

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, 2006 and 2005

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Wright Medical Center

June 30, 2006 and 2005

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**Wright Medical Center
Clarion, Iowa**

Board of Commissioners 2006

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

Hospital Officials

Steve Simonin	Chief Executive Officer	Indefinite
Amy McDaniel	Chief Financial Officer	Indefinite

Independent Auditor's Report

To the Board of Commissioners
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, 2006 and 2005, 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, 2006 and 2005, 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 report dated September 8, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 25 through 26 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 required 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 8, 2006
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, 2006. We encourage readers to consider this information in conjunction with the Hospital's financial statements, which follow.

2006 Financial Highlights

- ◆ The Hospital's operating income increased by 117.2%, or approximately \$587,000, from fiscal 2005 to fiscal 2006.
- ◆ Net patient service revenues increased 44.8%, or approximately \$6,052,000, from fiscal 2005 to fiscal 2006.
- ◆ Operating expenses increased 36.9%, or approximately \$5,668,000, from fiscal 2005 to fiscal 2006.
- ◆ Gifts and bequests decreased approximately \$37,000, from fiscal 2005 to fiscal 2006.
- ◆ The Hospital's net assets increased 12.0%, or approximately \$981,000, from June 30, 2005 to June 30, 2006.

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 \$981,425 (12.0%) from fiscal 2005 to fiscal 2006, and by \$452,300 (5.9%) from fiscal 2004 to fiscal 2005.

Assets, Liabilities and Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 8,311,727	\$ 5,847,537	\$ 5,433,451
Capital assets	10,817,531	9,686,944	6,821,581
Other assets	<u>653,143</u>	<u>122,069</u>	<u>137,678</u>
Total assets	<u>19,782,401</u>	<u>15,656,550</u>	<u>12,392,710</u>
Current liabilities	4,384,653	1,998,033	2,126,053
Long-term debt	<u>6,271,308</u>	<u>5,513,502</u>	<u>2,573,942</u>
Total liabilities	<u>10,655,961</u>	<u>7,511,535</u>	<u>4,699,995</u>
Unrestricted net assets			
Invested in capital assets, net of related debt	\$ 4,234,770	\$ 4,003,490	\$ 4,084,875
Unrestricted	<u>4,891,670</u>	<u>4,141,525</u>	<u>3,607,840</u>
Total net assets	<u>9,126,440</u>	<u>8,145,015</u>	<u>7,692,715</u>

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

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Net patient service revenue	\$ 19,556,214	\$ 13,503,797	\$ 9,845,758
Other operating revenue	<u>2,540,883</u>	<u>2,337,816</u>	<u>4,449,309</u>
Total operating revenue	<u>22,097,097</u>	<u>15,841,613</u>	<u>14,295,067</u>
Operating expenses:			
Nursing service	6,641,962	3,355,146	3,314,673
Other professional service	4,733,039	3,740,719	3,393,215
General service	1,784,861	1,405,018	1,287,572
Fiscal and administrative service	2,569,541	1,960,880	1,782,639
Residential service	356,566	278,711	232,953
Clinic	2,514,266	2,452,602	2,241,668
Retail pharmacy	1,578,809	1,400,726	1,232,551
Fitness center	82,539	59,928	-
Provision for depreciation	<u>746,657</u>	<u>686,470</u>	<u>650,989</u>
Total operating expenses	<u>21,008,240</u>	<u>15,340,200</u>	<u>14,136,260</u>
Operating income	<u>1,088,857</u>	<u>501,413</u>	<u>158,807</u>
Non-operating revenues (expenses):			
Gifts and bequests	4,048	41,190	50
Interest and amortization of financing costs	(170,043)	(130,411)	(138,420)
Gain (Loss) on disposal of equipment	-	-	(1,911)
Investment income	<u>58,563</u>	<u>40,108</u>	<u>26,734</u>
Total non-operating revenues (expenses)	<u>(107,432)</u>	<u>(49,113)</u>	<u>(113,547)</u>
Transfer from Foundation	-	-	40,056
Increase in net assets	981,425	452,300	85,316
Net assets beginning of year	<u>8,145,015</u>	<u>7,692,715</u>	<u>7,607,399</u>
Net assets end of year	<u>\$ 9,126,440</u>	<u>\$ 8,145,015</u>	<u>\$ 7,692,715</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 2006 increased by \$587,444, or 117.2%, compared to fiscal 2005. The primary component of the increased operating income is:

- An increase in total operating revenues of \$6,255,484, or 39.5%.

