

**Wright Medical Center  
Clarion, Iowa**

**FINANCIAL REPORT**

**June 30, 2011**

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**Wright Medical Center  
OFFICIALS  
June 30, 2011**

**BOARD OF COMMISSIONERS**

**Officers**

Dr. Michael Whitters, President  
Gary Horton, Vice President  
Kimberly Heller, Secretary-Treasurer

**Expiration of term**

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

**Members**

Judith Ritter  
Ken Stoakes  
Scott Whyte

June 30, 2014  
June 30, 2014  
June 30, 2013

**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, 2011 and 2010, 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, 2011 and 2010, 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 16, 2011 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 16, 2011

## **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, 2011 and 2010. 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 \$16,914,763 to \$43,014,226
- Total noncurrent assets whose use is limited increased by \$7,179,440 to \$7,179,440
- Total property and equipment increased by \$6,754,801 to \$17,535,804
- Total fund equity increased by \$896,881 to \$18,855,914
- Total long-term debt increased by \$15,143,890 to \$20,430,000
- Net patient service revenue increased by \$870,181, or 2%, to \$40,696,122
- Expenses increased by \$1,863,287, or 5%, to \$42,484,660

### **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**

	<b>June 30</b>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$19,294,805	\$15,263,492	\$14,375,431
Assets whose use is limited	5,651,617	-	-
Property and equipment	17,535,804	10,781,003	10,429,228
Other asset	<u>532,000</u>	<u>54,968</u>	<u>66,735</u>
Total assets	<u>\$43,014,226</u>	<u>\$26,099,463</u>	<u>\$24,871,394</u>
Current liabilities	\$ 4,578,312	\$ 3,224,500	\$ 3,571,515
Long-term debt, less current maturities	<u>19,580,000</u>	<u>4,915,930</u>	<u>5,282,695</u>
Total liabilities	<u>\$24,158,312</u>	<u>\$ 8,140,430</u>	<u>\$ 8,854,210</u>
Invested in capital assets, net of related debt	\$ 3,078,586	\$ 5,494,893	\$ 4,792,902
Restricted	1,738,658	-	-
Unrestricted	<u>14,038,670</u>	<u>12,464,140</u>	<u>11,224,282</u>
Total fund equity	<u>\$18,855,914</u>	<u>\$17,959,033</u>	<u>\$16,017,184</u>

As depicted in Table 1, total assets increased significantly in fiscal year 2011 to \$43,014,226. The change in total assets is primarily due to an increase in assets whose use is limited and property and equipment resulting from proceeds from issuance of long-term debt to provide for the Medical Center's ongoing construction project.

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**

	Year ended June 30		
	2011	2010	2009
Net patient service revenue	\$40,696,122	\$39,825,941	\$40,757,302
Other revenue	<u>2,830,100</u>	<u>2,904,654</u>	<u>2,853,855</u>
Total operating revenue	<u>43,526,222</u>	<u>42,730,595</u>	<u>43,611,157</u>
Salaries	17,130,930	15,547,356	16,184,391
Supplies and expenses	24,358,299	24,104,957	23,541,054
Provision for depreciation	<u>995,431</u>	<u>969,060</u>	<u>955,379</u>
Total expenses	<u>42,484,660</u>	<u>40,621,373</u>	<u>40,680,824</u>
Operating income	<u>1,041,562</u>	<u>2,109,222</u>	<u>2,930,333</u>
Investment income	59,880	47,072	37,155
Unrestricted contributions	67,327	39,907	78,064
Interest and amortization expense	<u>(271,888)</u>	<u>(254,352)</u>	<u>(325,167)</u>
Total nonoperating gains (losses)	<u>(144,681)</u>	<u>(167,373)</u>	<u>(209,948)</u>
Change in fund equity	896,881	1,941,849	2,720,385
Total fund equity, beginning	<u>17,959,033</u>	<u>16,017,184</u>	<u>13,296,799</u>
Total fund equity, ending	<u>\$18,855,914</u>	<u>\$17,959,033</u>	<u>\$16,017,184</u>

### **Operating and Financial Performance**

The following summarizes the Medical Center's statements of revenues, expenses and changes in fund equity between June 30, 2011 and 2010.

**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 2011 were 1,346 compared to 1,281 in fiscal year 2010. Average length of stay for medical, surgical and obstetrical decreased slightly as patient days increased to 3,242 from 3,116 in 2010. Swing bed, skilled care discharges for fiscal year 2011 were 96 compared to 92 in fiscal year 2010. Average length of stay for swing bed, skilled care increased slightly as patient days increased from 531 to 569 in 2011. Volume on the outpatient side indicated positive growth in 2011. In 2011, gross outpatient charges increased to \$42,920,965 compared to \$40,698,468 in 2010.

**Price Increase:** The Medical Center did review its charge structure in 2011. Overall, gross patient service revenue increased to \$72,729,436 from \$68,796,767 in 2010. Medical, surgical and obstetrical, operating room, emergency service and respiratory therapy reflected the most significant growth in 2011.

