

**Wright Medical Center
Clarion, Iowa**

FINANCIAL REPORT

June 30, 2012

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**Wright Medical Center
OFFICIALS
June 30, 2012**

BOARD OF COMMISSIONERS

Officers

Gary Horton, President

Kimberly Heller, Vice President

Judith Ritter, Secretary-Treasurer

Expiration of term

June 30, 2012

June 30, 2012

June 30, 2015

Members

Ken Stoakes

Dr. Michael Whitters

Scott Whyte

June 30, 2015

June 30, 2012

June 30, 2013

CHIEF EXECUTIVE OFFICER

Steve Simonin

CHIEF FINANCIAL OFFICER

Greg Polzin

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, 2012 and 2011, 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, 2012 and 2011, 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 21, 2012 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 21, 2012

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, 2012 and 2011. Please read it in conjunction with the Medical Center's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$2,963,326 to \$45,977,552
- Total noncurrent assets whose use is limited decreased by \$2,060,532 to \$3,591,085
- Total property and equipment increased by \$4,037,483 to \$21,573,287
- Total fund equity increased by \$278,348 to \$19,134,262
- Total long-term debt, including current maturities, increased by \$1,416,451 to \$21,846,451
- Net patient service revenue increased by \$2,460,434, or 6%, to \$43,156,556
- Expenses increased by \$2,821,238, or 7%, to \$45,305,898

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>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$20,309,180	\$19,294,805	\$15,263,492
Assets whose use is limited	3,591,085	5,651,617	-
Property and equipment	21,573,287	17,535,804	10,781,003
Other assets	<u>504,000</u>	<u>532,000</u>	<u>54,968</u>
Total assets	<u>\$45,977,552</u>	<u>\$43,014,226</u>	<u>\$26,099,463</u>
Current liabilities	\$ 6,284,304	\$ 4,578,312	\$ 3,224,500
Long-term debt, less current maturities	<u>20,558,986</u>	<u>19,580,000</u>	<u>4,915,930</u>
Total liabilities	<u>\$26,843,290</u>	<u>\$24,158,312</u>	<u>\$ 8,140,430</u>
Invested in capital assets, net of related debt	\$ 3,430,121	\$ 4,413,850	\$ 5,494,893
Restricted	420,345	403,394	-
Unrestricted	<u>15,283,796</u>	<u>14,038,670</u>	<u>12,464,140</u>
Total fund equity	<u>\$19,134,262</u>	<u>\$18,855,914</u>	<u>\$17,959,033</u>

As depicted in Table 1, total assets increased in fiscal year 2012 to \$45,997,552.

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>2012</u>	<u>2011</u>	<u>2010</u>
Net patient service revenue	\$43,156,556	\$40,696,122	\$39,825,941
Other revenue	<u>2,971,628</u>	<u>2,830,100</u>	<u>2,904,654</u>
Total operating revenue	<u>46,128,184</u>	<u>43,526,222</u>	<u>42,730,595</u>
Salaries	17,721,246	17,130,930	15,547,356
Supplies and expenses	26,094,882	24,358,299	24,104,957
Provision for depreciation	<u>1,489,770</u>	<u>995,431</u>	<u>969,060</u>
Total expenses	<u>45,305,898</u>	<u>42,484,660</u>	<u>40,621,373</u>
Operating income	<u>822,286</u>	<u>1,041,562</u>	<u>2,109,222</u>
Investment income	41,481	59,880	47,072
Unrestricted contributions	30,247	67,327	39,907
Interest and amortization expense	<u>(615,666)</u>	<u>(271,888)</u>	<u>(254,352)</u>
Total nonoperating gains (losses)	<u>(543,938)</u>	<u>(144,681)</u>	<u>(167,373)</u>
Change in fund equity	278,348	896,881	1,941,849
Total fund equity, beginning	<u>18,855,914</u>	<u>17,959,033</u>	<u>16,017,184</u>
Total fund equity, ending	<u>\$19,134,262</u>	<u>\$18,855,914</u>	<u>\$17,959,033</u>

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenues, expenses and changes in fund equity between June 30, 2012 and 2011.

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 2012 were 1,355 compared to 1,346 in fiscal year 2011. Average length of stay for medical, surgical and obstetrical increased slightly as patient days increased to 2.54 from 2.41 in 2011. Swing bed, skilled care discharges for fiscal year 2012 were 79 compared to 96 in fiscal year 2011. Average length of stay for swing bed, skilled care decreased as patient days decreased from 569 to 427 in 2012. Volume on the outpatient side indicated positive growth in 2012. In 2012, gross outpatient charges increased to \$45,908,664 compared to \$42,920,965 in 2011.

Price Increase: The Medical Center did review its charge structure in 2012. Overall, gross patient service revenue increased to \$77,073,154 from \$72,729,436 in 2011. Medical, surgical and obstetrical, operating room and laboratory reflected the most significant growth in 2012.

