

**Wright Medical Center**  
**Clarion, Iowa**  
**Independent Auditor's Reports**  
**Basic Financial Statements and Supplementary Information**  
**Schedule of Findings and Questioned Costs**  
**Years Ended June 30, 2005 and 2004**

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**Sioux City, Iowa 51106**

# Wright Medical Center

June 30, 2005 and 2004

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**Wright Medical Center  
Clarion, Iowa**

**Board of Commissioners 2005**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
Dr. Michael Whitters	President	June 2006
Carrie Ann Olson	Vice-President	June 2006
Gary Horton	Secretary-Treasurer	June 2007
Ken Stoakes	Member	June 2008
Scott Whyte	Member	June 2008

**Hospital Officials**

Steve Simonin	Administrator	Indefinite
Amy McDaniel	Chief Financial Officer	Indefinite

## Independent Auditor's Report

To the Board of Trustees  
of Wright Medical Center:

I have audited the accompanying basic financial statements of Wright Medical Center as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of Wright Medical Center'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 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 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, 2005 and 2004, and the changes in its financial position and its 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 23, 2005 on my consideration Wright Medical Center's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. These 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.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 7 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audits were performed for the purpose of forming opinions on the financial statements that collectively comprise Wright Medical Center's basic financial statements. Other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audits of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 23, 2005

David L. Seiler, CPA

## Management's Discussion and Analysis

Management of Wright Medical Center provides this Management's Discussion and Analysis of Wright Medical Center's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Hospital's financial statements, which follow.

### 2005 Financial Highlights

- ◆ The Hospital's operating income increased by 315.7%, or approximately \$343,000, from fiscal 2004 to fiscal 2005.
- ◆ Net patient service revenues increased 7.9%, or approximately \$777,000, from fiscal 2004 to fiscal 2005.
- ◆ Operating expenses increased 8.1%, or approximately \$1,144,000, from fiscal 2004 to fiscal 2005.
- ◆ Gifts and bequests increased approximately \$41,000, from fiscal 2004 to fiscal 2005.
- ◆ The Hospital's net assets increased 5.9%, or approximately \$452,000, from June 30, 2004 to June 30, 2005.

### Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Hospital's financial activities.

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These statements provide information about the activities of the Hospital, on a comparative basis, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Hospital's budget for the year.

Other Supplementary Information provides detailed information about the operations of the Hospital.

## Reporting the Hospital's Financial Activities

### *The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets*

One of the most important questions asked about the Hospital's finances is "Is the Hospital as whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets, which is the difference between assets and liabilities, as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic conditions, are also important in making this determination.

### *The Statement of Cash Flows*

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

## Financial Analysis of the Hospital

As noted earlier, net assets may serve over time as a useful indicator of financial position. The hospital's net assets increased by \$452,300 (5.9%) from fiscal 2004 to fiscal 2005, and by \$85,316 (1.1%) from fiscal 2003 to fiscal 2004.

### **Assets, Liabilities and Net Assets**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current assets	\$ 5,847,537	\$ 5,433,451	\$ 4,988,058
Capital assets	9,686,944	6,821,581	6,499,116
Other assets	<u>122,069</u>	<u>137,678</u>	<u>154,999</u>
Total assets	<u>15,656,550</u>	<u>12,392,710</u>	<u>11,642,173</u>
Current liabilities	1,998,033	2,126,053	1,274,595
Long-term debt	<u>5,513,502</u>	<u>2,573,942</u>	<u>2,760,179</u>
Total liabilities	<u>7,511,535</u>	<u>4,699,995</u>	<u>4,034,774</u>
Unrestricted net assets	<u>8,145,015</u>	<u>7,692,715</u>	<u>7,607,399</u>
Total net assets	<u>8,145,015</u>	<u>7,692,715</u>	<u>7,607,399</u>

The following shows the changes in net assets for the Hospital.

