

**Wright Medical Center
Clarion, Iowa**

FINANCIAL REPORT

June 30, 2009

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-9
FINANCIAL STATEMENTS	
Balance sheets	10
Statements of revenues, expenses, and changes in fund equity	11
Statements of cash flows	12
Notes to financial statements	13-23
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	24
SUPPLEMENTARY INFORMATION, FINANCIAL	
Analysis of patient receivables	25
Analysis of allowance for bad debts	25
Patient service revenue	26
Provisions for contractual adjustments and bad debts	27
Other revenue	27
Expenses	28
Statistics	29
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	30-31
SCHEDULE OF FINDINGS	32-33

**Wright Medical Center
OFFICIALS
June 30, 2009**

BOARD OF COMMISSIONERS

Officers

Scott Whyte, President
Ken Stoakes, Vice President
Dr. Michael Whitters, Secretary-Treasurer

Expiration of term

June 30, 2010
June 30, 2011
June 30, 2012

Members

Gary Horton
Carrie Ann Olson
Judith Ritter

June 30, 2012
June 30, 2009
June 30, 2011

CHIEF EXECUTIVE OFFICER

Steve Simonin

CHIEF FINANCIAL OFFICER

Amy McDaniel

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Wright Medical Center
Clarion, Iowa

We have audited the accompanying balance sheets of Wright Medical Center, a component unit of the City of Clarion, Iowa, and its component unit, Wright Medical Foundation, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Wright Medical Center and of its component unit as of June 30, 2009 and 2008, and the respective results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2009 on our consideration of internal control over financial reporting and our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 our audit.

Management's discussion and analysis on pages 5-9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 4, 2009

Wright Medical Center MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Wright Medical Center, we offer readers of the financial statements this narrative overview and analysis of the Medical Center's financial performance during the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the Medical Center's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Medical Center, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Medical Center report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Medical Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Medical Center operations over the past year and can be used to determine whether the Medical Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- Total assets increased by \$2,517,823 to \$24,871,394
- Total property and equipment increased by \$908,955 to \$10,429,228
- Total fund equity increased by \$2,720,385 to \$16,017,184
- Total long-term debt decreased by \$319,403 to \$5,636,326
- Net patient service revenue increased by \$2,870,765, or 8%, to \$40,757,302
- Expenses increased by \$2,537,734, or 7%, to \$40,680,824

Financial Analysis of the Medical Center

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Medical Center and the changes in them. The Medical Center's fund equity, the difference between assets and liabilities, is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's fund equity are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Medical Center's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$14,375,431	\$12,753,906	\$10,389,606
Property and equipment	10,429,228	9,520,273	10,120,484
Other asset	<u>66,735</u>	<u>79,392</u>	<u>92,885</u>
Total assets	<u>\$24,871,394</u>	<u>\$22,353,571</u>	<u>\$20,602,975</u>
Current liabilities	\$ 3,571,515	\$ 3,440,470	\$ 3,774,764
Long-term debt, less current maturities	<u>5,282,695</u>	<u>5,616,302</u>	<u>5,955,618</u>
Total liabilities	<u>\$ 8,854,210</u>	<u>\$ 9,056,772</u>	<u>\$ 9,730,382</u>
Invested in capital assets, net of related debt	\$ 4,792,902	\$ 3,564,544	\$ 3,849,701
Unrestricted	<u>11,224,282</u>	<u>9,732,255</u>	<u>7,022,892</u>
Total fund equity	<u>\$16,017,184</u>	<u>\$13,296,799</u>	<u>\$10,872,593</u>

As depicted in Table 1, total assets increased in fiscal year 2009 to \$24,871,394. The change in total assets is primarily a result of continuing operating income.

A summary of the Medical Center's historical statements of revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net patient service revenue	\$40,757,302	\$37,886,537	\$30,645,901
Other revenue	<u>2,853,855</u>	<u>2,940,127</u>	<u>2,754,099</u>
Total operating revenue	<u>43,611,157</u>	<u>40,826,664</u>	<u>33,400,000</u>
Salaries	16,184,391	14,925,000	11,637,717
Supplies and expenses	23,541,054	22,235,170	18,693,882
Provision for depreciation	<u>955,379</u>	<u>982,920</u>	<u>1,012,001</u>
Total expenses	<u>40,680,824</u>	<u>38,143,090</u>	<u>31,343,600</u>
Operating income	<u>2,930,333</u>	<u>2,683,574</u>	<u>2,056,400</u>
Investment income	37,155	31,346	24,598
Unrestricted contributions	78,064	12,769	7,386
Interest and amortization expense	<u>(325,167)</u>	<u>(303,483)</u>	<u>(342,231)</u>
Total nonoperating gains (losses)	<u>(209,948)</u>	<u>(259,368)</u>	<u>(310,247)</u>
Change in fund equity	2,720,385	2,424,206	1,746,153
Total fund equity, beginning	<u>13,296,799</u>	<u>10,872,593</u>	<u>9,126,440</u>
Total fund equity, ending	<u>\$16,017,184</u>	<u>\$13,296,799</u>	<u>\$10,872,593</u>

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenues, expenses and changes in fund equity between June 30, 2009 and 2008.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Medical, surgical and obstetrical discharges for fiscal year 2009 were 1,335 compared to 1,410 in fiscal year 2008. Average length of stay for medical, surgical and obstetrical increased slightly as patient days decreased to 3,402 from 3,493 in 2008. Swing bed, skilled care discharges for fiscal year 2009 were 81 compared to 82 in fiscal year 2008. Average length of stay for swing bed, skilled care increased as patient days increased from 505 to 382 in 2009. Volume on the outpatient side indicated positive growth in 2009. In 2009, gross outpatient charges increased to \$37,707,263 compared to \$33,620,783 in 2008.