**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. Contractual adjustments and bad debts increased to \$32,033,314 in 2011 from \$28,970,826 in 2010. This represents a reduction of 44% and 42% in reimbursement below standard gross patient charges for the years ended June 30, 2011 and 2010, 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>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	43%	44%	44%
Medicaid	9	7	7
Commercial insurance	44	44	44
Patients	<u>4</u>	<u>5</u>	<u>5</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue decreased slightly to \$2,830,100 in 2011 compared to \$2,904,654 in 2010.

**Expenses**

Approximately 40% of Medical Center's expenses are for salaries. Total salaries increased by 10% to \$17,130,930 in 2011 from \$15,547,356 in 2010. The Medical Center departments experiencing the most significant increase in 2011 were operating room, emergency service and clinics.

Approximately 55% of Medical Center's expenses are for supplies and expenses. Total supplies and expenses increased by 1% to \$24,358,299 in 2011 from \$24,104,957 in 2010. The most significant increases in 2011 related to medical, surgical and obstetrical, and respiratory therapy.

Approximately 5% of Medical Center's expenses relate to provision for depreciation. The provision for depreciation increased slightly to \$995,431 in 2011 from \$969,060 in 2010.

**Nonoperating Gains (Losses)**

Nonoperating gains (losses) increased in 2011 to \$(144,681) from \$(167,373) in 2010, primarily due to an increase in unrestricted contributions.

**Property and Equipment**

At the end of 2011, the Medical Center had \$17,535,804 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2011, \$7,750,232 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**

	<b>June 30</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Land	\$ 123,106	\$ 123,106	\$ 123,106
Land improvements	531,981	515,857	483,037
Buildings	14,721,076	14,647,845	14,590,737
Fixed equipment	1,839,843	1,817,351	1,802,234
Major movable equipment	5,141,417	4,695,032	4,363,480
Construction in progress	<u>8,999,301</u>	<u>1,807,301</u>	<u>923,063</u>
Subtotal	31,356,724	23,606,492	22,285,657
Less accumulated depreciation	<u>13,820,920</u>	<u>12,825,489</u>	<u>11,856,429</u>
Property and equipment	<u>\$17,535,804</u>	<u>\$10,781,003</u>	<u>\$10,429,228</u>

**Debt Administration**

At year end, the Medical Center had \$20,430,000 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 85% 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, 2011 and 2010**

<b>ASSETS</b>	<b>Wright Medical Center</b>		<b>Wright Medical Foundation</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS</b>				
Cash	\$ 3,884,873	\$ 5,757,422	\$ 52,217	\$ 100,284
Assets whose use is limited, required for current liabilities	1,527,823	-	-	-
Investments	3,062,409	-	582,846	482,890
Patient receivables, less allowances for contractual adjustments and bad debts	7,464,752	7,050,894	-	-
Other receivables	941,267	469,322	5,414	10,383
Estimated third-party payor settlements	-	260,000	-	-
Inventories	1,343,499	1,174,155	-	-
Prepaid expenses	<u>1,070,182</u>	<u>551,699</u>	<u>-</u>	<u>-</u>
Total current assets	<u>19,294,805</u>	<u>15,263,492</u>	<u>640,477</u>	<u>593,557</u>
<b>ASSETS WHOSE USE IS LIMITED</b>				
Restricted for payment of long-term debt and interest				
Cash	5,553,075	-	-	-
Municipal bonds	<u>1,626,365</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets whose use is limited	7,179,440	-	-	-
Less assets whose use is limited and that are required for current liabilities`	<u>1,527,823</u>	<u>-</u>	<u>-</u>	<u>-</u>
Noncurrent assets whose use is limited	<u>5,651,617</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>PROPERTY AND EQUIPMENT</b>				
Property and equipment	31,356,724	23,606,492	2,770,146	2,770,146
Less accumulated depreciation	<u>13,820,920</u>	<u>12,825,489</u>	<u>360,778</u>	<u>291,630</u>
Total property and equipment	<u>17,535,804</u>	<u>10,781,003</u>	<u>2,409,368</u>	<u>2,478,516</u>
<b>OTHER ASSETS</b>				
Reserve and depreciation funds	-	-	114,224	93,756
Unamortized financing costs	<u>532,000</u>	<u>54,968</u>	<u>-</u>	<u>-</u>
Total other assets	<u>532,000</u>	<u>54,968</u>	<u>114,224</u>	<u>93,756</u>
 Totals	 <u>\$43,014,226</u>	 <u>\$26,099,463</u>	 <u>\$3,164,069</u>	 <u>\$3,165,829</u>

