Shenandoah Medical Center and Affiliate
Shenandoah, Iowa

Consolidated Financial Statements and Supplementary Information
December 31, 2015 and 2014

Together with Independent Auditor's Report

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SEIM JOHNSON

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Shenandoah Medical Center and Affiliate (Medical Center) which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of December 31, 2015 and 2014, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information included in Exhibits 1-5 and the schedule of expenditures and federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis, rather than to present the financial position, the results of operations, and changes in net assets and cash flows of the individual organizations and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2016 on our consideration of the Medical Center's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
June 22, 2016.

Shenandoah Medical Center and Affiliate

Consolidated Balance Sheets
December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 902,609	2,276,304
Short-term investments	388,311	387,417
Investments limited as to use, current portion	1,247,734	--
Receivables -		
Patients, net of allowances for doubtful accounts of $2,961,000 in 2015 and $1,892,000 in 2014	10,206,784	7,016,049
Related party	53,019	43,178
Other	3,840,288	407,579
Inventories	1,040,538	801,328
Prepaid expenses	262,578	215,346
Estimated third-party payor settlements	408,870	--
Total current assets	18,350,731	11,147,201
Investments limited as to use, net of current portion	28,938,879	9,342,606
Property and equipment, net	15,669,977	11,173,093
Beneficial interest in perpetual trusts	4,618,010	4,812,569
Equity in Shenandoah Ambulance Service	378,181	339,146
Other long-term asset	1,742	1,742
Total assets	$ 67,957,520	36,816,357
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 1,694,242	--
Line of credit	--	2,305,914
Accounts payable -		
Trade	3,219,201	1,215,478
Property and equipment	1,247,734	309,195
Accrued salaries, vacation and benefits payable	1,596,984	1,925,015
Accrued interest	27,860	--
Estimated third-party payor settlements	--	521,740
Deferred Medicare revenue	1,910,399	331,071
Total current liabilities	9,696,420	6,608,413
Long-term debt, net of current portion	27,806,294	--
Total liabilities	37,502,714	6,608,413
Net Assets:		
Unrestricted	24,761,475	23,974,998
Temporarily restricted	1,023,321	1,138,564
Permanently restricted	4,670,010	5,094,382
Total net assets	30,454,806	30,207,944
Total liabilities and net assets	$ 67,957,520	36,816,357

See notes to consolidated financial statements

Shenandoah Medical Center and Affiliate

Consolidated Statements of Operations
For the Years Ended December 31, 2015 and 2014

	2015	2014
UNRESTRICTED REVENUE:		
Net patient service revenue	$ 36,537,858	33,569,190
Provision for bad debts	(3,248,531)	(3,350,700)
Net patient service revenue less provision for bad debts	33,289,327	30,218,490
Other revenue	4,777,936	2,626,709
Total unrestricted revenue	38,067,263	32,845,199
EXPENSES:		
Salaries and wages	18,160,633	16,338,140
Employee benefits	3,415,262	3,004,529
Professional and purchased services	5,478,800	3,983,314
Repair and maintenance	632,489	588,073
Supplies and other expenses	6,675,224	5,308,124
Utilities	442,954	511,550
Insurance	198,607	191,792
Interest	115,845	25,936
Depreciation	2,567,687	1,917,009
Total expenses	37,687,501	31,868,467
OPERATING INCOME	379,762	976,732
NONOPERATING GAINS (LOSSES), NET:		
Investment income	427,430	575,753
Income from beneficial interest in perpetual trusts	43,875	47,691
Gifts and bequests	58,706	49,672
Fundraising expenses	(15,858)	(88,644)
Gain on Shenandoah Ambulance Service operations	39,035	11,623
Gain (loss) on Auxiliary operations	(1,995)	3,617
Contribution received in the acquisition of Shenandoah Healthcare Foundation	--	180,416
Total nonoperating gains, net	551,193	780,128
EXCESS OF REVENUE OVER EXPENSES	930,955	1,756,860
NET ASSETS RELEASED FROM RESTRICTIONS FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	161,466	110,835
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	(522,607)	(229,529)
NET ASSET RECLASSIFICATION	216,663	--
INCREASE IN UNRESTRICTED NET ASSETS	$ 786,477	1,638,166