The operating income for fiscal 2005 increased \$342,606, or 215.7% compared to fiscal 2004. The primary component of the increased operating income was a \$1,486,618 or 10.4% increase in operating revenues.

Non-operating revenues and expenses consist primarily of gifts and bequests and investment income, less interest expense. Investment income increased \$18,455, or 46.0% in FY06 as compared to FY05, and gifts and bequests decreased \$37,142.

Investment income increased \$13,374, or 50.0%, in FY05 as compared to FY04, and gifts and bequests increased \$41,140, primarily due to a gift from the Wright Medical Foundation in the amount of \$37,151.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the Hospital had \$10,817,531 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 and 5 to the financial statements. In fiscal 2006, the Hospital acquired or constructed capital assets costing \$1,877,244, financed by funds designated by the Board of Trustees.

Long-term Debt

At June 30, 2006, the Hospital had outstanding revenue bonds totaling \$6,582,761, as detailed in Note 7 to the financial statements. 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, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and cash equivalents	\$ 1,335,650	\$ 3,242,577
Patient receivables, net of allowances of \$2,388,634 in 2006 and \$778,000 in 2005	4,749,561	1,950,184
Other receivables	160,010	136,159
Due from third parties - 2006	1,265,000	-
Inventories	577,905	388,698
Prepaid expenses (Note 12)	<u>223,601</u>	<u>129,919</u>
Total current assets	8,311,727	5,847,537
Noncurrent Assets		
Prepaid expenses (Note 12)	546,014	-
Deferred financing costs, net of accumulated amortization of \$208,270 in 2006 and \$193,330 in 2005	107,129	122,069
Capital assets:		
Land and construction in progress, not being depreciated	5,215,737	4,041,772
Other capital assets being depreciated	14,641,636	13,938,357
Less accumulated depreciation	<u>(9,039,842)</u>	<u>(8,293,185)</u>
Net capital assets	<u>10,817,531</u>	<u>9,686,944</u>
Total noncurrent assets	<u>11,470,674</u>	<u>9,809,013</u>
Total assets	<u>\$19,782,401</u>	<u>\$15,656,550</u>

See Notes to Financial Statements

Liabilities

	<u>2006</u>	<u>2005</u>
Current Liabilities		
Excess of outstanding checks over bank balance	\$ 288,031	\$ -
Accounts payable	980,569	603,143
Accrued payroll	579,091	396,708
Accrued expenses - other	87,151	77,301
Due to third parties – prior years	1,342,260	703,000
Notes payable - bank	750,000	-
Current maturities of long-term debt	311,453	169,952
Apartment deposits payable	<u>46,098</u>	<u>47,929</u>
Total current liabilities	4,384,653	1,998,033
Long-term debt, excluding current maturities	<u>6,271,308</u>	<u>5,513,502</u>
Total liabilities	<u>10,655,961</u>	<u>7,511,535</u>
Net Assets		
Invested in capital assets, net of related debt	4,234,770	4,003,490
Unrestricted	<u>4,891,670</u>	<u>4,141,525</u>
Total net assets	<u>9,126,440</u>	<u>8,145,015</u>
Total liabilities and net assets	<u>\$ 19,782,401</u>	<u>\$ 15,656,550</u>

Wright Medical Center
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues:		
Patient service revenue	\$29,545,744	\$18,454,766
Less:		
Provision for bad debt	(765,417)	(533,133)
Contractual adjustments	(8,978,585)	(4,385,098)
Charity care	<u>(245,528)</u>	<u>(32,738)</u>
Net patient service revenue	19,556,214	13,503,797
Other operating revenues	<u>2,540,883</u>	<u>2,337,816</u>
Total operating revenues	22,097,097	15,841,613
Operating Expenses:		
Nursing service	6,641,962	3,355,146
Other professional service	4,733,039	3,740,719
General service	1,784,861	1,405,018
Fiscal and administrative service	2,569,541	1,960,880
Residential service	356,566	278,711
Clinic	2,514,266	2,452,602
Retail pharmacy	1,578,809	1,400,726
Fitness center	82,539	59,928
Provision for depreciation	<u>746,657</u>	<u>686,470</u>
Total operating expenses	21,008,240	15,340,200
Operating Income	<u>1,088,857</u>	<u>501,413</u>
Non-Operating Revenues (Expenses):		
Gifts and bequests	4,048	41,190
Interest and amortization of financing costs	(170,043)	(130,411)
Investment income	<u>58,563</u>	<u>40,108</u>
Total non-operating revenues (expenses)	<u>(107,432)</u>	<u>(49,113)</u>
Changes in Net Assets	981,425	452,300
Net Assets, Beginning of Year	<u>8,145,015</u>	<u>7,692,715</u>
Net Assets, End of Year	<u>\$ 9,126,440</u>	<u>\$ 8,145,015</u>