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 \$33,916,598 in 2012 from \$32,033,314 in 2011. This represents a reduction of 44% in reimbursement below standard gross patient charges for each of the years ended June 30, 2012 and 2011.

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>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	42%	43%	44%
Medicaid	10	9	7
Commercial insurance	43	44	44
Patients	<u>5</u>	<u>4</u>	<u>5</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$2,971,628 in 2012 compared to \$2,830,100 in 2011, primarily due to an increase in miscellaneous income.

Expenses

Approximately 40% of Medical Center's expenses are for salaries. Total salaries increased by 3% to \$17,721,246 in 2012 from \$17,130,930 in 2011. The Medical Center departments experiencing the most significant increase in 2012 were medical, surgical and obstetrical, and clinics.

Approximately 55% of Medical Center's expenses are for supplies and expenses. Total supplies and expenses increased by 7% to \$26,094,882 in 2012 from \$24,358,299 in 2011. The most significant increases in 2012 related to operating room, emergency service, MRI and IPERS.

Approximately 5% of Medical Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,489,770 in 2012 from \$995,431 in 2011.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased in 2012 to \$(543,938) from \$(144,681) in 2011, primarily due to an increase in interest and amortization expense.

Property and Equipment

At the end of 2012, the Medical Center had \$21,573,287 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2012, \$5,527,253 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>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 123,106	\$ 123,106	\$ 123,106
Land improvements	588,897	531,981	515,857
Buildings	15,700,139	14,721,076	14,647,845
Fixed equipment	10,983,744	1,839,843	1,817,351
Major movable equipment	8,207,616	5,141,417	4,695,032
Construction in progress	<u>1,188,004</u>	<u>8,999,301</u>	<u>1,807,301</u>
Subtotal	36,791,506	31,356,724	23,606,492
Less accumulated depreciation	<u>15,218,219</u>	<u>13,820,920</u>	<u>12,825,489</u>
Property and equipment	<u>\$21,573,287</u>	<u>\$17,535,804</u>	<u>\$10,781,003</u>

Debt Administration

At year end, the Medical Center had \$21,846,451 in current and long-term debt related to Revenue Notes and notes payable, equipment. More detailed information about the Medical Center's outstanding debt is presented in the notes to financial statements. Note that the total long-term debt represents approximately 80% 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, 2012 and 2011**

ASSETS	Wright Medical Center		Wright Medical Foundation	
	2012	2011	2012	2011
CURRENT ASSETS				
Cash and cash equivalents	\$ 6,972,363	\$ 6,947,282	\$ 294,810	\$ 52,217
Assets whose use is limited, required for current liabilities	640,859	1,527,823	-	-
Investments	-	-	593,968	582,846
Patient receivables, less allowances for contractual adjustments and bad debts	10,018,840	7,464,752	-	-
Other receivables	536,259	941,267	3,022	5,414
Estimated third-party payor settlements	180,000	-	-	-
Inventories	1,343,232	1,343,499	-	-
Prepaid expenses	<u>617,627</u>	<u>1,070,182</u>	-	-
Total current assets	<u>20,309,180</u>	<u>19,294,805</u>	<u>891,800</u>	<u>640,477</u>
ASSETS WHOSE USE IS LIMITED				
Designated by board for plant replacement and expansion Cash	612,314	-	-	-
Restricted for payment of long-term debt and interest Cash	1,819,190	5,553,075	-	-
Municipal bonds	<u>1,800,440</u>	<u>1,626,365</u>	-	-
Total assets whose use is limited	4,231,944	7,179,440	-	-
Less assets whose use is limited and that are required for current liabilities`	<u>640,859</u>	<u>1,527,823</u>	-	-
Noncurrent assets whose use is limited	<u>3,591,085</u>	<u>5,651,617</u>	-	-
PROPERTY AND EQUIPMENT				
Property and equipment	36,791,506	31,356,724	2,782,946	2,770,146
Less accumulated depreciation	<u>15,218,219</u>	<u>13,820,920</u>	<u>425,926</u>	<u>360,778</u>
Total property and equipment	<u>21,573,287</u>	<u>17,535,804</u>	<u>2,357,020</u>	<u>2,409,368</u>
OTHER ASSETS				
Reserve and depreciation funds	-	-	134,705	114,224
Unamortized financing costs	<u>504,000</u>	<u>532,000</u>	-	-
Total other assets	<u>504,000</u>	<u>532,000</u>	<u>134,705</u>	<u>114,224</u>
Totals	<u>\$45,977,552</u>	<u>\$43,014,226</u>	<u>\$3,383,525</u>	<u>\$3,164,069</u>