See notes to consolidated financial statements

Shenandoah Medical Center and Affiliate

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2015 and 2014

		2015	2014
UNRESTRICTED NET ASSETS:			
Excess of revenue over expenses	$	930,955	1,756,860
Net assets released from restrictions for the purchase of property and equipment		161,466	110,835
Change in net unrealized gains and losses on other than trading securities		(522,607)	(229,529)
Net asset reclassification		216,663	--
Increase in unrestricted net assets		786,477	1,638,166
TEMPORARILY RESTRICTED NET ASSETS:			
Contributions and grants		5,632	35,698
Investment income		42,329	36,475
Income from beneficial interest in perpetual trusts		86,184	77,515
Change in net unrealized gains and losses on other than trading securities		(44,885)	3,048
Net assets released from restrictions for operations		(43,037)	(1,000)
Net assets released from restrictions for the purchase of property and equipment		(161,466)	(110,835)
Contribution received in the acquisition of Shenandoah Healthcare Foundation		--	20,000
Increase (decrease) in temporarily restricted net assets		(115,243)	60,901
PERMANENTLY RESTRICTED NET ASSETS:			
Change in value of beneficial interest in perpetual trusts		(194,559)	83,056
Change in net unrealized gains and losses on other than trading securities		(13,150)	3,361
Net asset reclassification		(216,663)	--
Increase (decrease) in permanently restricted net assets		(424,372)	86,417
INCREASE IN NET ASSETS		246,862	1,785,484
NET ASSETS, beginning of year		30,207,944	28,422,460
NET ASSETS, end of year	$	30,454,806	30,207,944

See notes to consolidated financial statements

Shenandoah Medical Center and Affiliate

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 246,862	1,785,484
Adjustments to reconcile the change in net assets		
to net cash provided by operating activities -		
Change in unrealized gains and losses on		
other than trading securities	580,642	223,120
Depreciation and amortization	2,575,224	1,917,009
Gain on disposal of property and equipment	(17,810)	(40)
Gain on Shenandoah Ambulance Service operations	(39,035)	(11,623)
Change in value of beneficial interest in perpetual trusts	194,559	(83,056)
Restricted contributions and grants	(5,632)	(35,698)
Income from beneficial interest in perpetual trusts - restricted	(86,184)	(77,515)
Contribution received in acquisition of Shenandoah		
Healthcare Foundation	--	(200,416)
(Increase) decrease in current assets -		
Receivables -		
Patient	(3,190,735)	(2,318,415)
Related party	(9,841)	4,518
Other	(3,432,709)	55,748
Inventories	(239,210)	32,862
Prepaid expenses	(47,232)	1,544
Estimated third-party payor settlements	(408,870)	494,105
Increase (decrease) in current liabilities -		
Accounts payable	2,003,723	164,620
Accrued salaries, vacation and benefits payable	(328,031)	296,459
Accrued interest	27,860	--
Estimated third-party payor settlements	(521,740)	521,740
Deferred Medicare revenue	1,579,328	(208,965)
Net cash provided by (used in) operating activities	(1,118,831)	2,561,481
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to investments limited as to use	(21,424,649)	(272,381)
Deposits to short-term investments	(894)	(1,042)
Purchase of property and equipment, net	(917,817)	(3,876,607)
Cash received in acquisition of Shenandoah Healthcare Foundation	--	156,904
Net cash used in investing activities	(22,343,360)	(3,993,126)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments on) line of credit	(2,305,914)	2,305,914
Proceeds from issuance of long-term debt	25,353,000	--
Payments on long-term debt	(753,531)	--
Cash paid for bond issue costs	(296,875)	--
Restricted contributions and grants	5,632	35,698
Income from beneficial interest in perpetual trusts - restricted	86,184	77,515
Net cash provided by financing activities	22,088,496	2,419,127
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,373,695)	987,482
CASH AND CASH EQUIVALENTS, beginning of year	2,276,304	1,288,822
CASH AND CASH EQUIVALENTS, end of year	$ 902,609	2,276,304
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Equipment acquired under capital lease obligations	$ 5,190,405	--
Cash paid for interest	$ 108,308	25,936

