Shenandoah Medical Center and Affiliate

Shenandoah, Iowa

Report to the Board of Directors

As of and for the Year Ended December 31, 2015

Shenandoah Medical Center and Affiliate

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SEIM JOHNSON

To the Board of Directors
Shenandoah Medical Center
Shenandoah, Iowa:

Dear Board of Directors:

We are pleased to present this report related to our audit of the consolidated financial statements of Shenandoah Medical Center and Affiliate (Medical Center), as of and for the year ended December 31, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Medical Center's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to the Medical Center.

Seim Johnson, LLP

Omaha, Nebraska,
June 22, 2016.

Seim Johnson, LLP › 18081 Burt Street, Suite 200 › Omaha, NE 68022-4722 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Auditor's Responsibility Under Professional Standards

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated November 25, 2015. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

The following individuals were assigned to your audit:

	Years of Service
Randy D. Hoffman	22
Joseph L. Harnisch	15
John M. Shurtliff	3
Cody J. Powers	2

Accounting Practices

Preferability of Accounting Policies and Practices

Under generally accepted principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Changes in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Medical Center. There have been no changes in existing significant policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."

Audit Adjustments

There were seven audit adjusting entries, plus six client provided adjusting entries, made to the trial balance presented to us for our audit. The audit journal entries are summarized in the attached "Summary of Audit Adjustment Entries."

Several reclassification entries were made for financial presentation purposes.

Uncorrected Misstatements

We also accumulated three uncorrected misstatements (passed audit adjustments) which were discussed with management, and were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. Therefore, the adjustments to correct the misstatements were not made to the financial statements. These uncorrected misstatements are summarized in the attached "Summary of Uncorrected Misstatements."

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultation with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Letter Communicating Internal Control Related Matters

We have separately communicated the internal control related matters identified during our audit of the consolidated financial statements and this communication is attached as Exhibit A.

Certain Written Communications Between Management and Seim Johnson, LLP

In connection with our audit we received a representation letter from management confirming it has the primary responsibility for the fair presentation in the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America. The representation letter reduces to writing the more significant oral representations made by management during the course of the audit. A copy of this representation letter can be provided upon request.

Quality Review

A copy of our most recent quality review is attached to this correspondence.

Accounting estimates are an integral part of the preparation of consolidated financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Medical Center's December 31, 2015 financial statements.

Allowance for Doubtful Accounts:

Accounting Policy: The Medical Center evaluates for the collectibility of account receivables at the end of each month and establishes an allowance for bad debts for all accounts or portions thereof considered uncollectible.

Estimation Process: The Medical Center establishes an allowance based on an analysis of outstanding accounts which considers payor types, the aging of accounts, historical performance and industry averages.

Comments: Based on our testing, the allowance for doubtful accounts appears reasonable.

Contractual Adjustments:

Accounting Policy: The Medical Center evaluates the net realizable value of accounts receivables at the end of each month and establishes an allowance for contractual adjustments. The Medical Center also evaluates the retroactive settlements with the Medicare and Medicaid programs and establishes a payable or receivable for those settlements.

Estimation Process: The Medical Center performs an estimate for contractual allowances and retroactive settlements using a significant amount of detail at the end of each month. The allowances and settlements are adjusted to those estimates.

Comments: Based on our testing, after adjustment, the contractual allowances and settlement estimates appear reasonable.

Depreciation Expense:

Accounting Policy: Property and equipment acquisitions are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Estimation Process: The Medical Center uses the Estimated Useful Lives of Depreciable Hospital Assets issued by the American Hospital Association as a guide to help determine useful life for depreciation purposes.

Comments: Based on our testing, after adjustment, the calculation for depreciation expense appears reasonable.

Shenandoah Medical Center and Affiliate

Summary of Audit Adjustment Entries
As of and for the Year Ended December 31, 2015

