

**Wright Medical Center
Clarion, Iowa**

FINANCIAL REPORT

June 30, 2010

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	13-24
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	25
SUPPLEMENTARY INFORMATION, FINANCIAL	
Analysis of patient receivables	26
Analysis of allowance for bad debts	26
Patient service revenue	27
Provisions for contractual adjustments and bad debts	28
Other revenue	28
Expenses	29
Statistics	30
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	31-32
SCHEDULE OF FINDINGS	33-34

**Wright Medical Center
OFFICIALS
June 30, 2010**

BOARD OF COMMISSIONERS

Officers

Ken Stoakes, President
Dr. Michael Whitters, Vice President
Gary Horton, Secretary-Treasurer

Expiration of term

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

Members

Kimberly Anderson
Judith Ritter
Scott Whyte

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

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, 2010 and 2009, 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, 2010 and 2009, 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 10, 2010 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 10, 2010

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, 2010 and 2009. 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 \$1,228,069 to \$26,099,463
- Total property and equipment increased by \$351,775 to \$10,781,003
- Total fund equity increased by \$1,941,849 to \$17,959,033
- Total long-term debt decreased by \$350,216 to \$5,286,110
- Net patient service revenue decreased by \$931,361, or 2%, to \$39,825,941
- Expenses decreased by \$59,451, or 1%, to \$40,621,373

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>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$15,263,492	\$14,375,431	\$12,753,906
Property and equipment	10,781,003	10,429,228	9,520,273
Other asset	<u>54,968</u>	<u>66,735</u>	<u>79,392</u>
Total assets	<u>\$26,099,463</u>	<u>\$24,871,394</u>	<u>\$22,353,571</u>
Current liabilities	\$ 3,224,500	\$ 3,571,515	\$ 3,440,470
Long-term debt, less current maturities	<u>4,915,930</u>	<u>5,282,695</u>	<u>5,616,302</u>
Total liabilities	<u>\$ 8,140,430</u>	<u>\$ 8,854,210</u>	<u>\$ 9,056,772</u>
Invested in capital assets, net of related debt	\$ 5,494,893	\$ 4,792,902	\$ 3,564,544
Unrestricted	<u>12,464,140</u>	<u>11,224,282</u>	<u>9,732,255</u>
Total fund equity	<u>\$17,959,033</u>	<u>\$16,017,184</u>	<u>\$13,296,799</u>

As depicted in Table 1, total assets increased in fiscal year 2010 to \$26,099,463. 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>2010</u>	<u>2009</u>	<u>2008</u>
Net patient service revenue	\$39,825,941	\$40,757,302	\$37,886,537
Other revenue	<u>2,904,654</u>	<u>2,853,855</u>	<u>2,940,127</u>
Total operating revenue	<u>42,730,595</u>	<u>43,611,157</u>	<u>40,826,664</u>
Salaries	15,547,356	16,184,391	14,925,000
Supplies and expenses	24,104,957	23,541,054	22,235,170
Provision for depreciation	<u>969,060</u>	<u>955,379</u>	<u>982,920</u>
Total expenses	<u>40,621,373</u>	<u>40,680,824</u>	<u>38,143,090</u>
Operating income	<u>2,109,222</u>	<u>2,930,333</u>	<u>2,683,574</u>
Investment income	47,072	37,155	31,346
Unrestricted contributions	39,907	78,064	12,769
Interest and amortization expense	<u>(254,352)</u>	<u>(325,167)</u>	<u>(303,483)</u>
Total nonoperating gains (losses)	<u>(167,373)</u>	<u>(209,948)</u>	<u>(259,368)</u>
Change in fund equity	1,941,849	2,720,385	2,424,206
Total fund equity, beginning	<u>16,017,184</u>	<u>13,296,799</u>	<u>10,872,593</u>
Total fund equity, ending	<u>\$17,959,033</u>	<u>\$16,017,184</u>	<u>\$13,296,799</u>

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenues, expenses and changes in fund equity between June 30, 2010 and 2009.

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 2010 were 1,281 compared to 1,335 in fiscal year 2009. Average length of stay for medical, surgical and obstetrical decreased slightly as patient days decreased to 3,116 from 3,402 in 2009. Swing bed, skilled care discharges for fiscal year 2010 were 92 compared to 81 in fiscal year 2009. Average length of stay for swing bed, skilled care decreased as patient days increased from 505 to 531 in 2010. Volume on the outpatient side indicated positive growth in 2010. In 2010, gross outpatient charges increased to \$40,698,468 compared to \$37,707,263 in 2009.

