

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

**COMMUNITY MEDICAL CENTER, INC.
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF OPERATIONS	5
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8
SUPPLEMENTARY INFORMATION	
CONSOLIDATING BALANCE SHEET – JUNE 30, 2013	34
CONSOLIDATING BALANCE SHEET – JUNE 30, 2012	36
CONSOLIDATING STATEMENT OF OPERATIONS – YEAR ENDED JUNE 30, 2013	38
CONSOLIDATING STATEMENT OF OPERATIONS – YEAR ENDED JUNE 30, 2012	39

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Community Medical Center, Inc. (the Hospital), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Community Medical Center, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Medical Center, Inc. as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 22, 2013

**COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 14,811,278	\$ 17,023,272
Restricted Cash	95,106	61,711
Current Portion of Assets Limited as to Use	1,384,608	1,186,962
Short-Term Investments	5,282,804	10,179,452
Patient Receivables, Net of Allowance for Doubtful Accounts of \$4,900,000 in 2013 and \$3,972,000 in 2012	23,725,889	19,570,045
Other Receivables	2,422,556	1,622,647
Inventory	3,414,285	3,097,534
Prepaid and Other Assets	1,084,495	1,114,186
Total Current Assets	52,221,021	53,855,809
LONG-TERM INVESTMENTS	15,101,689	10,026,066
ASSETS LIMITED AS TO USE		
By Board	12,055	25,114
Restricted for Construction Project, Net of Current Portion	2,115,655	7,481,131
Held by Trustee Under Indenture Agreement, Net of Current Portion	2,141,977	2,808,906
Total Assets Limited as to Use, Net of Current Portion	4,269,687	10,315,151
BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION		
	4,129,954	4,522,521
PROPERTY AND EQUIPMENT, NET		
	69,200,136	62,307,258
OTHER ASSETS		
Unamortized Bond Issuance Costs	827,029	889,946
Notes Receivable	3,877,121	3,855,003
Investment in Joint Ventures	3,773,064	3,423,001
Total Other Assets	8,477,214	8,167,950
Total Assets	\$ 153,399,701	\$ 149,194,755

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Current Portion of Notes Payable and Capital Lease Obligations	\$ 2,025,371	\$ 2,344,191
Accounts Payable:		
Trade	9,435,994	7,297,271
Construction and Equipment	1,455,104	1,328,269
Estimated Third-Party Payor Settlements	4,634,233	7,095,680
Accrued Salaries, Payroll Related Liabilities, and Other Liabilities	9,558,775	8,597,904
Accrued Interest Payable	<u>152,272</u>	<u>156,946</u>
Total Current Liabilities	<u>27,261,749</u>	<u>26,820,261</u>
 LONG-TERM DEBT OBLIGATIONS		
Long-Term Obligations Under Bond Indenture	24,447,509	24,428,532
Notes Payable and Capital Lease Obligations, Less Current Maturities	<u>8,651,485</u>	<u>10,460,120</u>
Long-Term Debt Obligations, Less Current Maturities	<u>33,098,994</u>	<u>34,888,652</u>
 Total Liabilities	 60,360,743	 61,708,913
 NET ASSETS		
Unrestricted Net Assets:		
Undesignated	88,710,553	82,779,259
Board Designated	12,055	25,114
Noncontrolling Interest in Subsidiary	<u>91,292</u>	<u>97,237</u>
Total Unrestricted Net Assets	88,813,900	82,901,610
Temporarily Restricted Net Assets	1,125,361	1,490,082
Permanently Restricted Net Assets	<u>3,099,697</u>	<u>3,094,150</u>
Total Net Assets	<u>93,038,958</u>	<u>87,485,842</u>
 Total Liabilities and Net Assets	 <u>\$ 153,399,701</u>	 <u>\$ 149,194,755</u>

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
UNRESTRICTED REVENUES AND GAINS		
Net Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 153,567,424	\$ 146,216,647
Provision for Uncollectible Accounts	(8,886,951)	(7,230,227)
Net Patient Service Revenue Less Provision for Uncollectible Accounts	144,680,473	138,986,420
Other Operating Revenue	8,589,348	3,672,260
Total Unrestricted Revenue and Gains	153,269,821	142,658,680
OPERATING EXPENSES		
Salaries and Wages	63,260,700	58,498,131
Employee Benefits	14,678,181	13,551,734
Professional Fees	7,706,462	7,955,208
Purchased Services	21,740,570	15,833,994
Medical Supplies	23,050,643	22,255,169
Non-Medical Supplies	2,963,942	3,360,900
Utilities	1,833,988	1,693,933
Depreciation and Amortization	8,725,287	7,129,678
Interest Expense	1,511,146	853,301
Leases and Rents	2,092,925	2,021,097
Education and Travel	745,366	775,544
Other Direct Expenses	3,684,517	3,664,704
Total Operating Expenses	151,993,727	137,593,393
OPERATING INCOME	1,276,094	5,065,287
OTHER INCOME AND EXPENSE		
Investment Income	653,066	510,443
Equity Earnings in Joint Venture Income	3,396,662	2,909,480
Forgiveness of Equity Investment and Notes Receivable	-	(1,546,367)
Other Nonoperating Loss, Net	(86,932)	(118,141)
Total Other Income and Expense	3,962,796	1,755,415
EXCESS OF REVENUE OVER EXPENSES	5,238,890	6,820,702
Net Change in Unrealized Loss on Marketable Securities	(368,237)	(276,301)
Net Assets Released from Restriction	1,041,637	1,493,641
INCREASE IN UNRESTRICTED NET ASSETS	\$ 5,912,290	\$ 8,038,042

