

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

**COMMUNITY MEDICAL CENTER, INC.
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YEARS ENDED JUNE 30, 2012 AND 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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 conducted 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 a required part of the basic consolidated 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 basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated 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 basic consolidated financial statements taken as a whole.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 16, 2012

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 17,023,272	\$ 22,199,290
Restricted Cash	61,711	51,324
Current Portion of Assets Limited as to Use	1,186,962	806,096
Short-Term Investments	10,179,452	13,326,509
Patient Receivables, Net of Allowance for Doubtful Accounts of \$3,972,000 in 2012 and \$4,041,000 in 2011	19,570,045	17,893,802
Other Receivables	1,622,647	2,479,023
Inventory	3,097,534	3,336,757
Prepaid and Other Assets	1,114,186	776,978
Total Current Assets	53,855,809	60,869,779
 LONG-TERM INVESTMENTS	 10,026,066	 7,127,504
ASSETS LIMITED AS TO USE		
By Board	25,114	21,257
Restricted for Construction Project, Net of Current Portion	7,481,131	14,793,799
Held by Trustee Under Indenture Agreement, Net of Current Portion	2,808,906	4,119,044
Total Assets Limited as to Use, Net of Current Portion	10,315,151	18,934,100
 BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION	 4,522,521	 5,732,745
 PROPERTY AND EQUIPMENT, NET	 62,307,258	 48,105,479
OTHER ASSETS		
Unamortized Bond Issuance Costs	889,946	952,862
Notes Receivable	3,855,003	5,154,301
Investment in Joint Ventures	3,423,001	3,474,241
Total Other Assets	8,167,950	9,581,404
Total Assets	\$ 149,194,755	\$ 150,351,011

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current Portion of Notes Payable and Capital Lease Obligations	\$ 2,344,191	\$ 2,398,254
Accounts Payable:		
Trade	7,297,271	6,821,772
Construction and Equipment	1,328,269	4,238,113
Estimated Third-Party Payor Settlements	7,095,680	8,848,125
Accrued Salaries, Payroll Related Liabilities, and Other Liabilities	8,597,904	10,017,900
Accrued Interest Payable	156,946	160,748
Total Current Liabilities	<u>26,820,261</u>	<u>32,484,912</u>
 LONG-TERM DEBT OBLIGATIONS		
Long-Term Obligations Under Bond Indenture	24,428,532	24,409,555
Notes Payable and Capital Lease Obligations, Less Current Maturities	<u>10,460,120</u>	<u>12,808,908</u>
Long-Term Debt Obligations, Less Current Maturities	<u>34,888,652</u>	<u>37,218,463</u>
 Total Liabilities	 61,708,913	 69,703,375
 NET ASSETS		
Unrestricted Net Assets:		
Undesignated	82,779,259	74,718,151
Board Designated	25,114	21,257
Noncontrolling Interest in Subsidiary	97,237	124,160
Total Unrestricted Net Assets	<u>82,901,610</u>	<u>74,863,568</u>
Temporarily Restricted Net Assets	1,490,082	2,731,191
Permanently Restricted Net Assets	<u>3,094,150</u>	<u>3,052,877</u>
Total Net Assets	<u>87,485,842</u>	<u>80,647,636</u>
 Total Liabilities and Net Assets	 <u>\$ 149,194,755</u>	 <u>\$ 150,351,011</u>

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
UNRESTRICTED REVENUES AND GAINS		
Net Patient Service Revenue	\$ 146,216,647	\$ 144,948,119
Other Operating Revenue	<u>3,709,562</u>	<u>2,753,032</u>
Total Unrestricted Revenue and Gains	149,926,209	147,701,151
OPERATING EXPENSES		
Salaries and Wages	58,498,131	56,766,370
Employee Benefits	13,551,734	14,036,787
Professional Fees	7,955,208	8,004,398
Purchased Services	15,833,994	13,976,567
Medical Supplies	22,255,169	22,923,459
Non-Medical Supplies	3,360,900	3,457,678
Utilities	1,693,933	1,702,529
Depreciation and Amortization	7,129,678	6,455,998
Bad Debt Expense	7,230,227	6,894,654
Interest Expense	853,301	739,685
Leases and Rents	2,021,097	2,187,867
Education and Travel	775,544	999,416
Other Direct Expenses	<u>3,664,704</u>	<u>3,658,449</u>
Total Operating Expenses	<u>144,823,620</u>	<u>141,803,857</u>
OPERATING INCOME	5,102,589	5,897,294
OTHER INCOME AND EXPENSE		
Investment Income	510,443	395,558
Equity Earnings in Joint Venture Income	2,909,480	2,098,769
Forgiveness of Equity Investment and Notes Receivable	(1,546,367)	-
Other Nonoperating Loss, Net	<u>(155,443)</u>	<u>(174,248)</u>
Total Other Income and Expense	<u>1,718,113</u>	<u>2,320,079</u>
EXCESS OF REVENUE OVER EXPENSES	6,820,702	8,217,373
Net Change in Unrealized Loss on Marketable Securities	(276,301)	(79,191)
Net Assets Released from Restriction	<u>1,493,641</u>	<u>2,504,268</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 8,038,042</u>	<u>\$ 10,642,450</u>