Wright Medical Center
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities		
Cash received from patient services	\$17,813,814	\$15,692,486
Cash paid to suppliers and employees	(19,772,658)	(14,920,289)
Other operating revenues	<u>834,316</u>	<u>813,813</u>
Net cash (used for) provided by operating activities	<u>(1,124,528)</u>	<u>1,586,010</u>
Cash Flows From Non-capital Financing Activities		
Unrestricted contributions received	<u>4,048</u>	<u>41,190</u>
Net cash provided by non-capital financing activities	<u>4,048</u>	<u>41,190</u>
Cash Flows From Capital and Related Financing Activities		
New revenue bonds issued	1,090,488	3,109,512
Acquisition and construction of capital assets	(1,877,244)	(3,551,833)
Principal paid on long-term debt	(191,182)	(162,764)
Interest paid on long-term debt	<u>(155,103)</u>	<u>(114,803)</u>
Net cash used for capital and related financing activities	<u>(1,133,041)</u>	<u>(719,888)</u>
Cash Flows From Investing Activities		
Investment income	<u>58,563</u>	<u>40,108</u>
Net cash provided by investing activities	<u>58,563</u>	<u>40,108</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(2,194,958)	947,420
Cash and Cash Equivalents, Beginning of Year	<u>3,242,577</u>	<u>2,295,157</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,047,619</u>	<u>\$ 3,242,577</u>

Wright Medical Center
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of Cash and Cash Equivalents to Balance Sheet		
Cash and cash equivalents	\$ 1,335,650	\$ 3,242,577
Excess of outstanding checks over bank balance	<u>(288,031)</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 1,047,619</u>	<u>\$ 3,242,577</u>
 Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	\$ <u>1,088,857</u>	\$ <u>501,413</u>
Adjustments to reconcile operating income to net cash used for operating activities		
Depreciation	746,657	686,470
Changes in assets and liabilities		
(Increase) decrease in receivables	(2,799,377)	582,367
(Increase) in third parties	(1,265,000)	-
(Increase) in other receivables	(23,850)	(15,681)
(Increase) decrease in inventories	(189,207)	18,667
(Increase) in prepaid expenses	(639,696)	(52,018)
Increase in accounts payable	377,426	305,701
Increase (decrease) in accrued payroll	182,383	(252,482)
Increase (decrease) in accrued expenses	9,850	(144,361)
(Decrease) in apartment deposits	(1,831)	(1,495)
Increase in estimated amount due to third parties	639,260	98,000
Increase (decrease) in note payable - bank	<u>750,000</u>	<u>(140,571)</u>
Total adjustments	(2,213,385)	1,084,597
Net cash (used for) provided by operating activities	<u>\$ (1,124,528)</u>	<u>\$ 1,586,010</u>
 Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Interest capitalized	<u>\$ 134,385</u>	<u>\$ 71,041</u>

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

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 three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

Note 1: Summary of Significant Accounting Policies – Continued

Basis of Presentation - Continued

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.

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.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

Note 1: Summary of Significant Accounting Policies – Continued

Assets, Liabilities and Net Assets - Continued

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. Gifts and bequests whose use is restricted are also included in restricted assets.

Capital Assets – Capital assets 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.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

Note 2: Cash and Investments

The Hospital's deposits in banks at June 30, 2006 and 2005 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 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, 2006 are as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Accrued Interest</u>
Certificate of Deposit	3.25%	\$ 520,612	\$ 1,591
Certificate of Deposit	3.24%	262,022	32
Certificate of Deposit	4.58%	52,268	531
Certificate of Deposit	4.95%	<u>30,000</u>	<u>367</u>
Totals		<u>\$ 864,902</u>	<u>\$ 2,521</u>

The investments are classified as Funded Depreciation.