See notes to consolidated financial statements

(1) Organization and Summary of Significant Accounting Policies

The following is a description of the organization and a summary of significant accounting policies of Shenandoah Medical Center and Affiliate (Medical Center). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Organization

The consolidated financial statements include the accounts of the following entities:

- Shenandoah Medical Center (SMC)
- Shenandoah Medical Center Foundation (Foundation) (formerly known as Shenandoah Healthcare Foundation)

SMC located in Shenandoah, Iowa, is a not-for-profit corporation chartered under the laws of the State of Iowa and is exempt from income tax under Section 501 of the Internal Revenue Code. SMC owns and operates a critical access hospital (25 acute beds) with related healthcare ancillary and outpatient services, physician clinics, and a 50 bed, residential and intermediate care nursing home (Elm Heights). SMC also provides rental space for a physicians' clinic, and cancer and dialysis treatment. SMC is governed by a ten member board of directors generally appointed for a three-year term. The Chief Executive Officer serves as an ex officio, non-voting member. There are nine Class A members and one Class B member.

Shenandoah / Nebraska Health Systems Regional Ventures, LLC (Regional Ventures) is a limited liability company established solely to be the one Class B member of SMC's Board of Directors. Regional Ventures does not engage in any business of any type or kind and does not incur any liabilities. Nebraska Health Systems owns 49% of Regional Ventures through an affiliation agreement with SMC. See Note 14 for more details of the terms of this affiliation agreement.

On April 1, 2014, SMC assumed control of the Foundation via the ability to appoint or remove all Board members of the Foundation. A total contribution of $200,416 was recorded on the consolidated statements of operations and changes in net assets to reflect the net assets of the Foundation at April 1, 2014. The Foundation is a not-for-profit corporation chartered under the laws of the State of Iowa and is exempt from income tax under Section 501 of the Internal Revenue Code. The Foundation solicits and contributes funds to SMC to further the healthcare mission of SMC. All funds raised, except funds required for the operation of the Foundation, will be distributed to be held for the benefit of SMC as required to comply with the purposes specified by donors.

The accompanying consolidated financial statements include the accounts of these organizations. All material related party balances and transactions have been eliminated in the consolidated financial statements.

B. Industry Environment

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Medical Center is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Medical Center's consolidated financial statements, compliance with such laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

C. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation, donor restriction, or under loan agreements.

E. Short-Term Investments

Short-term investments are certificates of deposit available for operations without donor imposed restrictions.

F. Patient Accounts Receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Medical Center also maintains a charity care policy as described in Note 1(Q).

G. Inventories

Inventories are stated at the lower of cost (first in, first out method) or market value.

H. Investments Limited as to Use

Investments limited as to use include the following:

Board Designated – Periodically, the Medical Center's Board of Directors has set aside investments for future capital improvements and operations over which the Board retains control and may, at its discretion, subsequently use for other purposes.

By Donor – Funds restricted by donors for endowment or specific purposes.

Under Loan Agreements – These deposits are required by the loan agreement with the Iowa Finance Authority.

Investment income on investments limited as to use is reported as nonoperating revenue in the consolidated statements of operations unless otherwise restricted by the donor. Amounts required to meet current liabilities (if any) have been reclassified in the consolidated balance sheets and are reported in current assets.

I. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Changes in net unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Periodically, the Medical Center reviews its investments to determine whether any unrealized losses are other-than-temporary. During 2015 and 2014, there were no unrealized losses that were determined to be other-than-temporary.

J. Property and Equipment, Net

Property and equipment acquisitions are recorded at cost. All acquisitions of capital assets over $5,000 are capitalized. All nursing home acquisitions of capital assets over $1,000 are capitalized. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenue over (under) expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

K. Beneficial Interest in Perpetual Trusts

The Medical Center has a beneficial interest in several perpetual trusts and annually receives income from these trusts. The beneficial interest is recorded at fair value and the income from the trusts are reported as income from beneficial interest in perpetual trusts in the consolidated statements of operations (see Note 7). Changes in the value of the beneficial interest in the perpetual trusts are included in permanently restricted net assets.