Price Increase: The Medical Center did review its charge structure in 2009. Overall, gross patient service revenue increased to \$66,584,971 from \$60,132,318 in 2008. Operating room, delivery and labor rooms, CT scans, ultrasound and anesthesiology reflected the most significant growth in 2009.

Payor Mix: The Medical Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts increased to \$25,827,669 in 2009 from \$22,245,781 in 2008. This represents a reduction of 39% and 37% in reimbursement below standard gross patient charges for the years ended June 30, 2009 and 2008, respectively.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	44%	43%	44%
Medicaid	7	7	7
Commercial insurance	44	46	45
Patients	<u>5</u>	<u>4</u>	<u>4</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$2,853,855 in 2009 compared to \$2,940,127 in 2008, primarily due to a decrease in retail pharmacy.

Expenses

Approximately 40% of Medical Center's expenses are for salaries. Total salaries increased by 8% to \$16,184,391 in 2009 from \$14,925,000 in 2008. The Medical Center departments experiencing the most significant increase in 2009 were nursery, delivery and labor rooms, operating room, radiology and administrative services.

Approximately 55% of Medical Center's expenses are for supplies and expenses. Total supplies and expenses increased by 6% to \$23,541,054 in 2009 from \$22,235,170 in 2008. The Medical Center departments experiencing the most significant increase in 2009 were central supply, anesthesiology and group health and life.

Approximately 5% of Medical Center's expenses relate to provision for depreciation. The provision for depreciation decreased slightly to \$955,379 in 2009 from \$982,920 in 2008.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased in 2009 to \$(209,948) from \$(259,368) in 2008, primarily due to an increase in unrestricted contributions.

Property and Equipment

At the end of 2009, the Medical Center had \$10,429,228 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2009, \$1,864,334 was spent to acquire property and equipment, including construction in progress.

A summary of the Medical Center's property and equipment is presented in Table 4.

Table 4
Property and Equipment

	June 30		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 123,106	\$ 123,106	\$ 123,106
Land improvements	483,037	331,624	331,624
Buildings	14,590,737	14,028,895	14,028,895
Fixed equipment	1,802,234	1,802,234	1,737,489
Major movable equipment	4,363,480	4,135,464	3,951,213
Construction in progress	<u>923,063</u>	<u>—</u>	<u>—</u>
Subtotal	22,285,657	20,421,323	20,172,327
Less accumulated depreciation	<u>11,856,429</u>	<u>10,901,050</u>	<u>10,051,843</u>
Property and equipment	<u>\$10,429,228</u>	<u>\$ 9,520,273</u>	<u>\$10,120,484</u>

Debt Administration

At year end, the Medical Center had \$5,636,326 in current and long-term debt related to Revenue Notes. More detailed information about the Medical Center's outstanding debt is presented in the notes to financial statements. Note that the Notes represent approximately 65% of the Medical Center's total liabilities as of year end.

Contacting Medical Center's Management

This financial report is designed to provide users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about this report or need additional information, contact Wright Medical Center at (515) 532-2811 or write care of: Chief Financial Officer, Wright Medical Center, 1316 South Main Street, Clarion, Iowa 50525.

**Wright Medical Center
BALANCE SHEETS
June 30, 2009 and 2008**

ASSETS	Wright Medical Center		Wright Medical Foundation	
	2009	2008	2009	2008
CURRENT ASSETS				
Cash	\$ 5,563,005	\$ 2,569,243	\$ 150,653	\$ 59,495
Investments	-	-	446,734	519,771
Patient receivables, less allowances for contractual adjustments and bad debts	6,555,962	6,068,893	-	-
Other receivables	417,491	385,564	26,176	-
Estimated third-party payor settlements	100,000	1,560,000	-	-
Inventories	1,178,246	1,127,064	-	-
Prepaid expenses	<u>560,727</u>	<u>1,043,142</u>	-	-
Total current assets	<u>14,375,431</u>	<u>12,753,906</u>	<u>623,563</u>	<u>579,266</u>
PROPERTY AND EQUIPMENT				
Less accumulated depreciation	<u>11,856,429</u>	<u>10,901,050</u>	<u>222,188</u>	<u>152,919</u>
Total property and equipment	<u>10,429,228</u>	<u>9,520,273</u>	<u>2,547,958</u>	<u>2,616,813</u>
OTHER ASSETS				
Reserve and depreciation funds	-	-	73,226	52,653
Unamortized financing costs	<u>66,735</u>	<u>79,392</u>	-	-
Total other assets	<u>66,735</u>	<u>79,392</u>	<u>73,226</u>	<u>52,653</u>
 Totals	 <u>\$24,871,394</u>	 <u>\$22,353,571</u>	 <u>\$3,244,747</u>	 <u>\$3,248,732</u>
 LIABILITIES AND FUND EQUITY				
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 353,631	\$ 339,427	\$ 106,947	\$ 22,629
Accounts payable	1,115,542	1,542,267	38,827	51,822
Accrued employee compensation	1,176,395	1,003,902	-	-
Payroll taxes and amounts withheld from employees	225,947	234,874	-	-
Estimated third-party payor settlements	<u>700,000</u>	<u>320,000</u>	-	-
Total current liabilities	<u>3,571,515</u>	<u>3,440,470</u>	<u>145,774</u>	<u>74,451</u>
LONG-TERM DEBT , less current maturities	<u>5,282,695</u>	<u>5,616,302</u>	<u>1,902,643</u>	<u>1,917,720</u>
FUND EQUITY				
Invested in capital assets, net of related debt	4,792,902	3,564,544	-	-
Unrestricted	<u>11,224,282</u>	<u>9,732,255</u>	<u>1,196,330</u>	<u>1,256,561</u>
Total fund equity	<u>16,017,184</u>	<u>13,296,799</u>	<u>1,196,330</u>	<u>1,256,561</u>
 Totals	 <u>\$24,871,394</u>	 <u>\$22,353,571</u>	 <u>\$3,244,747</u>	 <u>\$3,248,732</u>

