

Wright Medical Center
Clarion, Iowa
Independent Auditor's Report
Financial Statements and Supplemental Information
Schedule of Findings and Questioned Costs
Years Ended June 30, 2004 and 2003

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Wright Medical Center

June 30, 2004 and 2003

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**Wright Medical Center
Clarion, Iowa**

Board of Commissioners 2004

Dr. Michael Whitters	President
Carrie Ann Olson	Vice-President
Molly Burke	Secretary-Treasurer
Gary Horton	Member
Ken Stoakes	Member
Scott Whyte	Member

Hospital Officials

Steve Simonin	Administrator
Amy McDaniel	Chief Financial Officer

Independent Auditor's Report

To the Board of Directors
Wright Medical Center
Clarion, Iowa

I have audited the accompanying balance sheets of Wright Medical Center as of June 30, 2004 and 2003 and the related statements of revenues and expenses of general funds, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wright Medical Center as of June 30, 2004 and 2003 and the results of its operations and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my reports dated September 20, 2004 on my consideration of Wright Medical Center's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the aforementioned financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

David L. Seiler, CPA
Sioux City, Iowa 51106
September 20, 2004

Wright Medical Center
Balance Sheets
June 30, 2004 and 2003

Assets

General Funds

Current Assets

	2004	2003
Cash and cash equivalents	\$ 1,500,584	\$ 768,583
Investments - Meadows	49,889	49,431
Patient receivables, net of allowances of \$534,000 in 2004 and \$430,000 in 2003	2,532,550	2,139,027
Estimated amounts due from contracting agencies	-	86,000
Other receivables	120,478	60,789
Inventories	407,365	343,226
Prepaid expenses	77,901	73,635
Total current assets	4,688,767	3,520,691

Board Designated Assets

Funded depreciation	744,684	1,467,367
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Property, Plant and Equipment - net

	6,156,629	6,479,951
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Construction in Progress

	664,952	19,165
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Other Assets

Deferred financing costs	137,678	154,999
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Total assets	\$12,392,710	\$11,642,173
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Liabilities and Fund Balances

General Funds	2004	2003
Current Liabilities		
Accounts payable	\$ 297,442	\$ 319,753
Accrued payroll	649,190	563,238
Accrued expenses - other	221,662	179,216
Notes payable - bank	140,571	-
Due to third parties	605,000	-
Current maturities of long-term debt	162,764	164,373
Apartment deposits payable	<u>49,424</u>	<u>48,015</u>
Total current liabilities	2,126,053	1,274,595
Long-term Liabilities		
Long-term debt excluding current maturities	<u>2,573,942</u>	<u>2,760,179</u>
Total liabilities	<u>4,699,995</u>	<u>4,034,774</u>
Fund Balances	<u>7,692,715</u>	<u>7,607,399</u>
Total liabilities and fund balances	<u>\$ 12,392,710</u>	<u>\$ 11,642,173</u>

Wright Medical Center
Statements of Revenues and Expenses
Years Ended June 30, 2004 and 2003

General Funds	<u>2004</u>	<u>2003</u>
Net patient service revenue (Note 1)	\$10,405,742	\$ 9,120,046
Clinic revenue	2,424,627	1,180,956
Residential fees (The Meadows)	573,369	576,405
Retail pharmacy	1,325,879	1,231,240
Other operating revenues	<u>125,434</u>	<u>116,646</u>
Total operating revenues	14,855,051	12,225,293
Operating Expenses		
Nursing services	3,314,673	2,631,105
Other professional services	3,393,215	2,965,147
General services	1,287,572	1,243,746
Fiscal and administrative services	1,782,639	1,520,209
Residential services	232,953	220,633
Clinic	2,241,668	1,024,791
Retail pharmacy	1,232,551	1,167,962
Bad debts	559,984	405,188
Depreciation	650,989	666,811
Interest and amortization of financing costs	<u>138,420</u>	<u>148,508</u>
Total operating expenses	14,834,664	11,994,100
Income from operations	20,387	231,193
Non-Operating Revenue		
Donations	50	100,000
Investment income	26,734	47,042
(Loss) gain on disposal of equipment	<u>(1,911)</u>	<u>5,000</u>
Total non-operating revenues, net	<u>24,873</u>	<u>152,042</u>
Excess of revenues over expenses	<u>\$ 45,260</u>	<u>\$ 383,235</u>