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	Wright Medical Center		Wright Medical Foundation	
	2011	2010	2011	2010
<b>CURRENT LIABILITIES</b>				
Current maturities of long-term debt	\$ 850,000	\$ 370,180	\$ 25,628	\$ 38,005
Accounts payable				
Trade	1,051,262	1,375,057	77,521	86,581
Construction	1,124,429	—	—	—
Accrued employee compensation	1,326,343	1,185,171	—	—
Payroll taxes and amounts withheld from employees	152,678	294,092	—	—
Accrued interest	73,600	—	—	—
Total current liabilities	<u>4,578,312</u>	<u>3,224,500</u>	<u>103,149</u>	<u>124,586</u>
<b>LONG-TERM DEBT</b> , less current maturities	<u>19,580,000</u>	<u>4,915,930</u>	<u>1,843,326</u>	<u>1,868,924</u>
<b>FUND EQUITY</b>				
Invested in capital assets, net of related debt	3,078,586	5,494,893	—	—
Restricted	1,738,658	—	—	—
Unrestricted	<u>14,038,670</u>	<u>12,464,140</u>	<u>1,217,594</u>	<u>1,172,319</u>
Total fund equity	<u>18,855,914</u>	<u>17,959,033</u>	<u>1,217,594</u>	<u>1,172,319</u>
Totals	<u>\$43,014,226</u>	<u>\$26,099,463</u>	<u>\$3,164,069</u>	<u>\$3,165,829</u>

See Notes to Financial Statements.

**Wright Medical Center**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**  
**Years ended June 30, 2011 and 2010**

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2011 \$1,170,714; 2010 \$910,984	\$40,696,122	\$39,825,941	\$ -	\$ -
<b>OTHER REVENUE</b>	<u>2,830,100</u>	<u>2,904,654</u>	<u>552,990</u>	<u>565,181</u>
Total revenue	<u>43,526,222</u>	<u>42,730,595</u>	<u>552,990</u>	<u>565,181</u>
<b>EXPENSES</b>				
Nursing service	16,760,868	16,713,259	-	-
Other professional service	14,253,591	13,266,410	-	-
General service	2,131,436	1,974,988	-	-
Fiscal and administrative service and unassigned expenses	8,343,334	7,697,656	498,687	543,405
Provision for depreciation	<u>995,431</u>	<u>969,060</u>	<u>69,148</u>	<u>69,442</u>
Total expenses	<u>42,484,660</u>	<u>40,621,373</u>	<u>567,835</u>	<u>612,847</u>
Operating income (loss)	<u>1,041,562</u>	<u>2,109,222</u>	<u>(14,845)</u>	<u>(47,666)</u>
<b>NONOPERATING GAINS (LOSSES)</b>				
Investment income	59,880	47,072	88,816	37,466
Unrestricted contributions	67,327	39,907	48,981	64,220
Interest and amortization expense	<u>(271,888)</u>	<u>(254,352)</u>	<u>(77,677)</u>	<u>(78,031)</u>
Total nonoperating gains (losses)	<u>(144,681)</u>	<u>(167,373)</u>	<u>60,120</u>	<u>23,655</u>
Change in fund equity	896,881	1,941,849	45,275	(24,011)
<b>TOTAL FUND EQUITY</b>				
Beginning	<u>17,959,033</u>	<u>16,017,184</u>	<u>1,172,319</u>	<u>1,196,330</u>
Ending	<u>\$18,855,914</u>	<u>\$17,959,033</u>	<u>\$1,217,594</u>	<u>\$1,172,319</u>

See Notes to Financial Statements.

**Wright Medical Center**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2011 and 2010**

	<u>Wright</u>		<u>Wright</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from patients and third-party payors	\$40,542,264	\$38,471,009	\$ -	\$ -
Cash paid to suppliers for goods and services	(25,983,280)	(23,816,009)	(335,920)	(313,751)
Cash paid to employees for services	(16,989,758)	(15,538,580)	(166,858)	(166,107)
Other operating revenue received	<u>2,830,100</u>	<u>2,904,654</u>	<u>552,990</u>	<u>565,181</u>
Net cash provided by operating activities	<u>399,326</u>	<u>2,021,074</u>	<u>50,212</u>	<u>85,323</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Contributions received	<u>67,327</u>	<u>39,907</u>	<u>48,981</u>	<u>64,220</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of property and equipment	(6,543,394)	(1,320,835)	-	-
Proceeds from issuance of long-term debt	20,760,000	-	-	-
Principal payments on long-term debt	(5,616,110)	(350,216)	(37,975)	(102,661)
Interest paid on long-term debt	<u>(786,801)</u>	<u>(242,585)</u>	<u>(77,677)</u>	<u>(78,031)</u>
Net cash provided by (used in) capital and related financing activities	<u>7,813,695</u>	<u>(1,913,636)</u>	<u>(115,652)</u>	<u>(180,692)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from maturities of investments	88,952	-	180,541	197,048
Purchases of investments	(3,062,409)	-	(232,366)	(233,093)
Interest received	<u>(1,626,365)</u>	<u>47,072</u>	<u>20,217</u>	<u>16,825</u>
Net cash provided by (used in) investing activities	<u>(4,599,822)</u>	<u>47,072</u>	<u>(31,608)</u>	<u>(19,220)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	3,680,526	194,417	(48,067)	(50,369)
<b>CASH</b>				
Beginning	<u>5,757,422</u>	<u>5,563,005</u>	<u>100,284</u>	<u>150,653</u>
Ending	<u>\$ 9,437,948</u>	<u>\$ 5,757,422</u>	<u>\$ 52,217</u>	<u>\$ 100,284</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,041,562	\$ 2,109,222	\$ (14,845)	\$ (47,666)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	995,431	969,060	69,148	69,442
Changes in assets and liabilities				
(Increase) in patient receivables	(413,858)	(494,932)	-	-
(Increase) decrease in other receivables	(471,945)	(51,831)	4,969	15,793
(Increase) decrease in estimated third-party payor settlements	260,000	(860,000)	-	-
(Increase) decrease in inventories	(169,344)	4,091	-	-
(Increase) decrease in prepaid expenses	(518,483)	9,028	-	-
Increase (decrease) in accounts payable, trade	(323,795)	259,515	(9,060)	47,754
Increase in accrued employee compensation	141,172	8,776	-	-
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(141,414)</u>	<u>68,145</u>	<u>-</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 399,326</u>	<u>\$ 2,021,074</u>	<u>\$ 50,212</u>	<u>\$ 85,323</u>