See Notes to Financial Statements.

Wright Medical Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
Years ended June 30, 2009 and 2008

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2009 \$1,306,428; 2008 \$1,136,071	\$40,757,302	\$37,886,537	\$ -	\$ -
OTHER REVENUE	<u>2,853,855</u>	<u>2,940,127</u>	<u>528,184</u>	<u>516,246</u>
Total revenue	<u>43,611,157</u>	<u>40,826,664</u>	<u>528,184</u>	<u>516,246</u>
EXPENSES				
Nursing service	17,233,817	15,575,916	-	-
Other professional service	12,841,879	12,440,011	-	-
General service	1,969,110	1,987,570	-	-
Fiscal and administrative service and unassigned expenses	7,680,639	7,156,673	498,069	450,904
Provision for depreciation	<u>955,379</u>	<u>982,920</u>	<u>69,269</u>	<u>67,348</u>
Total expenses	<u>40,680,824</u>	<u>38,143,090</u>	<u>567,338</u>	<u>518,252</u>
Operating income (loss)	<u>2,930,333</u>	<u>2,683,574</u>	<u>(39,154)</u>	<u>(2,006)</u>
NONOPERATING GAINS (LOSSES)				
Investment income	37,155	31,346	(44,438)	33,932
Unrestricted contributions	78,064	12,769	102,979	29,998
Interest and amortization expense	<u>(325,167)</u>	<u>(303,483)</u>	<u>(79,618)</u>	<u>(79,201)</u>
Total nonoperating gains (losses)	<u>(209,948)</u>	<u>(259,368)</u>	<u>(21,077)</u>	<u>(15,271)</u>
Change in fund equity	2,720,385	2,424,206	(60,231)	(17,277)
TOTAL FUND EQUITY				
Beginning	<u>13,296,799</u>	<u>10,872,593</u>	<u>1,256,561</u>	<u>1,273,838</u>
Ending	<u>\$16,017,184</u>	<u>\$13,296,799</u>	<u>\$1,196,330</u>	<u>\$1,256,561</u>

See Notes to Financial Statements.

Wright Medical Center
STATEMENTS OF CASH FLOWS
Years ended June 30, 2009 and 2008

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from patients and third-party payors	\$42,110,233	\$36,906,788	\$ —	\$ —
Cash paid to suppliers for goods and services	(23,577,400)	(22,851,671)	(429,102)	(339,522)
Cash paid to employees for services	(16,011,898)	(14,774,489)	(153,469)	(158,159)
Other operating revenue received	<u>2,853,855</u>	<u>2,940,127</u>	<u>573,515</u>	<u>504,323</u>
Net cash provided by (used in) operating activities	<u>5,374,790</u>	<u>2,220,755</u>	<u>(9,056)</u>	<u>6,642</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions received	<u>78,064</u>	<u>12,769</u>	<u>102,979</u>	<u>29,998</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of property and equipment	(1,864,334)	(382,709)	(414)	(40,000)
Proceeds from issuance of long-term debt	—	—	245,000	—
Principal payments on long-term debt	(319,403)	(965,054)	(175,759)	(21,709)
Interest paid on long-term debt	<u>(312,510)</u>	<u>(289,990)</u>	<u>(79,618)</u>	<u>(79,201)</u>
Net cash (used in) capital and related financing activities	<u>(2,496,247)</u>	<u>(1,637,753)</u>	<u>(10,791)</u>	<u>(140,910)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturities of investments	—	—	106,724	9,180
Purchases of investments	—	—	(111,222)	(20,471)
Interest received	<u>37,155</u>	<u>31,346</u>	<u>12,524</u>	<u>33,932</u>
Net cash provided by investing activities	<u>37,155</u>	<u>31,346</u>	<u>8,026</u>	<u>22,641</u>
NET INCREASE (DECREASE) IN CASH	2,993,762	627,117	91,158	(81,629)
CASH				
Beginning	<u>2,569,243</u>	<u>1,942,126</u>	<u>59,495</u>	<u>141,124</u>
Ending	<u>\$ 5,563,005</u>	<u>\$ 2,569,243</u>	<u>\$ 150,653</u>	<u>\$ 59,495</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 2,930,333	\$2,683,574	\$ (39,154)	\$ (2,006)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	955,379	982,920	69,269	67,348
Changes in assets and liabilities				
(Increase) decrease in patient receivables	(487,069)	380,251	—	—
(Increase) decrease in other receivables	(31,927)	(94,273)	19,155	77
(Increase) decrease in estimated third-party payor settlements	1,840,000	(1,360,000)	—	—
(Increase) in inventories	(51,182)	(290,531)	—	—
(Increase) decrease in prepaid expenses	482,415	(252,630)	—	—
(Decrease) in accounts payable	(426,725)	(175,382)	(58,326)	(58,777)
Increase in accrued employee compensation	172,493	150,511	—	—
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(8,927)</u>	<u>196,315</u>	<u>—</u>	<u>—</u>
Net cash provided by (used in) operating activities	<u>\$ 5,374,790</u>	<u>\$2,220,755</u>	<u>\$ (9,056)</u>	<u>\$ 6,642</u>