**Revenues, Expenses and Changes in Net Assets  
Year Ended June 30,**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Net patient service revenue	\$ 10,622,394	\$ 9,845,758	\$ 8,714,858
Other operating revenue	<u>5,159,291</u>	<u>4,449,309</u>	<u>3,105,247</u>
Total operating revenue	<u>15,781,685</u>	<u>14,295,067</u>	<u>11,820,105</u>
Operating expenses:			
Nursing service	3,355,146	3,314,673	2,631,105
Other professional service	3,740,719	3,393,215	2,965,147
General service	1,385,526	1,287,572	1,243,746
Fiscal and administrative service	1,980,372	1,782,639	1,520,209
Residential service	278,711	232,953	220,633
Clinic	2,452,602	2,241,668	1,024,791
Retail pharmacy	1,400,726	1,232,551	1,167,962
Provision for depreciation	<u>686,470</u>	<u>650,989</u>	<u>666,811</u>
Total operating expenses	<u>15,280,272</u>	<u>14,136,260</u>	<u>11,440,404</u>
Operating income	<u>501,413</u>	<u>158,807</u>	<u>379,701</u>
Non-operating revenues (expenses):			
Gifts and bequests	41,190	50	100,000
Interest and amortization of financing costs	(130,411)	(138,420)	(148,508)
Gain (Loss) on disposal of equipment	-	(1,911)	5,000
Investment income	<u>40,108</u>	<u>26,734</u>	<u>47,042</u>
Total non-operating revenues (expenses)	<u>(49,113)</u>	<u>(113,547)</u>	<u>3,534</u>
Transfer from Foundation	-	40,056	30,000
Increase in net assets	<u>\$ 452,300</u>	<u>\$ 85,316</u>	<u>\$ 413,235</u>

**Operating Income**

The first component of the overall change in the Hospital's net assets is its operating income, which is the difference between the sum of the net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating income. The Hospital was formed and is operated primarily to serve residents of Wright County and the surrounding area. The Hospital provides resources to enable the facility to serve lower income and other residents without the ability to pay for services received.

The operating income for fiscal 2005 increased by \$342,606, or 315.7%, compared to fiscal 2004. The primary component of the increased operating income is:

- An increase in total operating revenues of \$1,486,618, or 10.4%.

The operating income for fiscal 2004 decreased \$220,894, or 58.2% compared to fiscal 2003. The primary component of the decreased operating income was a \$1,497,087 or 30.7% increase in salaries facility-wide.

Non-operating revenues and expenses consist primarily of gifts and bequests and investment income, less interest expense. Investment income increased \$13,374, or 50.0% in FY05 as compared to FY04, gifts and bequests increased \$41,140, primarily due to a gift from the Wright Medical Foundation in the amount of \$37,151.

Investment income decreased \$20,308, or 43.2%, in FY04 as compared to FY03, and gifts and bequests decreased \$99,950 because a restricted fund of \$100,000 from Trinity Health Systems was recognized as a gift in FY03.

## **Capital Asset and Debt Administration**

### *Capital Assets*

At June 30, 2005, the Hospital had \$9,686,944 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 and 5 to the financial statements. In fiscal 2005, the Hospital acquired or constructed capital assets costing \$3,551,833, financed by funds designated by the Board of Trustees.

### *Long-term Debt*

At June 30, 2005, the Hospital had outstanding revenue bonds totaling \$2,573,942, as detailed in Note 7 to the financial statements. The Hospital also borrowed \$3,109,512 from First Citizens National Bank of Clarion to finance the expansion of its outpatient facilities. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings during the past two years.

## **Economic Factors**

Wright Medical Center continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Hospital officials. Some of the realities that may potentially become challenges for the Hospital to meet are:

- Drug costs will continue to increase.
- Facilities at the Hospital require constant maintenance and upkeep.
- Shortages in finding qualified employees.
- Potential changes in Medicare and Medicaid reimbursement rates.

The Hospital anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Hospital's ability to react to unknown issues.

## **Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report and or need additional financial information, contact Wright Medical Center Administration, 1316 S. Main Street, Clarion, Iowa.

**Wright Medical Center**  
**Statements of Net Assets**  
**June 30, 2005 and 2004**

**Assets**

	<b>2005</b>	<b>2004</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,242,577	\$ 2,295,157
Patient receivables, net of allowances of \$778,000 in 2005 and \$534,000 in 2004	1,950,184	2,532,550
Other receivables	136,159	120,478
Inventories	388,698	407,365
Prepaid expenses	<u>129,919</u>	<u>77,901</u>
Total current assets	5,847,537	5,433,451
<b>Property, Plant and Equipment - net</b>	<u>9,686,944</u>	<u>6,821,581</u>
<b>Other Assets</b>		
Deferred financing costs, net of accumulated amortization of \$193,330 in 2005 and \$177,721 in 2004	<u>122,069</u>	<u>137,678</u>
Total assets	<u>\$15,656,550</u>	<u>\$12,392,710</u>