L. Deferred Medicare Revenue

Deferred Medicare revenue represents advanced reimbursement received from the Medicare program as an incentive for the implementation of an electronic health record (EHR) system. The incentive requires the Medical Center to maintain meaningful use of its EHR system as part of providing healthcare services available to Medicare beneficiaries. The advanced reimbursement is amortized over the useful life of the assets required to maintain meaningful use. Amortization of $540,703 for 2015 and $280,016 for 2014 is recognized in net patient service revenue in the consolidated statements of operations.

M. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

N. Performance Indicator

The consolidated statements of operations include excess of revenue over expenses as a performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include change in net unrealized gains and losses on other than trading securities, net assets released from restrictions for purchase of property and equipment, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

O. Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions.

P. 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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

Q. 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. Management's disclosure of charity care costs is described in Note 3.

The Medical Center is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Medical Center provides a variety of community health services at or below cost.

R. Fair Value of Financial Instruments

The carrying amounts of all financial instruments approximate estimated fair value. Cash and cash equivalents, receivables and current liabilities are reasonable estimates of their fair values due to their short-term nature. Investments, including investments limited as to use, are stated at fair value as discussed in Note 4. The carrying value of long-term debt approximates fair value since the rates closely reflect current market rates.

S. Income Taxes

SMC and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Internal Revenue Service has established standards to be met to maintain the Medical Center's tax exempt status. In general, such standards require the Medical Center to meet a community benefits standard and comply with various laws and regulations.

The Medical Center accounts for uncertainties in accounting for income tax assets and liabilities using guidance included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income *Taxes*. The Medical Center recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. At December 31, 2015 and 2014, the Medical Center had no uncertain tax positions accrued.

T. Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

U. Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

V. Subsequent Events

The Medical Center considered events occurring through June 22, 2016 for recognition or disclosure in the financial statements as subsequent events. That date is the date the consolidated financial statements were available to be issued.

(2) Net Patient Service Revenue

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. See summary of payment arrangements below. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the year from these major payer sources, is as follows:

		December 31, 2015					
		Medicare	Medicaid	Blue Cross	Commerical	Self Pay	Total
Gross patient charges	$	31,039,587	12,739,846	16,231,613	8,010,658	3,852,474	71,874,178
Less: contractual allowances and discounts		17,768,324	7,230,535	8,249,125	1,917,534	170,802	35,336,320
Net patient service revenue	$	13,271,263	5,509,311	7,982,488	6,093,124	3,681,672	36,537,858

		December 31, 2014					
		Medicare	Medicaid	Blue Cross	Commercial	Self Pay	Total
Gross patient charges	$	27,424,310	11,524,251	12,760,962	8,340,884	3,966,826	64,017,233
Less: contractual allowances and discounts		16,419,997	6,376,935	5,901,457	1,425,519	324,135	30,448,043
Net patient service revenue	$	11,004,313	5,147,316	6,859,505	6,915,365	3,642,691	33,569,190

A summary of the payment arrangements with major third-party payers follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and most outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor. The Medical Center is reimbursed on a prospectively determined rate per episode for home health care services rendered to Medicare beneficiaries. The Medical Center's Medicare cost reports have been audited by the Medicare Administrative Contractor through December 31, 2013.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, incur a two percent reduction in Medicare payment.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Medical Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital. Long-term care services are reimbursed at prospectively determined rates per day of care. These rates vary according to patient classifieds system.

Other Commercial Payors. The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements primarily includes discounts from established charges and prospectively determined rates.

Net patient service revenue, as reflected in the accompanying consolidated statements of operations, consists of the following:

	2015	2014
Gross patient charges:		
Hospital:		
Inpatient services	$ 7,972,163	6,402,199
Outpatient services	60,170,641	52,995,102
Swing bed	802,979	1,832,975
Long-term care services	2,928,395	2,786,957
	71,874,178	64,017,233
Less deductions from gross patient charges:		
Hospital		
Medicare	17,616,470	16,377,777
Medicaid	7,209,861	6,339,378
Other third-party adjustments	10,166,659	7,326,976
Charity care	170,802	324,135
Long-term care	172,528	79,777
	35,336,320	30,448,043
Net patient service revenue	$ 36,537,858	33,569,190

Revenue from the Medicare and Medicaid programs accounted for approximately 38% and 15%, respectively, of the Medical Center's net patient revenue for the year ended December 31, 2015 and approximately 33% and 15%, respectively, for the year ended December 31, 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2015 and 2014 net patient service revenue increased approximately $68,000 and $150,000, respectively, due to the removal of allowances previously estimated that were no longer necessary as a result of final settlements and years no longer subject to audits, reviews and investigations.