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	Unrestricted Net Assets	Noncontrolling Interest	Total Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
NET ASSETS - JUNE 30, 2010	\$ 64,062,730	\$ 158,388	\$ 64,221,118	\$ 3,532,702	\$ 3,003,378	\$ 70,757,198
CHANGES IN NET ASSETS						
Excess (Deficit) of Revenue Over Expenses	8,249,016	(31,643)	8,217,373	-	-	8,217,373
Net Change in Unrealized Loss on Marketable Securities	(79,191)	-	(79,191)	-	-	(79,191)
Contributions (Distributions) to Members	2,585	(2,585)	-	-	-	-
Net Assets Released from Restriction	2,504,268	-	2,504,268	(2,504,268)	-	-
Temporarily Restricted Donations and Grants	-	-	-	897,024	-	897,024
Change in Beneficial Interest in Temporarily and Permanently Restricted Net Assets of Community Medical Center Foundation	-	-	-	805,733	49,499	855,232
Increase (Decrease) in Net Assets	<u>10,676,678</u>	<u>(34,228)</u>	<u>10,642,450</u>	<u>(801,511)</u>	<u>49,499</u>	<u>9,890,438</u>
NET ASSETS - JUNE 30, 2011	74,739,408	124,160	74,863,568	2,731,191	3,052,877	80,647,636
CHANGES IN NET ASSETS						
Excess (Deficit) of Revenue Over Expenses	6,847,625	(26,923)	6,820,702	-	-	6,820,702
Net Change in Unrealized Loss on Marketable Securities	(276,301)	-	(276,301)	-	-	(276,301)
Net Assets Released from Restriction	1,493,641	-	1,493,641	(1,493,641)	-	-
Temporarily Restricted Donations and Grants	-	-	-	1,504,029	-	1,504,029
Change in Beneficial Interest in Temporarily and Permanently Restricted Net Assets of Community Medical Center Foundation	-	-	-	(1,251,497)	41,273	(1,210,224)
Increase (Decrease) in Net Assets	<u>8,064,965</u>	<u>(26,923)</u>	<u>8,038,042</u>	<u>(1,241,109)</u>	<u>41,273</u>	<u>6,838,206</u>
NET ASSETS - JUNE 30, 2012	<u>\$ 82,804,373</u>	<u>\$ 97,237</u>	<u>\$ 82,901,610</u>	<u>\$ 1,490,082</u>	<u>\$ 3,094,150</u>	<u>\$ 87,485,842</u>

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 6,838,206	\$ 9,890,438
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	1,210,224	(855,232)
Depreciation and Amortization	7,129,678	6,455,998
Provision for Bad Debts	7,230,227	6,894,654
Unrealized Loss on Investments	276,301	79,191
Forgiveness of Equity Investment and Notes Receivable	1,546,367	-
Temporarily Restricted Donations and Grants	(1,504,029)	(897,024)
Equity in Earnings from Joint Ventures	(2,909,480)	(2,098,769)
(Increase) Decrease in:		
Accounts Receivable and Other Receivables	(7,970,496)	(6,124,949)
Inventory and Prepaid Expenses	(97,985)	(20,210)
Increase (Decrease) in:		
Accounts Payable and Accrued Salaries and Related Liabilities	(975,705)	(45,110)
Estimated Third-Party Payor Settlements	(1,752,445)	2,973,125
Accrued Interest Payable	(3,802)	158,302
Net Cash Provided by Operating Activities	9,017,061	16,410,414
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(24,159,408)	(14,623,173)
Change in Investments Restricted by Contributors and Grantors for Capital	-	1,600,131
Change in Investments and Assets Limited as to Use	8,210,277	(16,955,619)
Cash Paid for Bond Issuance Costs	-	(795,306)
Distributions from Investments in Joint Ventures	2,665,261	1,689,431
Net Cash Used by Investing Activities	(13,283,870)	(29,084,536)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable and Capital Lease Obligations	(2,402,851)	(2,533,735)
Proceeds from Long-Term Obligations Under Bond Indenture and Notes Payable	-	24,400,067
Other Financing Activities	-	2,585
Temporarily Restricted Donations and Grants	1,493,642	648,172
Net Cash Provided (Used) by Financing Activities	(909,209)	22,517,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,176,018)	9,842,967
Cash and Cash Equivalents - Beginning of Year	22,199,290	12,356,323
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 17,023,272	\$ 22,199,290
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for Interest	\$ 1,966,426	\$ 1,135,382
Construction in Progress Payables	\$ 1,328,269	\$ 4,238,113

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 and 2011, the allowance for uncollectible accounts was approximately \$3,972,000 and \$4,041,000, 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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. 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. 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, restricted for construction, 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.

Property and Equipment, Net

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, 2012 AND 2011

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.

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 consolidated statements of operations as net assets released from restrictions.

Income Taxes

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

The Hospital follows the guidance in the accounting standards regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Hospital's income tax returns are subject to review and examination by federal, state, and local authorities. The Hospital is not aware of any activities that would jeopardize its tax-exempt status. The tax returns for the years ended 2009 to 2011 are open to examination by federal, local, and state authorities.

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.

Fair Value of Financial Instruments

The Hospital adopted accounting standards regarding the fair value measurement of financial assets and liabilities. Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Hospital 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 16 to the consolidated financial statements for the fair market value disclosures of the Hospital's financial instruments as of June 30, 2012 and 2011.

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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, and corporate debt securities. Securities valued using Level 3 inputs include annuities that are non-transferable.

Additionally, from time to time, the Hospital may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

Subsequent Events

In preparing the consolidated financial statements, the Hospital has considered events and transactions that have occurred through October 16, 2012, the date in which the consolidated financial statements were available to be issued.

NOTE 2 NOTES RECEIVABLE

Notes receivable at June 30, 2012 and 2011 is set forth in the following table:

	<u>2012</u>	<u>2011</u>
New West Health Plan	\$ 3,834,601	\$ 5,154,301
Other	20,402	-
Total Notes Receivable	<u>\$ 3,855,003</u>	<u>\$ 5,154,301</u>

New West Health Plan

Notes receivable at June 30, 2012 consist of a \$3,834,601 subordinated notes receivable from New West Health Plan (See Note 12). During fiscal year 2012, the Hospital entered into a withdrawal agreement with New West and as a result forgave \$1,319,700 of the total \$5,154,301 in subordinated notes receivable outstanding as of June 30, 2011. The forgiveness of the notes receivable has been included in "Forgiveness of Equity Investment and Notes Receivable" in the consolidated statement of operations. The note receivable incurs interest at 1% and are payable in eight equal annual installments commencing July 1, 2014. The note is guaranteed by an outside third party, thus management has determined no allowance is considered necessary at June 30, 2012. If at any time the notes receivable should become past due, the Hospital will assess the collectability of the outstanding balance.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 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, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	30 %	22 %
Medicaid	11	14
Patients	22	26
Other Third-Party Payors	37	38
Total	<u>100 %</u>	<u>100 %</u>

FDIC Coverage

During the year ending June 30, 2012 and 2011, 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 indefinitely. In addition, all non-interest bearing accounts are entirely covered by FDIC insurance through December 2012. Prior to the changes in FDIC insurance coverage, at times, cash balances may have been in excess of insured limits.