Wright Medical Center
Statements of Changes in Fund Balances
Years Ended June 30, 2004 and 2003

General Funds	<u>2004</u>	<u>2003</u>
Balance, Beginning of Year	\$ 7,607,399	\$ 7,194,164
Excess of revenues over expenses	45,260	383,235
Transferred from restricted funds to finance property and equipment additions - net	<u>40,056</u>	<u>30,000</u>
Balance, End of Year	<u>\$ 7,692,715</u>	<u>\$ 7,607,399</u>
 Restricted Funds		
Balance Beginning of Year	-	100,000
Restricted contributions (Note 1)	40,056	30,000
Included in general contributions	-	(100,000)
Transferred to general funds to finance property and equipment additions	<u>(40,056)</u>	<u>(30,000)</u>
Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>

Wright Medical Center
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Cash Flows From Operating Activities		
Cash received from patient services	\$14,394,036	\$10,785,621
Cash paid to suppliers and employees	(13,865,593)	(10,903,513)
Other operating revenues	<u>698,803</u>	<u>693,051</u>
Net cash provided by operating activities	<u>1,227,246</u>	<u>575,159</u>
Cash Flows From Non-capital Financing Activities		
Unrestricted contributions received	<u>50</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>50</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(975,365)	(644,587)
Principal paid on long-term debt	(187,847)	(195,103)
Interest paid on long-term debt	(121,098)	(129,582)
Proceeds from sale of equipment	-	5,000
Restricted contributions received	<u>40,056</u>	<u>30,000</u>
Net cash used for capital and related financing activities	<u>(1,244,254)</u>	<u>(934,272)</u>
Cash Flows From Investing Activities		
Investment income	<u>26,734</u>	<u>47,042</u>
Net cash provided by investing activities	<u>26,734</u>	<u>47,042</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,776	(312,071)
Cash and Cash Equivalents, Beginning of Year	<u>2,285,381</u>	<u>2,597,452</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,295,157</u>	<u>\$ 2,285,381</u>

Wright Medical Center
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Reconciliation of Cash and Cash Equivalents to Balance Sheet		
Cash and cash equivalents in current assets	\$ 1,550,473	\$ 818,014
Cash and cash equivalents in board designated assets	<u>744,684</u>	<u>1,467,367</u>
Total cash and cash equivalents	<u>\$ 2,295,157</u>	<u>\$ 2,285,381</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	\$ <u>20,387</u>	\$ <u>231,193</u>
Adjustments to reconcile operating income to net cash used for operating activities		
Depreciation and amortization	668,311	685,737
Components of operating revenues reclassified for purposes of reporting cash flows		
Interest paid on long term debt	121,098	129,582
Changes in assets and liabilities		
(Increase) in receivables	(393,523)	(1,120,827)
Decrease in estimated amount due from contracting agencies	86,000	392,209
(Increase) in other receivables	(59,689)	(18,003)
(Increase) in inventory	(64,139)	(49,127)
(Increase) decrease in prepaid expenses	(4,266)	20,453
(Decrease) in accounts payable	(22,311)	(16,964)
Increase in accrued payroll	85,952	271,176
Increase in accrued expenses	42,446	48,540
Increase in apartment deposits	1,409	1,190
Increase in estimated amount due to contracting agencies	605,000	-
Increase in note payable - bank	<u>140,571</u>	<u>-</u>
Total adjustments	1,206,859	343,966
Net cash provided by operating activities	<u>\$ 1,227,246</u>	<u>\$ 575,159</u>
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Loss on disposal of assets	<u>\$ (1,911)</u>	<u>\$ -</u>

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 1: Description of Organization and Summary of Significant Accounting Policies

Organization

Wright Medical Center is a city public hospital organized under Chapter 37 of the Code of Iowa and governed by a six-member board of commissioners elected for terms of three years. The Hospital reports in accordance with the "Hospital Audit Guide" published by the American Institute of Certified Public Accountants.