See Notes to Financial Statements.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Medical Center is a memorial municipal Medical Center of the City of Clarion, Iowa, organized under Chapter 37, Code of Iowa, and as such is not subject to taxes on income or property. The Medical Center is governed by a six member Board of Commissioners.

Reporting Entity

For financial reporting purposes, the Medical Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center 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 Medical Center are such that exclusion would cause the Medical Center'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 Medical Center 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 Medical Center. These criteria also include organizations that are fiscally dependent on the Medical Center. The Medical Center has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Wright Medical Foundation. The Foundation is a legally separate nonprofit corporation. The Medical Center does not appoint a voting majority of the Foundation's Board of Trustees or in any way impose its will over the Foundation. However, the Foundation is a component unit due to the nature and significance of its relationship with the Medical Center. The Foundation's financial statements are presented on pages 10 - 12.

The Medical Center is includable as a component unit within the City of Clarion, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Medical Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Medical Center is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Medical Center uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board, FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Accounting Standards

Pursuant to Governmental Accounting Standards Board, GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Medical Center has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board, FASB, issued on or before November 30, 1989.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Foundation carries investments in money market funds and marketable securities with readily determinable fair values and at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in the change in fund equity in the accompanying statements of revenues, expenses, and changes in fund equity.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Medical Center is three to forty years.

Reserve and Depreciation Funds

For purposes of reporting the statement of cash flows, the Foundation does not consider funds maintained in the reserve and depreciation funds to be cash.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issue, using the straight-line method.

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted fund equity

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments. The Medical Center has no restricted fund equity.

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

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

Revenues, Expenses and Changes in Fund Equity

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

Credit Policy

The Medical Center grants credit to patients, substantially all of whom are residents of the City and surrounding areas.

Accounting Estimates and Assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from federal income taxes under applicable provisions of the Internal Revenue Code. The Foundation has elected to defer the application of FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes*, to the fiscal year beginning July 1, 2009. Currently, the Foundation evaluates uncertain tax positions in accordance with the standard described in Treasury Regulations, which is less stringent than the standard required by the FASB Interpretation.

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Medical Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Commissioners; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As to interest rate risk, the Medical Center's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Medical Center.

At June 30, 2009, the Foundation's investments consisted of money market funds, corporation bonds and mutual funds of \$446,734 and \$519,771, respectively.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation measures the fair value of financial instruments in accordance with Statement of Financial Accounting Standards, SFAS No. 157, *Fair Value Measurements*, using a fair value hierarchy consisting of three input levels, generally ranging from the most objective to the most subjective. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are generally available indirect information, such as quoted prices for identical or similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. Level 3 inputs are the most subjective, are generally based on the management's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances. The Foundation's investments, measured at fair value, were all valued using Level 1 inputs at June 30, 2009.

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Medicare	\$2,923,416	\$2,049,114
Medicaid	710,279	821,227
Commercial insurance	3,613,791	3,703,396
Patients	<u>2,368,476</u>	<u>2,535,156</u>
Total patient receivables	9,615,962	9,108,893
Less allowances for contractual adjustments and bad debts	<u>(3,060,000)</u>	<u>(3,040,000)</u>
Net patient receivables	<u>\$6,555,962</u>	<u>\$6,068,893</u>

NOTE 5 PROPERTY AND EQUIPMENT

A summary of the Medical Center's property and equipment and related accumulated depreciation follows:

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 123,106	\$ -	\$ 123,106	\$ -
Land improvements	483,037	197,645	331,624	170,579
Buildings	14,590,737	6,937,348	14,028,895	6,356,742
Fixed equipment	1,802,234	1,384,056	1,802,234	1,312,853
Major movable equipment	4,363,480	3,337,380	4,135,464	3,060,876
Construction in progress	<u>923,063</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$22,285,657</u>	<u>\$11,856,429</u>	<u>\$20,421,323</u>	<u>\$10,901,050</u>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in the Medical Center's property and equipment for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ -	\$ -	\$ 123,106
Land improvements	331,624	151,413	-	483,037
Buildings	14,028,895	561,842	-	14,590,737
Fixed equipment	1,802,234	-	-	1,802,234
Major movable equipment	4,135,464	228,016	-	4,363,480
Construction in progress	-	<u>923,063</u>	-	<u>923,063</u>
Totals	20,421,323	1,864,334	-	22,285,657
Less accumulated depreciation	<u>(10,901,050)</u>	<u>(955,379)</u>	-	<u>(11,856,429)</u>
Net property and equipment	<u>\$ 9,520,273</u>	<u>\$ 908,955</u>	<u>\$ -</u>	<u>\$10,429,228</u>