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments

The composition of investments, stated at fair value, at June 30, 2012 and 2011 is set forth in the following table:

	<u>2012</u>	<u>2011</u>
Short-Term Investments:		
Cash and Short-Term Investments	\$ 546,676	\$ 9,594,164
Mortgage Backed Government Securities	7,046,603	3,732,345
Corporate Bonds	2,586,173	-
Total Short-Term Investments	<u>10,179,452</u>	<u>13,326,509</u>
Long-Term Investments:		
Mortgage Backed Government Securities	1,067,423	7,127,504
Corporate Bonds	8,958,643	-
Total Long-Term Investments	<u>10,026,066</u>	<u>7,127,504</u>
Total Investments	<u>\$ 20,205,518</u>	<u>\$ 20,454,013</u>

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 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, 2012 and 2011 is set forth in the following table:

	<u>2012</u>	<u>2011</u>
Held by Trustee Under Indenture Agreement:		
Cash and Short-Term Investments	\$ 2,918,248	\$ 4,228,386
Restricted for Construction Project:		
Cash and Short-Term Investments	8,558,751	15,490,553
Other Investments Designated by the Board:		
Cash and Short-Term Investments	<u>25,114</u>	<u>21,257</u>
Total Assets Limited as to Use	11,502,113	19,740,196
Less: Current Portion of Assets Limited as to Use	<u>(1,186,962)</u>	<u>(806,096)</u>
Assets Limited as to Use, Net of Current Portion	<u><u>\$ 10,315,151</u></u>	<u><u>\$ 18,934,100</u></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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investment Income	\$ 510,443	\$ 395,558
Net Change in Unrealized Loss on Marketable Securities	<u>(276,301)</u>	<u>(79,191)</u>
Total	<u><u>\$ 234,142</u></u>	<u><u>\$ 316,367</u></u>

Unrealized Losses

The following table reflects the fair value and unrealized losses, by investment category at June 30, 2012 and 2011:

	<u>2012</u>		<u>2011</u>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate Bonds	\$11,279,108	\$ (146,143)	\$ -	\$ -
Mortgage Backed Government Securities	4,810,082	(91,480)	3,256,356	(13,539)
Total	<u><u>\$ 16,089,190</u></u>	<u><u>\$ (237,623)</u></u>	<u><u>\$ 3,256,356</u></u>	<u><u>\$ (13,539)</u></u>

The unrealized losses on the corporate bonds amounted to \$146,143 at June 30, 2012. The Hospital has no losses on the corporate bonds greater than one year. 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, 2012.

The unrealized losses on the Hospital's investments in Mortgage Backed Government Securities were caused by interest rate increases. 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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Unrealized Losses (Continued)

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, 2012.

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.

NOTE 5 PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Land and Improvements	\$ 1,325,044	\$ 1,107,419
Buildings	54,482,859	44,504,431
Fixed Equipment	7,760,576	6,687,078
Major Movable Equipment	45,795,122	42,135,994
Construction in Progress	<u>14,565,014</u>	<u>9,287,829</u>
Subtotal	123,928,615	103,722,751
Less: Accumulated Depreciation	<u>(61,621,357)</u>	<u>(55,617,272)</u>
Property and Equipment, Net	<u>\$ 62,307,258</u>	<u>\$ 48,105,479</u>

Construction in progress at June 30, 2012 and 2011 includes costs associated with the construction of a new Woman and Children's Center and Oncology building which have an estimated total cost of construction and equipment of approximately \$23,500,000. During fiscal year 2012, phase one of the project was capitalized at an approximate cost of \$8,474,000. The Woman and Children's Center is anticipated to be completed in October 2012 and the Oncology building is anticipated to be completed in the fall 2013. Both projects are being financed with a combination of the Series 2010 D and E bond issuance and capital contributions raised through the Foundation. In 2012 and 2011, approximately \$1,156,000 and \$675,000 of interest expense, net of interest earnings, was capitalized as part of the construction project, respectively.

In addition, construction in progress at June 30, 2012 includes the installation of an electronic medical record system, various remodeling projects and equipment upgrades that are planned to be finished in fiscal 2013 and 2014. The total estimated costs of these projects are approximately \$15,400,000 and are expected to be financed with internal funds.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 LONG-TERM OBLIGATIONS UNDER BOND INDENTURE

Long-term obligations under bond indenture consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Series 2010D Health Care Facility Revenue Bonds, Bearing Fixed Rates of Interest Ranging from 4.0% to 5.5%, Maturing June 1, 2035	\$ 19,015,000	\$ 19,015,000
Series 2010E Health Care Facility Revenue Bonds, Bearing Fixed Rates of Interest Ranging from 4.5% to 5.6%, Maturing June 1, 2025	5,850,000	5,850,000
Series 2010D Unamortized Bond Discount	<u>(436,468)</u>	<u>(455,445)</u>
Total Long-Term Obligations Under Bond Indenture	<u>\$ 24,428,532</u>	<u>\$ 24,409,555</u>

Series 2010 Bonds

On December 29, 2010, the Hospital issued Health Care Facility Revenue Bonds, Series 2010 D and E, in the amount \$24,865,000. The bond issuance provided funding of reserves to pay interest payments on the bonds partially through 2013, funded a debt service reserve fund, paid cost of issuance and provided financing for the ongoing construction project. Interest payments are due annually beginning on June 1, 2013 through maturity and principal payments are due annually beginning on June 1, 2019 through maturity.