Reporting Entity – For financial reporting purposes, Wright Medical Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The reporting entity includes a 45 unit independent living residential facility known as *The Meadows*. The balance sheets at June 30, 2004 and 2003 are included on page 25. Income and expenses of *The Meadows* are included on page 26.

Component Unit – The Hospital is legally separate from the city of Clarion, but financially accountable to the city. The Hospital's operating budget is subject to the approval of the City Council.

Fund Accounting – The accounts of the Hospital are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund balance, revenues and expenses. The various funds are grouped as follows in the financial statements:

General Funds – The General Funds account is resources not restricted for identified purposes by donors and grantors. These funds represent resources over which the Hospital has discretionary control to use in carrying on the operations of the organization.

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 1: Description of Organization and Summary of Significant Accounting Policies – Continued

General Funds – General Funds includes assets whose use is limited. These include assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Restricted Funds – Restricted Funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Assets, Liabilities and Fund Balances –The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents – The Hospital considers savings accounts and all other highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

Patient Receivables – Patient receivables are shown at the amount expected to be collected after due allowances for uncollectible accounts, based on an aging of all the individual patient balances, and a contractual allowance for third-party payors.

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 1: Description of Organization and Summary of Significant Accounting Policies - Continued

Inventories – Inventories are stated at lower of current cost or market.

Property and Equipment – Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Lives for the building and land improvements are twelve to sixty years while the equipment lives range from five to twenty years.

Accrued Vacation Pay – Employee's earned vacation hours, multiplied by their current rate of pay, is recorded as accrued vacation pay. Employees are allowed to carry over up to 400 hours unpaid vacation pay past one year.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Charity Care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or adjustments to patient service revenue, depending on the timing of the charity determination. The amounts of charity care recorded on the Hospital's books for the years ended June 30, 2004 and 2003, respectively, was \$81,372 and \$50,480.

Statements of Revenues and Expenses of General Funds – For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

Net Patient Service Revenue – Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 1: Description of Organization and Summary of Significant Accounting Policies - Continued

Investment Income – Investment income is recorded as non-operating revenue when unrestricted by the donor, and as an addition to the fund balance of the proper Restricted Fund when restricted by the donor.

Note 2: Cash and Investments

The Hospital's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured Iowa depository institutions approved by the Board of Commissioners.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year-end. The Hospital's investments are all category 1, which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

The Hospital's investments at June 30, 2004 are as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Accrued Interest</u>
Certificate of Deposit	1.50%	\$ 263,363	\$ 574
Certificate of Deposit	2.01%	252,493	2,517
Certificate of Deposit	4.95%	30,000	740
High Balance Checking	1.20%	<u>194,997</u>	<u>-</u>
Totals		<u>\$ 740,853</u>	<u>\$ 3,831</u>

The investments are classified as Funded Depreciation.

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 3: Estimated Amounts Due From and to Contracting Agencies

The Hospital has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa, for services rendered to Medicare, Medicaid, and Blue Cross patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually; however, reimbursements cannot exceed the charges for the patient services. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent that the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Hospital during the year. The annual cost findings indicated that the Hospital owed the agencies approximately \$605,000 at June 30, 2004.

Note 4: Board Designated Assets

Board designated assets consist of funds designated by the Board of Commissioners for the improvement, replacement and expansion of plant and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Note 5: Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost. The cost by major category at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 123,106	\$ 33,474
Land improvements	310,174	313,426
Buildings	8,647,273	8,766,034
Fixed equipment	1,611,212	1,910,153
Major moveable equipment	<u>3,071,579</u>	<u>3,620,256</u>
	13,763,344	14,643,343
Less accumulated depreciation	<u>(7,606,715)</u>	<u>(8,163,392)</u>
Total	<u>\$ 6,156,629</u>	<u>\$ 6,479,951</u>

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 6: Construction in Progress

Commencing in May of 2003, the Hospital entered into a construction project totaling approximately \$4.2 million for the expansion of outpatient facilities. At June 30, 2004, \$664,952 of the project had been completed. Financing for the new construction is being provided by short-term notes borrowed from First Citizens National Bank of Clarion and from the funded depreciation accounts. Completion is expected in the fall of 2005.