A summary of changes in the Medical Center's property and equipment for the year ended June 30, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ -	\$ -	\$ 123,106
Land improvements	331,624	-	-	331,624
Buildings	14,028,895	-	-	14,028,895
Fixed equipment	1,737,489	64,745	-	1,802,234
Major movable equipment	<u>3,951,213</u>	<u>317,964</u>	<u>133,713</u>	<u>4,135,464</u>
Totals	20,172,327	382,709	133,713	20,421,323
Less accumulated depreciation	<u>(10,051,843)</u>	<u>(982,920)</u>	<u>(133,713)</u>	<u>(10,901,050)</u>
Net property and equipment	<u>\$10,120,484</u>	<u>\$ (600,211)</u>	<u>\$ -</u>	<u>\$ 9,520,273</u>

A summary of the Foundation's property and equipment and related accumulated depreciation follows:

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 251,577	\$ -	\$ 251,577	\$ -
Land improvements	72,291	10,303	71,877	6,589
Buildings	2,414,311	196,993	2,414,311	136,635
Fixed equipment	<u>31,967</u>	<u>14,892</u>	<u>31,967</u>	<u>9,695</u>
Totals	<u>\$2,770,146</u>	<u>\$ 222,188</u>	<u>\$2,769,732</u>	<u>\$ 152,919</u>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 251,577	\$ —	\$ —	\$ 251,577
Land improvements	71,877	414	—	72,291
Buildings	2,414,311	—	—	2,414,311
Fixed equipment	31,967	—	—	31,967
Totals	2,769,732	414	—	2,770,146
Less accumulated depreciation	<u>(152,919)</u>	<u>(69,269)</u>	<u>—</u>	<u>(222,188)</u>
Net property and equipment	<u>\$2,616,813</u>	<u>\$ (68,855)</u>	<u>\$ —</u>	<u>\$2,547,958</u>

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 211,577	\$ 40,000	\$ —	\$ 251,577
Land improvements	71,877	—	—	71,877
Buildings	2,414,311	—	—	2,414,311
Fixed equipment	31,967	—	—	31,967
Totals	2,729,732	40,000	—	2,769,732
Less accumulated depreciation	<u>(85,571)</u>	<u>(67,348)</u>	<u>—</u>	<u>(152,919)</u>
Net property and equipment	<u>\$2,644,161</u>	<u>\$ (27,348)</u>	<u>\$ —</u>	<u>\$2,616,813</u>

NOTE 6 LONG-TERM DEBT

The Medical Center's long-term debt at June 30, 2009 and 2008 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Hospital Revenue Note, Series 2004A	\$3,765,436	\$3,904,138
Hospital Refunding Revenue Note, Series 2004B	1,406,145	1,541,958
Hospital Refunding Revenue Note, Series 2004C	464,745	509,633
Total	5,636,326	5,955,729
Less current maturities	<u>353,631</u>	<u>339,427</u>
Long-term debt, net of current maturities	<u>\$5,282,695</u>	<u>\$5,616,302</u>

Hospital Revenue Note, Series 2004A

The Medical Center has issued Hospital Revenue Note, Series 2004A in the original amount of \$4,200,000. The Note is payable solely from future revenues of the Medical Center and is payable monthly, including interest at a variable rate, through April, 2026. At June 30, 2009 the interest rate is 4% and the remaining balance on this Note is \$3,765,436.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (continued)

Hospital Refunding Revenue Note, Series 2004B

The Medical Center has issued Hospital Refunding Revenue Note, Series 2004B in the original amount of \$2,094,139. The Note is payable solely from future revenues of the Medical Center and is payable monthly, including interest at a variable rate, through June, 2017. At June 30, 2009 the interest rate is 5.13% and the remaining balance on this Note is \$1,406,145.

Hospital Refunding Revenue Note, Series 2004C

The Medical Center has issued Hospital Refunding Revenue Note, Series 2004C in the original amount of \$692,134. The Note is payable solely from future revenues of the Medical Center and is payable monthly, including interest at a variable rate, through June, 2017. At June 30, 2009 the interest rate is 5.13% and the remaining balance is \$464,745.