See Notes to Financial Statements.

**Wright Medical Center**  
**STATEMENTS OF CASH FLOWS (continued)**  
**Years ended June 30, 2011 and 2010**

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>				
Per balance sheet				
Current assets, cash	\$3,884,873	\$5,757,422	\$ 52,217	\$ 100,284
Assets whose use is limited, restricted for payment of long-term debt and interest	<u>5,553,075</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total per statement of cash flows	<u>\$9,437,948</u>	<u>\$5,757,422</u>	<u>\$ 52,217</u>	<u>\$ 100,284</u>

**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 - 14.

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. No modifications have been made to the Foundation's statements in the Medical Center's financial reporting entity for these differences.

**Accounting Standards**

The Medical Center has elected to apply all applicable *Governmental Accounting Standards Board* pronouncements.

**Wright Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments and Investment Income**

The Medical Center's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Debt securities	
Municipal bonds	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income from investments is reported as nonoperating gains and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on 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.

**Costs of Borrowing**

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**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 issues, using the straight-line method.

**Wright Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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.

**Wright Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Taxes**

The Foundation is a nonprofit corporation exempt from federal income tax under applicable provisions of the Internal Revenue Code. The Foundation follows 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 16, 2011, 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, 2011 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.

The Medical Center's debt securities, consisting of municipal bonds, at June 30, 2011 are as follows:

<u>Maturity</u>	<u>Fair value</u>
September, 2020	\$ 67,251
February, 2022	168,917
June, 2024	315,263
April, 2025	453,727
December, 2026	117,538
February, 2027	270,864
February, 2028	<u>232,805</u>
Total	<u>\$1,626,365</u>

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, 2011 and 2010, the Foundation's investments consisted of money market funds, certificate of deposit, U.S. Government Agency security, corporation and municipal bonds, mutual funds and pooled investments of \$582,846 and \$482,690, 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 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, 2011 and 2010.

<u>June 30, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 9,335	\$ —	\$ —	\$ 9,335
U.S. Government Agency security	75,201	—	—	75,201
Corporation and municipal bonds	99,685	—	—	99,685
Mutual funds	363,888	—	—	363,888
Pooled investments	<u>—</u>	<u>—</u>	<u>34,737</u>	<u>34,737</u>
Investments, at fair value	<u>\$ 548,109</u>	<u>\$ —</u>	<u>\$ 34,737</u>	<u>\$ 582,846</u>
<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>

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 years ended June 30, 2011 and 2010.

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 13,956	\$ —
Initial purchase	—	10,000
Contributions	18,000	4,000
Investment income (loss)	<u>2,781</u>	<u>(44)</u>
Ending balance	<u>\$ 34,737</u>	<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.

**Wright Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**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>2011</u>	<u>2010</u>
Medicare	\$ 2,809,446	\$ 3,111,454
Medicaid	802,082	684,620
Commercial insurance	3,710,421	3,528,910
Patients	<u>3,582,803</u>	<u>2,985,910</u>
Total patient receivables	10,904,752	10,310,894
Less allowances for contractual adjustments and bad debts	<u>(3,440,000)</u>	<u>(3,260,000)</u>
Net patient receivables	<u>\$ 7,464,752</u>	<u>\$ 7,050,894</u>

**NOTE 5 ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2011:

	<u>Project Fund</u>	<u>Interest Funds</u>	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
<b>BALANCE</b> , beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds from issuance of long-term debt	12,686,797	561,068	-	1,689,733	14,937,598
Transfer from current assets, cash	-	558,555	350,641	-	909,196
Fund transfers	-	-	28,271	(28,271)	-
Interest earned	729	59	13	28,271	29,072
Payments for construction costs	(7,601,213)	-	-	-	(7,601,213)
Principal and interest payments	<u>-</u>	<u>(765,213)</u>	<u>(330,000)</u>	<u>-</u>	<u>(1,095,213)</u>
<b>BALANCE</b> , end of year	<u>\$ 5,086,313</u>	<u>\$ 354,469</u>	<u>\$ 48,925</u>	<u>\$ 1,689,733</u>	<u>\$ 7,179,440</u>