Note 7: Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.7% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2004 and 2003 were \$345,256 and \$272,654, respectively, equal to the required contributions for each year.

Deferred Compensation – The Hospital established a deferred compensation plan effective January 1, 1999. The plan is intended to comply with the requirements of IRC section 457. Every active employee is eligible to participate. Participants may defer \$13,000 annually, and are 100% vested at all times.

For the year ended June 30, 2004, Hospital participants deferred a total of \$192,928 compensation into the 457 plan. At June 30, 2004 plan assets held in trust at First Citizens Trust Company totaled \$798,049.

Since these funds are held in trust and are not under the Hospital's control, neither the plans assets or obligations are included in the Hospital's balance sheet.

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 8: Long – term Debt

The following is a summary of long-term debt and related information at June 30, 2004:

	Total	Current	Long-Term
Revenue notes payable	\$ <u>2,736,706</u>	\$ <u>162,764</u>	\$ <u>2,573,942</u>

The bonds payable are revenue bonds issued under the provisions of Chapter 331.461 of the Code of Iowa and, as such, the principal and interest are payable from the revenue from operations of the Hospital. The details of the Hospital's bonded indebtedness are as follows:

Year Ended June 30	Interest Rate	Principal	Interest	Total
2005	4.27%	\$ 162,764	\$ 115,285	\$ 278,049
2006	4.27%	169,952	108,097	278,049
2007	4.27%	177,457	100,592	278,049
2008	4.27%	185,042	93,007	278,049
2009	4.27%	193,466	84,583	278,049
2010– 2017	4.27%	<u>1,848,025</u>	<u>335,490</u>	<u>2,183,515</u>
Totals		<u>\$ 2,736,706</u>	<u>\$ 837,054</u>	<u>\$ 3,573,760</u>

Note 9: Operating Leases

The Hospital has entered into agreements to lease equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expenses as incurred. The leases expire between March 1, 2005 and December, 2008. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 9: Operating Leases - Continued

The following is a schedule of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2004:

<u>Year Ended</u> <u>June 30</u>	
2005	\$ 170,179
2006	138,979
2007	127,715
2008	66,057
2009	<u>7,607</u>
Totals	<u>\$ 510,537</u>

Total rental expense for the year ended June 30, 2004 for all operating leases, except those with terms of a month or less that were not renewed, was \$146,973.

Note 10: Interest Cost

The Hospital's policy is to capitalize interest cost on construction in progress to the extent such construction is capitalized in the balance sheet. When the financing for such construction is not associated with a specific borrowing, the Hospital determines the capitalization rate based on the rates applicable to borrowings outstanding during the period. For the year ended June 30, 2004, the Hospital capitalized \$0 of interest costs, and incurred total interest cost of \$121,098.

Note 11: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Commissioners annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 11: Budget and Budgetary Accounting - Continued

The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

	<u>Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>	<u>Variance - Favorable</u>
Expenses	\$14,166,353	\$ (179,662)	\$13,986,691	\$15,000,000	\$ 1,013,309

Note 12: Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Note 13: Related Party Transactions

Because of the existence of common trustees and other factors, Wright Medical Center and Wright Medical Foundation are related parties. The Foundation was formed to promote health care in Wright County. A summary of the Foundation's balance sheets as of June 30, 2004 and 2003 and the results of operations and changes in fund balances for the years then ended, which are not included in the Hospital's financial statements, are as follows:

	<u>2004 (Unaudited)</u>	<u>2003 (Unaudited)</u>
Balance Sheet		
Assets		
Cash	\$ 86,379	\$ 63,750
Land	<u>174,000</u>	<u>74,000</u>
Total	<u>\$ 260,379</u>	<u>\$ 137,750</u>
Fund Balances		
Donated equity	\$ 174,000	\$ 74,000
Unrestricted	75,101	60,242
Restricted	<u>11,278</u>	<u>3,508</u>
Total	<u>\$ 260,379</u>	<u>\$ 137,750</u>