As to the above Notes, Series 2004A, 2004B and 2004C, the Medical Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Notes were issued to finance capital improvements of the Medical Center. The net revenues are pledged through April, 2026. As of June 30, 2009 the remaining principal and interest on the Series 2004A, 2004B and 2004C Notes was \$7,460,529. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2009 and 2008:

	Year ended June 30	
	2009	2008
Change in fund equity	\$2,720,385	\$2,424,206
Provision for depreciation	955,379	982,920
Interest expense on the Notes	282,117	289,990
 Pledged net revenues	 \$3,957,881	 \$3,697,116
 Principal and interest requirements		
Hospital Revenue Note, Series 2004A	\$ 316,318	\$ 318,040
Hospital Refunding Revenue Note, Series 2004B	214,272	214,380
Hospital Refunding Revenue Note, Series 2004C	70,819	70,819
 Totals	 \$ 601,409	 \$ 603,239

Maturities required on the Medical Center's long-term debt are as follows:

Year ending June 30	Revenue Notes			Total Principal	Interest	Total
	Series 2004A	Series 2004B	Series 2004C			
2010	\$ 160,006	\$ 145,527	\$ 48,098	\$ 353,631	\$ 239,171	\$ 592,802
2011	166,524	153,171	50,624	370,319	222,483	592,802
2012	173,309	161,216	53,283	387,808	204,994	592,802
2013	180,370	169,683	56,082	406,135	186,667	592,802
2014	187,718	178,596	59,028	425,342	167,460	592,802
2015-2019	1,059,736	597,952	197,630	1,855,318	538,510	2,393,828
2020-2024	1,293,934	-	-	1,293,934	244,621	1,538,555
2025-2026	543,839	-	-	543,839	20,297	564,136
Total	3,765,436	1,406,145	464,745	5,636,326	1,824,203	7,460,529
Less current maturities	160,006	145,527	48,098	353,631	239,171	592,802
 Total long-term debt	 \$3,605,430	 \$1,260,618	 \$ 416,647	 \$5,282,695	 \$1,585,032	 \$6,867,727

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in the Medical Center's long-term debt for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Note, Series 2004A	\$3,904,138	\$ —	\$ 138,702	\$3,765,436	\$ 160,006
Hospital Refunding Revenue Note, Series 2004B	1,541,958	—	135,813	1,406,145	145,527
Hospital Refunding Revenue Note, Series 2004C	<u>509,633</u>	<u>—</u>	<u>44,888</u>	<u>464,745</u>	<u>48,098</u>
Totals	<u>\$5,955,729</u>	<u>\$ —</u>	<u>\$ 319,403</u>	<u>\$5,636,326</u>	<u>\$ 353,631</u>

A summary of changes in the Medical Center's long-term debt for the year ended June 30, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Note, Series 2004A	\$4,044,247	\$ —	\$ 140,109	\$3,904,138	\$ 146,502
Hospital Refunding Revenue Note, Series 2004B	1,693,445	—	151,487	1,541,958	145,001
Hospital Refunding Revenue Note, Series 2004C	533,091	—	23,458	509,633	47,924
Note payable, operating	<u>650,000</u>	<u>—</u>	<u>650,000</u>	<u>—</u>	<u>—</u>
Totals	<u>\$6,920,783</u>	<u>\$ —</u>	<u>\$ 965,054</u>	<u>\$5,955,729</u>	<u>\$ 339,427</u>

The Foundation's long-term debt at June 30, 2009 and 2008 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Notes payable	\$2,009,590	\$1,940,349
Less current maturities	<u>(106,947)</u>	<u>(22,629)</u>
Long-term debt, net of current maturities	<u>\$1,902,643</u>	<u>\$1,917,720</u>

**Wright Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

Note Payable, Building

The Foundation has issued a note payable in the original amount of \$2,000,000. The note is payable in monthly installments of \$8,520, including interest at 4.13%, through September, 2045. The note is secured by a mortgage and at June 30, 2009 the remaining balance is \$1,917,727.

The Foundation also maintains certain funds as follows:

A Reserve Fund requiring monthly deposits until the balance is equal to \$102,240. At June 30, 2009 the balance of this fund is \$36,945.

A Depreciation Fund is also funded by monthly deposits. At June 30, 2009 the balance of this fund is \$36,281.

The aggregate of these two funds, \$73,226, is reported on the balance sheets as an other asset at June 30, 2009.

Note Payable, Other

The Foundation has issued a note payable in the original amount of \$245,000. The note is payable in monthly installments of \$6,836, including interest at 6.35%, through August, 2010. The note is secured by the Foundation's investments and at June 30, 2009 the remaining balance is \$91,863.

Aggregate maturities required on the Foundation's long-term debt are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 106,947	\$ 77,326	\$ 184,273
2011	37,963	77,788	115,751
2012	25,590	76,650	102,240
2013	26,666	75,574	102,240
2014	27,787	74,453	102,240
2015-2019	159,980	351,220	511,200
2020-2024	197,962	313,238	511,200
2025-2029	250,325	260,875	511,200
2030-2034	308,491	202,709	511,200
2035-2039	366,191	145,009	511,200
2040-2044	447,940	63,260	511,200
2045-2046	53,748	57,012	110,760
Total	2,009,590	1,775,114	3,784,704
Less current maturities	<u>106,947</u>	<u>77,326</u>	<u>184,273</u>
Total long-term debt	<u>\$1,902,643</u>	<u>\$1,697,788</u>	<u>\$3,600,431</u>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable					
Building	\$1,940,349	\$ —	\$ 22,622	\$1,917,727	\$ 24,914
Other	<u>—</u>	<u>245,000</u>	<u>153,137</u>	<u>91,863</u>	<u>82,033</u>
Totals	<u>\$1,940,349</u>	<u>\$ 245,000</u>	<u>\$ 175,759</u>	<u>\$2,009,590</u>	<u>\$ 106,947</u>

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable	<u>\$1,962,058</u>	<u>\$ —</u>	<u>\$ 21,709</u>	<u>\$1,940,349</u>	<u>\$ 22,629</u>

NOTE 7 NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

The Medical Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2007.