Restrictive Covenants

Under the terms of the Bond and Note agreements, 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 and notes would 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 was in compliance with the Debt Service Coverage Ratio requirement for June 30, 2012.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 7 NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

<u>Notes Payable</u>	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>
Promissory Note, First Interstate Bank, unsecured, fixed monthly interest and principal payments of \$38,347 through July 2013	4.00%	\$ 481,621	\$ 902,061
Promissory Note, unsecured, fixed monthly payments of \$13,963 through June of 2015	5.10%	463,808	603,723
Montana Facility Finance Authority Health Facilities Revenue Note Series 2010A, bi-annual interest and principal payments through December 2013	2.60% - 3.05%	2,430,000	4,120,000
Montana Facility Finance Authority Health Facilities Revenue Note Series 2010B, bi-annual interest and principal payments through December 2021	5.10%	9,390,000	9,390,000
<u>Capital Lease Obligations</u>			
Various capital leases with interest rates ranging from 3.27% to 4.78%, monthly interest and principal payments through 2015	3.27% - 4.78%	<u>38,882</u>	<u>191,378</u>
Total Notes Payable and Capital Lease Obligations		12,804,311	15,207,162
Less: Current Portion of Notes Payable and Capital Lease Obligations		<u>(2,344,191)</u>	<u>(2,398,254)</u>
Non-Current Notes Payable and Capital Lease Obligations		<u>\$ 10,460,120</u>	<u>\$ 12,808,908</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>
2013	\$ 2,320,579	\$ 23,813
2014	1,978,281	14,700
2015	2,031,569	612
2016	1,965,000	-
2017	2,070,000	-
Thereafter	2,400,000	-
	<u>\$ 12,765,429</u>	<u>39,125</u>
Less: Amount Representing Interest on Obligation Under Capital Leases		<u>(243)</u>
Total		<u>\$ 38,882</u>

**COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 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 3.25% on June 30, 2012. The line of credit has an interest rate floor of 4%, which was the rate on the line of credit as of June 30, 2012. The revolving line of credit is unsecured. As of June 30, 2012 and 2011, the Hospital has \$-0-outstanding on the line of credit. The line of credit expires December 31, 2012.

NOTE 9 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 August 2014. These leases are collateralized by leased equipment with a cost of \$1,712,365 and \$1,712,365 and accumulated depreciation of \$1,662,765 and \$1,615,152 as of June 30, 2012 and 2011, respectively.

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2017. The total rental expense in fiscal 2012 and 2011 for all operating leases was \$2,045,280 and \$2,201,397, respectively.

The following is a schedule by year of the future minimum lease payments under operating leases as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 1,111,757
2014	725,921
2015	295,911
2016	227,605
2017	186,987
Total	<u>\$ 2,548,181</u>

NOTE 10 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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 10 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicare (Continued)

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.

Montana Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology similar to inpatient Medicare. Outpatient Medicaid services are reimbursed under the lower of usual or customary charge fee structure.

Idaho Medicaid

Due to its 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 25% and 11%, respectively, of the Hospital's net patient revenue for the year ended 2012, and 25% and 10%, respectively, of the Hospital's net patient revenue for the year ended 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 \$1,318,000 and \$640,000, respectively due to prior-year retroactive adjustments in excess of amounts previously estimated.

Commercial Insurance

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, 2012 AND 2011

NOTE 10 NET PATIENT SERVICE REVENUE (CONTINUED)

Montana State Bed Tax (Continued)

The increased Medicaid payment received by the Hospital from the state special revenue amounted to approximately \$4,210,000 and \$5,662,000 for the fiscal years ended June 30, 2012 and 2011, respectively, and is included in net patient service revenues in the consolidated statements of operations. The total utilization fee paid by the Hospital for the fiscal years ended June 30, 2012 and 2011 amounted to approximately \$1,202,000 and \$1,324,000, respectively, and is included in other direct expenses in the consolidated statements of operations. Thus the net impact of the Montana State Bed Tax on the changes in net assets in the accompanying consolidated statements of operations was approximately \$3,008,000 and \$4,338,000 for the years ended June 30, 2012 and 2011, respectively.

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

	<u>2012</u>	<u>2011</u>
Gross Patient Service Revenue	\$ 256,941,732	\$ 254,260,348
Contractual Adjustments:		
Medicare	56,015,873	53,433,403
Medicaid	20,365,034	23,141,971
Other Insurance	<u>34,344,178</u>	<u>32,736,855</u>
Total Contractual Adjustments	<u>110,725,085</u>	<u>109,312,229</u>
Net Patient Service Revenue	<u>\$ 146,216,647</u>	<u>\$ 144,948,119</u>

NOTE 11 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 the defined IRS limits on an annual basis. The Hospital shall make a Matching Contribution equal to 25% of the Elective Contributions, but not in excess of 6% of compensation for Participants. The expense for the years ended June 30, 2012 and 2011 was \$2,181,086 and \$2,041,711, respectively.

The Hospital also maintains a Supplemental Retirement Plan [403(b)]. Substantially all employees may contribute up to the defined IRS limits [401(k) and 403(b) combined] on an annual basis. The Hospital does not make a contribution to the 403(b) plan.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 12 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS

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

	2012	2011
Big Sky Surgery Center	\$ 1,443,385	\$ 1,163,723
Partners in Home Care (through the Missoula Hospital Alliance)	1,617,925	1,510,243
New West Capital Investment	-	226,667
VHA Cooperative	29,865	34,763
VHA Captive Insurance Investment	272,312	272,312
Advanced Imaging Inc., LLC	-	182,316
Missoula Sleep Medicine, LLC	59,514	84,217
Total Investment in Joint Ventures	<u>\$ 3,423,001</u>	<u>\$ 3,474,241</u>

Equity in earnings of the joint venture investments for fiscal years 2012 and 2011 was \$2,909,480 and \$2,098,769, respectively. Distributions declared to the Hospital from the joint ventures for fiscal years 2012 and 2011 were \$2,765,261 and \$1,928,577, respectively.

A description of investments in joint ventures and various related party transactions at June 30, 2012 and 2011 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, 2012 and 2011.