**NOTE 6 PROPERTY AND EQUIPMENT**

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

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 123,106	\$ -	\$ 123,106	\$ -
Land improvements	531,981	261,504	515,857	229,423
Buildings	14,721,076	8,174,665	14,647,845	7,562,744
Fixed equipment	1,839,843	1,508,024	1,817,351	1,445,024
Major movable equipment	5,141,417	3,876,727	4,695,032	3,588,298
Construction in progress	<u>8,999,301</u>	<u>-</u>	<u>1,807,301</u>	<u>-</u>
Totals	<u>\$31,356,724</u>	<u>\$13,820,920</u>	<u>\$23,606,492</u>	<u>\$12,825,489</u>

Construction in progress at June 30, 2011 consists primarily of progress billings for construction costs related to the Medical Center's construction project. The project includes renovation and construction of an addition to the existing facility. The estimated total cost of the project is approximately \$13 million and is being funded by issuance of long-term debt. At June 30, 2011 the Medical Center has \$1,124,429 accrued as accounts payable-construction.

**Wright Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 PROPERTY AND EQUIPMENT (continued)**

A summary of changes in the Medical Center's property and equipment for the year ended June 30, 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ —	\$ —	\$ 123,106
Land improvements	515,857	16,124	—	531,981
Buildings	14,647,845	73,231	—	14,721,076
Fixed equipment	1,817,351	22,492	—	1,839,843
Major movable equipment	4,695,032	446,385	—	5,141,417
Construction in progress	<u>1,807,301</u>	<u>7,192,000</u>	<u>—</u>	<u>8,999,301</u>
Totals	23,606,492	7,750,232	—	31,356,724
Less accumulated depreciation	<u>(12,825,489)</u>	<u>(995,431)</u>	<u>—</u>	<u>(13,820,920)</u>
Net property and equipment	<u>\$10,781,003</u>	<u>\$6,754,801</u>	<u>\$ —</u>	<u>\$17,535,804</u>

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	<u>923,063</u>	<u>884,238</u>	<u>—</u>	<u>1,807,301</u>
Totals	22,285,657	1,320,835	—	23,606,492
Less accumulated depreciation	<u>(11,856,429)</u>	<u>(969,060)</u>	<u>—</u>	<u>(12,825,489)</u>
Net property and equipment	<u>\$10,429,228</u>	<u>\$ 351,775</u>	<u>\$ —</u>	<u>\$10,781,003</u>

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

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 251,577	\$ —	\$ 251,577	\$ —
Land improvements	72,291	17,784	72,291	14,190
Buildings	2,414,311	317,708	2,414,311	257,351
Fixed equipment	<u>31,967</u>	<u>25,286</u>	<u>31,967</u>	<u>20,089</u>
Totals	<u>\$2,770,146</u>	<u>\$ 360,778</u>	<u>\$2,770,146</u>	<u>\$ 291,630</u>

A summary of the Medical Center's interest costs on borrowed funds capitalized, net of interest earned, follows:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Construction period—interest and amortization expense	\$ 643,481	\$ —
Less interest earned on proceeds	<u>(29,072)</u>	<u>—</u>
Amount capitalized	<u>\$ 614,409</u>	<u>\$ —</u>

**Wright Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 PROPERTY AND EQUIPMENT (continued)**

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2011 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	(291,630)	(69,148)	—	(360,778)
Net property and equipment	<u>\$2,478,516</u>	<u>\$ (69,148)</u>	<u>\$ —</u>	<u>\$2,409,368</u>

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	(222,188)	(69,442)	—	(291,630)
Net property and equipment	<u>\$2,547,958</u>	<u>\$ (69,442)</u>	<u>\$ —</u>	<u>\$2,478,516</u>

**NOTE 7 LONG-TERM DEBT**

The Medical Center's long-term debt at June 30, 2011 and 2010 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Hospital Refunding Revenue Bonds, Series 2010A	\$ 5,630,000	\$ —
Hospital Revenue Bonds, Series 2010B	14,800,000	—
Hospital Revenue Note, Series 2004A	—	3,608,845
Hospital Refunding Revenue Note, Series 2004B	—	1,260,618
Hospital Refunding Revenue Note, Series 2004C	—	416,647
Total	20,430,000	5,286,110
Less current maturities	850,000	370,180
Long-term debt, net of current maturities	<u>\$19,580,000</u>	<u>\$4,915,930</u>

**Hospital Refunding Revenue Bonds, Series 2010A**

The Medical Center has issued Hospital Refunding Revenue Bonds, Series 2010A in the original amount of \$5,960,000. The Bonds are payable solely from future revenues of the Medical Center and are due serially each June 1 through 2025, at remaining interest rates ranging from 2% to 5.75%. At June 30, 2011, the remaining balance on these Bonds is \$5,630,000. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$572,733.

**Wright Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

**Hospital Refunding Revenue Bonds, Series 2010A (continued)**

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2011.

The Bonds contain a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

**Hospital Revenue Bonds, Series 2010B**

The Medical Center has issued Hospital Revenue Bonds, Series 2010B in the original amount of \$14,800,000. The Bonds are payable solely from future revenues of the Medical Center and are due serially each June 1 through 2030, at an interest rate, net of anticipated subsidy payments from the federal government, of 4.5%. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$1,117,000. At June 30, 2011, the remaining balance on these Bonds is \$14,800,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2011.