Number	Date	Name	Account No	Debit	Credit
1	12/31/2015	SMC ACCOUNTS PAYABLE	0-000-2650 HOSP		132,603.00
1	12/31/2015	SMC- - FIRST AMERICAN FINANCE CAPITAL LEASE	0-000-2702 HOSP	128,380.00	
1	12/31/2015	SMC ADMINISTRATION INTEREST EXPENSE	0-160-4300 HOSP	4,223.00	
		Reclass negative AP balance for lease payment made prior to 12/31/15			
				132,603.00	132,603.00
2	12/31/2015	SMC INVESTMENT SAS	0-000-1325 HOSP	1,372.00	
2	12/31/2015	SMC NET INCOME - SAS	0-000-5700 HOSP		1,372.00
		To properly record interest in SAS due to adjusting entry on SAS for depreciation and proper capitalization of assets.			
				1,372.00	1,372.00
3	12/31/2015	SMC EST AMT DUE MCARE	0-000-2825 HOSP		565,000.00
3	12/31/2015	SMC EST AMT DUE MCARE	0-000-2825 HOSP	7,700.00	
3	12/31/2015	SMC EST AMT DUE MCAID	0-000-2826 HOSP	210,000.00	
3	12/31/2015	SMC EST AMT DUE MCAID	0-000-2826 HOSP		7,700.00
3	12/31/2015	SMC MCARE CONTR ADJ	0-000-6130 HOSP	565,000.00	
3	12/31/2015	SMC MCAID CONTR ADJ	0-000-6135 HOSP		210,000.00
		To adjust 2015 Medicare and Medicaid settlement estimates			
				782,700.00	782,700.00
4	12/31/2015	SMC ACCT REC-EHR	0-000-1250 HOSP		125,000.00
4	12/31/2015	SMC EMR DEFERRED REVENUE	0-000-2829 HOSP		265,000.00
4	12/31/2015	SMC EHR INCENTIVE REVENUE	0-000-5470 HOSP	340,000.00	
4	12/31/2015	SMC MCARE CONTR ADJ	0-000-6130 HOSP	50,000.00	
		To adjust EHR incentives recorded during 2015			
				390,000.00	390,000.00
5	12/31/2015	Board Designated Endowment Fund	0-000-2930 HOSP		216,664.00
5	12/31/2015	SMC- - NET ASSETS RELEASED FROM RESTRICTIONS	0-000-2955 HOSP		165,755.00
5	12/31/2015	SMC- - NET ASSETS RELEASED FROM RESTRICTIONS	0-000-2955 HOSP	216,664.00	
5	12/31/2015	SMC ENDOWMENT FUND BALANCE	0-000-2975 HOSP	165,755.00	
		To reclassify perm restricted endowment due to clarification of restrictions			
				382,419.00	382,419.00
6	12/31/2015	SMC THIRD PTY REC-MC	0-000-1190 HOSP		172,000.00
6	12/31/2015	SMC THIRD PTY REC-MCAID	0-000-1191 HOSP		43,550.00
6	12/31/2015	SMC MCARE CONTR ADJ	0-000-6130 HOSP	172,000.00	
6	12/31/2015	SMC MCAID CONTR ADJ	0-000-6135 HOSP	43,550.00	
				215,550.00	215,550.00
7	12/31/2015	Fundraising expenses	SJ1 0	5,791.00	
7	12/31/2015	Unrestricted net assets	SJ2 0		5,791.00
		To properly rollforward beginning Foundation net assets.			
				5,791.00	5,791.00

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As of and for the Year Ended December 31, 2015