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 AND 2012

	Unrestricted Net Assets	Noncontrolling Interest	Total Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
NET ASSETS - JULY 1, 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	82,804,373	97,237	82,901,610	1,490,082	3,094,150	87,485,842
CHANGES IN NET ASSETS						
Excess (Deficit) of Revenue Over Expenses	5,244,835	(5,945)	5,238,890	-	-	5,238,890
Net Change in Unrealized Loss on Marketable Securities	(368,237)	-	(368,237)	-	-	(368,237)
Net Assets Released from Restriction	1,041,637	-	1,041,637	(1,041,637)	-	-
Temporarily Restricted Donations and Grants	-	-	-	1,075,030	-	1,075,030
Change in Beneficial Interest in Temporarily and Permanently Restricted Net Assets of Community Medical Center Foundation	-	-	-	(398,114)	5,547	(392,567)
Increase (Decrease) in Net Assets	<u>5,918,235</u>	<u>(5,945)</u>	<u>5,912,290</u>	<u>(364,721)</u>	<u>5,547</u>	<u>5,553,116</u>
NET ASSETS - JUNE 30, 2013	<u>\$ 88,722,608</u>	<u>\$ 91,292</u>	<u>\$ 88,813,900</u>	<u>\$ 1,125,361</u>	<u>\$ 3,099,697</u>	<u>\$ 93,038,958</u>

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 5,553,116	\$ 6,838,206
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	392,567	1,210,224
Depreciation and Amortization	8,725,287	7,129,678
Provision for Uncollectible Accounts	8,886,951	7,230,227
Unrealized Loss on Investments	368,237	276,301
Forgiveness of Equity Investment and Notes Receivable	-	1,546,367
Temporarily Restricted Donations and Grants	(1,075,030)	(1,504,029)
Equity in Earnings from Joint Ventures	(3,396,662)	(2,909,480)
Increase in:		
Accounts Receivable and Other Receivables	(13,864,822)	(7,970,496)
Inventory and Prepaid Expenses	(287,060)	(97,985)
Increase (Decrease) in:		
Accounts Payable and Accrued Salaries and Related Liabilities	3,099,594	(975,705)
Estimated Third-Party Payor Settlements	(2,461,447)	(1,752,445)
Accrued Interest Payable	(4,674)	(3,802)
Net Cash Provided by Operating Activities	5,936,057	9,017,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(15,182,436)	(24,159,408)
Purchases of Investments	(10,096,290)	(12,775,294)
Sales of Investments	9,562,137	12,747,488
Purchases of Assets Limited as to Use	(1,326,395)	(1,321,734)
Sales of Assets Limited as to Use	7,161,154	9,559,817
Distributions from Investments in Joint Ventures	3,046,599	2,665,261
Net Cash Used by Investing Activities	(6,835,231)	(13,283,870)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable and Capital Lease Obligations	(2,354,455)	(2,402,851)
Temporarily Restricted Donations and Grants	1,041,635	1,493,642
Net Cash Used by Financing Activities	(1,312,820)	(909,209)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,211,994)	(5,176,018)
Cash and Cash Equivalents - Beginning of Year	17,023,272	22,199,290
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,811,278	\$ 17,023,272
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for Interest	\$ 2,104,229	\$ 1,966,426
Construction in Progress Payables	\$ 1,455,104	\$ 1,328,269

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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.

Principles of Consolidation

The consolidated financial statements include the accounts of Community Medical Center, Inc. and Montana Heart Angio Lab, LLC. All material intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America, (GAAP), as codified by the Financial Accounting Standards Board (FASB).

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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

Patient and resident accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient and resident accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivables (Continued)

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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. 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 directors 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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net (Continued)

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.

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).

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2010 to 2012 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:

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

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 15 to the consolidated financial statements for the fair market value disclosures of the Hospital's financial instruments as of June 30, 2013 and 2012.

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. 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 GAAP. 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.

**COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Accounting Standard Update

During 2013, the Hospital adopted an accounting standard update "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts" in the consolidated financial statements. The update results in net patient service revenue being presented net of the provision for uncollectible accounts for patient accounts that the Hospital did not believe were collectible at the time the service was provided. The change in the presentation results in net patient service revenue (after any provision for bad debts) that is more consistent to the actual revenue the Hospital expects to collect. The added disclosures will assist the users of the consolidated financial statements to better understand how the Hospital recognizes patient service revenue and assesses uncollectible accounts.

Reclassifications

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the Hospital's overall net assets.

Subsequent Events

In preparing the consolidated financial statements, the Hospital has considered events and transactions that have occurred through October 22, 2013, the date in which the consolidated financial statements were available to be issued.

NOTE 2 NOTES RECEIVABLE

Notes receivable at June 30, 2013 and 2012 is set forth in the following table:

	2013	2012
New West Health Plan	\$ 3,834,601	\$ 3,834,601
Other	42,520	20,402
Total Notes Receivable	\$ 3,877,121	\$ 3,855,003

**COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 2 NOTES RECEIVABLE (CONTINUED)

New West Health Plan

Notes receivable at June 30, 2013 and 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. 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, 2013 and 2012. If at any time the notes receivable should become past due, the Hospital will assess the collectability of the outstanding balance.

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, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	25 %	30 %
Medicaid	15	11
Patients	23	22
Other Third-Party Payors	37	37
Total	<u>100 %</u>	<u>100 %</u>

FDIC Coverage

The Hospital has from time to time deposits in excess of Federal Depository Insurance Corporation limits. Management believes any credit risk related to these deposits is minimal.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments

The composition of investments, stated at fair value, at June 30, 2013 and 2012 is set forth in the following table:

	2013	2012
Short-Term Investments:		
Cash and Short-Term Investments	\$ 623,567	\$ 546,676
Mortgage Backed Government Securities	1,023,205	7,046,603
Corporate Bonds	3,636,032	2,586,173
Total Short-Term Investments	5,282,804	10,179,452
Long-Term Investments:		
Mortgage Backed Government Securities	4,486,638	1,067,423
Corporate Bonds	10,615,051	8,958,643
Total Long-Term Investments	15,101,689	10,026,066
Total Investments	\$ 20,384,493	\$ 20,205,518

Assets Limited as to Use

The composition of assets limited as to use, stated at fair value, at June 30, 2013 and 2012 is set forth in the following table:

	2013	2012
Held by Trustee Under Indenture Agreement:		
Cash and Short-Term Investments	\$ 2,251,319	\$ 2,918,248
Restricted for Construction Project:		
Cash and Short-Term Investments	3,390,921	8,558,751
Other Investments Designated by the Board:		
Cash and Short-Term Investments	12,055	25,114
Total Assets Limited as to Use	5,654,295	11,502,113
Less: Current Portion of Assets Limited as to Use	(1,384,608)	(1,186,962)
Assets Limited as to Use, Net of Current Portion	\$ 4,269,687	\$ 10,315,151

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, 2013 and 2012:

	2013	2012
Investment Income	\$ 653,066	\$ 510,443
Net Change in Unrealized Loss on Marketable Securities	(368,237)	(276,301)
Total	\$ 284,829	\$ 234,142

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Unrealized Losses

The following table shows the fair value and gross unrealized losses of the Hospital's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2013:

	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate Bonds	\$ 5,414,246	\$ (70,000)	\$ 8,570,626	\$ (230,418)
Mortgage Backed Government Securities	4,486,638	(19,437)	1,067,423	(61,325)
Total	\$ 9,900,884	\$ (89,437)	\$ 9,638,049	\$ (291,743)

The unrealized losses on the Hospital's investments in Mortgage Backed Government Securities and Corporate Bonds amounted of \$381,180 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. 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, 2013.

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, 2013 and 2012 are as follows:

	2013	2012
Land and Improvements	\$ 1,543,571	\$ 1,325,044
Buildings	62,536,099	54,482,859
Fixed Equipment	7,831,344	7,760,576
Major Movable Equipment	60,220,260	45,795,122
Construction in Progress	6,545,468	14,565,014
Subtotal	138,676,742	123,928,615
Less: Accumulated Depreciation	(69,476,606)	(61,621,357)
Property and Equipment, Net	\$ 69,200,136	\$ 62,307,258

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 PROPERTY AND EQUIPMENT, NET (CONTINUED)

Construction in progress at June 30, 2013 includes costs associated with the construction of a new Oncology building which has an estimated total cost of construction and equipment of approximately \$7,900,000. The Oncology building is being financed with proceeds from the Series 2010 D and E bond issuance and is expected to be completed in the Fall of 2013.

During fiscal year 2013, phase's two and three of the Woman and Children's Center project were completed at an approximate cost of \$6,568,000, bringing the project to completion. During fiscal year 2012, phase one of the project was capitalized at an approximate cost of \$8,474,000. In 2013 and 2012, approximately \$647,000 and \$675,000 of interest expense, net of interest earnings, was capitalized as part of the construction project, respectively. In addition, the installation of an electronic medical records system was completed in fiscal year 2013 at an approximate total cost of \$11,900,000.

