrestricted Revenue and Gains	<u>130,681,412</u>	<u>2,746,855</u>	<u>(2,343,875)</u>	<u>131,084,392</u>
<b>OPERATING EXPENSES</b>				
Salaries and Wages	53,566,214	967,465	-	54,533,679
Employee Benefits	13,085,155	-	-	13,085,155
Professional Fees	5,846,611	155,990	-	6,002,601
Purchased Services	13,401,553	-	(2,124,886)	11,276,667
Medical Supplies	17,599,327	818,289	(129,302)	18,288,314
Non-Medical Supplies	2,880,457	16,667	-	2,897,124
Utilities	1,636,477	29,553	-	1,666,030
Depreciation and Amortization	5,279,893	64,534	-	5,344,427
Bad Debt Expense	6,548,484	(222)	-	6,548,262
Interest Expense	1,477,169	-	-	1,477,169
Leases and Rents	1,911,919	89,687	(89,687)	1,911,919
Education and Travel	769,183	-	-	769,183
Other Direct Expenses	4,072,525	253,748	-	4,326,273
Total Operating Expenses	<u>128,074,967</u>	<u>2,395,711</u>	<u>(2,343,875)</u>	<u>128,126,803</u>
<b>OPERATING INCOME</b>	2,606,445	351,144	-	2,957,589
<b>OTHER INCOME AND EXPENSE</b>				
Investment Income	827,277	-	-	827,277
Minority Interest in Net Income of Subsidiary	328,227	-	(351,144)	(22,917)
Change in Valuation of Impairment Reserve	5,154,301	-	-	5,154,301
Equity Earnings in Joint Venture Income	2,597,251	-	-	2,597,251
Other Nonoperating Loss, Net	(476,596)	-	-	(476,596)
Total Other Income and Expense	<u>8,430,460</u>	<u>-</u>	<u>(351,144)</u>	<u>8,079,316</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	11,036,905	351,144	(351,144)	11,036,905
Net Change in Unrealized Gain on Marketable Securities	64,925	-	-	64,925
Net Assets Released from Restriction	<u>187,093</u>	<u>-</u>	<u>-</u>	<u>187,093</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ 11,288,923</u>	<u>\$ 351,144</u>	<u>\$ (351,144)</u>	<u>\$ 11,288,923</u>