Number	Date	Name	Account No	Debit	Credit
CJE 1	12/31/2015	SMC FICA TAX WITHHELD	0-000-2729 HOSP		70,557.00
CJE 1	12/31/2015	SMC FICA TAX WITHHELD	0-000-2729 HOSP		656.00
CJE 1	12/31/2015	SMC FICA TAX WITHHELD	0-000-2729 HOSP	3,966.00	
CJE 1	12/31/2015	SMC INPATIENT ADMINISTRATION PAYROLL TAXES	0-001-4160 HOSP	68.00	
CJE 1	12/31/2015	SMC MEDICAL AND SURGICAL UNIT PAYROLL TAXES	0-002-4160 HOSP	20.00	
CJE 1	12/31/2015	SMC MEDICAL AND SURGICAL UNIT PAYROLL TAXES	0-002-4160 HOSP	399.00	
CJE 1	12/31/2015	SMC MEDICAL AND SURGICAL UNIT PAYROLL TAXES	0-002-4160 HOSP	1,650.00	
CJE 1	12/31/2015	SMC INFUSION THERAPY PAYROLL TAXES	0-010-4160 HOSP	422.00	
CJE 1	12/31/2015	SMC INFUSION THERAPY PAYROLL TAXES	0-010-4160 HOSP	658.00	
CJE 1	12/31/2015	SMC INFUSION THERAPY PAYROLL TAXES	0-010-4160 HOSP	1,010.00	
CJE 1	12/31/2015	SMC OBSTETRICAL UNIT PAYROLL TAXES	0-013-4160 HOSP	1,354.00	
CJE 1	12/31/2015	SMC SURGERY PAYROLL TAXES	0-017-4160 HOSP	213.00	
CJE 1	12/31/2015	SMC SURGERY PAYROLL TAXES	0-017-4160 HOSP	334.00	
CJE 1	12/31/2015	SMC SURGERY PAYROLL TAXES	0-017-4160 HOSP	451.00	
CJE 1	12/31/2015	SMCOP SURGERY/RECOVERY PAYROLL TAXES	0-019-4160 HOSP	268.00	
CJE 1	12/31/2015	SMC ER SVC PAYROLL TAXES	0-021-4160 HOSP	100.00	
CJE 1	12/31/2015	SMC ER SVC PAYROLL TAXES	0-021-4160 HOSP	715.00	
CJE 1	12/31/2015	SMC ER SVC PAYROLL TAXES	0-021-4160 HOSP	1,339.00	
CJE 1	12/31/2015	SMC ER SVC PAYROLL TAXES	0-021-4160 HOSP	1,751.00	
CJE 1	12/31/2015	SMC ER ROOM PHYS PAYROLL TAXES	0-022-4160 HOSP	5,163.00	
CJE 1	12/31/2015	SMC SATELLITE CLINIC PAYROLL TAXES	0-023-4160 HOSP	154.00	
CJE 1	12/31/2015	SMC SATELLITE CLINIC PAYROLL TAXES	0-023-4160 HOSP	174.00	
CJE 1	12/31/2015	SMC SATELLITE CLINIC PAYROLL TAXES	0-023-4160 HOSP	267.00	
CJE 1	12/31/2015	SMC SATELLITE CLINIC PAYROLL TAXES	0-023-4160 HOSP	286.00	
CJE 1	12/31/2015	SMC MEDICAL HOME PAYROLL TAXES	0-024-4160 HOSP	696.00	
CJE 1	12/31/2015	SMC RURAL HEALTH CLINIC NURSING PAYROLL TAXES	0-025-4160 HOSP	30.00	
CJE 1	12/31/2015	SMC RURAL HEALTH CLINIC NURSING PAYROLL TAXES	0-025-4160 HOSP	443.00	
CJE 1	12/31/2015	SMC RURAL HEALTH CLINIC NURSING PAYROLL TAXES	0-025-4160 HOSP	468.00	
CJE 1	12/31/2015	SMC RURAL HEALTH CLINIC NURSING PAYROLL TAXES	0-025-4160 HOSP	931.00	
CJE 1	12/31/2015	SMC RURAL HEALTH CLINIC NURSING PAYROLL TAXES	0-025-4160 HOSP	1,218.00	
CJE 1	12/31/2015	SMC LABORATORY PAYROLL TAXES	0-031-4160 HOSP	456.00	
CJE 1	12/31/2015	SMC LABORATORY PAYROLL TAXES	0-031-4160 HOSP	3,102.00	
CJE 1	12/31/2015	SMC RESPIRATORY THERAPY PAYROLL TAXES	0-035-4160 HOSP	883.00	
CJE 1	12/31/2015	SMC RESPIRATORY THERAPY PAYROLL TAXES	0-035-4160 HOSP	1,115.00	
CJE 1	12/31/2015	SMC RADIOLOGY PAYROLL TAXES	0-043-4160 HOSP	120.00	
CJE 1	12/31/2015	SMC RADIOLOGY PAYROLL TAXES	0-043-4160 HOSP	931.00	
CJE 1	12/31/2015	SMC RADIOLOGY PAYROLL TAXES	0-043-4160 HOSP	1,084.00	
CJE 1	12/31/2015	SMC CAT SCANS PAYROLL TAXES	0-049-4160 HOSP	545.00	
CJE 1	12/31/2015	SMC SHEN PHYSICIANS CLINIC ADMIN PAYROLL TAXES-F	0-053-4160 HOSP	286.00	
CJE 1	12/31/2015	SMC PHARMACY PAYROLL TAXES	0-054-4160 HOSP	258.00	
CJE 1	12/31/2015	SMC PHARMACY PAYROLL TAXES	0-054-4160 HOSP	348.00	
CJE 1	12/31/2015	SMC OUTPATIENT CLINIC PAYROLL TAXES	0-055-4160 HOSP	22.00	
CJE 1	12/31/2015	SMC OUTPATIENT CLINIC PAYROLL TAXES	0-055-4160 HOSP	37.00	
CJE 1	12/31/2015	SMC OUTPATIENT CLINIC PAYROLL TAXES	0-055-4160 HOSP	119.00	
CJE 1	12/31/2015	SMC OUTPATIENT CLINIC PAYROLL TAXES	0-055-4160 HOSP	166.00	
CJE 1	12/31/2015	SMC DIETICIAN SERVICES PAYROLL TAXES	0-057-4160 HOSP	940.00	
CJE 1	12/31/2015	SMC CARDIAC REHAB PAYROLL TAXES	0-060-4160 HOSP	722.00	
CJE 1	12/31/2015	SMC PERSONAL TRAINING PAYROLL TAXES	0-061-4160 HOSP	888.00	
CJE 1	12/31/2015	SMC PHYSICAL THERAPY PAYROLL TAXES	0-062-4160 HOSP	283.00	
CJE 1	12/31/2015	SMC PHYSICAL THERAPY PAYROLL TAXES	0-062-4160 HOSP	372.00	
CJE 1	12/31/2015	SMC PHYSICAL THERAPY PAYROLL TAXES	0-062-4160 HOSP	496.00	