NOTE 6 LONG-TERM OBLIGATIONS UNDER BOND INDENTURE

Long-term obligations under bond indenture consists of the following at June 30, 2013 and 2012:

	2013	2012
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	(417,491)	(436,468)
Total Long-Term Obligations Under Bond Indenture	\$ 24,447,509	\$ 24,428,532

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, 2013.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

<u>Notes Payable</u>	<u>Interest Rate</u>	<u>2013</u>	<u>2012</u>
Promissory Note, First Interstate Bank, unsecured, fixed monthly interest and principal payments of \$38,347 through July 2013	4.00%	\$ 38,422	\$ 481,621
Promissory Note, unsecured, fixed monthly payments of \$13,963 through June of 2015	5.10%	316,612	463,808
Montana Facility Finance Authority Health Facilities Revenue Note Series 2010A, bi-annual interest and principal payments through December 2013	2.60% - 3.05%	700,000	2,430,000
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
Promissory Note, secured by property, fixed monthly principal and interest payments of \$2,800 through February 2020	1.01%	216,552	-
<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>15,270</u>	<u>38,882</u>
Total Notes Payable and Capital Lease Obligations		10,676,856	12,804,311
Less: Current Portion of Notes Payable and Capital Lease Obligations		<u>(2,025,371)</u>	<u>(2,344,191)</u>
Non-Current Notes Payable and Capital Lease Obligations		<u>\$ 8,651,485</u>	<u>\$ 10,460,120</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>
2014	\$ 2,009,925	\$ 15,312
2015	2,064,012	-
2016	1,997,201	-
2017	2,102,531	-
2018	2,432,861	-
Thereafter	<u>55,056</u>	<u>-</u>
	<u>\$ 10,661,586</u>	<u>15,312</u>
Less: Amount Representing Interest on Obligation Under Capital Leases		<u>(42)</u>
Total		<u>\$ 15,270</u>

**COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013. The line of credit has an interest rate floor of 4%, which was the rate on the line of credit as of June 30, 2013. The revolving line of credit is unsecured. As of June 30, 2013 and 2012, the Hospital has \$-0-outstanding on the line of credit. The line of credit expires December 31, 2013.

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 \$1,645,451 and \$1,712,365 and accumulated depreciation of \$1,630,922 and \$1,662,765 as of June 30, 2013 and 2012, 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 2013 and 2012 for all operating leases was \$2,125,725 and \$2,045,280, respectively.

The following is a schedule by year of the future minimum lease payments under operating leases as of June 30, 2013:

<u>Year Ending June 30.</u>	<u>Amount</u>
2014	\$ 981,766
2015	745,666
2016	422,095
2017	422,382
2018	333,695
Thereafter	1,077,420
Total	<u>\$ 3,983,024</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, 2013 AND 2012

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 22% and 8%, respectively, of the Hospital's net patient revenue for the year ended 2013, and 23% and 9%, respectively, of the Hospital's net patient revenue for the year ended 2012. 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 2013 and 2012 net patient service revenue increased approximately \$602,000 and \$1,318,000, 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.

**COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 NET PATIENT SERVICE REVENUE (CONTINUED)

Uninsured Patients

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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.

The increased Medicaid payment received by the Hospital from the state special revenue amounted to approximately \$3,647,000 and \$4,210,000 for the fiscal years ended June 30, 2013 and 2012, 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, 2013 and 2012 amounted to approximately \$1,300,000 and \$1,202,000, 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 \$2,347,000 and \$3,008,000 for the years ended June 30, 2013 and 2012, respectively.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<u>2013</u>	<u>2012</u>
Patient Service Revenue (Net of Contractual Allowances and Discounts) from:		
Third-Party Payors	\$ 139,815,106	\$ 133,439,485
Uninsured Patients	13,752,318	12,777,162
	<u>153,567,424</u>	<u>146,216,647</u>
Provision for Uncollectible Accounts	<u>(8,886,951)</u>	<u>(7,230,227)</u>
Net Patient Service Revenue Less Provision for Uncollectible Accounts:	<u>\$ 144,680,473</u>	<u>\$ 138,986,420</u>

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 11 RETIREMENT PLAN

The Hospital maintains a Defined Contribution Plan for employees with one or more years of 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, 2013 and 2012 was \$2,222,957 and \$2,181,086, 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.

NOTE 12 INVESTMENTS IN JOINT VENTURES AND RELATED PARTY TRANSACTIONS

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

	2013	2012
Big Sky Surgery Center	\$ 1,584,313	\$ 1,443,385
Partners in Home Care (through the Missoula Hospital Alliance)	1,865,480	1,617,925
VHA Cooperative	36,160	29,865
VHA Captive Insurance Investment	-	272,312
Advanced Imaging Inc., LLC	226,491	-
Missoula Sleep Medicine, LLC	60,620	59,514
Total Investment in Joint Ventures	\$ 3,773,064	\$ 3,423,001

Equity in earnings of the joint venture investments for fiscal years 2013 and 2012 was \$3,396,662 and \$2,909,480, respectively. Distributions declared to the Hospital from the joint ventures for fiscal years 2013 and 2012 were \$3,046,599 and \$2,765,261, respectively.