Wright Medical Center
Notes to Financial Statements
June 30, 2004 and 2003

Note 13: Related Party Transactions - Continued

	2004	2003
	(Unaudited)	(Unaudited)
Operations and Changes in Fund Balances - Unrestricted		
Donations	\$ 172,935	\$ 51,436
Interest income	1,433	2,397
Expenses	(11,683)	(12,442)
Equity transfer to Wright Medical Center	<u>(40,056)</u>	<u>(30,000)</u>
Increase in Fund Balances	122,629	11,391
Fund Balances, Beginning of Year	<u>137,750</u>	<u>126,359</u>
Fund Balances, End of Year	<u>\$ 260,379</u>	<u>\$ 137,750</u>

In October of 2004, Wright Medical Foundation let bids for the construction of an 18-bed assisted living facility to be built on the campus of Wright Medical Center. Financing for this construction, which will total approximately \$2.3 million, is being provided by \$300,000 of private donations and a \$2.0 million low-interest loan from the USDA.

Note 14: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are residents of Wright County, Iowa and are insured under third-party payor agreements.

Note 15: Self-Funded Medical Plan

On May 1, 2001, the hospital started to self-fund employee medical and dental expenses up to a maximum per participant, after which expenses are covered by reinsurance contracts. During the fiscal year ended June 30, 2004, the hospital had expenditures of \$573,495 for benefits. At June 30, 2004, an estimated reserve for unpaid claims of \$93,409 was included in the hospital's balance sheet.

Supplemental Information

Wright Medical Center
Patient Service Revenues
Years Ended June 30, 2004 and 2003

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swingbed</u>	<u>Combined</u>	<u>2003</u>
Patient Service Revenues					
Nursing	\$ 584,350	\$ -	\$ 798,048	\$ 1,382,398	\$1,139,312
Nursery	71,740	-	-	71,740	44,750
Observation	20,383	191,198	-	211,581	159,086
Operating room	186,620	1,247,056	2,144	1,435,820	862,194
Recovery room	22,412	28,560	-	50,972	39,292
Delivery room	115,784	30,143	-	145,927	111,263
Central service and supply	170,435	349,941	66,425	586,801	783,098
Emergency room	45,569	466,658	846	513,073	464,925
Cardiac rehabilitation	2,484	156,152	-	158,636	133,618
Laboratory	247,036	1,130,837	62,420	1,440,293	1,353,896
Blood Bank	22,936	23,777	4,770	51,483	45,958
Electrocardiology	10,528	49,374	1,008	60,910	83,716
Radiology	46,564	696,690	9,574	752,828	727,770
CT scans	104,185	844,030	14,300	962,515	793,966
Nuclear scans	1,574	75,234	1,446	78,254	72,476
Ultrasound	13,650	328,948	4,809	347,407	333,791
Magnetic resonance imaging	1,400	375,900	1,600	378,900	285,050
Pharmacy	347,515	356,985	240,850	945,350	818,234
Intravenous therapy	21,280	13,705	5,026	40,011	211,185
Anesthesiology	161,348	392,867	1,200	555,415	359,626
Physical therapy	7,568	646,357	140,488	794,413	714,823
Respiratory therapy	89,874	191,041	71,329	352,244	273,613
Occupational therapy	3,877	94,478	64,242	162,597	139,667
Speech therapy	686	13,822	2,052	16,560	23,894
Pulmonary and Respite	58,174	169,281	40,703	268,158	145,223
Emergency room physicians	<u>394</u>	<u>25,691</u>	<u>-</u>	<u>26,085</u>	<u>11,466</u>
Total	2,358,366	7,898,725	1,533,280	11,790,371	10,131,892
<u>Less provision for</u>					
Contractual and other adjustments				(1,309,666)	(961,366)
Charity care				<u>(74,963)</u>	<u>(50,480)</u>
Net patient service revenues				<u>\$10,405,742</u>	<u>\$ 9,120,046</u>

Wright Medical Center
Other Operating Revenues
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Other Operating Revenues		
Congregate and guest meals	\$ 120,967	\$ 100,202
Medical records fees	351	101
Miscellaneous	-	422
Building rental, net	-	41,760
Grants	17,299	11,144
Fitness Center		
Income	44,700	39,600
Expenses	<u>(57,883)</u>	<u>(76,583)</u>
Total	<u>\$ 125,434</u>	<u>\$ 116,646</u>