Shenandoah Medical Center and Affiliate

Summary of Audit Adjustment Entries
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Number	Date	Name	Account No	Debit	Credit
CJE 1	12/31/2015	SMC PHYSICAL THERAPY PAYROLL TAXES	0-062-4160 HOSP	611.00	
CJE 1	12/31/2015	SMC OCCUPATIONAL THERAPY PAYROLL TAXES	0-063-4160 HOSP	104.00	
CJE 1	12/31/2015	SMC AMBULANCE PAYROLL TAXES	0-068-4160 HOSP	610.00	
CJE 1	12/31/2015	SMC AMBULANCE PAYROLL TAXES	0-068-4160 HOSP	1,374.00	
CJE 1	12/31/2015	SMC HOME HEALTH PAYROLL TAXES	0-070-4160 HOSP	327.00	
CJE 1	12/31/2015	SMC SOCIAL SERVICE PAYROLL TAXES	0-078-4160 HOSP	275.00	
CJE 1	12/31/2015	SMC RHC PAYROLL TAXES	0-080-4160 HOSP	3.00	
CJE 1	12/31/2015	SMC RHC PAYROLL TAXES	0-080-4160 HOSP	529.00	
CJE 1	12/31/2015	SMC RHC PAYROLL TAXES	0-080-4160 HOSP	2,285.00	
CJE 1	12/31/2015	SMC RHC PAYROLL TAXES	0-080-4160 HOSP	5,259.00	
CJE 1	12/31/2015	SMC RHC PAYROLL TAXES	0-080-4160 HOSP		3,966.00
CJE 1	12/31/2015	SMC ANESTHESIA PAYROLL TAXES	0-081-4160 HOSP	96.00	
CJE 1	12/31/2015	SMC SURGEON PAYROLL TAXES	0-086-4160 HOSP	144.00	
CJE 1	12/31/2015	SMC SURGEON PAYROLL TAXES	0-086-4160 HOSP	2,780.00	
CJE 1	12/31/2015	SMC-ORTHOPEDICS-PAYROLL TAXES	0-087-4160 HOSP	3,678.00	
CJE 1	12/31/2015	SMC WOMENS HEALTH CLINIC PAYROLL TAXES	0-090-4160 HOSP	53.00	
CJE 1	12/31/2015	SMC WOMENS HEALTH CLINIC PAYROLL TAXES	0-090-4160 HOSP	280.00	
CJE 1	12/31/2015	SMC WOMENS HEALTH CLINIC PAYROLL TAXES	0-090-4160 HOSP	285.00	
CJE 1	12/31/2015	SMC WOMENS HEALTH CLINIC PAYROLL TAXES	0-090-4160 HOSP	4,588.00	
CJE 1	12/31/2015	SMC FOOD SERVICE PAYROLL TAXES	0-125-4160 HOSP	270.00	
CJE 1	12/31/2015	SMC FOOD SERVICE PAYROLL TAXES	0-125-4160 HOSP	901.00	
CJE 1	12/31/2015	SMC MAINTENANCE PAYROLL TAXES	0-135-4160 HOSP	282.00	
CJE 1	12/31/2015	SMC MAINTENANCE PAYROLL TAXES	0-135-4160 HOSP	330.00	
CJE 1	12/31/2015	SMC MAINTENANCE PAYROLL TAXES	0-135-4160 HOSP	719.00	
CJE 1	12/31/2015	SMC HOUSEKEEPING PAYROLL TAXES	0-150-4160 HOSP	405.00	
CJE 1	12/31/2015	SMC HOUSEKEEPING PAYROLL TAXES	0-150-4160 HOSP	510.00	
CJE 1	12/31/2015	SMC LAUNDRY AND LINEN PAYROLL TAXES	0-155-4160 HOSP	172.00	
CJE 1	12/31/2015	SMC ADMINISTRATION PAYROLL TAXES	0-160-4160 HOSP	410.00	
CJE 1	12/31/2015	SMC ADMINISTRATION PAYROLL TAXES	0-160-4160 HOSP	656.00	
CJE 1	12/31/2015	SMC ADMINISTRATION PAYROLL TAXES	0-160-4160 HOSP	3,211.00	
CJE 1	12/31/2015	SMC FISCAL SERVICES PAYROLL TAXES	0-170-4160 HOSP	127.00	
CJE 1	12/31/2015	SMC FISCAL SERVICES PAYROLL TAXES	0-170-4160 HOSP	563.00	
CJE 1	12/31/2015	SMC HEALTH INFO MANAGEMENT PAYROLL TAXES	0-171-4160 HOSP	74.00	
CJE 1	12/31/2015	SMC HEALTH INFO MANAGEMENT PAYROLL TAXES	0-171-4160 HOSP	77.00	
CJE 1	12/31/2015	SMC HEALTH INFO MANAGEMENT PAYROLL TAXES	0-171-4160 HOSP	129.00	
CJE 1	12/31/2015	SMC HEALTH INFO MANAGEMENT PAYROLL TAXES	0-171-4160 HOSP	209.00	
CJE 1	12/31/2015	SMC BUSINESS OFFICE PAYROLL TAXES	0-172-4160 HOSP	272.00	
CJE 1	12/31/2015	SMC BUSINESS OFFICE PAYROLL TAXES	0-172-4160 HOSP	1,648.00	
CJE 1	12/31/2015	SMC MATERIALS MANAGEMENT PAYROLL TAXES	0-173-4160 HOSP	33.00	
CJE 1	12/31/2015	SMC MATERIALS MANAGEMENT PAYROLL TAXES	0-173-4160 HOSP	623.00	
CJE 1	12/31/2015	SMC INFORMATION TECHNOLOGY PAYROLL TAXES	0-174-4160 HOSP	236.00	
CJE 1	12/31/2015	SMC INFORMATION TECHNOLOGY PAYROLL TAXES	0-174-4160 HOSP	500.00	
CJE 1	12/31/2015	SMC HUMAN RESOURCES PAYROLL TAXES	0-175-4160 HOSP	66.00	
CJE 1	12/31/2015	SMC HUMAN RESOURCES PAYROLL TAXES	0-175-4160 HOSP	410.00	
CJE 1	12/31/2015	SMC PUBLIC INFORMATION PAYROLL TAXES	0-176-4160 HOSP	2.00	
CJE 1	12/31/2015	SMC FOUNDATION PAYROLL TAXES	0-187-4160 HOSP	810.00	
CJE 1	12/31/2015	SMC QUALITY ASSURANCE/UTILITZATION REVIEW PAYR	0-191-4160 HOSP	532.00	
		Client entry to adjust SMC Accrued FICA to include FICA on PTO			
				75,179.00	75,179.00