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, 2012 and 2011, the Big Sky Surgery Center owes the Hospital \$4,545 and \$5,391, respectively, which is included in other receivables. The Hospital was billed and recorded expenses in the amount of \$11,717 and \$10,140 in 2012 and 2011, respectively.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

**NOTE 12 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, 2012 and 2011 follows:

	2012	2011
Assets	<u>\$ 5,470,526</u>	<u>\$ 5,124,988</u>
Liabilities	\$ 1,346,569	\$ 1,987,279
Equity	<u>4,123,957</u>	<u>3,137,709</u>
Total Liabilities and Equity	<u>\$ 5,470,526</u>	<u>\$ 5,124,988</u>
Revenue	\$ 9,850,955	\$ 8,916,507
Expenses	<u>5,987,176</u>	<u>6,276,971</u>
Net Income	<u>\$ 3,863,779</u>	<u>\$ 2,639,536</u>

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 2012 and 2011.

Summarized financial information from the audited financial statements of Partners in Home Care at December 31, 2011 and 2010 follows:

	2011	2010
Assets	<u>\$ 3,885,906</u>	<u>\$ 3,446,309</u>
Liabilities	\$ 802,949	\$ 760,822
Equity	<u>3,082,957</u>	<u>2,685,487</u>
Total Liabilities and Equity	<u>\$ 3,885,906</u>	<u>\$ 3,446,309</u>
Revenue	\$ 10,023,196	\$ 9,697,821
Expenses	<u>9,426,405</u>	<u>9,182,654</u>
Net Income	<u>\$ 596,791</u>	<u>\$ 515,167</u>

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. During fiscal year 2012, the Hospital entered into a withdrawal agreement with New West Health Services. As part of this agreement the capital contribution made by the Hospital is no longer subject to repayment. The Hospital recognized a loss included in "Forgiveness of Equity Investment and Notes Receivable" on the consolidated statement of operations for the year ending June 30, 2012. In addition to the capital investment, the Hospital has a subordinated note receivable from New West Health Services at June 30, 2012 amounting to \$3,855,003.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

**NOTE 12 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS
(CONTINUED)**

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 \$29,865 and \$34,763 at June 30, 2012 and 2011, 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. 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, 2012 and 2011, Advanced Imaging, LLC owed the Hospital \$51,441 and \$221,386, respectively, which is included in other receivables and the Hospital owed Advanced Imaging, LLC \$94,691 and \$26,982, respectively. The Hospital was billed and recorded expenses in the amount of \$239,672 and \$348,446 in 2012 and 2011, respectively.

The Hospital owns the building that Advanced Imaging, LLC occupies. The Hospital receives monthly rent payments from Advanced Imaging, LLC of approximately \$17,000.

Effective March 1, 2012, the Hospital executed an agreement to restructure the joint venture so that the Advance Imaging, LLC will operate as a provider-based facility of the Hospital. As part of the restructuring of the agreement the operating, imaging services, professional services, and management services agreements were amended. The Hospital has recorded revenue of \$4,921,784 related to the restructured joint venture agreement. The Hospital has recorded expenses of \$2,032,159 for compensation to Advanced Imaging under the restructured joint venture agreement. Amounts payable to Advanced Imaging at June 30, 2012 were \$100,104.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

**NOTE 12 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, 2012 and 2011 follows:

	2012	2011
Assets	\$ 1,435,283	\$ 2,203,126
Liabilities	\$ 1,507,496	\$ 1,840,566
Equity	(72,213)	362,560
Total Liabilities and Equity	\$ 1,435,283	\$ 2,203,126
Revenue	\$ 7,131,058	\$ 7,398,112
Expenses	4,859,799	5,671,088
Net Income	\$ 2,271,259	\$ 1,727,024

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 2012 and 2011, 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, 2012 and 2011 follows:

	2012	2011
Assets	\$ 222,557	\$ 253,281
Liabilities	\$ 7,509	\$ 2,772
Equity	215,048	250,509
Total Liabilities and Equity	\$ 222,557	\$ 253,281
Revenue	\$ 510,269	\$ 828,932
Expenses	297,064	365,544
Net Income	\$ 213,205	\$ 463,388

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 13 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.

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 \$404,000 and \$420,000 for fiscal years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, the Foundation has reflected a liability to the Hospital of \$88,677 and \$101,071, respectively, related to these payments included in "Other Receivables" on the Hospital's Consolidated Balance Sheet.

Support payments made by the Foundation to the Hospital during the years ended June 30, 2012 and 2011 were \$959,802 and \$465,841, 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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

**NOTE 13 BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION
(CONTINUED)**

A summary of the Foundation's assets, liabilities, and results of operations and changes in net assets as of June 30, 2012 and 2011 follows:

	2012	2011
Assets	<u>\$ 4,769,656</u>	<u>\$ 5,963,551</u>
Liabilities	\$ 247,135	\$ 230,806
Net Assets:		
Unrestricted	809,695	1,390,995
Temporarily Restricted	618,676	1,288,873
Permanently Restricted	<u>3,094,150</u>	<u>3,052,877</u>
Total Net Assets	<u>4,522,521</u>	<u>5,732,745</u>
Total Liabilities and Net Assets	<u>\$ 4,769,656</u>	<u>\$ 5,963,551</u>
Support and Revenue	\$ 547,561	\$ 1,999,354
Expenses Including Distributions to the Hospital	<u>1,757,785</u>	<u>1,144,122</u>
Excess (Deficit) of Support and Revenue over Expenses	<u>\$ (1,210,224)</u>	<u>\$ 855,232</u>

NOTE 14 COMMUNITY BENEFITS AND CHARITY CARE

The mission of the Hospital is to improve the health of the people in its region through exceptional care and services. The Hospital provides services to patients regardless of their ability to pay for those services.

The Hospital defines and measures their investment in and partnership with the community primarily through various community based services programs such as prenatal education, car seat safety education, and health care scholarships. Additionally, a number of health related educational programs are provided for the benefit of the community, including health enhancements and wellness, classes on specific conditions, and programs designed to improve the general standards of the health of the community.