*See Notes to Financial Statements*

## Liabilities

	<u>2005</u>	<u>2004</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 603,143	\$ 297,442
Accrued payroll	396,708	649,190
Accrued expenses - other	77,301	221,662
Notes payable - bank	-	140,571
Estimated amount due to contracting agencies	703,000	605,000
Current maturities of long-term debt	169,952	162,764
Apartment deposits payable	<u>47,929</u>	<u>49,424</u>
Total current liabilities	1,998,033	2,126,053
<b>Long-term Liabilities</b>		
Long-term debt excluding current maturities	<u>5,513,502</u>	<u>2,573,942</u>
Total liabilities	<u>7,511,535</u>	<u>4,699,995</u>
<b>Net Assets</b>	<u>8,145,015</u>	<u>7,692,715</u>
Total liabilities and net assets	<u>\$ 15,656,550</u>	<u>\$ 12,392,710</u>

**Wright Medical Center**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Revenues:</b>		
Patient service revenue	\$14,712,964	\$11,790,371
Less:		
Provision for bad debt	(533,133)	(559,984)
Contractual adjustments	(3,530,992)	(1,309,666)
Charity care	<u>(26,445)</u>	<u>(74,963)</u>
Net patient service revenue	10,622,394	9,845,758
Other operating revenues	<u>5,159,291</u>	<u>4,449,309</u>
Total operating revenues	15,781,685	14,295,067
<b>Operating Expenses:</b>		
Nursing service	3,355,146	3,314,673
Other professional service	3,740,719	3,393,215
General service	1,385,526	1,287,572
Fiscal and administrative service	1,980,372	1,782,639
Residential service	278,711	232,953
Clinic	2,452,602	2,241,668
Retail pharmacy	1,400,726	1,232,551
Provision for depreciation	<u>686,470</u>	<u>650,989</u>
Total operating expenses	<u>15,280,272</u>	<u>14,136,260</u>
<b>Operating Income</b>	<u>501,413</u>	<u>158,807</u>
<b>Non-Operating Revenues (Expenses):</b>		
Gifts and bequests	41,190	50
Interest and amortization of financing costs	(130,411)	(138,420)
Gain (Loss) on disposal of equipment	-	(1,911)
Investment income	<u>40,108</u>	<u>26,734</u>
Total non-operating revenues (expenses)	<u>(49,113)</u>	<u>(113,547)</u>
<b>Changes in Net Assets</b>	452,300	45,260
<b>Transfer from Foundation</b>	-	40,056
<b>Net Assets, Beginning of Year</b>	<u>7,692,715</u>	<u>7,607,399</u>
<b>Net Assets, End of Year</b>	<u>\$ 8,145,015</u>	<u>\$ 7,692,715</u>

**Wright Medical Center**  
**Statements of Cash Flows**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Cash Flows From Operating Activities</b>		
Cash received from patient services	\$15,692,488	\$13,834,052
Cash paid to suppliers and employees	(14,860,360)	(13,305,609)
Other operating revenues	<u>753,882</u>	<u>698,803</u>
Net cash provided by operating activities	<u>1,586,010</u>	<u>1,227,246</u>
<b>Cash Flows From Non-capital Financing Activities</b>		
Unrestricted contributions received	<u>41,190</u>	<u>50</u>
Net cash provided by non-capital financing activities	<u>41,190</u>	<u>50</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
New debt	3,109,512	-
Acquisition and construction of capital assets	(3,551,833)	(975,365)
Principal paid on long-term debt	(162,764)	(187,847)
Interest paid on long-term debt	(114,803)	(121,098)
Restricted contributions received	<u>-</u>	<u>40,056</u>
Net cash used for capital and related financing activities	<u>(719,888)</u>	<u>(1,244,254)</u>
<b>Cash Flows From Investing Activities</b>		
Investment income	<u>40,108</u>	<u>26,734</u>
Net cash provided by investing activities	<u>40,108</u>	<u>26,734</u>
<b>Net Increase in Cash and Cash Equivalents</b>	947,420	9,776
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,295,157</u>	<u>2,285,381</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 3,242,577</u></u>	<u><u>\$ 2,295,157</u></u>