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	Wright Medical Center		Wright Medical Foundation	
	2012	2011	2012	2011
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 1,287,465	\$ 850,000	\$ 26,603	\$ 25,628
Accounts payable				
Trade	2,631,070	1,051,262	169,026	77,521
Construction	220,514	1,124,429	—	—
Accrued employee compensation	1,440,770	1,326,343	—	—
Payroll taxes and amounts withheld from employees	352,985	152,678	—	—
Accrued interest	71,500	73,600	—	—
Estimated third-party payor settlement	280,000	—	—	—
Total current liabilities	<u>6,284,304</u>	<u>4,578,312</u>	<u>195,629</u>	<u>103,149</u>
LONG-TERM DEBT , less current maturities	<u>20,558,986</u>	<u>19,580,000</u>	<u>1,816,755</u>	<u>1,843,326</u>
FUND EQUITY				
Invested in capital assets, net of related debt	3,430,121	3,078,586	—	—
Restricted	420,345	1,738,658	—	—
Unrestricted	<u>15,283,796</u>	<u>14,038,670</u>	<u>1,371,141</u>	<u>1,217,594</u>
Total fund equity	<u>19,134,262</u>	<u>18,855,914</u>	<u>1,371,141</u>	<u>1,217,594</u>
Totals	<u>\$45,977,552</u>	<u>\$43,014,226</u>	<u>\$3,383,525</u>	<u>\$3,164,069</u>

See Notes to Financial Statements.

Wright Medical Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
Years ended June 30, 2012 and 2011

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2012 \$1,531,680; 2011 \$1,170,714	\$43,156,556	\$40,696,122	\$ -	\$ -
OTHER REVENUE	<u>2,971,628</u>	<u>2,830,100</u>	<u>546,837</u>	<u>552,990</u>
Total revenue	<u>46,128,184</u>	<u>43,526,222</u>	<u>546,837</u>	<u>552,990</u>
EXPENSES				
Nursing service	17,613,639	16,760,868	-	-
Other professional service	14,884,484	14,253,591	-	-
General service	2,357,305	2,131,436	-	-
Fiscal and administrative service and unassigned expenses	8,960,700	8,343,334	491,884	498,687
Provision for depreciation	<u>1,489,770</u>	<u>995,431</u>	<u>65,418</u>	<u>69,148</u>
Total expenses	<u>45,305,898</u>	<u>42,484,660</u>	<u>557,302</u>	<u>567,835</u>
Operating income (loss)	<u>822,286</u>	<u>1,041,562</u>	<u>(10,465)</u>	<u>(14,845)</u>
NONOPERATING GAINS (LOSSES)				
Investment income	41,481	59,880	11,600	88,816
Unrestricted contributions	30,247	67,327	229,056	48,981
Interest and amortization expense	<u>(615,666)</u>	<u>(271,888)</u>	<u>(76,644)</u>	<u>(77,677)</u>
Total nonoperating gains (losses)	<u>(543,938)</u>	<u>(144,681)</u>	<u>164,012</u>	<u>60,120</u>
Change in fund equity	278,348	896,881	153,547	45,275
TOTAL FUND EQUITY				
Beginning	<u>18,855,914</u>	<u>17,959,033</u>	<u>1,217,594</u>	<u>1,172,319</u>
Ending	<u>\$19,134,262</u>	<u>\$18,855,914</u>	<u>\$1,371,141</u>	<u>\$1,217,594</u>

See Notes to Financial Statements.

Wright Medical Center
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	Wright Medical Center		Wright Medical Foundation	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from patients and third-party payors	\$40,702,468	\$40,542,264	\$ —	\$ —
Cash paid to suppliers for goods and services	(23,456,937)	(25,983,280)	(223,337)	(336,651)
Cash paid to employees for services	(17,606,819)	(16,989,758)	(174,531)	(166,858)
Other operating revenue received	<u>2,971,628</u>	<u>2,830,100</u>	<u>546,448</u>	<u>553,721</u>
Net cash and cash equivalents provided by operating activities	<u>2,610,340</u>	<u>399,326</u>	<u>148,580</u>	<u>50,212</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions received	<u>30,247</u>	<u>67,327</u>	<u>229,056</u>	<u>48,981</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of property and equipment	(6,196,355)	(6,543,394)	(12,800)	—
Proceeds from issuance of long-term debt	2,439,176	20,760,000	—	—
Principal payments on long-term debt	(1,022,725)	(5,616,110)	(25,596)	(37,975)
Interest paid on long-term debt	<u>(892,663)</u>	<u>(786,801)</u>	<u>(76,644)</u>	<u>(77,677)</u>
Net cash and cash equivalents provided by (used in) capital and related financing activities	<u>(5,672,567)</u>	<u>7,813,695</u>	<u>(115,040)</u>	<u>(115,652)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	109,565	88,952	16,804	20,217
Proceeds from maturities of investments	—	—	100,000	180,541
Purchases of investments	<u>(174,075)</u>	<u>(1,626,365)</u>	<u>(136,807)</u>	<u>(232,366)</u>
Net cash and cash equivalents (used in) investing activities	<u>(64,510)</u>	<u>(1,537,413)</u>	<u>(20,003)</u>	<u>(31,608)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,096,490)	6,742,935	242,593	(48,067)
CASH AND CASH EQUIVALENTS				
Beginning	<u>12,500,357</u>	<u>5,757,422</u>	<u>52,217</u>	<u>100,284</u>
Ending	<u>\$ 9,403,867</u>	<u>\$12,500,357</u>	<u>\$ 294,810</u>	<u>\$ 52,217</u>

See Notes to Financial Statements.