A description of investments in joint ventures and various related party transactions at June 30, 2013 and 2012 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, 2013 and 2012.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

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, 2013 and 2012, the Big Sky Surgery Center owes the Hospital \$6,702 and \$4,545, respectively, which is included in other receivables. The Hospital was billed and recorded expenses in the amount of \$11,622 and \$11,717 in 2013 and 2012, respectively.

Summarized financial information from the unaudited financial statements of Big Sky Surgery Center at June 30, 2013 and 2012 follows:

	2013	2012
Assets	<u>\$ 5,503,033</u>	<u>\$ 5,470,526</u>
Liabilities	\$ 983,197	\$ 1,346,569
Equity	<u>4,519,836</u>	<u>4,123,957</u>
Total Liabilities and Equity	<u>\$ 5,503,033</u>	<u>\$ 5,470,526</u>
Revenue	\$ 11,145,743	\$ 9,850,955
Expenses	6,645,112	5,987,176
Net Income	<u>\$ 4,500,631</u>	<u>\$ 3,863,779</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 2013 and 2012.

Summarized financial information from the audited financial statements of Partners in Home Care at December 31, 2012 and 2011 follows:

	2012	2011
Assets	<u>\$ 4,424,807</u>	<u>\$ 3,885,906</u>
Liabilities	\$ 943,272	\$ 802,949
Equity	<u>3,481,535</u>	<u>3,082,957</u>
Total Liabilities and Equity	<u>\$ 4,424,807</u>	<u>\$ 3,885,906</u>
Revenue	\$ 10,894,622	\$ 10,023,196
Expenses	10,094,627	9,426,405
Net Income	<u>\$ 799,995</u>	<u>\$ 596,791</u>

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

**NOTE 12 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. 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, 2013 and 2012 amounting to \$3,877,121.

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 \$36,160 and \$29,865 at June 30, 2013 and 2012, 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. 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 \$14,939,473 and \$4,921,784 in fiscal years 2013 and 2012, respectively, related to the restructured joint venture agreement. The Hospital has recorded expenses of \$6,647,013 and \$2,032,159 in fiscal years 2013 and 2012, respectively, for compensation to Advanced Imaging under the restructured joint venture agreement. Amounts payable to Advanced Imaging at June 30, 2013 and 2012 were \$474,536 and \$100,104, respectively. At June 30, 2013 and 2012, Advanced Imaging, LLC owed the Hospital \$60,511 and \$51,441, respectively, which is included in other receivables.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

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

Summarized financial information from the audited financial statements of Advanced Imaging, LLC at December 31, 2012 and 2011 follows:

	2012	2,011
Assets	<u>\$ 1,677,596</u>	<u>\$ 1,981,392</u>
Liabilities	\$ 853,830	\$ 1,847,858
Equity	<u>823,766</u>	<u>133,534</u>
Total Liabilities and Equity	<u>\$ 1,677,596</u>	<u>\$ 1,981,392</u>
Revenue	\$ 7,085,753	\$ 7,658,111
Expenses	<u>4,245,521</u>	<u>5,617,981</u>
Net Income	<u>\$ 2,840,232</u>	<u>\$ 2,040,130</u>

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 2013 and 2012, 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, 2013 and 2012 follows:

	2013	2012
Assets	<u>\$ 192,943</u>	<u>\$ 222,557</u>
Liabilities	\$ 32,412	\$ 7,509
Equity	<u>160,531</u>	<u>215,048</u>
Total Liabilities and Equity	<u>\$ 192,943</u>	<u>\$ 222,557</u>
Revenue	\$ 368,877	\$ 510,269
Expenses	<u>220,804</u>	<u>297,064</u>
Net Income	<u>\$ 148,073</u>	<u>\$ 213,205</u>

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 13 BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION

The Hospital's beneficial interest in the unrestricted and temporarily restricted net assets of the Community Medical Center Foundation (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 \$231,000 and \$404,000 for fiscal years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the Foundation has reflected a liability to the Hospital of \$24,020 and \$88,677, respectively, related to these payments included in other receivables.