The Hospital's investments at June 30, 2005 consisted of (5) certificates of deposit in the amount of \$1,108,068.

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 \$77,260 at June 30, 2006. At June 30, 2005, the Hospital owed the agencies approximately \$703,000.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

Note 4: Capital Assets

Capital assets are stated at acquisition cost. The cost by major category at June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Construction in progress	\$ 5,092,631	\$ 3,918,666
Land	123,106	123,106
Land improvements	267,128	190,231
Buildings	8,921,034	8,907,933
Fixed equipment	1,729,557	1,627,780
Major moveable equipment	<u>3,723,917</u>	<u>3,212,413</u>
	19,857,373	17,980,129
Less accumulated depreciation	<u>(9,039,842)</u>	<u>(8,293,185)</u>
Total	<u>\$10,817,531</u>	<u>\$ 9,686,944</u>

Note 5: Construction in Progress

Commencing in May of 2003, the Hospital entered into a construction project totaling approximately \$5.1 million for the expansion of outpatient facilities. The project was completed in the spring of 2006 and capitalized in July of 2006, pending final inspections and payment of approximately \$40,000 of retainage. Financing was provided by \$750,000 of short-term lines of credit and \$4.2 million of new revenue bonds from First Citizens National Bank (see Note 7).

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, 2006 and 2005 were \$427,886 and \$361,906, respectively, equal to the required contributions for each year.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

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 \$15,000 annually, and are 100% vested at all times.

For the year ended June 30, 2006, Hospital participants deferred a total of \$184,014 compensation into the 457 plan. At June 30, 2006 plan assets held in trust at First Citizens Trust Company totaled \$1,246,059.

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, 2006:

	Total	Current	Long-Term
Revenue notes payable	\$ <u>6,582,761</u>	\$ <u>311,453</u>	\$ <u>6,271,308</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:

1997 Revenue Bonds

Year Ended June 30	Interest Rate	Principal	Interest	Total
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	4.27%	210,931	67,118	278,049
2012-2016	4.27%	1,202,667	187,578	1,390,245
2017	4.27%	<u>232,417</u>	<u>4,755</u>	<u>237,172</u>
Totals		\$ <u>2,403,990</u>	\$ <u>613,672</u>	\$ <u>3,017,662</u>

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

Note 7: Long – term Debt – Continued

2004 Revenue Bonds

<u>Year Ended June 30</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	4.47%	\$ 133,996	\$ 184,044	\$ 318,040
2008	4.47%	140,059	177,981	318,040
2009	4.47%	146,476	171,564	318,040
2010	4.47%	153,159	164,881	318,040
2011	4.47%	160,147	157,893	318,040
2012-2016	4.47%	917,243	672,956	1,590,199
2017-2021	4.47%	1,146,486	443,713	1,590,199
2022-2026	4.47%	<u>1,381,204</u>	<u>157,266</u>	<u>1,538,470</u>
Totals		<u>\$ 4,178,770</u>	<u>\$ 2,130,298</u>	<u>\$ 6,309,068</u>

The 2004 Revenue Bonds, issued May 26, 2004, bear interest at the initial rate of 4.47%, with principal and interest payments commencing April 26, 2006. The interest shall adjust on April 26, 2009 and every five years to an interest rate equal to five year Constant Maturity Treasury Index, but at no time shall the interest be more than 9% per annum or less than 4% per annum. At no time shall the interest rate increase or decrease by more than 2% on a subsequent Rate Adjustment Date. The Note will be amortized over a 20-year term from the completion of construction. Each monthly installment will be adjusted on the Rate of Adjustment Date to allow amortization of the remaining outstanding balance at the Adjusted Interest Rate over the remaining term of the note.

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, 2006, the Hospital capitalized \$134,385 of interest costs on construction loan advances and incurred total interest cost of \$289,488.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

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 April 1, 2011. 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, 2006:

<u>Year Ended</u> <u>June 30</u>	
2007	\$ 288,576
2008	229,744
2009	168,467
2010	153,265
2011	<u>80,111</u>
Totals	\$ <u>920,163</u>

Total rental expense for the year ended June 30, 2006 for all operating leases, except those with terms of a month or less that were not renewed, was \$279,172.