Wright Medical Center
STATEMENTS OF CASH FLOWS (continued)
Years ended June 30, 2012 and 2011

	<u>Wright Medical Center</u>		<u>Wright Medical Foundation</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 822,286	\$ 1,041,562	\$ (10,465)	\$ (14,845)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities				
Depreciation	1,489,770	995,431	65,148	69,148
Changes in assets and liabilities				
(Increase) in patient receivables	(2,554,088)	(413,858)	-	-
(Increase) decrease in other receivables	405,008	(471,945)	2,392	4,969
Decrease in estimated third-party payor settlements	100,000	260,000	-	-
(Increase) decrease in inventories	267	(169,344)	-	-
(Increase) decrease in prepaid expenses	452,555	(518,483)	-	-
Increase (decrease) in accounts payable, trade	1,579,808	(323,795)	91,505	(9,060)
Increase in accrued employee compensation	114,427	141,172	-	-
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>200,307</u>	<u>(141,414)</u>	<u>-</u>	<u>-</u>
Net cash and cash equivalents provided by operating activities	<u>\$ 2,610,340</u>	<u>\$ 399,326</u>	<u>\$ 148,580</u>	<u>\$ 50,212</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET				
Per balance sheet				
Current assets, cash and cash equivalents	\$ 6,972,363	\$ 3,884,873	\$ 294,810	\$ 52,217
Assets whose use is limited				
Designated by board for replacement and expansion, cash	612,314	-	-	-
Restricted for payment of long-term debt and interest, cash	<u>1,819,190</u>	<u>5,553,075</u>	<u>-</u>	<u>-</u>
Total per statement of cash flows	<u>\$ 9,403,867</u>	<u>\$ 9,437,948</u>	<u>\$ 294,810</u>	<u>\$ 52,217</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 - 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.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and all certificates of deposit.

**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 and cash equivalents.

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)

Reclassifications

Certain amounts have been reclassified in the 2011 financial statements in order to conform with the 2012 presentation, with no effect on the change in fund equity.

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 21, 2012, 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, 2012 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, 2012 are as follows:

<u>Maturity</u>	<u>Fair value</u>
September, 2020	\$ 72,890
February, 2022	193,538
June, 2024	343,889
April, 2025	493,279
December, 2026	131,933
February, 2027	300,434
February, 2028	<u>264,477</u>
Total	<u>\$1,800,440</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, 2012 and 2011, the Foundation's investments consisted of money market funds, U.S. Government Agency security, corporation and municipal bonds, mutual funds and pooled investments of \$593,968 and \$582,846, 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, 2012 and 2011.

<u>June 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 11,321	\$ -	\$ -	\$ 11,321
U.S. Government Agency security Corporation and municipal bonds	25,050	-	-	25,050
Mutual funds	78,258	-	-	78,258
Pooled investments	440,335	-	-	440,335
	<u>-</u>	<u>-</u>	<u>39,004</u>	<u>39,004</u>
Investments, at fair value	<u>\$ 554,964</u>	<u>\$ -</u>	<u>\$ 39,004</u>	<u>\$ 593,968</u>
<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 Corporation and municipal bonds	75,201	-	-	75,201
Mutual funds	99,685	-	-	99,685
Pooled investments	363,888	-	-	363,888
	<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>

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, 2012 and 2011.

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 34,737	\$ 13,956
Contributions	6,500	18,000
Unrealized losses	(914)	-
Interest and dividends	851	2,781
Grants paid	(1,718)	-
Management fees	<u>(452)</u>	<u>-</u>
Ending balance	<u>\$ 39,004</u>	<u>\$ 34,737</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>2012</u>	<u>2011</u>
Medicare	\$ 3,321,306	\$ 2,809,446
Medicaid	1,285,089	802,082
Commercial insurance	4,970,784	3,710,421
Patients	<u>4,441,661</u>	<u>3,582,803</u>
Total patient receivables	14,018,840	10,904,752
Less allowances for contractual adjustments and bad debts	<u>(4,000,000)</u>	<u>(3,440,000)</u>
Net patient receivables	<u>\$10,018,840</u>	<u>\$ 7,464,752</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, 2012:

	<u>Project Fund</u>	<u>Interest Funds</u>	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$5,086,313	\$ 354,469	\$ 48,925	\$1,689,733	\$7,179,440
Transfer from current assets, cash	-	874,882	874,827	-	1,749,709
Fund transfers	87,203	-	-	(87,203)	-
Interest earned	290	58	44	87,203	87,595
Payments for construction costs	(3,664,254)	-	-	-	(3,664,254)
Principal and interest payments	<u>-</u>	<u>(882,860)</u>	<u>(850,000)</u>	<u>-</u>	<u>(1,732,860)</u>
BALANCE , end of year	<u>\$1,509,552</u>	<u>\$ 346,549</u>	<u>\$ 73,796</u>	<u>\$1,689,733</u>	<u>\$3,619,630</u>