Support payments made by the Foundation to the Hospital during the years ended June 30, 2013 and 2012 were \$905,432 and \$959,802, 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, 2013 AND 2012

**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, 2013 and 2012 follows:

	2013	2012
Assets	<u>\$ 4,330,383</u>	<u>\$ 4,769,656</u>
Liabilities	\$ 200,429	\$ 247,135
Net Assets:		
Unrestricted	199,767	809,695
Temporarily Restricted	837,363	618,676
Permanently Restricted	<u>3,092,824</u>	<u>3,094,150</u>
Total Net Assets	<u>4,129,954</u>	<u>4,522,521</u>
Total Liabilities and Net Assets	<u>\$ 4,330,383</u>	<u>\$ 4,769,656</u>
Support and Revenue	\$ 975,548	\$ 547,561
Expenses Including Distributions to the Hospital	<u>1,368,115</u>	<u>1,757,785</u>
Deficit of Support and Revenue over Expenses	<u>\$ (392,567)</u>	<u>\$ (1,210,224)</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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 14 COMMUNITY BENEFITS AND CHARITY CARE (CONTINUED)

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.

Using this methodology, the Hospital has estimated the costs foregone for services and supplies furnished under the Hospital's financial assistance policy aggregated approximately \$2,083,000 and \$1,830,000 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012.

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.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present 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, 2013 and 2012:

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-Term Investments:				
Mortgage Backed				
Government Securities	\$ -	\$ 1,023,205	\$ -	\$ 1,023,205
Corporate Bonds	-	3,636,032	-	3,636,032
Long-Term Investments:				
Mortgage Backed				
Government Securities	-	4,486,638	-	4,486,638
Corporate Bonds	-	10,615,051	-	10,615,051
Beneficial Interest in Net Assets of Community Medical Center Foundation				
	-	-	4,129,954	4,129,954
	<u>\$ -</u>	<u>\$ 19,760,926</u>	<u>\$ 4,129,954</u>	<u>\$ 23,890,880</u>
<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

The following tables provide a summary of changes to fair value of the Hospital's Level 3 financial assets for the years ended June 30, 2013 and 2012:

<u>2013</u>	<u>Foundation</u>
Beginning Balance	\$ 4,522,521
Change in Value of Beneficial Interest in Net Assets of CMC Foundation	(392,567)
Ending Balance	<u>\$ 4,129,954</u>
<u>2012</u>	<u>Foundation</u>
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>

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2013 and 2012, are not carried at fair value in their entirety on the consolidated balance sheet:

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt	\$ 35,541,856	\$ 38,213,015	\$ 37,669,311	\$ 39,137,873

The fair value of the Hospital's health care facility revenue bonds is calculated based on the estimated trade values as of June 30, 2013 and 2012. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flows analyses, based on the Hospital's current incremental borrowing rate for similar types of borrowing arrangements.

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 15 or more years of continuous service who leave hospital employment giving a minimum of 30 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 \$164,000 and \$163,000 during fiscal 2013 and 2012, respectively, and this has been recorded as an expense. As of June 30, 2013 and 2012, the Hospital has accrued a liability of \$135,000 as a potential payout.

COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012 are as follows:

	2013	2012
Healthcare Services	\$ 113,501,023	\$ 101,596,862
General and Administrative	38,490,440	35,994,425
Fundraising	2,264	2,106
Total	\$ 151,993,727	\$ 137,593,393

NOTE 18 COMMITMENTS AND CONTINGENCIES

Professional Liability Insurance

The Hospital insures its medical malpractice risks under a claims-made insurance policy with various insurers. Coverage limits are \$1,000,000 per claim and \$3,000,000 in aggregate. There is a \$100,000 deductible on each claim and \$300,000 in aggregate. Trinity also has umbrella excess liability coverage. Coverage limits on one policy is \$14,000,000 per claim and in aggregate and another policy is \$15,000,000 per claim and in aggregate.

Employee Health Insurance

The Hospital maintains a self-insured employee health benefit program. Individual loss insurance of \$225,000 at June 30, 2012 is purchased through an insurance company. Estimated unprocessed claims and claims incurred but not reported at June 30, 2013 and 2012 were approximately \$1,631,000 and \$1,372,000, respectively, and have been recorded on the consolidated balance sheet in other accrued liabilities.

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, 2013 and 2012, 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.

**COMMUNITY MEDICAL CENTER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 18 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.

NOTE 19 ADOPTION OF NEW ACCOUNTING STANDARD

During the fiscal year ended June 30, 2013, the Hospital adopted an accounting standard update for the "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts" in the consolidated financial statements, as described in Note 1. This standard was retroactively applied to the consolidated financial statements for the year ended June 30, 2012. The following table reflects the impact on the reclassifications to the June 30, 2012 consolidated statement of operations.

Consolidated Statement of Operations

	<u>As Previously Reported</u>	<u>Reclassifications</u>	<u>As Reclassified</u>
Net Patient Service Revenue Less			
Provision for Uncollectible Accounts	<u>\$ 146,216,647</u>	<u>\$ (7,230,227)</u>	<u>\$ 138,986,420</u>

NOTE 20 SUBSEQUENT EVENTS

On July 1, 2013, the Hospital issued an \$8,500,000 revenue note to be used for the Radiation building project. The note payable has an interest rate of 1.918% with monthly principal and interest payments of \$108,216 due through in July 2020.