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.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

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, 2006 and 2005 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:

	2006	2005
	(Unaudited)	(Unaudited)
Balance Sheet		
Assets		
Cash and Investments	\$ 679,281	\$ 381,731
Accounts Receivable	1,715	-
Land and Building	194,012	174,000
Construction in Progress – Assisted Living Facility- net of related debt	<u>258,374</u>	<u>33,638</u>
Total	<u>\$ 1,133,382</u>	<u>\$ 589,369</u>
Liabilities and Net Assets		
Due to Wright Medical Center	\$ -	\$ 49,984
Accounts Payable	43,115	-
Donated Equity	194,012	174,000
Unrestricted	783,939	33,021
Restricted	<u>112,316</u>	<u>332,364</u>
Total	<u>\$ 1,133,382</u>	<u>\$ 589,369</u>
Operations and Changes in Net Assets - Unrestricted		
Donations	\$ 555,317	\$ 376,113
Assisted Living Facility - Net	62,992	-
Investment Income	8,717	2,179
Net Expenses - Foundation	(76,144)	(62,135)
Transfer to Wright Medical Center	<u>-</u>	<u>(37,151)</u>
Increase in Net Assets	550,882	279,006
Net Assets, Beginning of Year	<u>539,385</u>	<u>260,379</u>
Net Assets, End of Year	<u>\$ 1,090,267</u>	<u>\$ 539,385</u>

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

Note 11: Related Party Transactions - Continued

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. The facility was first occupied for rent in February of 2006. The project had not been finalized as of June 30, 2006, pending final negotiations with the contractor.

Note 12: Prepaid Expenses

Prepaid expenses at June 30, current and non-current, consist of the following:

Name/Payee	<u>Current</u>	<u>Non-Current</u>
Rotary Club of Eagle Grove	\$ 33,000	\$ 327,000
Dr. Daniel Gabrielson	50,000	90,625
Dr. David Paustian	20,000	80,000
Eastman Kodak	4,017	48,389
Dairyland Healthcare	31,580	-
Insurance	11,471	-
Other professional fees	<u>73,533</u>	<u>-</u>
Total	<u>\$ 223,601</u>	<u>\$ 546,014</u>

Wright Medical Center (the Hospital) entered into a ten-year lease agreement with the Rotary Club of Eagle Grove, Iowa commencing on August 15, 2006. The Hospital paid \$360,000 prepaid rent for all of the base rent for the initial ten year term. The Rotary Club used the money to construct an 8,679 square foot wellness center which the Hospital will lease in entirety upon completion of construction.

The Hospital entered into an employment agreement with Dr. Daniel Gabrielson on January 17, 2006. Dr. Gabrielson is to provide professional physician services in exchange for salary and benefits. In addition, the Hospital loaned Dr. Gabrielson \$100,000 on February 1, 2006, \$50,000 on April 1, 2006, and \$50,000 on July 1, 2006, for a total of \$200,000. The note carries an annual interest rate of 6%. The note is due and payable by Dr. Gabrielson on demand by the Hospital in the event he terminates the employment agreement prior to March 1, 2010. The first \$100,000 is to be repaid in four equal installments: at July 30, 2006, 2008, 2009, and 2010. The second \$100,000 is being forgiven pro-rata over a four year period beginning in February, 2006 as long as the employment agreement remains in effect.

Wright Medical Center
Notes to Financial Statements
June 30, 2006 and 2005

Note 12: Prepaid Expenses - Continued

The Hospital entered into an employment agreement with Dr. David Paustian on May 28, 2006. Dr. Paustian is to provide professional physician services in exchange for salary and benefits. In addition, the Hospital paid Dr. Paustian a sign-on bonus of \$100,000, which is to be forgiven at the rate of \$20,000 a year for the next five years provided this employment agreement remains in effect. If Dr. Paustian leaves prior to completing five years of full-time employment, the repayment shall be subject to interest at the prime rate plus 1% per annum. Also, on September 1, 2006, the Hospital loaned Dr. Paustian \$87,345 plus accrued interest at the annual rate of 6%. The Hospital will forgive this note pro-rata over a four year period beginning September 1, 2006 as long as the employment agreement remains in effect. If the agreement is terminated prior to repayment or forgiveness of all principal and interest due, the outstanding balance will be due and payable immediately.