NOTE 6 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 123,106	\$ -	\$ 123,106	\$ -
Land improvements	588,897	299,034	531,981	261,504
Buildings	15,700,139	8,746,380	14,721,076	8,174,665
Fixed equipment	10,983,744	1,997,627	1,839,843	1,508,024
Major movable equipment	8,207,616	4,175,178	5,141,417	3,876,727
Construction in progress	<u>1,188,004</u>	<u>-</u>	<u>8,999,301</u>	<u>-</u>
Totals	<u>\$36,791,506</u>	<u>\$15,218,219</u>	<u>\$31,356,724</u>	<u>\$13,820,920</u>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 PROPERTY AND EQUIPMENT (continued)

Construction in progress at June 30, 2012 consists primarily of progress billings for construction costs related to the final phase of Medical Center's construction project. The overall project includes renovation and construction of an addition to the existing facility. During the year ended June 30, 2012, the Medical Center completed the main portion of the project and capitalized costs of approximately \$11 million. The estimated remaining cost of the project is approximately \$2 million and the overall project was funded by issuance of long-term debt. At June 30, 2012 the Medical Center has \$220,514 accrued as accounts payable-construction.

A summary of changes in property and equipment for the year ended June 30, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ -	\$ -	\$ -	\$ 123,106
Land improvements	531,981	-	56,916	-	588,897
Buildings	14,721,076	40,875	938,188	-	15,700,139
Fixed equipment	1,839,843	50,777	9,093,124	-	10,983,744
Major movable equipment	5,141,417	2,117,855	1,040,815	92,471	8,207,616
Construction in progress	<u>8,999,301</u>	<u>3,317,746</u>	<u>(11,129,043)</u>	<u>-</u>	<u>1,188,004</u>
Totals	31,356,724	5,527,253	-	92,471	36,791,506
Less accumulated depreciation	<u>(13,820,920)</u>	<u>(1,489,770)</u>	<u>-</u>	<u>(92,471)</u>	<u>(15,218,219)</u>
Net property and equipment	<u>\$17,535,804</u>	<u>\$4,037,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$21,573,287</u>

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

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Construction period—interest and amortization expense	\$ 302,897	\$ 643,481
Less interest earned on proceeds	<u>(68,084)</u>	<u>(29,072)</u>
Amount capitalized	<u>\$ 234,813</u>	<u>\$ 614,409</u>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 PROPERTY AND EQUIPMENT (continued)

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

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 251,577	\$ -	\$ 251,577	\$ -
Land improvements	85,091	21,378	72,291	17,784
Buildings	2,414,311	378,066	2,414,311	317,708
Fixed equipment	<u>31,967</u>	<u>26,482</u>	<u>31,967</u>	<u>25,286</u>
Totals	<u>\$2,782,946</u>	<u>\$ 425,926</u>	<u>\$2,770,146</u>	<u>\$ 360,778</u>

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 251,577	\$ -	\$ -	\$ 251,577
Land improvements	72,291	12,800	-	85,091
Buildings	2,414,311	-	-	2,414,311
Fixed equipment	<u>31,967</u>	<u>-</u>	<u>-</u>	<u>31,967</u>
Totals	2,770,146	12,800	-	2,782,946
Less accumulated depreciation	<u>(360,778)</u>	<u>(65,148)</u>	<u>-</u>	<u>(425,926)</u>
Net property and equipment	<u>\$2,409,368</u>	<u>\$ (52,348)</u>	<u>\$ -</u>	<u>\$2,357,020</u>

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	<u>31,967</u>	<u>-</u>	<u>-</u>	<u>31,967</u>
Totals	2,770,146	-	-	2,770,146
Less accumulated depreciation	<u>(291,630)</u>	<u>(69,148)</u>	<u>-</u>	<u>(360,778)</u>
Net property and equipment	<u>\$2,478,516</u>	<u>\$ (69,148)</u>	<u>\$ -</u>	<u>\$2,409,368</u>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT

The Medical Center's long-term debt at June 30, 2012 and 2011 is summarized as follows:

	Year ended June 30	
	2012	2011
Hospital Refunding Revenue Bonds, Series 2010A	\$ 5,315,000	\$ 5,630,000
Hospital Revenue Bonds, Series 2010B	14,265,000	14,800,000
Notes payable, equipment	<u>2,266,451</u>	<u>—</u>
Total	21,846,451	20,430,000
Less current maturities	<u>1,287,465</u>	<u>850,000</u>
Long-term debt, net of current maturities	<u>\$20,558,986</u>	<u>\$19,580,000</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 2.6% to 5.75%. At June 30, 2012, the remaining balance on these Bonds is \$5,315,000. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$572,733.

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, 2012.

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, 2012, the remaining balance on these Bonds is \$14,265,000.