The Bonds contain a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

As to the above Notes, Series 2010A and 2010B, 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 June, 2030. As of June 30, 2011 the remaining principal and interest on the Series 2010A and 2010B Notes was \$30,307,055. 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, 2011 and 2010:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Change in fund equity	\$ 896,881	\$1,941,849
Provision for depreciation	995,431	969,060
Interest expense on the Bonds	<u>838,813</u>	<u>242,585</u>
 Pledged net revenues	 <u>\$2,731,125</u>	 <u>\$3,153,494</u>
 Principal and interest requirements		
Hospital Refunding Revenue Bonds, Series 2010A	\$ 554,248	\$ —
Hospital Revenue Bonds, Series 2010B	540,965	—
Hospital Revenue Note, Series 2004A	—	307,711
Hospital Refunding Revenue Note, Series 2004B	—	214,272
Hospital Refunding Revenue Note, Series 2004C	<u>—</u>	<u>70,819</u>
 Totals	 <u>\$1,095,213</u>	 <u>\$ 592,802</u>

**Wright Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

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

<u>Year ending June 30</u>	<u>Revenue Bonds</u>		<u>Total</u>	<u>Interest</u>	<u>Total</u>
	<u>Series 2010A</u>	<u>Series 2010B</u>	<u>Principal</u>		
2012	\$ 315,000	\$ 535,000	\$ 850,000	\$ 882,859	\$ 1,732,859
2013	320,000	565,000	885,000	859,540	1,744,540
2014	330,000	580,000	910,000	833,452	1,743,452
2015	335,000	600,000	935,000	804,879	1,739,879
2016	355,000	620,000	975,000	773,844	1,748,844
2017-2021	1,995,000	3,460,000	5,455,000	3,264,451	8,719,451
2022-2026	1,980,000	4,245,000	6,225,000	1,925,410	8,150,410
2027-2030	—	4,195,000	4,195,000	532,620	4,727,620
Total	5,630,000	14,800,000	20,430,000	9,877,055	30,307,055
Less current maturities	<u>315,000</u>	<u>535,000</u>	<u>850,000</u>	<u>882,859</u>	<u>1,732,859</u>
Total long-term debt	<u>\$5,315,000</u>	<u>\$14,265,000</u>	<u>\$19,580,000</u>	<u>\$8,994,196</u>	<u>\$28,574,196</u>

A summary of changes in the Medical Center's long-term debt for the year ended June 30, 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Refunding Revenue Bonds, Series 2010A	\$ —	\$ 5,960,000	\$ 330,000	\$ 5,630,000	\$ 315,000
Hospital Revenue Bonds, Series 2010B	—	14,800,000	—	14,800,000	535,000
Hospital Revenue Note, Series 2004A	3,608,845	—	3,608,845	—	—
Hospital Refunding Revenue Note, Series 2004B	1,260,618	—	1,260,618	—	—
Hospital Refunding Revenue Note, Series 2004C	416,647	—	416,647	—	—
Totals	<u>\$5,286,110</u>	<u>\$20,760,000</u>	<u>\$5,616,110</u>	<u>\$20,430,000</u>	<u>\$ 850,000</u>

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	464,745	—	48,098	416,647	50,624
Totals	<u>\$5,636,326</u>	<u>\$ —</u>	<u>\$ 350,216</u>	<u>\$5,286,110</u>	<u>\$ 370,180</u>

**Wright Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

The Foundation's long-term debt at June 30, 2011 and 2010 is summarized as follows:

	<b>Year ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Notes payable	\$1,868,954	\$1,906,929
Less current maturities	<u>(25,628)</u>	<u>(38,005)</u>
Long-term debt, net of current maturities	<u>\$1,843,326</u>	<u>\$1,868,924</u>

**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, 2011 the remaining balance is \$1,868,954.

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, 2011 the balance of this fund is \$57,634.

A Depreciation Fund is also funded by monthly deposits. At June 30, 2011 the balance of this fund is \$56,590.

The aggregate of these two funds, \$114,224, is reported on the balance sheets as an other asset at June 30, 2011.

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

<b>Year ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 25,628	\$ 76,612	\$ 102,240
2013	26,705	75,535	102,240
2014	27,828	74,412	102,240
2015	28,998	73,242	102,240
2016	30,217	72,023	102,240
2017-2021	171,240	339,960	511,200
2022-2026	210,390	300,810	511,200
2027-2031	258,490	252,710	511,200
2032-2036	317,588	193,612	511,200
2037-2041	390,197	121,003	511,200
2042-2046	<u>381,673</u>	<u>35,807</u>	<u>417,480</u>
Total	1,868,954	1,615,726	3,484,680
Less current maturities	<u>25,628</u>	<u>76,612</u>	<u>102,240</u>
Total long-term debt	<u>\$1,843,326</u>	<u>\$1,539,114</u>	<u>\$3,382,440</u>