Price Increase: The Medical Center did review its charge structure in 2010. Overall, gross patient service revenue increased to \$68,796,767 from \$66,584,971 in 2009. Medical, surgical and obstetrical, operating room, and delivery and labor rooms reflected the most significant growth in 2010.

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 \$28,970,826 in 2010 from \$25,827,669 in 2009. This represents a reduction of 42% and 39% in reimbursement below standard gross patient charges for the years ended June 30, 2010 and 2009, 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>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	44%	44%	43%
Medicaid	7	7	7
Commercial insurance	44	44	46
Patients	<u>5</u>	<u>5</u>	<u>4</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased slightly to \$2,904,654 in 2010 compared to \$2,853,855 in 2009.

Expenses

Approximately 40% of Medical Center's expenses are for salaries. Total salaries decreased by 4% to \$15,547,356 in 2010 from \$16,184,391 in 2009. The Medical Center departments experiencing the most significant decrease in 2010 was medical, surgical and obstetrical.

Approximately 55% of Medical Center's expenses are for supplies and expenses. Total supplies and expenses increased by 2% to \$24,104,957 in 2010 from \$23,541,054 in 2009. The most significant increases in 2010 related to administrative services and group health and life.

Approximately 5% of Medical Center's expenses relate to provision for depreciation. The provision for depreciation increased slightly to \$969,060 in 2010 from \$955,379 in 2009.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased in 2010 to \$(167,373) from \$(209,948) in 2009, primarily due to a decrease in interest and amortization expense.

Property and Equipment

At the end of 2010, the Medical Center had \$10,781,003 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2010, \$1,320,835 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>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 123,106	\$ 123,106	\$ 123,106
Land improvements	515,857	483,037	331,624
Buildings	14,647,845	14,590,737	14,028,895
Fixed equipment	1,817,351	1,802,234	1,802,234
Major movable equipment	4,695,032	4,363,480	4,135,464
Construction in progress	<u>1,807,301</u>	<u>923,063</u>	<u>—</u>
Subtotal	23,606,492	22,285,657	20,421,323
Less accumulated depreciation	<u>12,825,489</u>	<u>11,856,429</u>	<u>10,901,050</u>
Property and equipment	<u>\$10,781,003</u>	<u>\$10,429,228</u>	<u>\$ 9,520,273</u>

Debt Administration

At year end, the Medical Center had \$5,286,110 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, 2010 and 2009**

ASSETS	Wright Medical Center		Wright Medical Foundation	
	2010	2009	2010	2009
CURRENT ASSETS				
Cash	\$ 5,757,422	\$ 5,563,005	\$ 100,284	\$ 150,653
Investments	-	-	482,890	446,734
Patient receivables, less allowances for contractual adjustments and bad debts	7,050,894	6,555,962	-	-
Other receivables	469,322	417,491	10,383	26,176
Estimated third-party payor settlements	260,000	100,000	-	-
Inventories	1,174,155	1,178,246	-	-
Prepaid expenses	551,699	560,727	-	-
Total current assets	<u>15,263,492</u>	<u>14,375,431</u>	<u>593,557</u>	<u>623,563</u>
PROPERTY AND EQUIPMENT				
Property and equipment	23,606,492	22,285,657	2,770,146	2,770,146
Less accumulated depreciation	<u>12,825,489</u>	<u>11,856,429</u>	<u>291,630</u>	<u>222,188</u>
Total property and equipment	<u>10,781,003</u>	<u>10,429,228</u>	<u>2,478,516</u>	<u>2,547,958</u>
OTHER ASSETS				
Reserve and depreciation funds	-	-	93,756	73,226
Unamortized financing costs	<u>54,968</u>	<u>66,735</u>	<u>-</u>	<u>-</u>
Total other assets	<u>54,968</u>	<u>66,735</u>	<u>93,756</u>	<u>73,226</u>
 Totals	 <u>\$26,099,463</u>	 <u>\$24,871,394</u>	 <u>\$3,165,829</u>	 <u>\$3,244,747</u>
 LIABILITIES AND FUND EQUITY				
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 370,180	\$ 353,631	\$ 38,005	\$ 106,947
Accounts payable	1,375,057	1,115,542	86,581	38,827
Accrued employee compensation	1,185,171	1,176,395	-	-
Payroll taxes and amounts withheld from employees	294,092	225,947	-	-
Estimated third-party payor settlements	-	700,000	-	-
Total current liabilities	<u>3,224,500</u>	<u>3,571,515</u>	<u>124,586</u>	<u>145,774</u>
LONG-TERM DEBT , less current maturities	<u>4,915,930</u>	<u>5,282,695</u>	<u>1,868,924</u>	<u>1,902,643</u>
FUND EQUITY				
Invested in capital assets, net of related debt	5,494,893	4,792,902	-	-
Unrestricted	<u>12,464,140</u>	<u>11,224,282</u>	<u>1,172,319</u>	<u>1,196,330</u>
Total fund equity	<u>17,959,033</u>	<u>16,017,184</u>	<u>1,172,319</u>	<u>1,196,330</u>
 Totals	 <u>\$26,099,463</u>	 <u>\$24,871,394</u>	 <u>\$3,165,829</u>	 <u>\$3,244,747</u>