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, 2012.

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.

Notes Payable, Equipment

The Medical Center has a note agreement to finance the purchase of certain equipment. The note initially requires monthly payments of \$1,248, including interest at 3.25%, through December, 2012. Beginning January, 2013 the note requires monthly payments of \$43,015, including interest, with the final payment due December, 2016. The note is collateralized by the equipment purchased by the Medical Center. At June 30, 2012, the remaining balance on this note is \$2,028,721.

The Medical Center has a second note agreement to finance the purchase of certain equipment. The note requires annual payments of \$79,243, including interest, with the final payment due November, 2012. The note is collateralized by the equipment purchased by the Medical Center. At June 30, 2012, the remaining balance on the note is \$237,730.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (continued)

As to the above Bonds, Series 2010A and 2010B, the Medical Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Medical Center. The net revenues are pledged through June, 2030. As of June 30, 2012 the remaining principal and interest on the Series 2010A and 2010B Bonds was \$31,003,980. 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, 2012 and 2011:

	Year ended June 30	
	2012	2011
Change in fund equity	\$ 278,348	\$ 896,881
Provision for depreciation	1,489,770	995,431
Interest expense on the Bonds	880,759	838,813
 Pledged net revenues	 \$2,648,877	 \$2,731,125
 Principal and interest requirements		
Hospital Refunding Revenue Bonds, Series 2010A	\$ 569,643	\$ 554,248
Hospital Revenue Bonds, Series 2010B	1,163,217	540,965
 Totals	 \$1,732,860	 \$1,095,213

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

Year ending June 30	Revenue Bonds		Notes payable	Total Principal	Interest	Total
	Series 2010A	Series 2010B				
2013	\$ 320,000	\$ 565,000	\$ 402,465	\$ 1,287,465	\$ 921,740	\$ 2,209,205
2014	330,000	580,000	546,926	1,456,926	881,949	2,338,875
2015	335,000	600,000	562,353	1,497,353	837,950	2,335,303
2016	355,000	620,000	499,044	1,474,044	790,980	2,265,024
2017	365,000	645,000	255,663	1,265,663	739,056	2,004,719
2018-2022	2,085,000	3,590,000	-	5,675,000	3,036,934	8,711,934
2023-2027	1,525,000	4,440,000	-	5,965,000	1,623,953	7,588,953
2028-2030	-	3,225,000	-	3,225,000	324,967	3,549,967
Total	5,315,000	14,265,000	2,266,451	21,846,451	9,157,529	31,003,980
Less current maturities	320,000	565,000	402,465	1,287,465	921,740	2,209,205
 Total long-term debt	 \$4,995,000	 \$13,700,000	 \$1,863,986	 \$20,558,986	 \$8,235,789	 \$28,794,775

A summary of changes in the Medical Center's long-term debt for the year ended June 30, 2012 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amounts due within one year
Hospital Refunding Revenue Bonds, Series 2010A	\$ 5,630,000	\$ -	\$ 315,000	\$ 5,315,000	\$ 320,000
Hospital Revenue Bonds, Series 2010B	14,800,000	-	535,000	14,265,000	565,000
Notes payable, equipment	-	2,439,176	172,725	2,266,451	402,465
 Totals	 \$20,430,000	 \$2,439,176	 \$1,022,725	 \$21,846,451	 \$1,287,465

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (continued)

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	<u>416,647</u>	<u>-</u>	<u>416,647</u>	<u>-</u>	<u>-</u>
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>

The Foundation's long-term debt at June 30, 2012 and 2011 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Note payable	\$1,843,358	\$1,868,954
Less current maturities	<u>(26,603)</u>	<u>(25,628)</u>
Long-term debt, net of current maturities	<u>\$1,816,755</u>	<u>\$1,843,326</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, 2012 the remaining balance is \$1,843,358.

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, 2012 the balance of this fund is \$67,970.

A Depreciation Fund is also funded by monthly deposits. At June 30, 2012 the balance of this fund is \$66,735.

The aggregate of these two funds, \$134,705, is reported on the balance sheets as an other asset at June 30, 2012.

**Wright Medical Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

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>
2013	\$ 26,603	\$ 75,637	\$ 102,240
2014	27,828	74,412	102,240
2015	28,998	73,242	102,240
2016	30,217	72,023	102,240
2017	31,487	70,753	102,240
2018-2022	178,439	332,761	511,200
2023-2027	219,235	291,965	511,200
2028-2032	269,357	241,843	511,200
2033-2037	330,939	180,261	511,200
2038-2042	406,600	104,600	511,200
2043-2046	<u>293,655</u>	<u>21,585</u>	<u>315,240</u>
Total	1,843,358	1,539,082	3,382,440
Less current maturities	<u>26,603</u>	<u>75,637</u>	<u>102,240</u>
Total long-term debt	<u>\$1,816,755</u>	<u>\$1,463,445</u>	<u>\$3,280,200</u>

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2012 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	\$ <u>1,868,954</u>	\$ <u>—</u>	\$ <u>25,596</u>	\$ <u>1,843,358</u>	\$ <u>26,603</u>

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>

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

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, 2010.