Note 13: 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)
Required Supplementary Information
Year Ended June 30, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Amended	
Estimated other revenues/receipts	\$ 22,159,708	\$ (3,448,967)	\$ 18,710,741	\$ 15,000,000	\$ 22,000,000	\$ (3,289,259)
Expenses / disbursements	<u>21,178,283</u>	<u>(272,584)</u>	<u>20,905,699</u>	<u>15,000,000</u>	<u>22,000,000</u>	<u>(1,094,301)</u>
Net	981,425	(3,176,383)	(2,194,958)	-	-	(2,194,958)
Balance, beginning of year	<u>8,145,015</u>	<u>(4,902,438)</u>	<u>3,242,577</u>	<u>3,242,577</u>	<u>3,242,577</u>	<u>-</u>
Balance, end of year	<u>\$ 9,126,440</u>	<u>\$ (8,078,821)</u>	<u>\$ 1,047,619</u>	<u>\$ 3,242,577</u>	<u>\$ 3,242,577</u>	<u>\$ (2,194,958)</u>

Wright Medical Center
Notes to Required Supplementary Information
Budgetary Reporting
June 30, 2006

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 resulting from Wright Medical Center preparing a budget on the cash basis accounting.

The Board of Commissioners 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 Commissioners 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, 2006 and 2005

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swingbed</u>	<u>Combined</u>	<u>2005</u>
Patient Service Revenues					
Nursing	\$1,046,915	\$ -	\$ 707,680	\$ 1,754,595	\$ 1,460,402
Nursery	100,985	-	-	100,985	79,900
Observation	20,985	339,220	1,375	361,580	262,565
Operating room	2,217,679	3,359,715	10,136	5,587,530	2,026,946
Recovery room	80,625	52,540	450	133,615	39,327
Delivery room	316,489	52,829	-	369,318	155,404
Central service and supply	1,941,539	789,755	97,279	2,828,573	590,366
Emergency room	14,250	741,289	-	755,539	656,772
Cardiac rehabilitation	712	255,618	-	256,330	186,435
Laboratory	424,380	1,804,018	86,021	2,314,419	1,788,325
Blood Bank	70,885	20,150	2,995	94,030	48,243
Electrocardiology	21,315	104,300	1,690	127,305	96,573
Radiology	60,134	1,103,104	11,470	1,174,708	909,286
CT scans	113,725	1,345,050	23,900	1,482,675	1,121,900
Nuclear scans	3,460	430,319	-	433,779	81,699
Ultrasound	22,335	567,315	8,790	598,440	383,384
Magnetic resonance imaging	9,200	644,700	1,600	655,500	451,210
Pharmacy	698,784	881,312	300,071	1,880,167	1,347,947
Intravenous therapy	199,761	133,670	25,391	358,822	156,856
Anesthesiology	549,735	770,742	2,995	1,323,472	632,596
Physical therapy	106,164	597,396	141,851	845,411	833,512
Respiratory therapy	206,733	143,857	109,678	460,268	741,757
Occupational therapy	43,743	119,798	90,193	253,734	212,491
Speech therapy	1,490	15,388	11,365	28,243	24,785
Pulmonary and Respite	174,320	304,010	67,190	545,520	292,309
Emergency room physicians	428	385,121	-	385,549	131,976
Sleep center	2,765	730,341	135	733,241	-
Clinic	<u>463,957</u>	<u>3,106,149</u>	<u>132,290</u>	<u>3,702,396</u>	<u>3,741,800</u>
Total	8,913,493	18,797,706	1,834,545	29,545,744	18,454,766
<u>Less provision for</u>					
Bad debt				(765,417)	(533,133)
Contractual and other adjustments				(8,978,585)	(4,385,098)
Charity care				<u>(245,528)</u>	<u>(32,738)</u>
Net patient service revenues				<u>\$19,556,214</u>	<u>\$13,503,797</u>

Wright Medical Center
Other Operating Revenues
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Other Operating Revenues		
Residential fees	\$ 579,221	\$ 589,188
Retail pharmacy	1,706,567	1,524,003
Congregate and guest meals	162,973	133,287
Medical records fees	1,913	1,170
Miscellaneous	9,047	351
Grants	31,962	40,267
Fitness Center	<u>49,200</u>	<u>49,550</u>
Total	<u>\$2,540,883</u>	<u>\$2,337,816</u>