See Notes to Financial Statements.

Wright Medical Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
Years ended June 30, 2010 and 2009

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2010 \$910,984; 2009 \$1,306,428	\$39,825,941	\$40,757,302	\$ -	\$ -
OTHER REVENUE	<u>2,904,654</u>	<u>2,853,855</u>	<u>565,181</u>	<u>528,184</u>
Total revenue	<u>42,730,595</u>	<u>43,611,157</u>	<u>565,181</u>	<u>528,184</u>
EXPENSES				
Nursing service	16,713,259	17,233,817	-	-
Other professional service	13,266,410	12,841,879	-	-
General service	1,974,988	1,969,110	-	-
Fiscal and administrative service and unassigned expenses	7,697,656	7,680,639	543,405	498,069
Provision for depreciation	<u>969,060</u>	<u>955,379</u>	<u>69,442</u>	<u>69,269</u>
Total expenses	<u>40,621,373</u>	<u>40,680,824</u>	<u>612,847</u>	<u>567,338</u>
Operating income (loss)	<u>2,109,222</u>	<u>2,930,333</u>	<u>(47,666)</u>	<u>(39,154)</u>
NONOPERATING GAINS (LOSSES)				
Investment income	47,072	37,155	37,466	(44,438)
Unrestricted contributions	39,907	78,064	64,220	102,979
Interest and amortization expense	<u>(254,352)</u>	<u>(325,167)</u>	<u>(78,031)</u>	<u>(79,618)</u>
Total nonoperating gains (losses)	<u>(167,373)</u>	<u>(209,948)</u>	<u>23,655</u>	<u>(21,077)</u>
Change in fund equity	1,941,849	2,720,385	(24,011)	(60,231)
TOTAL FUND EQUITY				
Beginning	<u>16,017,184</u>	<u>13,296,799</u>	<u>1,196,330</u>	<u>1,256,561</u>
Ending	<u>\$17,959,033</u>	<u>\$16,017,184</u>	<u>\$1,172,319</u>	<u>\$1,196,330</u>

See Notes to Financial Statements.