**Wright Medical Center**  
**Statements of Cash Flows**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of Cash and Cash Equivalents to Balance Sheet</b>		
Cash and cash equivalents in current assets	<u>\$ 3,242,577</u>	<u>\$ 2,295,157</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>		
Operating income	<u>\$ 501,413</u>	<u>\$ 158,807</u>
Adjustments to reconcile operating income to net cash used for operating activities		
Depreciation	686,470	650,989
Changes in assets and liabilities		
Decrease (increase) in receivables	582,367	(393,523)
Decrease in estimated amount due from contracting agencies	-	86,000
(Increase) in other receivables	(15,681)	(59,689)
Decrease (increase) in inventory	18,667	(64,139)
(Increase) in prepaid expenses	(52,018)	(4,266)
Increase (decrease) in accounts payable	305,701	(22,311)
(Decrease) increase in accrued payroll	(252,482)	85,952
(Decrease) increase in accrued expenses	(144,361)	42,446
(Decrease) increase in apartment deposits	(1,495)	1,409
Increase in estimated amount due to contracting agencies	98,000	605,000
(Decrease) increase in note payable - bank	<u>(140,571)</u>	<u>140,571</u>
Total adjustments	1,084,597	1,068,439
Net cash provided by operating activities	<u>\$ 1,586,010</u>	<u>\$ 1,227,246</u>
<b>Supplemental Disclosure of Noncash Investing, Capital and Financing Activities</b>		
Loss on disposal of assets	<u>\$ -</u>	<u>\$ (1,911)</u>
Interest capitalized	<u>\$ 71,041</u>	<u>\$ -</u>

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 1: 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's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**Reporting Entity**

For financial reporting purposes, Wright Medical Center has included all funds, organizations, 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.

**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. Wright Medical Center has no component units which meet the Governmental Accounting Standards Board Criteria.

**Basis of Presentation**

The Statement of Net Assets displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the other preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 1: Summary of Significant Accounting Policies – Continued**

**Measurement Focus and 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 basic 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 its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds 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.

**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.

**Assets, Liabilities and Net Assets**

The following accounting policies are followed in preparing the statement of net assets:

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

Accounts Receivable – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances and a contractual allowance for third-party payors.

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

Board Designated Assets – Board designated assets consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 1: Summary of Significant Accounting Policies - Continued**

**Assets, Liabilities and Net Assets - Continued**

Property, Plant and Equipment – Property, plant and equipment are carried at cost. The Hospital computes depreciation on buildings and equipment using the straight-line method. Lives for the building and land improvements are five to sixty years, while the equipment lives range from five to twenty years.

**Statement of Revenues, Expenses and Changes in Net Assets**

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

**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 and a provision for uncollectable accounts. 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.

**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.

**Note 2: Cash and Investments**

The Hospital's deposits in banks at June 30, 2005 and 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.

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 2: Cash and Investments - Continued**

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

The Hospital's investments at June 30, 2005 are as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Accrued Interest</u>
Certificate of Deposit	3.25%	\$ 268,760	\$ -
Certificate of Deposit	3.25%	505,438	-
Certificate of Deposit	3.30%	252,623	-
Certificate of Deposit	4.95%	30,395	-
High Balance Checking	1.50%	<u>230,649</u>	<u>-</u>
<b>Totals</b>		<u>\$ 1,287,865</u>	<u>\$ -</u>

The investments are classified as Funded Depreciation.

The Hospital's investments at June 30, 2004 consisted of (4) certificates of deposit in the amount of \$740,853 plus accrued interest of \$3,831.

**Note 3: Estimated Amounts Due From and Due 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 Wellmark 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 indicate the Hospital owed the agencies approximately \$703,000 at June 30, 2005. At June 30, 2004, the Hospital owed the agencies approximately \$605,000.

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 4: Property, Plant and Equipment**

Property, plant and equipment are stated at acquisition cost. The cost by major category at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Construction in progress	\$ 3,918,666	\$ 664,952
Land	123,106	123,106
Land improvements	190,231	190,231
Buildings	8,907,933	8,885,121
Fixed equipment	1,627,780	1,579,755
Major moveable equipment	<u>3,212,413</u>	<u>2,985,131</u>
	17,980,129	14,428,296
Less accumulated depreciation	<u>(8,293,185)</u>	<u>(7,606,715)</u>
Total	<u>\$ 9,686,944</u>	<u>\$ 6,821,581</u>

**Note 5: 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, 2005, \$3,918,666 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 6: 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, 2005 and 2004 were \$361,906 and \$345,256, respectively, equal to the required contributions for each year.