Wright Medical Center
Operating Expenses
Years Ended June 30, 2006 and 2005

	<u>Salaries</u>	<u>Supplies</u>	<u>Combined</u>	<u>2005</u>
Operating Expenses				
Nursing Services				
Nursing administrative	\$ 167,029	\$ 37,225	\$ 204,254	\$ 211,746
Medical and surgical	1,128,072	453,558	1,581,630	1,360,692
Nursery, delivery and labor rooms	229,131	97,810	326,941	91,037
Operating and recovery room	516,599	487,600	1,004,199	458,224
Central supply	98,759	1,661,871	1,760,630	367,330
Emergency room	361,953	1,202,874	1,564,827	746,321
Cardiac rehabilitation	31,073	160,212	191,285	112,089
Infection control	<u>6,433</u>	<u>1,763</u>	<u>8,196</u>	<u>7,707</u>
Total nursing services	<u>2,539,049</u>	<u>4,102,913</u>	<u>6,641,962</u>	<u>3,355,146</u>
Other Professional Services				
Laboratory	298,441	431,004	729,445	664,579
Electrocardiology	6,127	1,811	7,938	4,544
Radiology	413,765	315,793	729,558	523,535
CT scans	-	250,271	250,271	230,970
Nuclear scans	-	108,952	108,952	31,921
Ultrasound	-	73,289	73,289	41,848
Magnetic resonance imaging	-	134,441	134,441	116,471
Pharmacy	172,561	395,200	567,761	529,492
Anesthesiology	-	664,385	664,385	315,686
Physical therapy	338,308	76,127	414,435	426,546
Respiratory therapy	-	326,484	326,484	427,323
Occupational therapy	75,322	45,324	120,646	138,773
Speech therapy	8,383	4,282	12,665	12,780
Sleep center	-	284,660	284,660	320
Medical records	<u>209,046</u>	<u>99,063</u>	<u>308,109</u>	<u>275,931</u>
Total other professional services	<u>1,521,953</u>	<u>3,211,086</u>	<u>4,733,039</u>	<u>3,740,719</u>

Wright Medical Center
Operating Expenses - Continued
Years Ended June 30, 2006 and 2005

	<u>Salaries</u>	<u>Supplies</u>	<u>Combined</u>	<u>2005</u>
Operating Expenses – Continued				
General Services				
Dietary	\$ 273,647	\$ 374,940	\$ 648,587	\$ 575,207
Housekeeping	237,275	104,016	341,291	294,212
Laundry and linen service	-	73,113	73,113	54,783
Maintenance of plant	<u>172,361</u>	<u>549,509</u>	<u>721,870</u>	<u>480,816</u>
Total general services	<u>683,283</u>	<u>1,101,578</u>	<u>1,784,861</u>	<u>1,405,018</u>
Fiscal and Administrative Services				
Administrative services	1,200,769	881,523	2,082,292	1,316,132
Unassigned expenses	<u>-</u>	<u>487,249</u>	<u>487,249</u>	<u>644,748</u>
Total fiscal and administrative	<u>1,200,769</u>	<u>1,368,772</u>	<u>2,569,541</u>	<u>1,960,880</u>
Residential Service	<u>41,633</u>	<u>314,933</u>	<u>356,566</u>	<u>278,711</u>
Clinic	<u>1,653,920</u>	<u>860,346</u>	<u>2,514,266</u>	<u>2,452,602</u>
Retail Pharmacy	<u>201,036</u>	<u>1,377,773</u>	<u>1,578,809</u>	<u>1,400,726</u>
Fitness Center	<u>44,342</u>	<u>38,197</u>	<u>82,539</u>	<u>59,928</u>
Depreciation	<u>-</u>	<u>746,657</u>	<u>746,657</u>	<u>686,470</u>
Total operating expenses	<u>\$ 7,885,985</u>	<u>\$13,122,255</u>	<u>\$21,008,240</u>	<u>\$15,340,200</u>

Wright Medical Center
Patient Receivables and Allowance for Doubtful Accounts
June 30, 2006 and 2005

Days Since Discharge	Analysis of Aging			
	2006		2005	
	Amount	Total	Amount	Total
0-30	\$ 3,411,702	47.8%	\$ 1,256,156	46.0%
31-60	1,584,731	22.2	285,451	10.5
61-90	724,296	10.1	177,288	6.5
91-120	442,566	6.2	198,043	7.3
121-180	359,815	5.1	232,598	8.5
180 and over	<u>615,085</u>	<u>8.6</u>	<u>578,648</u>	<u>21.2</u>
	7,138,195	<u>100.0%</u>	2,728,184	<u>100.0%</u>
Less				
Allowance for contractals	(1,528,634)		(196,000)	
Allowance for uncollectibles	<u>(860,000)</u>		<u>(582,000)</u>	
Total	<u>\$4,749,561</u>		<u>\$1,950,184</u>	