Other

The Medical Center has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined per diem rates.

NOTE 8 CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Charges foregone, based on established rates	<u>\$ 159,628</u>	<u>\$ 157,953</u>
Equivalent percentage of charity care patients to all patients served	<u>.2%</u>	<u>.3%</u>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 9 MALPRACTICE CLAIMS

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

The Medical Center is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Medical Center.

Incidents occurring through June 30, 2009 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 10 DEFINED BENEFIT PENSION PLAN

The Medical Center 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.

For the year ended June 30, 2009, regular plan members were required to contribute 4.1% of their annual salary and the Medical Center was required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$880,805, \$778,496 and \$620,096, respectively, equal to the required contributions for each year.

NOTE 11 RISK MANAGEMENT

The Medical Center 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 Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Commissioners
Wright Medical Center
Clarion, Iowa

Our report on our audits of the basic financial statements of Wright Medical Center for the years ended June 30, 2009 and 2008 appears on page 4. The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The 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 the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 4, 2009

**Wright Medical Center
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$5,202,184	\$4,320,608	54.10%	47.43%
31 - 60 days	1,325,199	1,421,782	13.78	15.61
61 - 90 days	819,261	741,314	8.52	8.14
91 - 120 days	500,798	549,107	5.21	6.03
121-180 days	556,535	662,453	5.79	7.27
Over 180 days	<u>1,211,985</u>	<u>1,413,629</u>	<u>12.60</u>	<u>15.52</u>
Totals	<u>9,615,962</u>	<u>9,108,893</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,200,000	1,040,000		
Medicaid	160,000	140,000		
Other	240,000	220,000		
Bad debts	<u>1,460,000</u>	<u>1,640,000</u>		
Total allowances	<u>3,060,000</u>	<u>3,040,000</u>		
Totals	<u>\$6,555,962</u>	<u>\$6,068,893</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 111,664</u>	<u>\$ 103,515</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>59</u>	<u>59</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
BALANCE , beginning	\$1,640,000	\$1,440,000		
ADD				
Provision for bad debts	1,306,428	1,136,071	3.21%	3.00%
Recoveries of accounts previously written off	<u>307,873</u>	<u>186,904</u>	.76	.49
	3,254,301	2,762,975		
DEDUCT				
Accounts written off	<u>1,794,301</u>	<u>1,122,975</u>	4.40	2.96
BALANCE , ending	<u>\$1,460,000</u>	<u>\$1,640,000</u>		

Wright Medical Center
PATIENT SERVICE REVENUE
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$ 1,943,530	\$ -	\$ 1,943,530	\$ 1,877,090
Swing bed	297,571	-	297,571	195,855
Nursery	242,077	-	242,077	207,554
	<u>2,483,178</u>	<u>-</u>	<u>2,483,178</u>	<u>2,280,499</u>
OTHER NURSING SERVICES				
Observation room	2,520	230,298	232,818	227,780
Operating room	7,727,676	9,543,210	17,270,886	14,562,970
Recovery room	286,368	317,531	603,899	533,255
Delivery and labor rooms	590,807	87,760	678,567	560,707
Central supply	9,279,444	1,987,978	11,267,422	10,327,665
Emergency service	13,626	1,745,387	1,759,013	1,748,146
	<u>17,900,441</u>	<u>13,912,164</u>	<u>31,812,605</u>	<u>27,960,523</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	1,401,074	3,269,608	4,670,682	4,414,087
Radiology	216,954	3,065,627	3,282,581	2,942,593
CT scans	217,135	2,857,006	3,074,141	2,830,348
MRI	19,908	960,023	979,931	979,410
Nuclear scans	9,618	760,627	770,245	888,968
Ultrasound	76,652	1,024,842	1,101,494	979,608
Electrocardiology	35,817	195,771	231,588	216,235
Respiratory therapy	1,099,877	258,709	1,358,586	985,681
Pulmonary rehabilitation	431,572	600,416	1,031,988	965,278
Cardiac rehabilitation	7,699	486,507	494,206	578,485
Pharmacy	1,994,746	1,718,732	3,713,478	3,660,073
Intravenous therapy	416,306	311,433	727,739	673,070
Anesthesiology	1,338,679	1,873,847	3,212,526	2,569,319
Occupational therapy	214,655	381,280	595,935	475,706
Physical therapy	357,389	1,154,928	1,512,317	1,377,300
Speech therapy	7,821	130,400	138,221	76,924
Clinics	768,175	4,154,536	4,922,711	4,599,844
Sleep center	39,640	590,807	630,447	836,320
	<u>8,653,717</u>	<u>23,795,099</u>	<u>32,448,816</u>	<u>30,049,249</u>
Totals	<u>\$29,037,336</u>	<u>\$37,707,263</u>	66,744,599	60,290,271
Charity care charges forgone, based on established rates			<u>(159,628)</u>	<u>(157,953)</u>
Total gross patient service revenue			66,584,971	60,132,318
Provisions for contractual adjustments and bad debts			<u>(25,827,669)</u>	<u>(22,245,781)</u>
Total net patient service revenue			<u>\$40,757,302</u>	<u>\$37,886,537</u>