Wright Medical Center
Operating Expenses
Years Ended June 30, 2004 and 2003

	<u>Salaries</u>	<u>Supplies</u>	<u>Combined</u>	<u>2003</u>
Operating Expenses				
Nursing Services				
Nursing administrative	\$ 187,161	\$ 51,041	\$ 238,202	\$ 201,398
Medical and surgical	983,971	334,163	1,318,134	1,420,988
Nursery, delivery and labor rooms	61,228	35,117	96,345	55,387
Operating and recovery room	280,448	143,062	423,510	141,027
Central supply	97,202	284,047	381,249	339,496
Emergency room	372,156	360,142	732,298	390,181
Cardiac rehabilitation	15,695	100,994	116,689	75,332
Infection control	<u>6,432</u>	<u>1,814</u>	<u>8,246</u>	<u>7,296</u>
Total nursing services	<u>2,004,293</u>	<u>1,310,380</u>	<u>3,314,673</u>	<u>2,631,105</u>
Other Professional Services				
Laboratory	282,413	349,293	631,706	527,878
Electrocardiology	2,659	848	3,507	2,817
Radiology	330,788	203,785	534,573	501,546
CT scans	-	211,922	211,922	220,068
Nuclear scans	-	39,114	39,114	41,339
Ultrasound	-	36,173	36,173	25,740
Magnetic resonance imaging	-	112,490	112,490	79,290
Pharmacy	117,569	300,463	418,032	385,617
Anesthesiology	-	274,975	274,975	179,170
Physical therapy	349,413	102,004	451,417	450,059
Respiratory therapy	281	269,190	269,471	220,758
Occupational therapy	78,239	45,852	124,091	99,459
Speech therapy	-	11,557	11,557	15,446
Emergency room physicians	-	-	-	23,750
Medical records	<u>139,384</u>	<u>134,803</u>	<u>274,187</u>	<u>192,210</u>
Total other professional services	<u>1,300,746</u>	<u>2,092,469</u>	<u>3,393,215</u>	<u>2,965,147</u>

Wright Medical Center
Operating Expenses - Continued
Years Ended June 30, 2004 and 2003

	Salaries	Supplies	Combined	2003
Operating Expenses - Continued				
General Services				
Dietary	\$ 229,636	\$ 273,613	\$ 503,249	\$ 481,720
Housekeeping	166,301	73,754	240,055	234,219
Laundry and linen service	-	37,614	37,614	44,781
Maintenance of plant	<u>165,497</u>	<u>341,157</u>	<u>506,654</u>	<u>483,026</u>
Total general services	<u>561,434</u>	<u>726,138</u>	<u>1,287,572</u>	<u>1,243,746</u>
Fiscal and Administrative Services				
Administrative services	635,825	649,984	1,285,809	1,171,446
Unassigned expenses	<u>-</u>	<u>496,830</u>	<u>496,830</u>	<u>348,763</u>
Total fiscal and administrative	<u>635,825</u>	<u>1,146,814</u>	<u>1,782,639</u>	<u>1,520,209</u>
Residential service expenses	<u>35,804</u>	<u>197,149</u>	<u>232,953</u>	<u>220,633</u>
Clinic expenses	<u>1,643,972</u>	<u>597,696</u>	<u>2,241,668</u>	<u>1,024,791</u>
			2004	2003
Retail Pharmacy				
Revenues			<u>\$ 1,325,879</u>	<u>\$ 1,231,240</u>
Expenses				
Salaries			150,495	156,082
Employee benefits & taxes			26,414	25,893
Drugs			1,035,624	968,224
Supplies and other expenses			<u>20,018</u>	<u>17,763</u>
Total retail pharmacy expenses			<u>\$ 1,232,551</u>	<u>\$ 1,167,962</u>