(3) Charity Care

The Medical Center provides charity care to patients who are financially unable to pay for the healthcare services they receive. It is the policy of the Medical Center not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Medical Center does not report these amounts in net patient service revenue or in the allowance for doubtful accounts. The Medical Center determines the costs associated with providing charity care by aggregating the direct and indirect costs, including salaries, benefits, supplies, and other operating expenses, based on an overall cost to charge ratio. The costs of caring for these patients for the years ended December 31, 2015 and 2014 were approximately $81,000 and $149,000, respectively.

(4) Investments Limited as to Use

The composition of investments limited as to use at December 31, 2015 and 2014 is set forth below:

		2015	2014
Investments Limited as to Use			
Board designated assets:			
For capital improvements	$	6,509,205	7,652,238
For operations		--	269,991
For endowment		165,828	--
Donor restricted assets:			
For healthcare services for indigent children		1,023,321	1,118,564
For hospice		--	20,000
For endowment		52,000	281,813
Under loan agreement:			
For construction payments		21,326,333	--
For capitalized interest		1,096,425	--
For bond issue costs		13,501	--
		30,186,613	9,342,606
Less current portion		1,247,734	--
Investments limited as to use, net of current portion	$	28,938,879	9,342,606

Investment income (loss) and gains (losses) for short-term investments and investments limited as to use are comprised of the following for the years ended December 31, 2015 and 2014:

		2015	2014
Interest and dividend income	$	423,847	390,166
Realized gains on sales of securities		45,912	222,062
Change in unrealized gains and losses		(580,642)	(223,120)
Total investment return	$	(110,883)	389,108
Included in nonoperating gains (losses)	$	427,430	575,753
Reported separately as a change in:			
Unrestricted net assets		(522,607)	(229,529)
Temporarily restricted net assets		(2,556)	39,523
Permanently restricted net assets		(13,150)	3,361
Total investment return	$	(110,883)	389,108

(5) Fair Value Measurements

Fair Value Hierarchy

The Medical Center applies FASB ASC 820 for fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly through either corroboration or observable market data.

Level 3 Inputs are unobservable for the asset or liability. Therefore, unobservable inputs shall reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Cash, money market funds and accrued interest – The fair value of cash and cash equivalents, consisting primarily of money market funds, is classified as Level 1 as these funds are valued using quoted market prices.

Fixed Income Securities – Investments in fixed income securities are comprised of corporate bonds, government sponsored debt securities and municipal bonds. Fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Mutual Funds - The fair value of equity and debt securities is classified as Level 1 as the market value is based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Beneficial Interest in Perpetual Trusts – The beneficial interest in perpetual trusts is classified as Level 3 as the Medical Center does not have the ability to redeem the underlying assets included in the trust. The fair value is determined based on the underlying assets of the trusts. See Note 7 for additional disclosure of the underlying assets of the trust.

For the years ended December 31, 2015 and 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Fair Value on a Recurring Basis

The following tables present the financial instruments that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2015 and 2014:

	December 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Beneficial interest in perpetual trusts	$ 4,618,010	--	--	4,618,010
Investments limited as to use presented at fair value				
By Board for capital impovements -				
Money market funds	$ 273,360	273,360	--	--
Mutual funds	3,728,292	3,728,292	--	--
Fixed income - Corporate bonds	2,507,553	--	2,507,553	--
By donor for healthcare services for indignent children -				
Money market funds	109,026	109,026	--	--
Mutual funds	494,214	494,214	--	--
Fixed income - Corporate bonds	286,812	--	286,812	--
Fixed income - Federal agency securities	133,269	--	133,269	--
By donor for endowment -				
Money market funds	3,176	3,176	--	--
Mutual funds	144,667	144,667	--	--
Fixed income - Corporate bonds	69,985	--	69,985	--
By loan agreement for construction payments -				
Cash and equivalents	21,326,333	21,326,333	--	--
By loan agreement for capitalized interest -				
Cash and equivalents	1,096,425	1,096,425	--	--
By loan agreement for bond issue costs -				
Cash and equivalents	13,501	13,501	--	--
Total investments limited as to use	$ 30,186,613	27,188,994	2,997,619	--