Wright Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Contractual adjustments		
Medicare	\$13,755,961	\$12,278,366
Medicaid	1,893,969	2,014,208
Other adjustments	8,871,311	6,817,136
Provision for bad debts	<u>1,306,428</u>	<u>1,136,071</u>
Totals	<u>\$25,827,669</u>	<u>\$22,245,781</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 344,468	\$ 279,949
Fitness center	112,003	117,264
Residential fees	627,847	607,156
Retail pharmacy	1,673,057	1,842,981
Miscellaneous	<u>96,480</u>	<u>92,777</u>
Totals	<u>\$2,853,855</u>	<u>\$2,940,127</u>

Wright Medical Center
EXPENSES
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 304,373	\$ 25,534	\$ 329,907	\$ 260,669
Medical, surgical and obstetrical	1,730,335	365,835	2,096,170	2,396,890
Nursery, delivery and labor rooms	1,230,336	75,913	1,306,249	1,038,586
Operating room	1,320,059	616,758	1,936,817	1,750,017
Emergency service and surgery	1,753,845	3,366,643	5,120,488	4,531,556
Central supply	<u>177,622</u>	<u>6,266,564</u>	<u>6,444,186</u>	<u>5,598,198</u>
Total nursing service	<u>6,516,570</u>	<u>10,717,247</u>	<u>17,233,817</u>	<u>15,575,916</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	417,365	532,803	950,168	908,016
Radiology	1,053,371	518,622	1,571,993	1,377,651
CT scans	-	319,350	319,350	318,141
MRI	-	146,380	146,380	129,584
Nuclear scans	-	205,295	205,295	204,019
Ultrasound	100,360	73,932	174,292	185,079
Electrocardiology	10,744	478	11,222	8,542
Respiratory therapy	-	730,542	730,542	644,145
Cardiac rehabilitation	38,563	181,153	219,716	251,154
Pharmacy	296,047	556,615	852,662	936,445
Retail pharmacy	187,500	1,350,734	1,538,234	1,675,075
Anesthesiology	534,185	596,536	1,130,721	875,518
Occupational therapy	161,806	77,349	239,155	233,638
Physical therapy	618,927	129,713	748,640	671,908
Speech therapy	58,104	3,480	61,584	23,778
Clinics	2,544,892	632,681	3,177,573	3,110,375
Sleep center	-	219,338	219,338	316,418
Medical records	<u>487,490</u>	<u>57,524</u>	<u>545,014</u>	<u>570,525</u>
Total other professional service	<u>6,509,354</u>	<u>6,332,525</u>	<u>12,841,879</u>	<u>12,440,011</u>
GENERAL SERVICE				
Dietary	382,087	437,835	819,922	820,755
Plant operation	226,624	408,892	635,516	678,422
Housekeeping	321,060	60,885	381,945	362,479
Laundry	-	131,727	131,727	125,914
Total general service	<u>929,771</u>	<u>1,039,339</u>	<u>1,969,110</u>	<u>1,987,570</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administrative services	2,138,866	1,350,873	3,489,739	3,526,515
Residential services	45,022	324,561	369,583	369,972
Fitness center	44,808	57,219	102,027	166,070
Group health and life	-	1,377,860	1,377,860	1,069,598
FICA	-	971,304	971,304	885,077
IPERS	-	880,805	880,805	778,496
Insurance	-	489,321	489,321	360,945
Total fiscal and administrative service and unassigned expenses	<u>2,228,696</u>	<u>5,451,943</u>	<u>7,680,639</u>	<u>7,156,673</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>955,379</u>	<u>955,379</u>	<u>982,920</u>
Total expenses	<u>\$16,184,391</u>	<u>\$24,496,433</u>	<u>\$40,680,824</u>	<u>\$38,143,090</u>

**Wright Medical Center
STATISTICS**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Medical, surgical and obstetrical	3,402	3,493
Swing bed		
Skilled care	505	382
Intermediate care	35	-
Nursery	<u>423</u>	<u>413</u>
Totals	<u>4,365</u>	<u>4,288</u>
DISCHARGES		
Medical, surgical and obstetrical	1,335	1,410
Swing bed		
Skilled care	81	82
Intermediate care	11	-
Nursery	<u>207</u>	<u>194</u>
Totals	<u>1,634</u>	<u>1,686</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.55	2.48
Swing bed		
Skilled care	6.23	4.66
Intermediate care	3.18	-
Nursery	2.04	2.13

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Wright Medical Center
Clarion, Iowa

We have audited the financial statements of Wright Medical Center, and its component unit, Wright Medical Foundation, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 our audit, we considered the Medical Center's and Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's and Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's and Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's and Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's and Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's and Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Center's and Foundation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's and Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Medical Center's and Foundation's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center and Foundation. Since our 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Commissioners, management, employees and citizens of the City of Clarion and other parties to whom the Medical Center and Foundation may report. This report is not intended to be and should not be used by anyone other than these specified parties.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 4, 2009

**Wright Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2009**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance related to the financial statements were reported.

**Wright Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2009**

Part II—Findings Related to Required Statutory Reporting

09-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

09-II-B TRAVEL EXPENSES

No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

09-II-C BUSINESS TRANSACTIONS

No business transactions were found between the Medical Center and Medical Center officials and/or employees.

09-II-D BOARD MINUTES

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

09-II-E DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Medical Center's investment policy.