Wright Medical Center
Inventories / Prepaid Expenses
June 30, 2004 and 2003

	2004	2003
Inventories		
Laboratory	\$ 28,367	\$ 27,786
Radiology	13,155	4,390
Pharmacy	44,309	34,927
Retail pharmacy	168,651	134,934
Surgery	47,226	36,804
Emergency room	6,800	13,885
Physical therapy	7,625	7,427
Dietary	20,595	11,968
Central Supply	<u>70,637</u>	<u>71,105</u>
Total inventories	<u>\$ 407,365</u>	<u>\$ 343,226</u>
Prepaid Expense		
Dairyland maintenance contract	\$ 22,215	\$ 23,931
Insurance	22,877	29,414
Other professional fees	<u>32,809</u>	<u>20,290</u>
Total prepaid expenses	<u>\$ 77,901</u>	<u>\$ 73,635</u>

Wright Medical Center
Patient Receivables and Allowance for Doubtful Accounts
Years Ended June 30, 2004 and 2003

Days Since Discharge	Analysis of Aging			
	2004		2003	
	Amount	Total	Amount	Total
0-30	\$ 1,171,135	38.2%	\$ 919,943	35.8%
31-60	416,940	13.6	482,374	18.8
61-90	324,141	10.6	256,298	10.0
91-120	165,163	5.4	269,518	10.5
121-180	278,077	9.1	361,261	14.1
180 and over	<u>711,094</u>	<u>23.1</u>	<u>279,633</u>	<u>10.8</u>
	3,066,550	<u>100.0%</u>	2,569,027	<u>100.0%</u>
Less				
Allowance for contractals	(6,000)		(23,000)	
Allowance for uncollectibles	<u>(528,000)</u>		<u>(407,000)</u>	
Total	<u>\$2,532,550</u>		<u>\$2,139,027</u>	

	Allowance for Doubtful Accounts	
	2004	2003
Balance beginning of year	\$ 407,000	\$ 232,000
Provision for bad debts	559,984	405,188
Recovery of accounts written off	94,530	86,319
Less accounts written off	<u>(533,514)</u>	<u>(316,507)</u>
Balance end of year	<u>\$ 528,000</u>	<u>\$ 407,000</u>
Collection fees	<u>\$ 36,455</u>	<u>\$ 33,948</u>

Wright Medical Center
Changes in Property, Plant and Equipment
Year Ended June 30, 2004

	Cost			
	Beginning	Additions	Deletions	End of Year
Hospital				
Land	\$ 33,474	\$ 23,823	\$ 65,809	\$ 123,106
Land improvements	193,483	-	(3,252)	190,231
Buildings	6,162,460	15,146	(142,788)	6,034,818
Fixed equipment	1,878,696	17,179	(316,120)	1,579,755
Major movable equipment	<u>3,533,808</u>	<u>264,549</u>	<u>(813,226)</u>	<u>2,985,131</u>
Total hospital	11,801,921	320,697	(1,209,577)	10,913,041

	Cost			
	Beginning	Additions	Deletions	End of Year
Residential				
Land improvements	\$ 119,943	\$ -	\$ -	\$ 119,943
Buildings	2,603,574	8,881	-	2,612,455
Fixed equipment	31,457	-	-	31,457
Major movable equipment	<u>86,448</u>	<u>-</u>	<u>-</u>	<u>86,448</u>
Total residential	<u>2,841,422</u>	<u>8,881</u>	<u>-</u>	<u>2,850,303</u>
Total	<u>\$14,643,343</u>	<u>\$ 329,578</u>	<u>\$(1,209,577)</u>	<u>\$13,763,344</u>

	Accumulated Depreciation			
	Beginning	Additions	Disposals	End of Year
Hospital				
Land improvements	\$ 110,758	\$ 6,914	\$ (3,252)	\$ 114,420
Buildings	3,054,173	228,695	(75,068)	3,207,800
Fixed equipment	1,241,231	68,293	(316,120)	993,404
Major movable equipment	<u>2,589,944</u>	<u>227,088</u>	<u>(813,226)</u>	<u>2,003,806</u>
Total hospital	6,996,106	530,990	(1,207,666)	6,319,430

	Accumulated Depreciation			
	Beginning	Additions	Disposals	End of Year
Residential				
Land improvements	\$ 77,079	\$ 8,178	\$ -	\$ 85,257
Buildings	998,860	102,023	-	1,100,883
Fixed equipment	17,334	1,835	-	19,169
Major movable equipment	<u>74,013</u>	<u>7,963</u>	<u>-</u>	<u>81,976</u>
Total residential	<u>1,167,286</u>	<u>119,999</u>	<u>-</u>	<u>1,287,285</u>
Total	<u>\$ 8,163,392</u>	<u>\$ 650,989</u>	<u>\$(1,207,666)</u>	<u>\$ 7,606,715</u>