Shenandoah Medical Center and Affiliate

Summary of Audit Adjustment Entries
As of and for the Year Ended December 31, 2015

Number	Date	Name	Account No	Debit	Credit
CJE 2	12/31/2015	EH FICA TAX WITHHELD	2-000-2729 EH		7,799.00
CJE 2	12/31/2015	EH NURSING PAYROLL TAXES	2-303-4160 EH	932.00	
CJE 2	12/31/2015	EH NURSING PAYROLL TAXES	2-303-4160 EH	1,143.00	
CJE 2	12/31/2015	EH NURSING PAYROLL TAXES	2-303-4160 EH	1,461.00	
CJE 2	12/31/2015	EH NURSING PAYROLL TAXES	2-303-4160 EH	1,977.00	
CJE 2	12/31/2015	EH ACTIVITIES PAYROLL TAXES - FICA	2-320-4160 EH	21.00	
CJE 2	12/31/2015	EH FOOD SERVICE PAYROLL TAXES - FICA	2-326-4160 EH	580.00	
CJE 2	12/31/2015	EH FOOD SERVICE PAYROLL TAXES - FICA	2-326-4160 EH	430.00	
CJE 2	12/31/2015	EH MAINTENANCE PAYROLL TAXES - FICA	2-336-4160 EH	180.00	
CJE 2	12/31/2015	EH HOUSEKEEPING PAYROLL TAXES	2-351-4160 EH	307.00	
CJE 2	12/31/2015	EH ADMINISTRATION PAYROLL TAXES - FICA	2-361-4160 EH	139.00	
CJE 2	12/31/2015	EH ADMINISTRATION PAYROLL TAXES - FICA	2-361-4160 EH	482.00	
CJE 2	12/31/2015	EH RESTORATIVE PAYROLL TAXES	2-366-4160 EH	59.00	
CJE 2	12/31/2015	EH SOCIAL SERVICES PAYROLL TAXES	2-379-4160 EH	88.00	
		Client entry to adjust EH Accrued FICA to include FICA on PTO accrual			
				7,799.00	7,799.00
CJE 3	12/31/2015	SMC ACCUM DEPR-BLDGS	0-000-1601 HOSP		124,292.00
CJE 3	12/31/2015	SMC ACCUM DEPR-BLDG SERV	0-000-1602 HOSP		46,570.00
CJE 3	12/31/2015	SMC ACCUM DEPR-MAJOR MOVE	0-000-1604 HOSP	170,862.00	
		Adjust GL depreciaiton to match correct depreciation schedule			
				170,862.00	170,862.00
CJE 4	12/31/2015	SMC ACCT RECEIVABLE	0-000-1170 HOSP		16,594.00
CJE 4	12/31/2015	SMC- ACCT RECEIVABLE-ALLSCRIPTS	0-000-1171 HOSP	220,607.00	
CJE 4	12/31/2015	SMC- ACCT RECEIVABLE-ALLSCRIPTS	0-000-1171 HOSP	28,300.00	
CJE 4	12/31/2015	SMC UNCOLL REC ALLOW	0-000-1180 HOSP	16,594.00	
CJE 4	12/31/2015	SMC UNCOLL REC ALLOW	0-000-1180 HOSP		16,594.00
CJE 4	12/31/2015	SMC UNCOLL REC ALLOW	0-000-1180 HOSP	16,000.00	
CJE 4	12/31/2015	SMC THIRD PTY REC-MC	0-000-1190 HOSP		2,391.00
CJE 4	12/31/2015	SMC THIRD PTY REC-MCAID	0-000-1191 HOSP		45,892.00
CJE 4	12/31/2015	SMC THIRD PTY REC-BCBS	0-000-1192 HOSP		6,022.00
CJE 4	12/31/2015	SMC THIRD PTY REC-COMM	0-000-1193 HOSP		13,375.00
CJE 4	12/31/2015	SMC PROV FOR BAD DEBT	0-000-6125 HOSP	16,594.00	
CJE 4	12/31/2015	SMC PROV FOR BAD DEBT	0-000-6125 HOSP		16,000.00
CJE 4	12/31/2015	SMC MCARE CONTR ADJ	0-000-6130 HOSP	2,391.00	
CJE 4	12/31/2015	SMC MCAID CONTR ADJ	0-000-6135 HOSP	45,892.00	
CJE 4	12/31/2015	SMC MCAID CONTR ADJ	0-000-6135 HOSP		28,300.00
CJE 4	12/31/2015	SMC BCBS CONTR ADJ	0-000-6140 HOSP	6,022.00	
CJE 4	12/31/2015	SMC COMM CONTR ADJ	0-000-6145 HOSP	13,375.00	
CJE 4	12/31/2015	SMC HOME HEALTH-OP MEDICARE	0-070-3200 HOSP	14,566.00	
CJE 4	12/31/2015	SMC HOME HEALTH-OP MEDICAID	0-070-3201 HOSP		67,510.00
CJE 4	12/31/2015	SMC HOME HEALTH-OP BCBS	0-070-3202 HOSP		12,683.00
CJE 4	12/31/2015	SMC HOME HEALTH-OP COMM	0-070-3203 HOSP		27,059.00
CJE 4	12/31/2015	SMC HOSPICE-OP MEDICARE	0-071-3200 HOSP		96,010.00
CJE 4	12/31/2015	SMC HOSPICE-OP MEDICAID	0-071-3201 HOSP		26,967.00
CJE 4	12/31/2015	SMC HOSPICE-OP BCBS	0-071-3202 HOSP		1,212.00
CJE 4	12/31/2015	SMC HOSPICE-OP COMMERCIAL	0-071-3203 HOSP		3,429.00
CJE 4	12/31/2015	SMC HOSPICE-OP PRIVATE PAY	0-071-3206 HOSP		303.00
		To adjust Home Health revenue, accounts receivable and related allowances.			
				380,341.00	380,341.00