CliftonLarsonAllen

CliftonLarsonAllen LLP
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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

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

We have audited the consolidated financial statements of Community Medical Center, Inc. (the Hospital) as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated October 22, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and statements of operations are presented for the purposes of additional analysis and are not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 consolidated financial statements or to the 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 consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 22, 2013

**COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2013**

ASSETS	Community Medical Center, Inc.	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 14,546,347	\$ 264,931	\$ -	\$ 14,811,278
Restricted Cash	95,106	-	-	95,106
Current Portion of Assets Limited as to Use	1,384,608	-	-	1,384,608
Short-Term Investments	5,282,804	-	-	5,282,804
Patient Receivables, Net of Allowance for Doubtful Accounts	23,697,095	468,317	(439,523)	23,725,889
Other Receivables	2,637,880	-	(215,324)	2,422,556
Inventory	3,209,962	204,323	-	3,414,285
Prepaid and Other Assets	991,595	124,832	(31,932)	1,084,495
Total Current Assets	<u>51,845,397</u>	<u>1,062,403</u>	<u>(686,779)</u>	<u>52,221,021</u>
LONG-TERM INVESTMENTS	15,101,689	-	-	15,101,689
ASSETS LIMITED AS TO USE				
By Board	12,055	-	-	12,055
Restricted for Construction Project, Net of Current Portion	2,115,655	-	-	2,115,655
Held by Trustee Under Indenture Agreement, Net of Current Portion	2,141,977	-	-	2,141,977
Total Assets Limited as to Use, Net of Current Portion	<u>4,269,687</u>	<u>-</u>	<u>-</u>	<u>4,269,687</u>
BENEFICIAL INTEREST IN COMMUNITY MEDICAL CENTER FOUNDATION	4,129,954	-	-	4,129,954
PROPERTY AND EQUIPMENT, NET	68,411,606	788,530	-	69,200,136
OTHER ASSETS				
Unamortized Bond Issuance Costs	827,029	-	-	827,029
Notes Receivable	3,877,121	-	-	3,877,121
Investment in Majority Owned Subsidiary	1,194,535	-	(1,194,535)	-
Investment in Joint Ventures	3,773,064	-	-	3,773,064
Total Other Assets	<u>9,671,749</u>	<u>-</u>	<u>(1,194,535)</u>	<u>8,477,214</u>
Total Assets	<u>\$ 153,430,082</u>	<u>\$ 1,850,933</u>	<u>\$ (1,881,314)</u>	<u>\$ 153,399,701</u>

**COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2013**

	Community Medical Center, Inc.	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current Portion of Notes Payable and Capital Lease Obligations	\$ 1,870,265	\$ 155,106	\$ -	\$ 2,025,371
Accounts Payable:				
Trade	9,875,517	215,324	(654,847)	9,435,994
Construction and Equipment	1,455,104	-	-	1,455,104
Estimated Third-Party Payor Settlements	4,634,233	-	-	4,634,233
Accrued Salaries, Payroll Related Liabilities, and Other Liabilities	9,558,775	31,932	(31,932)	9,558,775
Accrued Interest Payable	151,034	1,238	-	152,272
Total Current Liabilities	<u>27,544,928</u>	<u>403,600</u>	<u>(686,779)</u>	<u>27,261,749</u>
LONG-TERM DEBT OBLIGATIONS				
Long-Term Obligations Under Bond Indenture	24,447,509	-	-	24,447,509
Notes Payable and Capital Lease Obligations, Less Current Maturities	8,489,979	161,506	-	8,651,485
Long-Term Debt Obligations, Less Current Maturities	<u>32,937,488</u>	<u>161,506</u>	<u>-</u>	<u>33,098,994</u>
Total Liabilities	60,482,416	565,106	(686,779)	60,360,743
NET ASSETS				
Unrestricted Net Assets:				
Undesignated	88,710,553	1,194,535	(1,194,535)	88,710,553
Board Designated	12,055	-	-	12,055
Noncontrolling Interest in Subsidiary	-	91,292	-	91,292
Total Unrestricted Net Assets	<u>88,722,608</u>	<u>1,285,827</u>	<u>(1,194,535)</u>	<u>88,813,900</u>
Temporarily Restricted Net Assets	1,125,361	-	-	1,125,361
Permanently Restricted Net Assets	3,099,697	-	-	3,099,697
Total Net Assets	<u>92,947,666</u>	<u>1,285,827</u>	<u>(1,194,535)</u>	<u>93,038,958</u>
Total Liabilities and Net Assets	<u>\$ 153,430,082</u>	<u>\$ 1,850,933</u>	<u>(1,881,314)</u>	<u>\$ 153,399,701</u>