Wright Medical Center
Comparative Statistics
Years Ended June 30, 2004 and 2003

	2004	2003
Patient Days		
Medical and surgical	1,232	1,249
Swing bed		
Skilled care	1,639	1,332
Intermediate care	2,092	1,584
Nursery	217	151
Total	5,180	4,316
Admissions		
Acute	468	464
Swing bed, skilled	139	144
Swing bed, intermediate	35	50
Total	642	658
Average Length of Stay		
Acute	2.6	2.7
Swing bed, skilled	11.8	9.3
Swing bed, intermediate	59.8	31.7
Beds, Acute		
	25	25
Occupancy Percent, Acute		
	13.0%	14.0%
Net Patient Service Revenue per Calendar Day		
	\$ 28,431	\$ 24,986
Number of Days Net Patient Service Revenue in Net Patient Receivables at End of Year - Hospital		
	84	60

**Wright Medical Center
Meadows Balance Sheets
June 30, 2004 and 2003**

	2004	2003
Assets		
Cash	\$ 95,945	\$ 93,635
Accrued interest	-	1,135
Funded depreciation	723,135	603,135
Fixed assets - net	1,563,018	1,674,137
Deferred financing costs	<u>95,549</u>	<u>108,530</u>
Total assets	<u>\$ 2,477,647</u>	<u>\$ 2,480,572</u>
Liabilities and Fund Balance		
Accounts payable and accrued expenses	\$ 47,868	\$ 3,898
Apartment deposits	49,424	48,015
Revenue notes payable	<u>1,645,508</u>	<u>1,648,981</u>
Total liabilities	1,742,800	1,700,894
Fund balance	<u>734,847</u>	<u>779,678</u>
Total liabilities and fund balance	<u>\$ 2,477,647</u>	<u>\$ 2,480,572</u>

Wright Medical Center
Meadows Revenues and Expenses
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues		
Rental fees	\$ 567,876	\$ 568,972
TV cable fees	5,493	5,628
Other fees	<u>-</u>	<u>1,805</u>
Total	573,369	576,405
Expenses		
Salaries	35,804	33,958
Employee benefits and payroll taxes	8,175	7,351
Supplies and other expenses	83,235	70,337
Insurance	12,500	2,982
Telephone	722	669
Utilities	68,343	62,946
Property taxes	<u>24,174</u>	<u>42,390</u>
Total	232,953	220,633
Net Income	<u>\$ 340,416</u>	<u>\$ 355,772</u>

Independent Auditor's Report on Compliance And on Internal Control over Financial Reporting

To the Board of Commissioners
Wright Medical Center
Clarion, Iowa

I have audited the accompanying balance sheets of Wright Medical Center as of June 30, 2004 and 2003 and the related statements of revenues and expenses of general funds, changes in fund balances, and cash flows for the years then ended and have issued my report thereon dated September 20, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Wright Medical Center's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Hospital. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Wright Medical Center's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I noted no matters involving the internal control over financial reporting and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Wright Medical Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I noted no material weaknesses involving the internal control over financial reporting and its operation. Prior year reportable conditions have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Wright Medical Center and other parties to whom Wright Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Wright Medical Center during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

David L. Seiler, CPA
September 20, 2004

Wright Medical Center
Scheduled Findings and Questioned Costs
Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- A:** An unqualified opinion was issued on the financial statements
- B:** The audit did not disclose any non-compliance which is material to the financial statements.
- C:** The audit did not disclose any reportable conditions or material weaknesses in internal control over financial reporting.

Part II: Other Findings Related to Required Statutory Reporting:

Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

Certified Budget – Hospital disbursements during the year ended June 30, 2004 did not exceed amounts budgeted.

Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

Business Transactions – No business transactions between the Hospital and Hospital officials were discovered.

Board Minutes – No transactions were found that I believe should have been approved in the Board minutes but were not.

Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.