Shenandoah Medical Center and Affiliate

Summary of Audit Adjustment Entries
As of and for the Year Ended December 31, 2015

Number	Date	Name	Account No	Debit	Credit
CJE 5	12/31/2015	SMC ACCT REC-OTHER	0-000-1210 HOSP	14,512.00	
CJE 5	12/31/2015	SMC ADMINISTRATION PURCHASED SERV	0-160-4540 HOSP		14,512.00
		Client journal entry to properly state foundation purchased services.			
				14,512.00	14,512.00
CJE 6	12/31/2015	SMC 2015 Bond Issuance Cost	0-000-1446 HOSP		2,710.00
CJE 6	12/31/2015	SMC- - BOND UNDERWRITER'S DISCOUNT	0-000-2704 HOSP		4,827.00
CJE 6	12/31/2015	SMC BOND AMORTIZATION COST ISSUANCE	0-000-4301 HOSP	7,537.00	
		Client provided journal entry to properly record bond issue cost amortization			
				7,537.00	7,537.00

Shenandoah Medical Center and Affiliate

Summary of Uncorrected Misstatements
As of and for the Year Ended December 31, 2015

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the combined statements of financial position, results of operations, and cash flows and to the related financial statement disclosures. Following is a summary of those differences:

Description	Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenses
To correct over accrual of bonuses	$ --	(32,000)	32,000	--	(32,000)
To correct accounts payable reconciliation	--	(97,000)	97,000	--	(97,000)
To adjust Medicaid accounts receivable allowance	(100,000)	--	(100,000)	(100,000)	--
	$ (100,000)	(129,000)	29,000	(100,000)	(129,000)

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

System Review Report

To the Partners of Seim Johnson, LLP and the
Peer Review Committee of the Nevada Society of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Seim Johnson, LLP (the firm) in effect for the year ended June 30, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Seim Johnson, LLP in effect for the year ended June 30, 2014, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Seim Johnson, LLP has received a peer review rating of *pass*.

Brady Martz

Brady, Martz and Associates, P.C.
December 4, 2014

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Internal Control Related Matters Letter

To the Board of Directors
Shenandoah Medical Center
Shenandoah, Iowa:

In planning and performing our audit of the financial statements of Shenandoah Medical Center and Affiliate (Medical Center), as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following to be a significant deficiency:

Account Reconciliations and Management Estimates

Account Reconciliations

The design or operation of the Medical Center's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis. During our audit we identified certain misstatements that were not initially identified by the Medical Center's internal controls.

There was a change in accounting software used by management during the fiscal year which led to inaccuracies in the reconciliations of certain accounts, including accounts payable and accounts receivable by payor. We recommend that management continue to evaluate the new accounting software and implement control procedures that will allow the Medical Center to accurately reconcile all account balances to supporting details.

Management Estimates

In addition, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimations that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements. As part of the audit, we reviewed significant estimates made by management including, but not limited to, the allowance for doubtful accounts, allowance for third party payor adjustments, and third party payor settlements.

Management utilizes various templates during its estimate process that utilize current and historical data as well as management's assumptions. In addition, management consults with external cost reporting resources. Due to changes in business operations, the implementation of new accounting software, staff turnover, and data accumulation by payor type, additional analysis was needed to validate estimates. Management recorded an initial settlement due to time constraints and did not have adequate time to investigate inconsistencies in the settlement tools. During the audit, the inconsistencies were resolved and an adjustment was required to correct management's initial estimate. We recommend that management continue to enhance its year-end estimates to ensure those estimates are as accurate as possible.