Allowance for Doubtful Accounts
Year Ended June 30,

	2006	2005
Balance beginning of year	\$ 582,000	\$ 528,000
Provision for bad debts	765,417	533,133
Recovery of accounts written off	156,823	121,445
Less accounts written off	<u>(644,240)</u>	<u>(600,578)</u>
Balance end of year	<u>\$ 860,000</u>	<u>\$ 582,000</u>

Wright Medical Center
Inventory / Prepaid Expense
June 30, 2006 and 2005

	2006	2005
Inventory		
Laboratory	\$ 48,879	\$ 27,914
Radiology	3,733	8,621
Pharmacy	66,675	63,261
Retail pharmacy	162,712	137,327
Surgery	51,815	49,701
Emergency room	6,225	5,328
Physical therapy	9,082	6,743
Dietary	16,723	14,045
Central Supply	<u>212,061</u>	<u>75,758</u>
Total inventories	<u>\$ 577,905</u>	<u>\$ 388,698</u>
Prepaid Expense		
Dairyland maintenance contract	\$ 31,580	\$ 25,304
Insurance	11,471	82,468
Other professional fees	<u>180,550</u>	<u>22,147</u>
Total prepaid expenses	<u>\$ 223,601</u>	<u>\$ 129,919</u>

Wright Medical Center
Changes in Property, Plant and Equipment
Years Ended June 30, 2006 and 2005

June 30, 2006	Cost			
	Beginning	Additions	Deletions	End of Year
Construction in progress	\$ 3,918,666	\$1,173,965	\$ -	\$ 5,092,631
Land	123,106	-	-	123,106
Land improvements	190,231	76,897	-	267,128
Buildings	8,907,933	13,101	-	8,921,034
Fixed equipment	1,627,780	101,777	-	1,729,557
Major movable equipment	<u>3,212,413</u>	<u>511,504</u>	<u>-</u>	<u>3,723,917</u>
Total	17,980,129	1,877,244	-	19,857,373

	Accumulated Depreciation			
	Beginning	Additions	Disposals	End of Year
Land improvements	\$ 121,250	\$ 11,957	\$ -	\$ 133,207
Buildings	4,840,605	345,819	-	5,186,424
Fixed equipment	1,071,593	82,959	-	1,154,552
Major movable equipment	<u>2,259,737</u>	<u>305,922</u>	<u>-</u>	<u>2,565,659</u>
Total	8,293,185	746,657	-	9,039,842

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

**Wright Medical Center
Comparative Statistics
Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Patient Days		
Medical and surgical	2,137	1,479
Swing bed		
Skilled care	1,306	1,332
Intermediate care	839	1,224
Nursery	<u>241</u>	<u>213</u>
Total	<u><u>4,523</u></u>	<u><u>4,248</u></u>
Admissions		
Acute	735	541
Swing bed, skilled	134	146
Swing bed, intermediate	<u>14</u>	<u>26</u>
Total	<u><u>883</u></u>	<u><u>713</u></u>
Average Length of Stay		
Acute	2.9	2.7
Swing bed, skilled	9.7	9.1
Swing bed, intermediate	59.9	47.1
Beds, Acute	25	25
Occupancy Percent, Acute	23.0	16.0
Net Patient Service Revenue per Calendar Day	\$ <u><u>53,579</u></u>	\$ <u><u>36,997</u></u>
Number of Days Net Patient Service Revenue in Net Patient Receivables at End of Year - Combined	<u><u>89</u></u>	<u><u>53</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 accompanying financial statements of Wright Medical Center as of and for the years ended June 30, 2006 and 2005, and have issued my report thereon dated September 8, 2006. 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.

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 an opinion on the internal control over financial reporting. I noted no matters involving the internal control over financial reporting and its operation that I consider 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 the Wright Medical Center's ability to record, process, summarize and report financial data consistent with the Wright Medical Center's 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters 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, 2006 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.

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, including federal awarding agencies and pass-through entities. 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 8, 2006

Wright Medical Center
Scheduled Findings and Questioned Costs
Year Ended June 30, 2006

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:

Certified Budget – Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

Expenditures – No expenditures were found that did not meet the requirements of a public purpose.

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.