Wright Medical Center
STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from patients and third-party payors	\$38,471,009	\$42,110,233	\$ -	\$ -
Cash paid to suppliers for goods and services	(23,816,009)	(23,577,400)	(313,751)	(429,102)
Cash paid to employees for services	(15,538,580)	(16,011,898)	(166,107)	(153,469)
Other operating revenue received	<u>2,904,654</u>	<u>2,853,855</u>	<u>565,181</u>	<u>573,515</u>
Net cash provided by (used in) operating activities	<u>2,021,074</u>	<u>5,374,790</u>	<u>85,323</u>	<u>(9,056)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions received	<u>39,907</u>	<u>78,064</u>	<u>64,220</u>	<u>102,979</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of property and equipment	(1,320,835)	(1,864,334)	-	(414)
Proceeds from issuance of long-term debt	-	-	-	245,000
Principal payments on long-term debt	(350,216)	(319,403)	(102,661)	(175,759)
Interest paid on long-term debt	<u>(242,585)</u>	<u>(312,510)</u>	<u>(78,031)</u>	<u>(79,618)</u>
Net cash (used in) capital and related financing activities	<u>(1,913,636)</u>	<u>(2,496,247)</u>	<u>(180,692)</u>	<u>(10,791)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturities of investments	-	-	197,048	106,724
Purchases of investments	-	-	(233,093)	(111,222)
Interest received	<u>47,072</u>	<u>37,155</u>	<u>16,825</u>	<u>12,524</u>
Net cash provided by (used in) investing activities	<u>47,072</u>	<u>37,155</u>	<u>(19,220)</u>	<u>8,026</u>
NET INCREASE (DECREASE) IN CASH	194,417	2,993,762	(50,369)	91,158
CASH				
Beginning	<u>5,563,005</u>	<u>2,569,243</u>	<u>150,653</u>	<u>59,495</u>
Ending	<u>\$ 5,757,422</u>	<u>\$ 5,563,005</u>	<u>\$ 100,284</u>	<u>\$ 150,653</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 2,109,222	\$ 2,930,333	\$ (47,666)	\$ (39,154)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	969,060	955,379	69,442	69,269
Changes in assets and liabilities				
(Increase) decrease in patient receivables	(494,932)	(487,069)	-	-
(Increase) decrease in other receivables	(51,831)	(31,927)	15,793	19,155
(Increase) decrease in estimated third-party payor settlements	(860,000)	1,840,000	-	-
(Increase) in inventories	4,091	(51,182)	-	-
(Increase) decrease in prepaid expenses	9,028	482,415	-	-
(Decrease) in accounts payable	259,515	(426,725)	47,754	(58,326)
Increase in accrued employee compensation	8,776	172,493	-	-
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>68,145</u>	<u>(8,927)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 2,021,074</u>	<u>\$ 5,374,790</u>	<u>\$ 85,323</u>	<u>\$ (9,056)</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 the *FASB Accounting Standards Codification*, including the Not-for-Profit Entities Topic. 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 a nonprofit corporation exempt from federal income tax under applicable provisions of the Internal Revenue Code. The Foundation has adopted the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the FASB Accounting Standards Codification. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through September 10, 2010, the date which the financial statements were available to be issued. There were no subsequent events required to be accrued to disclosed.

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits in banks at June 30, 2010 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.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND INVESTMENTS (continued)

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, 2010 and 2009, the Foundation's investments consisted of money market funds, certificate of deposit, U.S. Government Agency security, corporation bonds, mutual funds and pooled investments of \$482,690 and \$446,734, respectively.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation measures the fair value of financial instruments in accordance with generally accepted accounting principles, 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 following tables present information about the Foundation's investments measured at fair value as of June 30, 2010 and 2009.

<u>June 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 56,481	\$ —	\$ —	\$ 56,481
Certificate of deposit	50,000	—	—	50,000
U.S. Government Agency security	50,281	—	—	50,281
Corporation bonds	51,502	—	—	51,502
Mutual funds	260,670	—	—	260,670
Pooled investments	<u>—</u>	<u>—</u>	<u>13,956</u>	<u>13,956</u>
Investments, at fair value	<u>\$ 468,934</u>	<u>\$ —</u>	<u>\$ 13,956</u>	<u>\$ 482,890</u>
<u>June 30, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market fund	\$ 221,561	\$ —	\$ —	\$ 221,561
Corporation bonds	51,057	—	—	51,057
Mutual funds	<u>174,116</u>	<u>—</u>	<u>—</u>	<u>174,116</u>
Investments, at fair value	<u>\$ 446,734</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 446,734</u>

Level 3 investments consist primarily of assets that are not actively traded and significant other observable inputs are not available. The assets held by the Community Foundation of Greater Des Moines consist of pooled funds invested at the Community Foundation. The Foundation holds a share of the pooled funds and not direct ownership of the underlying investments. Although the pooled funds, as noted in the previous table, include equity, fixed income, and other marketable securities, the pool itself is not a publicly traded instrument. The following tables present further information about the Foundation's Level 3 investment activity for the year ended June 30, 2010.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<u>Year ended June 30, 2010</u>	Pooled investments
Beginning balance	\$ —
Initial purchase	10,000
Contributions	4,000
Realized and unrealized gains (losses), net	<u>(44)</u>
Ending balance	<u>\$ 13,956</u>

The fair value of the pooled investments have been estimated by the Foundation primarily using information from management of the Community Foundation of Greater Des Moines.