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 6: Pension and Retirement Benefits - Continued**

**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 \$14,000 annually, and are 100% vested at all times.

For the year ended June 30, 2005, Hospital participants deferred a total of \$171,363 compensation into the 457 plan. At June 30, 2005 plan assets held in trust at First Citizens Trust Company totaled \$981,237.

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.

**Note 7: Long – term Debt**

The following is a summary of long-term debt and related information at June 30, 2005:

	<b>Total</b>	<b>Current</b>	<b>Long-Term</b>
Revenue notes payable	\$ <u>2,573,942</u>	\$ <u>169,952</u>	\$ <u>2,403,990</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:

<b>Year Ended June 30</b>	<b>Interest Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	4.27%	202,010	76,039	278,049
2011– 2017	4.27%	<u>1,646,015</u>	<u>259,451</u>	<u>1,905,466</u>
Totals		\$ <u>2,573,942</u>	\$ <u>721,769</u>	\$ <u>3,295,711</u>

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 8: Interest Cost**

The Hospital's policy is to capitalize interest cost on construction in progress to the extent such construction is capitalized in the statement of net assets. 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, 2005, the Hospital capitalized \$71,041 of interest costs on construction loan advances and incurred total interest cost of \$185,844.

**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 January 31, 2007 and July 5, 2010. 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.

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, 2005:

<b>Year Ended June 30</b>	
2006	\$ 193,026
2007	181,762
2008	122,930
2009	61,654
2010	<u>46,451</u>
Totals	\$ <u>605,823</u>

Total rental expense for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, was \$146,575.

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 10: 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 11: 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, 2005 and 2004 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:

	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Balance Sheet</b>		
Assets		
Cash	\$ 381,731	\$ 86,379
Land	174,000	174,000
Construction in progress – Assisted Living Facility-net of related debt	<u>33,638</u>	<u>-</u>
Total	<u>\$ 589,369</u>	<u>\$ 260,379</u>
Liabilities and Net Assets		
Due to Wright Medical Center	\$ 49,984	\$ -
Donated equity	174,000	174,000
Unrestricted	33,021	75,101
Restricted	<u>332,364</u>	<u>11,278</u>
Total	<u>\$ 589,369</u>	<u>\$ 260,379</u>

**Wright Medical Center**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 11: Related Party Transactions - Continued**

	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Operations and Changes in Net Assets - Unrestricted		
Donations	\$ 376,113	\$ 172,935
Interest income	2,179	1,433
Expenses	(62,135)	(11,683)
Transfer to Wright Medical Center	<u>(37,151)</u>	<u>(40,056)</u>
<b>Increase in Net Assets</b>	279,006	122,629
<b>Net Assets, Beginning of Year</b>	<u>260,379</u>	<u>137,750</u>
<b>Net Assets, End of Year</b>	<u>\$ 539,385</u>	<u>\$ 260,379</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 12: 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.

## **Required Supplementary Information**

**Wright Medical Center**  
**Budgetary Comparison Schedule of Revenues, Expenses and**  
**Changes in Net Assets**  
**Budget and Actual (Cash Basis)**  
**Year Ended June 30, 2005**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Amended	
Estimated other revenues/receipts	\$ 15,862,983	\$ 664,685	\$ 16,527,668	\$ 16,310,070	\$ 16,310,070	\$ 217,598
Expenses / disbursements	<u>15,410,683</u>	<u>169,565</u>	<u>15,580,248</u>	<u>15,546,753</u>	<u>15,546,753</u>	<u>(33,495)</u>
Net	452,300	495,120	947,420	763,317	763,317	184,103
Balance, beginning of year	<u>7,692,715</u>	<u>(5,397,558)</u>	<u>2,295,157</u>	<u>2,295,157</u>	<u>2,292,157</u>	<u>-</u>
Balance, end of year	<u>\$ 8,145,015</u>	<u>\$ (4,902,438)</u>	<u>\$ 3,242,577</u>	<u>\$ 3,058,474</u>	<u>\$ 3,058,474</u>	<u>\$ 184,103</u>