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 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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Charges foregone, based on established rates	\$ <u>453,984</u>	\$ <u>357,010</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</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, 2012 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.

Wright Medical Center
NOTES TO FINANCIAL STATEMENTS

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, 2012, regular plan members were required to contribute 5.38% of their annual salary and the Medical Center was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,279,001, \$1,007,292 and \$901,452, 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

We have audited the financial statements of Wright Medical Center as of and for the periods ended June 30, 2012 and 2011, and our report thereon dated September 21, 2012, which appears on page 4, was qualified for the effects of the omission of Wright Medical Foundation. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 21, 2012

**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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
0 - 30 days (includes patients in Medical Center at end of year)	\$ 5,965,166	\$ 5,547,235	42.55%	50.87%
31 - 60 days	2,304,323	1,250,016	16.44	11.46
61 - 90 days	1,296,329	765,760	9.24	7.02
91 - 120 days	716,366	528,062	5.11	4.84
121-180 days	994,802	706,780	7.10	6.49
Over 180 days	<u>2,741,854</u>	<u>2,106,899</u>	<u>19.56</u>	<u>19.32</u>
Totals	<u>14,018,840</u>	<u>10,904,752</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,100,000	960,000		
Medicaid	220,000	140,000		
Other	280,000	260,000		
Bad debts	<u>2,400,000</u>	<u>2,080,000</u>		
Total allowances	<u>4,000,000</u>	<u>3,440,000</u>		
Totals	<u>\$10,018,840</u>	<u>\$ 7,464,752</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 117,914</u>	<u>\$ 111,496</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>85</u>	<u>67</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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
BALANCE , beginning	\$2,080,000	\$1,740,000		
ADD				
Provision for bad debts	1,531,680	1,170,714	3.55%	2.88%
Recoveries of accounts previously written off	<u>140,420</u>	<u>412,399</u>	.33	1.01
	3,752,100	3,323,113		
DEDUCT				
Accounts written off	<u>1,352,100</u>	<u>1,243,113</u>	3.13	3.05
BALANCE , ending	<u>\$2,400,000</u>	<u>\$2,080,000</u>		

Wright Medical Center
PATIENT SERVICE REVENUE
Year ended June 30, 2012, with comparative totals for 2011

	<u>2012</u>			<u>2011</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$ 3,317,078	\$ -	\$ 3,317,078	\$ 2,955,403
Swing bed	425,462	-	425,462	556,888
Nursery	360,577	-	360,577	285,443
	<u>4,103,117</u>	<u>-</u>	<u>4,103,117</u>	<u>3,797,734</u>
OTHER NURSING SERVICES				
Observation room	13,115	620,993	634,108	563,371
Operating room	8,664,714	10,934,790	19,599,504	19,127,871
Recovery room	334,597	529,910	864,507	664,133
Delivery and labor rooms	1,298,572	318,833	1,617,405	1,276,516
Central supply	7,090,330	2,675,818	9,766,148	9,365,934
Emergency service	22,086	2,277,308	2,299,394	2,062,904
	<u>17,423,414</u>	<u>17,357,652</u>	<u>34,781,066</u>	<u>33,060,729</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	1,703,631	4,788,469	6,492,100	5,611,350
Radiology	256,658	3,901,320	4,157,978	4,072,933
CT scans	311,660	2,880,402	3,192,062	3,164,130
MRI	85,988	1,270,564	1,356,552	1,038,541
Nuclear scans	7,922	868,502	876,424	882,436
Ultrasound	137,387	1,502,397	1,639,784	1,379,211
Electrocardiology	53,461	217,908	271,369	244,698
Respiratory therapy	1,930,152	1,187,395	3,117,547	3,029,487
Cardiac rehabilitation	4,710	688,444	693,154	675,300
Pharmacy	2,321,447	2,074,104	4,395,551	4,215,222
Intravenous therapy	422,067	466,802	888,869	757,019
Anesthesiology	1,518,066	1,859,395	3,377,461	3,416,650
Occupational therapy	190,162	251,745	441,907	566,833
Physical therapy	342,147	1,390,475	1,732,622	1,563,471
Speech therapy	5,001	143,841	148,842	153,728
Clinics	754,323	4,200,127	4,954,450	4,755,009
Sleep center	47,161	859,122	906,283	701,965
	<u>10,091,943</u>	<u>28,551,012</u>	<u>38,642,955</u>	<u>36,227,983</u>
Totals	<u>\$31,618,474</u>	<u>\$45,908,664</u>	77,527,138	73,086,446
Charity care charges forgone, based on established rates			<u>(453,984)</u>	<u>(357,010)</u>
Total gross patient service revenue			77,073,154	72,729,436
Provisions for contractual adjustments and bad debts			<u>(33,916,598)</u>	<u>(32,033,314)</u>
Total net patient service revenue			<u>\$43,156,556</u>	<u>\$40,696,122</u>