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>2010</u>	<u>2009</u>
Medicare	\$ 3,111,454	\$2,923,416
Medicaid	684,620	710,279
Commercial insurance	3,528,910	3,613,791
Patients	<u>2,985,910</u>	<u>2,368,476</u>
Total patient receivables	10,310,894	9,615,962
Less allowances for contractual adjustments and bad debts	<u>(3,260,000)</u>	<u>(3,060,000)</u>
Net patient receivables	<u>\$ 7,050,894</u>	<u>\$6,555,962</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 123,106	\$ —	\$ 123,106	\$ —
Land improvements	515,857	229,423	483,037	197,645
Buildings	14,647,845	7,562,744	14,590,737	6,937,348
Fixed equipment	1,817,351	1,445,024	1,802,234	1,384,056
Major movable equipment	4,695,032	3,588,298	4,363,480	3,337,380
Construction in progress	<u>1,807,301</u>	<u>—</u>	<u>923,063</u>	<u>—</u>
Totals	<u>\$23,606,492</u>	<u>\$12,825,489</u>	<u>\$22,285,657</u>	<u>\$11,856,429</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, 2010 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ —	\$ —	\$ 123,106
Land improvements	483,037	32,820	—	515,857
Buildings	14,590,737	57,108	—	14,647,845
Fixed equipment	1,802,234	15,117	—	1,817,351
Major movable equipment	4,363,480	331,552	—	4,695,032
Construction in progress	923,063	884,238	—	1,807,301
Totals	22,285,657	1,320,835	—	23,606,492
Less accumulated depreciation	(11,856,429)	(969,060)	—	(12,825,489)
Net property and equipment	<u>\$10,429,228</u>	<u>\$ 351,775</u>	<u>\$ —</u>	<u>\$10,781,003</u>

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	—	923,063	—	923,063
Totals	20,421,323	1,864,334	—	22,285,657
Less accumulated depreciation	(10,901,050)	(955,379)	—	(11,856,429)
Net property and equipment	<u>\$ 9,520,273</u>	<u>\$ 908,955</u>	<u>\$ —</u>	<u>\$10,429,228</u>

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

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 251,577	\$ —	\$ 251,577	\$ —
Land improvements	72,291	14,190	72,291	10,303
Buildings	2,414,311	257,351	2,414,311	196,993
Fixed equipment	31,967	20,089	31,967	14,892
Totals	<u>\$2,770,146</u>	<u>\$ 291,630</u>	<u>\$2,770,146</u>	<u>\$ 222,188</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, 2010 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 251,577	\$ —	\$ —	\$ 251,577
Land improvements	72,291	—	—	72,291
Buildings	2,414,311	—	—	2,414,311
Fixed equipment	31,967	—	—	31,967
Totals	2,770,146	—	—	2,770,146
Less accumulated depreciation	<u>(222,188)</u>	<u>(69,442)</u>	<u>—</u>	<u>(291,630)</u>
Net property and equipment	<u>\$2,547,958</u>	<u>\$ (69,442)</u>	<u>\$ —</u>	<u>\$2,478,516</u>

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>

NOTE 6 LONG-TERM DEBT

The Medical Center's long-term debt at June 30, 2010 and 2009 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Hospital Revenue Note, Series 2004A	\$3,608,845	\$3,765,436
Hospital Refunding Revenue Note, Series 2004B	1,260,618	1,406,145
Hospital Refunding Revenue Note, Series 2004C	416,647	464,745
Total	5,286,110	5,636,326
Less current maturities	<u>370,180</u>	<u>353,631</u>
Long-term debt, net of current maturities	<u>\$4,915,930</u>	<u>\$5,282,695</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, 2010 the interest rate is 4% and the remaining balance on this Note is \$3,608,845.

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, 2010 the interest rate is 5.13% and the remaining balance on this Note is \$1,260,618.

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, 2010 the interest rate is 5.13% and the remaining balance is \$416,647.