**Wright Medical Center**  
**Notes to Required Supplementary Information**  
**Budgetary Reporting**  
**June 30, 2005 and 2004**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

## **Other Supplemental Information**

**Wright Medical Center**  
**Patient Service Revenues**  
**Years Ended June 30, 2005 and 2004**

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swingbed</u>	<u>Combined</u>	<u>2004</u>
<b>Patient Service Revenues</b>					
Nursing	\$ 752,074	\$ -	\$ 708,328	\$ 1,460,402	\$ 1,382,398
Nursery	79,900	-	-	79,900	71,740
Observation	16,615	245,750	200	262,565	211,581
Operating room	213,499	1,810,142	3,305	2,026,946	1,435,820
Recovery room	20,065	19,262	-	39,327	50,972
Delivery room	130,635	24,769	-	155,404	145,927
Central service and supply	180,616	298,710	81,928	561,254	586,801
Emergency room	16,240	640,115	417	656,772	513,073
Cardiac rehabilitation	-	185,955	480	186,435	158,636
Laboratory	247,714	1,480,742	59,869	1,788,325	1,440,293
Blood Bank	21,448	20,268	6,527	48,243	51,483
Electrocardiology	14,362	81,711	500	96,573	60,910
Radiology	34,984	866,175	8,127	909,286	752,828
CT scans	144,225	968,350	9,325	1,121,900	962,515
Nuclear scans	2,444	78,455	800	81,699	78,254
Ultrasound	12,626	368,649	2,109	383,384	347,407
Magnetic resonance imaging	8,910	442,300	-	451,210	378,900
Pharmacy	528,777	565,749	253,421	1,347,947	945,350
Intravenous therapy	84,669	62,941	9,246	156,856	40,011
Anesthesiology	190,695	441,331	570	632,596	555,415
Physical therapy	18,667	668,496	146,349	833,512	794,413
Respiratory therapy	115,848	509,322	116,587	741,757	352,244
Occupational therapy	7,744	115,971	88,776	212,491	162,597
Speech therapy	950	16,040	7,795	24,785	16,560
Pulmonary and Respite	56,749	233,927	30,743	321,419	268,158
Emergency room physicians	<u>425</u>	<u>131,551</u>	<u>-</u>	<u>131,976</u>	<u>26,085</u>
Total	2,900,881	10,276,681	1,535,402	14,712,964	11,790,371
<u>Less provision for</u>					
Bad debt				(533,133)	(559,984)
Contractual and other adjustments				(3,530,992)	(1,309,666)
Charity care				<u>(26,445)</u>	<u>(74,963)</u>
Net patient service revenues				<u>\$10,622,394</u>	<u>\$ 9,845,758</u>

**Wright Medical Center  
Other Operating Revenues  
Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Other Operating Revenues</b>		
Clinic	\$2,881,406	\$2,424,627
Residential fees	589,188	573,369
Retail pharmacy	1,524,003	1,325,879
Congregate and guest meals	133,287	120,967
Medical records fees	1,170	351
Miscellaneous	348	-
Grants	40,267	17,299
Fitness Center		
Income	49,550	44,700
Expenses	<u>(59,928)</u>	<u>(57,883)</u>
Total	<u>\$5,159,291</u>	<u>\$4,449,309</u>