Wright Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Contractual adjustments		
Medicare	\$16,008,147	\$15,638,006
Medicaid	4,108,507	3,654,862
Other adjustments	12,268,264	11,569,732
Provision for bad debts	<u>1,531,680</u>	<u>1,170,714</u>
 Totals	 <u>\$33,916,598</u>	 <u>\$32,033,314</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 350,215	\$ 328,167
Fitness center	122,732	139,682
Residential fees	656,710	653,639
Retail pharmacy	1,618,856	1,645,344
Miscellaneous	<u>223,115</u>	<u>63,268</u>
 Totals	 <u>\$2,971,628</u>	 <u>\$2,830,100</u>

Wright Medical Center
EXPENSES
Year ended June 30, 2012, with comparative totals for 2011

	<u>2012</u>			<u>2011</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 407,449	\$ 65,228	\$ 472,677	\$ 349,278
Medical, surgical and obstetrical	1,923,708	412,373	2,336,081	2,161,913
Nursery, delivery and labor rooms	450,793	51,007	501,800	488,340
Operating room	2,656,553	5,342,577	7,999,130	7,811,797
Emergency service	881,052	287,979	1,169,031	1,140,378
Central supply	161,717	4,973,203	5,134,920	4,809,162
Total nursing service	<u>6,481,272</u>	<u>11,132,367</u>	<u>17,613,639</u>	<u>16,760,868</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	527,173	681,859	1,209,032	1,148,000
Radiology	1,239,979	618,264	1,858,243	1,854,375
CT scans	-	299,102	299,102	267,499
MRI	39,637	360,492	400,129	139,650
Nuclear scans	-	170,467	170,467	174,563
Ultrasound	157,545	166,219	323,764	253,907
Electrocardiology	1,618	-	1,618	916
Respiratory therapy	-	997,098	997,098	963,482
Cardiac rehabilitation	41,267	263,163	304,430	296,632
Pharmacy	354,495	696,375	1,050,870	1,000,228
Retail pharmacy	199,540	1,322,302	1,521,842	1,568,878
Anesthesiology	911,465	259,431	1,170,896	1,187,160
Occupational therapy	165,067	22,276	187,343	228,440
Physical therapy	752,111	175,701	927,812	900,782
Speech therapy	74,344	4,337	78,681	80,311
Occupational health	-	-	-	165,322
Clinics	2,956,781	599,990	3,556,771	3,235,105
Sleep center	-	303,667	303,667	245,956
Medical records	404,701	118,018	522,719	542,385
Total other professional service	<u>7,825,723</u>	<u>7,058,761</u>	<u>14,884,484</u>	<u>14,253,591</u>
GENERAL SERVICE				
Dietary	411,321	439,615	850,936	857,895
Plant operation	281,295	566,131	847,426	686,217
Housekeeping	431,704	74,158	505,862	452,260
Laundry	-	153,081	153,081	135,064
Total general service	<u>1,124,320</u>	<u>1,232,985</u>	<u>2,357,305</u>	<u>2,131,436</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administrative services	2,132,348	1,512,813	3,645,161	3,693,989
Residential services	111,062	252,399	363,461	375,195
Fitness center	46,521	50,791	97,312	93,875
Group health, life and other benefits	-	1,971,537	1,971,537	1,842,044
FICA	-	1,080,597	1,080,597	978,402
IPERS	-	1,279,001	1,279,001	1,007,292
Insurance	-	523,631	523,631	352,537
Total fiscal and administrative service and unassigned expenses	<u>2,289,931</u>	<u>6,670,769</u>	<u>8,960,700</u>	<u>8,343,334</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,489,770</u>	<u>1,489,770</u>	<u>995,431</u>
Total expenses	<u>\$17,721,246</u>	<u>\$27,584,652</u>	<u>\$45,305,898</u>	<u>\$42,484,660</u>

**Wright Medical Center
STATISTICS**

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
PATIENT DAYS		
Medical, surgical and obstetrical	3,447	3,242
Swing bed		
Skilled care	427	569
Intermediate care	15	1
Nursery	<u>488</u>	<u>439</u>
Totals	<u>4,377</u>	<u>4,251</u>
DISCHARGES		
Medical, surgical and obstetrical	1,355	1,346
Swing bed		
Skilled care	79	96
Intermediate care	5	1
Nursery	<u>241</u>	<u>213</u>
Totals	<u>1,680</u>	<u>1,656</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.54	2.41
Swing bed		
Skilled care	5.41	5.93
Intermediate care	3.00	1.00
Nursery	2.02	2.06

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, 2012, and have issued our report thereon dated September 21, 2012. 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, 2012 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 21, 2012

**Wright Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2012**

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, 2012**

Part II—Findings Related to Required Statutory Reporting

12-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

12-II-B TRAVEL EXPENSES

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

12-II-C BUSINESS TRANSACTIONS

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

12-II-D BOARD MINUTES

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

12-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.