**Wright Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2011 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	\$1,893,518	\$ —	\$ 24,564	\$1,868,954	\$ 25,628
Other	<u>13,411</u>	<u>—</u>	<u>13,411</u>	<u>—</u>	<u>—</u>
Totals	<u>\$1,906,929</u>	<u>\$ —</u>	<u>\$ 37,975</u>	<u>\$1,868,954</u>	<u>\$ 25,628</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>

**NOTE 8 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, 2009.

**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.

**Wright Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 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, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Charges foregone, based on established rates	\$ <u>357,010</u>	\$ <u>365,787</u>
Equivalent percentage of charity care patients to all patients served	<u>.5%</u>	<u>.5%</u>

**NOTE 10 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, 2011 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 11 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, 2011, regular plan members were required to contribute 4.5% of their annual salary and the Medical Center was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$1,007,292, \$901,452 and \$880,805, respectively, equal to the required contributions for each year.

**NOTE 12 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, 2011 and 2010 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 16, 2011

**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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$ 5,547,235	\$ 5,629,023	50.87%	54.59%
31 - 60 days	1,250,016	1,453,397	11.46	14.10
61 - 90 days	765,760	734,319	7.02	7.12
91 - 120 days	528,062	328,011	4.84	3.18
121-180 days	706,780	512,232	6.49	4.97
Over 180 days	<u>2,106,899</u>	<u>1,653,912</u>	<u>19.32</u>	<u>16.04</u>
Totals	<u>10,904,752</u>	<u>10,310,894</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	960,000	1,180,000		
Medicaid	140,000	140,000		
Other	260,000	200,000		
Bad debts	<u>2,080,000</u>	<u>1,740,000</u>		
Total allowances	<u>3,440,000</u>	<u>3,260,000</u>		
Totals	<u>\$ 7,464,752</u>	<u>\$ 7,050,894</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 111,496</u>	<u>\$ 109,112</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>67</u>	<u>65</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>BALANCE</b> , beginning	\$1,740,000	\$1,460,000		
<b>ADD</b>				
Provision for bad debts	1,170,714	910,984	2.88%	2.29%
Recoveries of accounts previously written off	<u>412,399</u>	<u>441,499</u>	1.01	1.11
	3,323,113	2,812,483		
<b>DEDUCT</b>				
Accounts written off	<u>1,243,113</u>	<u>1,072,483</u>	3.05	2.69
<b>BALANCE</b> , ending	<u>\$2,080,000</u>	<u>\$1,740,000</u>		

**Wright Medical Center**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetrical	\$ 2,955,403	\$ —	\$ 2,955,403	\$ 2,476,073
Swing bed	556,888	—	556,888	455,592
Nursery	285,443	—	285,443	287,326
	<u>3,797,734</u>	<u>—</u>	<u>3,797,734</u>	<u>3,218,991</u>
<b>OTHER NURSING SERVICES</b>				
Observation room	10,603	552,768	563,371	496,606
Operating room	8,569,018	10,558,853	19,127,871	18,180,845
Recovery room	300,918	363,215	664,133	616,539
Delivery and labor rooms	955,664	320,852	1,276,516	1,015,751
Central supply	6,742,713	2,623,221	9,365,934	9,697,117
Emergency service	18,337	2,044,567	2,062,904	1,782,576
	<u>16,597,253</u>	<u>16,463,476</u>	<u>33,060,729</u>	<u>31,789,434</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	1,522,069	4,089,281	5,611,350	5,017,404
Radiology	277,928	3,795,005	4,072,933	3,759,842
CT scans	290,093	2,874,037	3,164,130	3,528,295
MRI	45,239	993,302	1,038,541	1,050,414
Nuclear scans	14,568	867,868	882,436	811,104
Ultrasound	114,426	1,264,785	1,379,211	1,231,107
Electrocardiology	55,590	189,108	244,698	235,907
Respiratory therapy	2,079,680	949,807	3,029,487	2,363,076
Cardiac rehabilitation	6,573	668,727	675,300	585,886
Pharmacy	2,234,753	1,980,469	4,215,222	4,108,426
Intravenous therapy	427,764	329,255	757,019	688,205
Anesthesiology	1,391,588	2,025,062	3,416,650	3,339,203
Occupational therapy	190,873	375,960	566,833	539,667
Physical therapy	330,202	1,233,269	1,563,471	1,415,580
Speech therapy	8,546	145,182	153,728	150,430
Clinics	731,909	4,023,100	4,755,009	4,718,629
Sleep center	48,693	653,272	701,965	610,954
	<u>9,770,494</u>	<u>26,457,489</u>	<u>36,227,983</u>	<u>34,154,129</u>
Totals	<u>\$30,165,481</u>	<u>\$42,920,965</u>	73,086,446	69,162,554
Charity care charges forgone, based on established rates			<u>(357,010)</u>	<u>(365,787)</u>
Total gross patient service revenue			<u>72,729,436</u>	<u>68,796,767</u>
Provisions for contractual adjustments and bad debts			<u>(32,033,314)</u>	<u>(28,970,826)</u>
Total net patient service revenue			<u>\$40,696,122</u>	<u>\$39,825,941</u>