Seim Johnson, LLP ▸ 18081 Burt Street, Suite 200 ▸ Omaha, NE 68022-4722 ▸ Tel: 402.330.2660 ▸ Fax: 402.330.5108 ▸ SeimJohnson.com

The following items are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving the Medical Center's practices and procedures:

Construction Accounting

Accounting for construction projects involves detailed recording of transactional activity. Typical examples of the types of construction project costs incurred are:

- Architectural and engineering
- Construction
- Marketing and development
- Capitalized interest
- Land and improvements
- Other planning costs

Construction-type costs pertain to the components of the project and are considered hard costs. Each component generally has an estimated useful life assigned for depreciation purposes upon capitalization. Costs associated with planning, design, and intangible type items are considered soft costs. These costs generally do not carry an estimated useful life and do not undergo the same type of treatment as hard costs during capitalization.

Once the project has been completed and placed into service, the most accurate method of capitalization involves componentizing the construction project and assigning a useful life, based on published guidelines, to each identified component. This allows for individual fixed assets to be assigned a specific useful life and depreciated accordingly. As the construction-type items are capitalized, it is important to also capitalize the design, planning, and other soft costs. The most common method for capitalizing soft costs involves performing a pro rata allocation based on the individual component or hard cost. In order to effectively capitalize the construction project by component, accurate records must be maintained allowing for specific assignment of cost by construction project type. We recommend management closely monitor the construction project costs and record in a manner consistent with the component method of capitalization.

Loan Covenant Compliance

During our audit we noted the Medical Center is in the beginning stages of developing a formalized process relating to loan covenant compliance. In times of employee turnover or employee absence a centralized, standard loan covenant compliance checklist may alleviate the possibility of missed deadlines. The checklist should include a listing of the covenants and requirements of the Medical Center, the person responsible for fulfilling the task, and the due date. Upon implementation of permanent financing through the USDA, we recommend the Medical Center develop a loan covenant compliance checklist to prevent noncompliance with outstanding loans.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)* in an effort to converge standards between U.S. generally accepted accounting principles and the International Financial Reporting Standards. The guidance supersedes revenue recognition requirements in general and in most industry guidance.

Healthcare-specific standards are being largely superseded by this standard and are replaced with a principle-based approach. Impacts on healthcare revenue recognition will include the recognition and measurement of revenue from self-pay patients. Collection of payment must be considered probable in order to account for a contract. If it is determined that payment is probable, revenue will be recognized by estimating the variable consideration if the customer is offered a price concession. The provision for uncollectible accounts will no longer show as a deduction to net patient service revenue on the face of the financial statements as the standards will require that an estimate of collectability be incorporated at the time revenue is recorded. This, in theory, will reduce the overall amount of the provision.

The AICPA has created task forces for many different industries, including healthcare, which will issue guidance related to specific implementation issues. We will monitor their issuances and will continue to give you more detailed guidance in upcoming discussions with management and during future audits. The standard is applicable to public entities, including not-for-profits that have issued, or are conduit bond obligors for, securities that are publicly traded, listed, or quoted, for annual periods beginning after December 15, 2016. For all other entities, it will be effective for annual periods beginning after December 15, 2017. Effectively, this will be applicable for your entity for fiscal years ending on or after December 31, 2018.

Internal Revenue Code §501(r)

The Patient Protection and Affordable Care Act required the addition of section 501(r) to the Internal Revenue Code, which created new requirements for tax-exempt hospitals. Each hospital organization must meet four requirements:

- Establish written financial assistance and emergency medical care policies
- Limit amounts charged for emergency and other specified services for patients eligible for the financial assistance policy
- Make reasonable efforts to determine if patients are eligible for the financial assistance policy prior to certain collection efforts
- Perform a community health needs assessment and adopt an implementation strategy at least every third year

Further, when calculating the limitation on charges for patients eligible for the financial assistance policy, two methods may be utilized. The look-back method is performed once per year and is calculated by the allowance insured amounts as a percentage of the total related gross charges. This can be performed by business segment. The alternative method is the prospective method, in which charges are limited to the Medicare fee-for-service rates.

The final regulations were issued December 29, 2014. Certain portions are effective now and the final regulations are effective for the first tax year following December 29, 2015. We recommend the Medical Center review the full regulations along with current policies and procedures in order to maintain tax-exempt status. The Board of Directors is required to have an active role in these matters as they must adopt the financial assistance policy, billing and collection policy, and emergency Medicare care policy, along with any revisions.

340B Drug Pricing Program Proposed Omnibus Guidance

The Health Resources and Services Administration recently released proposed omnibus guidance in an effort to reduce inconsistencies in the application of policies and procedures over the 340B Drug Discount Program. The proposal strives to provide more definitive guidance for compliance. A primary focus of the proposal is to clarify the definition of an eligible patient. Under the proposal, a patient is deemed eligible if he or she meets the following criteria:

- The individual receives a health care service at a registered covered entity
- The service was provided by an employed provider or an independent contractor of the covered entity and the covered entity can bill for the service
- The drug is ordered or prescribed by that provider as a result of the service
- The service is consistent with the federal grant, project, designation or contract (generally not applicable to hospitals)
- The service is billed as an outpatient service
- The hospital maintains a medical record for the individual

The proposed guidance has significant differences from the various interpretations of current guidance. Some situations that would not be eligible include infusion-only services in which the provider is not contracted or employed and prescriptions resulting from referrals. We anticipate many critical access hospitals will have reduced 340B activity due to these exclusions.