	December 31, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Beneficial interest in perpetual trusts	$ 4,812,569	--	--	4,812,569
Investments limited as to use presented at fair value				
By Board for capital impovements -				
Money market funds	$ 532,694	532,694	--	--
Mutual funds	4,167,547	4,167,547	--	--
Fixed income - Corporate bonds	2,479,918	--	2,479,918	--
Accrued interest	4,936	4,936	--	--
By donor for healthcare services for indignent children -				
Money market funds	146,169	146,169	--	--
Mutual funds	544,034	544,034	--	--
Fixed income - Corporate bonds	293,995	--	293,995	--
Fixed income - Federal agency securities	134,366	--	134,366	--
By donor for hospice -				
Cash and equivalents	20,000	20,000	--	--
By donor for endowment -				
Money market funds	49,297	49,297	--	--
Mutual funds	159,885	159,885	--	--
Fixed income - Corporate bonds	72,631	--	72,631	--
	$ 8,605,472	5,624,562	2,980,910	--
Investments, including investments limited as to use - other:				
Certificates of deposit	737,134			
Total investments limited as to use	$ 9,342,606			

Financial instruments classified as Level 3 in the fair value hierarchy represent the Medical Center's investments in financial instruments in which the Medical Center has used at least one significant unobservable input in the value model. The following table presents a reconciliation of activity for the Level 3 financial instruments for the years ended December 31, 2015 and 2014:

		2015	2014
Beginning balance	$	4,812,569	4,729,513
Change in value of beneficial interest in perpetual trusts		(194,559)	83,056
Ending balance	$	4,618,010	4,812,569

The equity and debt securities held by the Medical Center are classified as available for sale.

(6) Property and Equipment, Net

Property and equipment as of December 31, 2015 and 2014 is summarized as follows:

		2015	2014
Land	$	92,822	92,822
Land improvements		979,389	979,389
Buildings		12,435,941	12,419,445
Building services equipment		3,355,608	3,219,875
Fixed equipment		1,096,909	1,057,359
Moveable equipment		16,272,792	9,972,181
Construction in process		3,992,244	3,463,432
		38,225,705	31,204,503
Less - accumulated depreciation and amortization		22,555,728	20,031,410
	$	15,669,977	11,173,093

Depreciation expense of $2,567,687 and $1,917,009 in 2015 and 2014, respectively, is included in the accompanying consolidated statement of operations.

As of December 31, 2015 the Medical Center has incurred costs of $3,992,244 for facility renovation and expansion projects which will include a new 44,000 square foot medical office building and remodeled and expanded surgery and emergency departments. This project is expected to be completed in December of 2017. The total remaining estimated cost of the project is approximately $25.35 million and will be financed through a USDA direct loan and local financing.

(7) Beneficial Interest in Perpetual Trusts

The Medical Center has a beneficial interest in three perpetual trusts. The trusts provide income distributions to the Medical Center by the trusts' executors with no corresponding transfer of trust assets to the Medical Center. Certain income distributions to the Medical Center are to be used for the purchase of technical equipment and updating and maintenance of such equipment. Distributions from the trusts to the Medical Center amounted to $130,059 and $125,206 for the years ended December 31, 2015 and 2014, respectively. Distributions of $43,875 and $47,691 in 2015 and 2014, respectively, are unrestricted and are included in income from beneficial interest in perpetual trusts in the consolidated statements of operations. Distributions of $86,184 and $77,515 in 2015 and 2014, respectively, are restricted for the purchase of property and equipment and are reported separately as a change in temporarily restricted net assets. The assets of the trusts, comprised of cash, certificates of deposit, United States treasury notes and common stock, are held in trust in perpetuity. Accordingly, the Medical Center has recorded its beneficial interest at the fair market value of the trusts in the accompanying consolidated financial statements.