**Wright Medical Center**  
**Operating Expenses**  
**Years Ended June 30, 2005 and 2004**

	<u>Salaries</u>	<u>Supplies</u>	<u>Combined</u>	<u>2004</u>
<b>Operating Expenses</b>				
<b>Nursing Services</b>				
Nursing administrative	\$ 170,989	\$ 40,757	\$ 211,746	\$ 238,202
Medical and surgical	990,020	370,672	1,360,692	1,318,134
Nursery, delivery and labor rooms	59,804	31,233	91,037	96,345
Operating and recovery room	290,619	167,605	458,224	423,510
Central supply	103,441	263,889	367,330	381,249
Emergency room	362,951	383,370	746,321	732,298
Cardiac rehabilitation	26,969	85,120	112,089	116,689
Infection control	<u>6,432</u>	<u>1,275</u>	<u>7,707</u>	<u>8,246</u>
 Total nursing services	 <u>2,011,225</u>	 <u>1,343,921</u>	 <u>3,355,146</u>	 <u>3,314,673</u>
<b>Other Professional Services</b>				
Laboratory	288,566	376,013	664,579	631,706
Electrocardiology	2,500	2,044	4,544	3,507
Radiology	320,832	202,703	523,535	534,573
CT scans	-	230,970	230,970	211,922
Nuclear scans	-	31,921	31,921	39,114
Ultrasound	-	41,848	41,848	36,173
Magnetic resonance imaging	-	116,471	116,471	112,490
Pharmacy	160,244	369,248	529,492	418,032
Anesthesiology	-	315,686	315,686	274,975
Physical therapy	337,249	89,297	426,546	451,417
Respiratory therapy	463	426,860	427,323	269,471
Occupational therapy	71,641	67,132	138,773	124,091
Speech therapy	-	12,780	12,780	11,557
Sleep center	-	320	320	-
Medical records	<u>180,016</u>	<u>95,915</u>	<u>275,931</u>	<u>274,187</u>
 Total other professional services	 <u>1,361,511</u>	 <u>2,379,208</u>	 <u>3,740,719</u>	 <u>3,393,215</u>

**Wright Medical Center**  
**Operating Expenses - Continued**  
**Years Ended June 30, 2005 and 2004**

	<b>Salaries</b>	<b>Supplies</b>	<b>Combined</b>	<b>2004</b>
<b>Operating Expenses - Continued</b>				
<b>General Services</b>				
Dietary	\$ 239,536	\$ 335,671	\$ 575,207	\$ 503,249
Housekeeping	199,314	94,898	294,212	240,055
Laundry and linen service	-	54,783	54,783	37,614
Maintenance of plant	<u>171,565</u>	<u>289,759</u>	<u>461,324</u>	<u>506,654</u>
Total general services	<u>610,415</u>	<u>775,111</u>	<u>1,385,526</u>	<u>1,287,572</u>
<b>Fiscal and Administrative Services</b>				
Administrative services	694,501	641,123	1,335,624	1,285,809
Unassigned expenses	<u>-</u>	<u>644,748</u>	<u>644,748</u>	<u>496,830</u>
Total fiscal and administrative	<u>694,501</u>	<u>1,285,871</u>	<u>1,980,372</u>	<u>1,782,639</u>
Residential service expenses	<u>38,739</u>	<u>239,972</u>	<u>278,711</u>	<u>232,953</u>
Clinic expenses	<u>1,633,150</u>	<u>819,452</u>	<u>2,452,602</u>	<u>2,241,668</u>
			<b>2005</b>	<b>2004</b>
<b>Retail Pharmacy</b>				
Revenues			<u>\$ 1,524,003</u>	<u>\$ 1,325,879</u>
Expenses				
Salaries			180,723	150,495
Employee benefits & taxes			30,826	26,414
Drugs			1,171,444	1,035,624
Supplies and other expenses			<u>17,733</u>	<u>20,018</u>
Total retail pharmacy expenses			<u>\$ 1,400,726</u>	<u>\$ 1,232,551</u>

**Wright Medical Center**  
**Patient Receivables and Allowance for Doubtful Accounts**  
**June 30, 2005 and 2004**

Days Since Discharge	Analysis of Aging			
	2005		2004	
	Amount	Total	Amount	Total
0-30	\$ 1,256,156	46.0%	\$ 1,171,135	38.2%
31-60	285,451	10.5	416,940	13.6
61-90	177,288	6.5	324,141	10.6
91-120	198,043	7.3	165,163	5.4
121-180	232,598	8.5	278,077	9.1
180 and over	<u>578,648</u>	<u>21.2</u>	<u>711,094</u>	<u>23.1</u>
	2,728,184	<u>100.0%</u>	3,066,550	<u>100.0%</u>
Less				
Allowance for contractals	(196,000)		(6,000)	
Allowance for uncollectibles	<u>(582,000)</u>		<u>(528,000)</u>	
Total	<u>\$1,950,184</u>		<u>\$2,532,550</u>	

**Allowance for Doubtful Accounts**  
**Year Ended June 30,**

	2005	2004
Balance beginning of year	\$ 528,000	\$ 407,000
Provision for bad debts	533,133	559,984
Recovery of accounts written off	121,445	94,530
Less accounts written off	<u>(600,578)</u>	<u>(533,514)</u>
Balance end of year	<u>\$ 582,000</u>	<u>\$ 528,000</u>