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, 2010 the remaining principal and interest on the Series 2004A, 2004B and 2004C Notes was \$6,880,145. 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, 2010 and 2009:

	Year ended June 30	
	2010	2009
Change in fund equity	\$1,941,849	\$2,720,385
Provision for depreciation	969,060	955,379
Interest expense on the Notes	242,585	282,117
 Pledged net revenues	 \$3,153,494	 \$3,957,881
 Principal and interest requirements		
Hospital Revenue Note, Series 2004A	\$ 307,711	\$ 316,318
Hospital Refunding Revenue Note, Series 2004B	214,272	214,272
Hospital Refunding Revenue Note, Series 2004C	70,819	70,819
 Totals	 \$ 592,802	 \$ 601,409

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			
2011	\$ 166,385	\$ 153,171	\$ 50,624	\$ 370,180	\$ 222,622	\$ 592,802
2012	173,164	161,216	53,283	387,663	205,139	592,802
2013	180,219	169,683	56,082	405,984	186,818	592,802
2014	187,562	178,596	59,028	425,186	167,616	592,802
2015	195,203	187,976	62,128	445,307	147,495	592,802
2016-2020	1,101,990	409,976	135,502	1,647,468	466,440	2,113,908
2021-2025	1,345,526	-	-	1,345,526	193,029	1,538,555
2026	258,796	-	-	258,796	4,876	263,672
Total	3,608,845	1,260,618	416,647	5,286,110	1,594,035	6,880,145
Less current maturities	166,385	153,171	50,624	370,180	222,622	592,802
 Total long-term debt	 \$3,442,460	 \$1,107,447	 \$ 366,023	 \$4,915,930	 \$1,371,413	 \$6,287,343

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, 2010 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	\$3,765,436	\$ —	\$ 156,591	\$3,608,845	\$ 166,385
Hospital Refunding Revenue Note, Series 2004B	1,406,145	—	145,527	1,260,618	153,171
Hospital Refunding Revenue Note, Series 2004C	<u>464,745</u>	<u>—</u>	<u>48,098</u>	<u>416,647</u>	<u>50,624</u>
Totals	<u>\$5,636,326</u>	<u>\$ —</u>	<u>\$ 350,216</u>	<u>\$5,286,110</u>	<u>\$ 370,180</u>

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>

The Foundation's long-term debt at June 30, 2010 and 2009 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Notes payable	\$1,906,929	\$2,009,590
Less current maturities	<u>(38,005)</u>	<u>(106,947)</u>
Long-term debt, net of current maturities	<u>\$1,868,924</u>	<u>\$1,902,643</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, 2010 the remaining balance is \$1,893,518.

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, 2010 the balance of this fund is \$47,305.

A Depreciation Fund is also funded by monthly deposits. At June 30, 2010 the balance of this fund is \$46,451.

The aggregate of these two funds, \$93,756, is reported on the balance sheets as an other asset at June 30, 2010.

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, 2010 the remaining balance is \$13,411.

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>
2011	\$ 38,005	\$ 77,907	\$ 115,912
2012	25,628	76,612	102,240
2013	26,705	75,535	102,240
2014	27,828	74,412	102,240
2015	29,005	73,235	102,240
2016-2020	161,087	350,113	511,200
2021-2025	199,485	311,715	511,200
2026-2030	253,111	258,089	511,200
2031-2035	311,480	199,720	511,200
2036-2040	391,131	120,069	511,200
2041-2045	435,375	75,825	511,200
2046	<u>8,089</u>	<u>431</u>	<u>8,520</u>
Total	1,906,929	1,693,663	3,600,592
Less current maturities	<u>38,005</u>	<u>77,907</u>	<u>115,912</u>
Total long-term debt	<u>\$1,868,924</u>	<u>\$1,615,756</u>	<u>\$3,484,680</u>

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2010 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	\$1,917,727	\$ —	\$ 24,209	\$1,893,518	\$ 24,594
Other	<u>91,863</u>	<u>—</u>	<u>78,452</u>	<u>13,411</u>	<u>13,411</u>
Totals	<u>\$2,009,590</u>	<u>\$ —</u>	<u>\$ 102,661</u>	<u>\$1,906,929</u>	<u>\$ 38,005</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>

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, 2008.