Annual audits, by an independent auditor, along with quarterly reviews of contract pharmacy transactions would be required. Any violations noted through those procedures and any other issues noted would need to be reported to Health and Human Services within 90 days of identification. Auditable records must be maintained for a minimum of five years in order to demonstrate compliance.

We recommend management and the 340B compliance officer review the omnibus guidance for the precise definitions and potential changes. In addition, we recommend management review split-billing software in order to determine what modifications could be made to the system in order to ensure compliance.

2016 OIG Work Plan

In November 2015, the Office of Inspector General (OIG) released its work plan for the 2016 federal fiscal year. The OIG is meant to "protect the integrity of HHS programs and operations and the well-being of beneficiaries by detecting and preventing fraud, waste, and abuse; identifying opportunities to improve program economy, efficiency, and effectiveness; and holding accountable those who do not meet program requirements or who violate federal health care laws" per the work plan. During federal fiscal year 2015, the OIG reported expected recoveries of over $3 billion through their efforts.

Much of the plan is carried forward from prior years including items such as:

- Reconciliations of outlier payments
- Reviewing the use of outpatient and inpatient stays under the two-midnight rule
- Medicare costs associated with defective medical devices
- Analysis of salaries used in hospital cost reports to determine reasonable remuneration
- Comparing provider-based and freestanding clinics to determine the difference in payments made for similar procedures and analyze impact on Medicare provider-based status

New and revised portions of the plan include review of:

- The number of provider-based facilities that hospitals own and review of whether facilities meet the related requirements due to concern that financial incentives of provider-based facilities are too great and that Medicare should seek to pay more consistent amounts for similar services
- Medical records for medical necessity
- Payments related to replacement of medical devices to determine if they were appropriate due to concerns of improper payment
- Payments made related to Part B outpatient services during inpatient stays to ensure that certain items, supplies and services are not separately billed
- Validation of quality reporting data
- Payments made for prolonged services billed by providers

The full work plan can be found at http://oig.hhs.gov/reports-and-publications/archives/workplan/2016/oig-work-plan-2016.pdf. We recommend management become familiar with the plan in order adequately assess any related business risks.

Not-For-Profit Financial Reporting

On April 22, 2015, the FASB issued a Proposed Accounting Standards Update (PASU) to improve net asset classification requirements and information presented regarding liquidity, financial performance, and cash flows for Not-For-Profit entities. The PASU was drafted in response to concerns regarding complexities related to the current three classes of net assets and inconsistencies related to intermediate measures of operations and expenses. The main changes required by the PASU would include:

- Converting from three classes of net assets to two – those with donor restrictions and those without
- Presentation of an intermediate measure of operations based on operating activities and other activities
- Reporting on the direct method for the statement of cash flows
- Reclassification of certain transactions on the statement of cash flows
- Certain enhanced disclosures
- Elimination of the option to release the donor-imposed restrictions related to long-lived assets over the estimated useful life of the underlying asset
- Reporting of investment income net of investment expenses

The FASB feels that these changes would improve the usefulness of the information presented in financial statements and would reduce complexities and costs associated with preparing financial statements. In addition, the intermediate measures of operations would serve to provide a more standardized measure. The FASB is considering comment letters prior to finalization of the proposed standard. However, we recommend that management become familiar with the update in order to ensure that the Medical Center is prepared for any upcoming changes.

Accounting for Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The update's main provisions require recognition of lease assets and lease liabilities for all leases with terms longer than 12 months. Lessee accounting for leases will require significant changes as a result of this update.

Lessees will recognize a lease liability and a right-of-use asset. The lease liability should include optional period payments if the lessee is reasonably certain to exercise an option to extend the lease or not terminate the lease.

Requirements related to finance leases include:

- Recognition of a right-of-use asset and a lease liability, measured at the present value of the lease payments
- Recognition of interest separately from amortization of the right-of-use asset
- Inclusion of repayments of lease liabilities in financing activities and inclusion of interest on the lease liability in operating activities in the statement of cash flows

Requirements related to operating leases include:

- Recognition of a right-of-use asset and a lease liability, measured at the present value of the lease payments
- Recognition of a single lease cost on a straight-line basis
- Inclusion of all cash payments within operating activities in the statement of cash flows

Preparing for implementation will be imperative for a smooth transition and management should consider the impact on existing leases and future financing options. This standard will be effective for your entity for fiscal years ending on or after December 31, 2020. Lessees will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach which includes available practical expedients.

Medicaid Managed Care Payments

Medicaid Managed Care plans reimburse facilities based on the Medicaid interim payment rates in place at the date of service. Fluctuations in facility volumes can significantly change the actual cost of providing service which may exceed interim payment rates. Unlike traditional Medicaid, Medicaid Managed Care plans typically do not provide for a settlement based on actual costs versus interim rates. The Medical Center should contact its Medicaid Managed Care plans to ensure that current rates are accurate and to ensure timely receipt of settlement amounts, if provided.

The recommendations outlined above are for management's use only and are not intended to be part of a formal report which would customarily be delivered to outside lenders, third-party payors, etc. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

Seim Johnson, LLP

Omaha, Nebraska,
June 22, 2016.