**Wright Medical Center**  
**Inventory / Prepaid Expense**  
**June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Inventory</b>		
Laboratory	\$ 27,914	\$ 28,367
Radiology	8,621	13,155
Pharmacy	63,261	44,309
Retail pharmacy	137,327	168,651
Surgery	49,701	47,226
Emergency room	5,328	6,800
Physical therapy	6,743	7,625
Dietary	14,045	20,595
Central Supply	<u>75,758</u>	<u>70,637</u>
Total inventories	<u>\$ 388,698</u>	<u>\$ 407,365</u>
<b>Prepaid Expense</b>		
Dairyland maintenance contract	\$ 25,304	\$ 22,215
Insurance	82,468	22,877
Other professional fees	<u>22,147</u>	<u>32,809</u>
Total prepaid expenses	<u>\$ 129,919</u>	<u>\$ 77,901</u>

**Wright Medical Center**  
**Changes in Property, Plant and Equipment**  
**Years Ended June 30, 2005 and 2004**

June 30, 2005	Cost			
	Beginning	Additions	Deletions	End of Year
Construction in progress	\$ 664,952	\$3,253,714	\$ -	\$ 3,918,666
Land	123,106	\$ -	\$ -	\$ 123,106
Land improvements	190,231	-	-	190,231
Buildings	8,885,121	22,812	-	8,907,933
Fixed equipment	1,579,755	48,025	-	1,627,780
Major movable equipment	<u>2,985,131</u>	<u>227,282</u>	<u>-</u>	<u>3,212,413</u>
Total	14,428,296	3,551,833	-	17,980,129

	Accumulated Depreciation			
	Beginning	Additions	Disposals	End of Year
Land improvements	\$ 114,420	\$ 6,830	\$ -	\$ 121,250
Buildings	4,495,085	345,520	-	4,840,605
Fixed equipment	993,404	78,189	-	1,071,593
Major movable equipment	<u>2,003,806</u>	<u>255,931</u>	<u>-</u>	<u>2,259,737</u>
Total	7,606,715	686,470	-	8,293,185

June 30, 2004	Cost			
	Beginning	Additions	Deletions	End of Year
Construction in progress	\$ 19,165	\$ 645,787	\$ -	\$ 664,952
Land	33,474	23,823	65,809	123,106
Land improvements	193,483	-	(3,252)	190,231
Buildings	9,003,882	24,027	(142,788)	8,885,121
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	14,662,508	975,365	(1,209,577)	14,428,296

	Accumulated Depreciation			
	Beginning	Additions	Disposals	End of Year
Land improvements	\$ 110,758	\$ 6,914	\$ (3,252)	\$ 114,420
Buildings	4,221,459	348,694	(75,068)	4,495,085
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	8,163,392	650,989	(1,207,666)	7,606,715

**Wright Medical Center  
Comparative Statistics  
Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Patient Days</b>		
Medical and surgical	1,479	1,232
Swing bed		
Skilled care	1,332	1,639
Intermediate care	1,224	2,092
Nursery	<u>213</u>	<u>217</u>
Total	<u><u>4,248</u></u>	<u><u>5,180</u></u>
<b>Admissions</b>		
Acute	541	468
Swing bed, skilled	146	139
Swing bed, intermediate	<u>26</u>	<u>35</u>
Total	<u><u>713</u></u>	<u><u>642</u></u>
<b>Average Length of Stay</b>		
Acute	2.7	2.6
Swing bed, skilled	9.1	11.8
Swing bed, intermediate	47.1	59.8
<b>Beds, Acute</b>	25	25
<b>Occupancy Percent, Acute</b>	16.0	14.0
<b>Net Patient Service Revenue per Calendar Day</b>	\$ <u><u>29,102</u></u>	\$ <u><u>26,901</u></u>
<b>Number of Days Net Patient Service Revenue in Net Patient Receivables at End of Year - Hospital</b>	<u><u>59</u></u>	<u><u>79</u></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 financial statements of Wright Medical Center as of and for the years ended June 30, 2005 and 2004, and have issued my report thereon dated September 23, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards 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, 2005 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 23, 2005

**Wright Medical Center**  
**Scheduled Findings and Questioned Costs**  
**Year Ended June 30, 2005**

**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, 2005.

**Certified Budget** – Hospital disbursements during the year ended June 30, 2005 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.