The Hospital provides care, without charge, to patients who meet certain criteria under its financial assistance policy. Key elements used to determine eligibility include a patient's demonstrated inability to pay based on family size and household income related to federal income poverty guidelines. The Hospital's charity care guidelines use a sliding scale starting with free care for those at or below 200% of the Federal Poverty Level, and reduced-cost care for those ranging up to and exceeding 300% of the Federal Poverty Level.

The Hospital has estimated its direct and indirect costs of providing charity care under its financial assistance policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the per-diem rate from the most recently filed cost report to the Hospital's gross bill rate. The cost-to-charge ratio is applied to the charity care charges foregone to calculate the estimated direct and indirect cost of providing charity care.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 14 COMMUNITY BENEFITS AND CHARITY CARE (CONTINUED)

Using this methodology, the Hospital has estimated the costs foregone for services and supplies furnished under the Hospital's financial assistance policy aggregated approximately \$1,830,000 and \$1,985,000 for the years ended June 30, 2012 and 2011, respectively.

The Hospital did not receive any funds to subsidize the costs of providing charity care under its financial assistance policy for the years ended June 30, 2012 and 2011.

The Hospital also provides medical care without charge or at reduced charges to residents of the community through Bad Debts, which are services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors.

The Hospital maintains records to identify and monitor the level of community benefits it provides. These records include management's estimate of the cost for bad debt services, and the cost of services, and supplies furnished for Community Service programs.

NOTE 15 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, 2012 and 2011:

2012	Level 1	Level 2	Level 3	Total
Short-Term Investments:				
Mortgage Backed				
Government Securities	\$ -	\$ 7,046,603	\$ -	\$ 7,046,603
Corporate Bonds	-	2,586,173	-	2,586,173
Long-Term Investments:				
Mortgage Backed				
Government Securities	-	1,067,423	-	1,067,423
Corporate Bonds	-	8,958,643	-	8,958,643
Beneficial Interest in Net Assets of Community Medical Center Foundation				
	-	-	4,522,521	4,522,521
	<u>\$ -</u>	<u>\$ 19,658,842</u>	<u>\$ 4,522,521</u>	<u>\$ 24,181,363</u>

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2011	Level 1	Level 2	Level 3	Total
Short-Term Investments:				
Mortgage Backed				
Government Securities	\$ -	\$ 3,732,345	\$ -	\$ 3,732,345
Long-Term Investments:				
Mortgage Backed				
Government Securities	-	7,127,504	-	7,127,504
Beneficial Interest in Net Assets of Community Medical Center Foundation				
	-	-	5,732,745	5,732,745
	<u>\$ -</u>	<u>\$ 10,859,849</u>	<u>\$ 5,732,745</u>	<u>\$ 16,592,594</u>

The following table provides a summary of changes to fair value of the Hospital's Level 3 financial assets for the years ended June 30, 2012 and 2011:

2012	Foundation
Beginning Balance	\$ 5,732,745
Change in Value of Beneficial Interest in Net Assets of CMC Foundation	(1,210,224)
Ending Balance	<u>\$ 4,522,521</u>
2011	Foundation
Beginning Balance	\$ 4,877,513
Change in Value of Beneficial Interest in Net Assets of CMC Foundation	855,232
Ending Balance	<u>\$ 5,732,745</u>

The following is a summary of financial instruments for which the Hospital did not elect the fair value option. The fair values of such instrument 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 following disclosures represent financial instruments in which the ending balances at June 30, 2012 and 2011, are not carried at fair value in their entirety on the consolidated balance sheet:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Health Care Facility Revenue Bonds	<u>\$ 24,428,532</u>	<u>\$ 27,470,322</u>	<u>\$ 24,409,555</u>	<u>\$ 28,223,854</u>

The fair value of the Hospital's health care revenue bonds were 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, 2012 AND 2011

NOTE 16 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 \$163,000 and \$99,000 during fiscal 2012 and 2011, respectively, and this has been recorded as an expense. As of June 30, 2012 and 2011, the Hospital has accrued a liability of \$135,000 as a potential payout.

NOTE 17 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, 2012 and 2011 are as follows:

	2012	2011
Healthcare Services	\$ 108,827,089	\$ 108,588,927
General and Administrative	35,994,425	33,196,765
Fundraising	2,106	18,165
Total	\$ 144,823,620	\$ 141,803,857

NOTE 18 COMMITMENTS AND CONTINGENCIES

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 June 30, 2012 and 2011, management has estimated and recorded a liability reserve for a range of potential costs associated with these legal actions, included in accounts payable on the consolidated balance sheet.

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, 2012**

	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 16,713,175	\$ 310,097	\$ -	\$ 17,023,272
Restricted Cash	61,711	-	-	61,711
Current Portion of Assets Limited as to Use	1,186,962	-	-	1,186,962
Short-Term Investments	10,179,452	-	-	10,179,452
Patient Receivables, Net of Allowance for Doubtful Accounts	19,493,184	267,211	(190,350)	19,570,045
Other Receivables	1,764,434	-	(141,787)	1,622,647
Inventory	2,908,970	188,564	-	3,097,534
Prepaid and Other Assets	1,034,069	110,929	(30,812)	1,114,186
Total Current Assets	<u>53,341,957</u>	<u>876,801</u>	<u>(362,949)</u>	<u>53,855,809</u>
LONG-TERM INVESTMENTS	10,026,066	-	-	10,026,066
ASSETS LIMITED AS TO USE				
By Board	25,114	-	-	25,114
Restricted for Construction Project, Net of Current Portion	7,481,131	-	-	7,481,131
Held by Trustee Under Indenture Agreement, Net of Current Portion	2,808,906	-	-	2,808,906
Total Assets Limited as to Use, Net of Current Portion	<u>10,315,151</u>	<u>-</u>	<u>-</u>	<u>10,315,151</u>
BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION				
	4,522,521	-	-	4,522,521
PROPERTY AND EQUIPMENT, NET	61,174,452	1,132,806	-	62,307,258
OTHER ASSETS				
Unamortized Bond Issuance Costs	889,946	-	-	889,946
Notes Receivable	3,855,003	-	-	3,855,003
Investment in Majority Owned Subsidiary	1,272,321	-	(1,272,321)	-
Investment in Joint Ventures	3,423,001	-	-	3,423,001
Total Other Assets	<u>9,440,271</u>	<u>-</u>	<u>(1,272,321)</u>	<u>8,167,950</u>
Total Assets	<u>\$ 148,820,418</u>	<u>\$ 2,009,607</u>	<u>\$ (1,635,270)</u>	<u>\$ 149,194,755</u>