**Wright Medical Center**  
**PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<b>Year ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Contractual adjustments		
Medicare	\$15,638,006	\$15,091,431
Medicaid	3,654,862	2,976,942
Other adjustments	11,569,732	9,991,469
Provision for bad debts	1,170,714	910,984
Totals	<b>\$32,033,314</b>	<b>\$28,970,826</b>

**OTHER REVENUE**

	<b>Year ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Cafeteria	\$ 328,167	\$ 330,978
Fitness center	139,682	119,928
Residential fees	653,639	655,024
Retail pharmacy	1,645,344	1,686,896
Miscellaneous	63,268	111,828
Totals	<b>\$2,830,100</b>	<b>\$2,904,654</b>

**Wright Medical Center**  
**EXPENSES**  
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 321,477	\$ 27,801	\$ 349,278	\$ 358,614
Medical, surgical and obstetrical	1,642,516	519,397	2,161,913	1,888,042
Nursery, delivery and labor rooms	438,956	49,384	488,340	486,102
Operating room	2,756,907	5,054,890	7,811,797	7,553,296
Emergency service	798,832	341,546	1,140,378	940,162
Central supply	145,676	4,663,486	4,809,162	5,487,043
Total nursing service	<u>6,104,364</u>	<u>10,656,504</u>	<u>16,760,868</u>	<u>16,713,259</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	516,397	631,603	1,148,000	1,108,118
Radiology	1,189,246	665,129	1,854,375	1,832,191
CT scans	-	267,499	267,499	342,561
MRI	-	139,650	139,650	128,030
Nuclear scans	-	174,563	174,563	179,701
Ultrasound	125,865	128,042	253,907	198,348
Electrocardiology	916	-	916	3,958
Respiratory therapy	-	963,482	963,482	724,245
Cardiac rehabilitation	40,370	256,262	296,632	257,327
Pharmacy	357,691	642,537	1,000,228	937,582
Retail pharmacy	202,479	1,366,399	1,568,878	1,585,335
Anesthesiology	1,101,283	85,877	1,187,160	1,179,130
Occupational therapy	172,248	56,192	228,440	255,794
Physical therapy	696,764	204,018	900,782	746,539
Speech therapy	70,716	9,595	80,311	76,504
Occupational health	-	165,322	165,322	-
Clinics	2,707,148	527,957	3,235,105	3,005,787
Sleep center	-	245,956	245,956	214,445
Medical records	413,137	129,248	542,385	490,815
Total other professional service	<u>7,594,260</u>	<u>6,659,331</u>	<u>14,253,591</u>	<u>13,266,410</u>
<b>GENERAL SERVICE</b>				
Dietary	407,603	450,292	857,895	801,936
Plant operation	255,397	430,820	686,217	615,051
Housekeeping	390,878	61,382	452,260	430,205
Laundry	-	135,064	135,064	127,796
Total general service	<u>1,053,878</u>	<u>1,077,558</u>	<u>2,131,436</u>	<u>1,974,988</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES</b>				
Administrative services	2,246,643	1,447,346	3,693,989	3,479,388
Residential services	89,191	286,004	375,195	350,141
Fitness center	42,594	51,281	93,875	77,454
Group health, life and other benefits	-	1,842,044	1,842,044	1,720,992
FICA	-	978,402	978,402	913,023
IPERS	-	1,007,292	1,007,292	901,452
Insurance	-	352,537	352,537	255,206
Total fiscal and administrative service and unassigned expenses	<u>2,378,428</u>	<u>5,964,906</u>	<u>8,343,334</u>	<u>7,697,656</u>
<b>PROVISION FOR DEPRECIATION</b>				
	-	995,431	995,431	969,060
Total expenses	<u>\$17,130,930</u>	<u>\$25,353,730</u>	<u>\$42,484,660</u>	<u>\$40,621,373</u>

**Wright Medical Center  
STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>PATIENT DAYS</b>		
Medical, surgical and obstetrical	3,242	3,116
Swing bed		
Skilled care	569	531
Intermediate care	1	13
Nursery	<u>439</u>	<u>434</u>
Totals	<u><u>4,251</u></u>	<u><u>4,094</u></u>
<b>DISCHARGES</b>		
Medical, surgical and obstetrical	1,346	1,281
Swing bed		
Skilled care	96	92
Intermediate care	1	3
Nursery	<u>213</u>	<u>209</u>
Totals	<u><u>1,656</u></u>	<u><u>1,585</u></u>
<b>AVERAGE LENGTH OF STAY</b>		
Medical, surgical and obstetrical	2.41	2.43
Swing bed		
Skilled care	5.93	5.77
Intermediate care	1.00	4.33
Nursery	2.06	2.08

**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, 2011, and have issued our report thereon dated September 16, 2011. 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, 2011 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 16, 2011

**Wright Medical Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2011**

**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, 2011**

**Part II—Findings Related to Required Statutory Reporting**

**11-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Medical Center funds were noted.

**11-II-B TRAVEL EXPENSES**

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

**11-II-C BUSINESS TRANSACTIONS**

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

**11-II-D BOARD MINUTES**

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

**11-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.