**COMMUNITY MEDICAL CENTER, INC.
CONSOLIDATING BALANCE SHEET
JUNE 30, 2012**

	Community Medical Center, Inc.	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 by Contributors for Capital	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, INC.
CONSOLIDATING BALANCE SHEET (CONTINUED)
JUNE 30, 2012**

	Community Medical Center, Inc.	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	10,143,621	316,499	-	10,460,120
Long-Term Debt Obligations, Less Current Maturities	<u>34,572,153</u>	<u>316,499</u>	<u>-</u>	<u>34,888,652</u>
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	3,094,150	-	-	3,094,150
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, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2013**

	Community Medical Center, Inc.	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
UNRESTRICTED REVENUES AND GAINS				
Net Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 153,108,767	\$ 2,291,817	\$ (1,833,160)	\$ 153,567,424
Provision for Uncollectible Accounts	<u>(8,896,739)</u>	<u>9,788</u>	<u>-</u>	<u>(8,886,951)</u>
Net Patient Service Revenue Less Provision for Uncollectible Accounts	144,212,028	2,301,605	(1,833,160)	144,680,473
Other Operating Revenue	8,778,435	13,292	(202,379)	8,589,348
Total Unrestricted Revenue and Gains	<u>152,990,463</u>	<u>2,314,897</u>	<u>(2,035,539)</u>	<u>153,269,821</u>
OPERATING EXPENSES				
Salaries and Wages	62,359,887	-	900,813	63,260,700
Employee Benefits	14,678,181	-	-	14,678,181
Professional Fees	7,708,742	146,165	(148,445)	7,706,462
Purchased Services	23,305,944	1,092,439	(2,657,813)	21,740,570
Medical Supplies	22,377,775	672,868	-	23,050,643
Non-Medical Supplies	2,959,731	4,211	-	2,963,942
Utilities	1,832,935	22,337	(21,284)	1,833,988
Depreciation and Amortization	8,377,011	348,276	-	8,725,287
Interest Expense	1,491,496	19,650	-	1,511,146
Leases and Rents	2,105,174	96,561	(108,810)	2,092,925
Education and Travel	745,366	-	-	745,366
Other Direct Expenses	3,646,938	37,579	-	3,684,517
Total Operating Expenses	<u>151,589,180</u>	<u>2,440,086</u>	<u>(2,035,539)</u>	<u>151,993,727</u>
OPERATING INCOME (LOSS)	1,401,283	(125,189)	-	1,276,094
OTHER INCOME AND EXPENSE				
Investment Income	653,066	-	-	653,066
Equity Earnings in Joint Venture Income	3,318,876	-	77,786	3,396,662
Other Nonoperating Gain (Loss), Net	<u>(128,388)</u>	<u>41,456</u>	<u>-</u>	<u>(86,932)</u>
Total Other Income and Expense	<u>3,843,554</u>	<u>41,456</u>	<u>77,786</u>	<u>3,962,796</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	5,244,837	(83,733)	77,786	5,238,890
Net Change in Unrealized Loss on Marketable Securities	(368,237)	-	-	(368,237)
Net Assets Released from Restriction	<u>1,041,637</u>	<u>-</u>	<u>-</u>	<u>1,041,637</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 5,918,237</u>	<u>\$ (83,733)</u>	<u>\$ 77,786</u>	<u>\$ 5,912,290</u>

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

	Community Medical Center, Inc.	Montana Heart Angio Lab, LLC	Eliminations	Consolidated
UNRESTRICTED REVENUES AND GAINS				
Net Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 145,910,558	\$ 1,746,875	\$ (1,440,786)	\$ 146,216,647
Provision for Uncollectible Accounts	<u>(7,247,920)</u>	<u>17,693</u>	<u>-</u>	<u>(7,230,227)</u>
Net Patient Service Revenue Less Provision for Uncollectible Accounts	138,662,638	1,764,568	(1,440,786)	138,986,420
Other Operating Revenue	<u>3,837,735</u>	<u>19,717</u>	<u>(185,192)</u>	<u>3,672,260</u>
Total Unrestricted Revenue and Gains	<u>142,500,373</u>	<u>1,784,285</u>	<u>(1,625,978)</u>	<u>142,658,680</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
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	<u>3,627,127</u>	<u>37,577</u>	<u>-</u>	<u>3,664,704</u>
Total Operating Expenses	<u>137,015,091</u>	<u>2,204,280</u>	<u>(1,625,978)</u>	<u>137,593,393</u>
OPERATING INCOME (LOSS)	5,485,282	(419,995)	-	5,065,287
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	<u>(158,558)</u>	<u>40,417</u>	<u>-</u>	<u>(118,141)</u>
Total Other Income and Expense	<u>1,362,344</u>	<u>40,796</u>	<u>352,275</u>	<u>1,755,415</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	<u>1,493,641</u>	<u>-</u>	<u>-</u>	<u>1,493,641</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 8,064,966</u>	<u>\$ (379,199)</u>	<u>\$ 352,275</u>	<u>\$ 8,038,042</u>