**COMMUNITY MEDICAL CENTER
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2012**

	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current Portion of Notes Payable and Capital Lease Obligations	\$ 2,196,882	\$ 147,309	\$ -	\$ 2,344,191
Accounts Payable:				
Trade	7,485,923	143,485	(332,137)	7,297,271
Construction and Equipment	1,328,269	-	-	1,328,269
Estimated Third-Party Payor Settlements	7,095,680	-	-	7,095,680
Accrued Salaries, Payroll Related Liabilities, and Other Liabilities	8,597,904	30,812	(30,812)	8,597,904
Accrued Interest Payable	155,002	1,944	-	156,946
Total Current Liabilities	<u>26,859,660</u>	<u>323,550</u>	<u>(362,949)</u>	<u>26,820,261</u>
LONG-TERM DEBT OBLIGATIONS				
Long-Term Obligations Under Bond Indenture	24,428,532	-	-	24,428,532
Notes Payable and Capital Lease Obligations, Less Current Maturities	<u>10,143,621</u>	<u>316,499</u>	<u>-</u>	<u>10,460,120</u>
Long-Term Debt Obligations, Less Current Maturities	34,572,153	316,499	-	34,888,652
Total Liabilities	61,431,813	640,049	(362,949)	61,708,913
NET ASSETS				
Unrestricted Net Assets:				
Undesignated	82,779,259	1,272,321	(1,272,321)	82,779,259
Board Designated	25,114	-	-	25,114
Noncontrolling Interest in Subsidiary	-	97,237	-	97,237
Total Unrestricted Net Assets	<u>82,804,373</u>	<u>1,369,558</u>	<u>(1,272,321)</u>	<u>82,901,610</u>
Temporarily Restricted Net Assets	1,490,082	-	-	1,490,082
Permanently Restricted Net Assets	<u>3,094,150</u>	<u>-</u>	<u>-</u>	<u>3,094,150</u>
Total Net Assets	<u>87,388,605</u>	<u>1,369,558</u>	<u>(1,272,321)</u>	<u>87,485,842</u>
Total Liabilities and Net Assets	<u>\$ 148,820,418</u>	<u>\$ 2,009,607</u>	<u>(1,635,270)</u>	<u>\$ 149,194,755</u>

**COMMUNITY MEDICAL CENTER
CONSOLIDATING BALANCE SHEET
JUNE 30, 2011**

	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 21,577,563	\$ 621,727	\$ -	\$ 22,199,290
Restricted Cash	51,324	-	-	51,324
Current Portion of Assets Limited as to Use	806,096	-	-	806,096
Short-Term Investments	13,326,509	-	-	13,326,509
Patient Receivables, Net of Allowance for Doubtful Accounts	17,791,959	301,546	(199,703)	17,893,802
Other Receivables	2,650,511	-	(171,488)	2,479,023
Inventory	3,180,393	156,364	-	3,336,757
Prepaid and Other Assets	713,124	90,365	(26,511)	776,978
Total Current Assets	60,097,479	1,170,002	(397,702)	60,869,779
LONG-TERM INVESTMENTS	7,127,504	-	-	7,127,504
ASSETS LIMITED AS TO USE				
By Board	21,257	-	-	21,257
Restricted by Contributors for Capital	14,793,799	-	-	14,793,799
Held by Trustee Under Indenture Agreement, Net of Current Portion	4,119,044	-	-	4,119,044
Total Assets Limited as to Use, Net of Current Portion	18,934,100	-	-	18,934,100
BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION				
	5,732,745	-	-	5,732,745
PROPERTY AND EQUIPMENT, NET	46,624,237	1,481,242	-	48,105,479
OTHER ASSETS				
Unamortized Bond Issuance Costs	952,862	-	-	952,862
Notes Receivable	5,154,301	-	-	5,154,301
Investment in Majority Owned Subsidiary	1,624,596	-	(1,624,596)	-
Investment in Joint Ventures	3,474,241	-	-	3,474,241
Total Other Assets	11,206,000	-	(1,624,596)	9,581,404
Total Assets	\$ 149,722,065	\$ 2,651,244	\$ (2,022,298)	\$ 150,351,011

**COMMUNITY MEDICAL CENTER
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2011**

	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current Portion of Notes Payable and Capital Lease Obligations	\$ 2,262,327	\$ 135,927	\$ -	\$ 2,398,254
Accounts Payable:				
Trade	6,923,155	269,808	(371,191)	6,821,772
Construction and Equipment	4,238,113	-	-	4,238,113
Estimated Third-Party Payor Settlements	8,848,125	-	-	8,848,125
Accrued Salaries, Payroll Related Liabilities, and Other Liabilities	10,017,900	26,511	(26,511)	10,017,900
Accrued Interest Payable	158,302	2,446	-	160,748
Total Current Liabilities	<u>32,447,922</u>	<u>434,692</u>	<u>(397,702)</u>	<u>32,484,912</u>
LONG-TERM DEBT OBLIGATIONS				
Long-Term Obligations Under Bond Indenture	24,409,555	-	-	24,409,555
Notes Payable and Capital Lease Obligations, Less Current Maturities	12,341,112	467,796	-	12,808,908
Long-Term Debt Obligations, Less Current Maturities	<u>36,750,667</u>	<u>467,796</u>	<u>-</u>	<u>37,218,463</u>
Total Liabilities	69,198,589	902,488	(397,702)	69,703,375
NET ASSETS				
Unrestricted Net Assets:				
Undesignated	74,718,151	1,624,596	(1,624,596)	74,718,151
Board Designated	21,257	-	-	21,257
Noncontrolling Interest in Subsidiary	-	124,160	-	124,160
Total Unrestricted Net Assets	<u>74,739,408</u>	<u>1,748,756</u>	<u>(1,624,596)</u>	<u>74,863,568</u>
Temporarily Restricted Net Assets	2,731,191	-	-	2,731,191
Permanently Restricted Net Assets	3,052,877	-	-	3,052,877
Total Net Assets	<u>80,523,476</u>	<u>1,748,756</u>	<u>(1,624,596)</u>	<u>80,647,636</u>
Total Liabilities and Net Assets	<u>\$ 149,722,065</u>	<u>\$ 2,651,244</u>	<u>(2,022,298)</u>	<u>\$ 150,351,011</u>