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, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Charges foregone, based on established rates	\$ <u>365,787</u>	\$ <u>159,628</u>
Equivalent percentage of charity care patients to all patients served	<u>.5%</u>	<u>.2%</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, 2010 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, 2010, regular plan members were required to contribute 4.3% of their annual salary and the Medical Center was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$901,452, \$880,805 and \$778,496, 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, 2010 and 2009 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 10, 2010

**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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$ 5,629,023	\$5,202,184	54.59%	54.10%
31 - 60 days	1,453,397	1,325,199	14.10	13.78
61 - 90 days	734,319	819,261	7.12	8.52
91 - 120 days	328,011	500,798	3.18	5.21
121-180 days	512,232	556,535	4.97	5.79
Over 180 days	<u>1,653,912</u>	<u>1,211,985</u>	<u>16.04</u>	<u>12.60</u>
Totals	<u>10,310,894</u>	<u>9,615,962</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,180,000	1,200,000		
Medicaid	140,000	160,000		
Other	200,000	240,000		
Bad debts	<u>1,740,000</u>	<u>1,460,000</u>		
Total allowances	<u>3,260,000</u>	<u>3,060,000</u>		
Totals	<u>\$ 7,050,894</u>	<u>\$6,555,962</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 109,112</u>	<u>\$ 111,664</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>65</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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
BALANCE , beginning	\$1,460,000	\$1,640,000		
ADD				
Provision for bad debts	910,984	1,306,428	2.29%	3.21%
Recoveries of accounts previously written off	<u>441,499</u>	<u>307,873</u>	1.11	.76
	2,812,483	3,254,301		
DEDUCT				
Accounts written off	<u>1,072,483</u>	<u>1,794,301</u>	2.69	4.40
BALANCE , ending	<u>\$1,740,000</u>	<u>\$1,460,000</u>		

Wright Medical Center
PATIENT SERVICE REVENUE
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$ 2,476,073	\$ -	\$ 2,476,073	\$ 1,943,530
Swing bed	455,592	-	455,592	297,571
Nursery	287,326	-	287,326	242,077
	<u>3,218,991</u>	<u>-</u>	<u>3,218,991</u>	<u>2,483,178</u>
OTHER NURSING SERVICES				
Observation room	5,819	490,787	496,606	232,818
Operating room	7,981,708	10,199,137	18,180,845	17,270,886
Recovery room	275,281	341,258	616,539	603,899
Delivery and labor rooms	815,318	200,433	1,015,751	678,567
Central supply	7,604,737	2,092,380	9,697,117	11,267,422
Emergency service	7,736	1,774,840	1,782,576	1,759,013
	<u>16,690,599</u>	<u>15,098,835</u>	<u>31,789,434</u>	<u>31,812,605</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	1,349,369	3,668,035	5,017,404	4,670,682
Radiology	199,196	3,560,646	3,759,842	3,282,581
CT scans	265,542	3,262,753	3,528,295	3,074,141
MRI	32,558	1,017,856	1,050,414	979,931
Nuclear scans	8,049	803,055	811,104	770,245
Ultrasound	67,082	1,164,025	1,231,107	1,101,494
Electrocardiology	36,782	199,125	235,907	231,588
Respiratory therapy	1,108,454	292,326	1,400,780	1,358,586
Pulmonary rehabilitation	381,723	580,573	962,296	1,031,988
Cardiac rehabilitation	6,199	579,687	585,886	494,206
Pharmacy	2,039,944	2,068,482	4,108,426	3,713,478
Intravenous therapy	405,352	282,853	688,205	727,739
Anesthesiology	1,417,396	1,921,807	3,339,203	3,212,526
Occupational therapy	186,553	353,114	539,667	595,935
Physical therapy	308,438	1,107,142	1,415,580	1,512,317
Speech therapy	9,992	140,438	150,430	138,221
Clinics	699,591	4,019,038	4,718,629	4,922,711
Sleep center	32,276	578,678	610,954	630,447
	<u>8,554,496</u>	<u>25,599,633</u>	<u>34,154,129</u>	<u>32,448,816</u>
Totals	<u>\$28,464,086</u>	<u>\$40,698,468</u>	69,162,554	66,744,599
Charity care charges forgone, based on established rates			<u>(365,787)</u>	<u>(159,628)</u>
Total gross patient service revenue			68,796,767	66,584,971
Provisions for contractual adjustments and bad debts			<u>(28,970,826)</u>	<u>(25,827,669)</u>
Total net patient service revenue			<u>\$39,825,941</u>	<u>\$40,757,302</u>

Wright Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Contractual adjustments		
Medicare	\$15,091,431	\$13,755,961
Medicaid	2,976,942	1,893,969
Other adjustments	9,991,469	8,871,311
Provision for bad debts	<u>910,984</u>	<u>1,306,428</u>
 Totals	 <u>\$28,970,826</u>	 <u>\$25,827,669</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Cafeteria	\$ 330,978	\$ 344,468
Fitness center	119,928	112,003
Residential fees	655,024	627,847
Retail pharmacy	1,686,896	1,673,057
Miscellaneous	<u>111,828</u>	<u>96,480</u>
 Totals	 <u>\$2,904,654</u>	 <u>\$2,853,855</u>