**COMMUNITY MEDICAL CENTER
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2012**

	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
UNRESTRICTED REVENUES AND GAINS				
Net Patient Service Revenue	\$ 145,910,558	\$ 1,746,875	\$ (1,440,786)	\$ 146,216,647
Other Operating Revenue	3,837,735	57,019	(185,192)	3,709,562
Total Unrestricted Revenue and Gains	<u>149,748,293</u>	<u>1,803,894</u>	<u>(1,625,978)</u>	<u>149,926,209</u>
OPERATING EXPENSES				
Salaries and Wages	58,380,515	-	117,616	58,498,131
Employee Benefits	13,551,734	-	-	13,551,734
Professional Fees	7,943,889	142,314	(130,995)	7,955,208
Purchased Services	16,328,310	983,772	(1,478,088)	15,833,994
Medical Supplies	21,756,403	498,871	(105)	22,255,169
Non-Medical Supplies	3,354,604	6,296	-	3,360,900
Utilities	1,693,215	21,867	(21,149)	1,693,933
Depreciation and Amortization	6,742,317	387,361	-	7,129,678
Bad Debt Expense	7,247,920	(17,693)	-	7,230,227
Interest Expense	825,784	27,517	-	853,301
Leases and Rents	2,036,264	98,090	(113,257)	2,021,097
Education and Travel	774,929	615	-	775,544
Other Direct Expenses	3,627,127	37,577	-	3,664,704
Total Operating Expenses	<u>144,263,011</u>	<u>2,186,587</u>	<u>(1,625,978)</u>	<u>144,823,620</u>
OPERATING INCOME (LOSS)	5,485,282	(382,693)	-	5,102,589
OTHER INCOME AND EXPENSE				
Investment Income	510,064	379	-	510,443
Equity Earnings in Joint Venture Income	2,557,205	-	352,275	2,909,480
Forgiveness of Equity Investment and Notes Receivable	(1,546,367)	-	-	(1,546,367)
Other Nonoperating Gain (Loss), Net	(158,558)	3,115	-	(155,443)
Total Other Income and Expense	<u>1,362,344</u>	<u>3,494</u>	<u>352,275</u>	<u>1,718,113</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	6,847,626	(379,199)	352,275	6,820,702
Net Change in Unrealized Loss on Marketable Securities	(276,301)	-	-	(276,301)
Net Assets Released from Restriction	1,493,641	-	-	1,493,641
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 8,064,966</u>	<u>\$ (379,199)</u>	<u>\$ 352,275</u>	<u>\$ 8,038,042</u>

**COMMUNITY MEDICAL CENTER
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2011**

	Community Medical Center	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
UNRESTRICTED REVENUES AND GAINS				
Net Patient Service Revenue	\$ 144,626,212	\$ 1,823,544	\$ (1,501,637)	\$ 144,948,119
Other Operating Revenue	2,867,372	24,971	(139,311)	2,753,032
Total Unrestricted Revenue and Gains	<u>147,493,584</u>	<u>1,848,515</u>	<u>(1,640,948)</u>	<u>147,701,151</u>
OPERATING EXPENSES				
Salaries and Wages	56,664,105	-	102,265	56,766,370
Employee Benefits	14,036,787	-	-	14,036,787
Professional Fees	7,953,632	152,779	(102,013)	8,004,398
Purchased Services	14,493,021	1,007,935	(1,524,389)	13,976,567
Medical Supplies	22,397,172	527,287	(1,000)	22,923,459
Non-Medical Supplies	3,448,023	9,655	-	3,457,678
Utilities	1,701,681	24,429	(23,581)	1,702,529
Depreciation and Amortization	6,070,095	385,903	-	6,455,998
Bad Debt Expense	6,890,807	3,847	-	6,894,654
Interest Expense	703,930	35,755	-	739,685
Leases and Rents	2,182,518	97,119	(91,770)	2,187,867
Education and Travel	999,230	186	-	999,416
Other Direct Expenses	3,598,301	60,608	(460)	3,658,449
Total Operating Expenses	<u>141,139,302</u>	<u>2,305,503</u>	<u>(1,640,948)</u>	<u>141,803,857</u>
OPERATING INCOME (LOSS)	6,354,282	(456,988)	-	5,897,294
OTHER INCOME AND EXPENSE				
Investment Income	394,141	1,417	-	395,558
Equity Earnings in Joint Venture Income	1,687,317	-	411,452	2,098,769
Other Nonoperating Gain (Loss), Net	(184,139)	9,891	-	(174,248)
Total Other Income and Expense	<u>1,897,319</u>	<u>11,308</u>	<u>411,452</u>	<u>2,320,079</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	8,251,601	(445,680)	411,452	8,217,373
Net Change in Unrealized Loss on Marketable Securities	(79,191)	-	-	(79,191)
Net Assets Released from Restriction	2,504,268	-	-	2,504,268
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 10,676,678</u>	<u>\$ (445,680)</u>	<u>\$ 411,452</u>	<u>\$ 10,642,450</u>