Wright Medical Center
EXPENSES
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 338,982	\$ 19,632	\$ 358,614	\$ 329,907
Medical, surgical and obstetrical	1,213,780	345,894	1,559,674	2,096,170
Nursery, delivery and labor rooms	419,936	1,649,848	2,069,784	1,306,249
Operating room	1,236,109	627,658	1,863,767	1,936,817
Emergency service and surgery	1,945,847	3,428,530	5,374,377	5,120,488
Central supply	145,173	5,341,870	5,487,043	6,444,186
Total nursing service	<u>5,299,827</u>	<u>11,413,432</u>	<u>16,713,259</u>	<u>17,233,817</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	473,407	634,711	1,108,118	950,168
Radiology	1,232,648	599,543	1,832,191	1,571,993
CT scans	-	342,561	342,561	319,350
MRI	-	128,030	128,030	146,380
Nuclear scans	-	179,701	179,701	205,295
Ultrasound	116,200	82,148	198,348	174,292
Electrocardiology	3,958	-	3,958	11,222
Respiratory therapy	-	724,245	724,245	730,542
Cardiac rehabilitation	39,223	218,104	257,327	219,716
Pharmacy	312,497	625,085	937,582	852,662
Retail pharmacy	195,128	1,390,207	1,585,335	1,538,234
Anesthesiology	1,046,668	132,462	1,179,130	1,130,721
Occupational therapy	175,911	79,883	255,794	239,155
Physical therapy	572,843	173,696	746,539	748,640
Speech therapy	70,866	5,638	76,504	61,584
Clinics	2,367,071	638,716	3,005,787	3,177,573
Sleep center	-	214,445	214,445	219,338
Medical records	402,638	88,177	490,815	545,014
Total other professional service	<u>7,009,058</u>	<u>6,257,352</u>	<u>13,266,410</u>	<u>12,841,879</u>
GENERAL SERVICE				
Dietary	394,568	407,368	801,936	819,922
Plant operation	241,613	373,438	615,051	635,516
Housekeeping	370,672	59,533	430,205	381,945
Laundry	-	127,796	127,796	131,727
Total general service	<u>1,006,853</u>	<u>968,135</u>	<u>1,974,988</u>	<u>1,969,110</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administrative services	2,153,728	1,499,692	3,653,420	3,489,739
Residential services	45,806	304,335	350,141	369,583
Fitness center	32,084	45,370	77,454	102,027
Group health and life	-	1,546,960	1,546,960	1,377,860
FICA	-	913,023	913,023	971,304
IPERS	-	901,452	901,452	880,805
Insurance	-	255,206	255,206	489,321
Total fiscal and administrative service and unassigned expenses	<u>2,231,618</u>	<u>5,466,038</u>	<u>7,697,656</u>	<u>7,680,639</u>
PROVISION FOR DEPRECIATION				
	-	969,060	969,060	955,379
Total expenses	<u>\$15,547,356</u>	<u>\$25,074,017</u>	<u>\$40,621,373</u>	<u>\$40,680,824</u>

**Wright Medical Center
STATISTICS**

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Medical, surgical and obstetrical	3,116	3,402
Swing bed		
Skilled care	531	505
Intermediate care	13	35
Nursery	<u>434</u>	<u>423</u>
Totals	<u>4,094</u>	<u>4,365</u>
DISCHARGES		
Medical, surgical and obstetrical	1,281	1,335
Swing bed		
Skilled care	92	81
Intermediate care	3	11
Nursery	<u>209</u>	<u>207</u>
Totals	<u>1,585</u>	<u>1,634</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.43	2.55
Swing bed		
Skilled care	5.77	6.23
Intermediate care	4.33	3.18
Nursery	2.08	2.04

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, 2010, and have issued our report thereon dated September 10, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Medical Center's and Foundation's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, 2010 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 10, 2010

**Wright Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

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, 2010**

Part II—Findings Related to Required Statutory Reporting

10-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

10-II-B TRAVEL EXPENSES

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

10-II-C BUSINESS TRANSACTIONS

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

10-II-D BOARD MINUTES

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

10-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.