		2015	2014
John William Snook Trust	$	229,889	229,889
Esther Williams Trust		602,982	602,112
Ivan and Caroline Wilson Memorial Trust		3,785,139	3,980,568
Beneficial interest in perpetual trusts	$	4,618,010	4,812,569

(8) Equity in Shenandoah Ambulance Service

Equity in Shenandoah Ambulance Service is composed of the following:

		2015	2014
Shenandoah Ambulance Service	$	378,181	339,146

During 2001, the Medical Center joined with the City of Shenandoah, Iowa to form a 28E organization, Shenandoah Ambulance Service (SAS). SAS was formed to provide ambulance services to the Shenandoah area. SAS contracted with the Medical Center to provide staff and supplies, billing services and accounting services. The Medical Center accounts for its investment and its share of gains or losses using the equity method of accounting. A summary of the financial information of SAS is as follows:

		2015	2014
Condensed Statements of Net Position			
Total current assets	$	239,654	164,333
Assets limited as to use		288,148	426,443
Capital assets, net		294,433	141,216
Total assets	$	822,235	731,992
Accounts payable	$	12,854	10,522
Due to Shenandoah Medical Center		53,019	43,178
Total liabilities	$	65,873	53,700
Net position	$	756,362	678,292

		2015	2014
Condensed Statements of Revenue, Expenses and Changes in Net Position			
Total revenue	$	779,589	678,594
Expenses:			
Contract labor		538,440	497,843
Other expenses		105,707	95,833
Depreciation and amortization		99,005	69,289
Total expenses		743,152	662,965
Operating gain		36,437	15,629
Nonoperating gains, net		41,633	7,616
Increase in net position	$	78,070	23,245
Gain on Shenandoah Ambulance Service operations	$	39,035	11,623

The Medical Center provides staff and supplies, billing services and accounting services to SAS. Fees received for these services are included as other revenue in the statements of operations and are as follows for the years ended December 31, 2015 and 2014:

		2015	2014
Professional, management and accounting services	$	559,062	518,403

The gain on Shenandoah Ambulance Service operations of $39,035 and $11,623 is included with nonoperating revenue in the consolidated statements of operations for the years ended December 31, 2015 and 2014, respectively.

(9) Line of Credit

In 2014, the Medical Center entered into a bank line of credit that is due on demand and provides for maximum borrowings of $4,750,000 with an interest rate of 3.5% and was closed prior to December 31, 2015. The agreement was secured by certain investments of the Medical Center. The line of credit had an outstanding balance of $2,305,914 at December 31, 2014.

(10) Long-term Debt

Long-term debt consists of the following notes payable and capital leases at December 31, 2015 and 2014:

	2015	2014
1.75 % Hospital Revenue and Bond Anticipation Notes, Series 2015 (Shenandoah Medical Center Project), issued by the Iowa Finance Authority, interest payable semi-annually beginning on June 1, 2016 with full principal balance due on June 1, 2018.	$ 25,350,000	--
3.5% United States Department of Agriculture Rural Development Loan, interest only payments through November 2018, with full monthly principal and interest payments due beginning in December 2018 through December 2058.	3,000	--
Capital leases, with initial cost of $5,190,405 due through August 2018, collateralized by leased equipment.	4,436,874	--
Unamortized debt issue costs	(104,040)	--
Unamortized bond discount	(185,298)	--
	29,500,536	--
Less current maturities	1,694,242	--
Long-term debt, net of current position	$ 27,806,294	--

On December 1, 2015, $25,350,000 of Hospital Revenue and Bond Anticipation Notes, Series 2015 (Shenandoah Medical Center Project) were issued by the Iowa Finance Authority. Proceeds from the issuance were loaned to the Medical Center under a loan agreement between the Medical Center and the Iowa Finance Authority, as interim financing for construction, equipment and furnishing of the project described in Note 6. The notes have an interest rate of 1.75% and are collateralized by a first mortgage lien on the facilities of the Medical Center. Interest only payments are due semi-annually beginning on June 1, 2016 with the principal balance of the notes due on June 1, 2018. To finance the refunding of the notes, the Medical Center has committed to a United States Department of Agriculture (USDA) direct financing loan in the amount of $25,350,000 through a Letter of Commitment of the USDA.

The loan also establishes certain covenants which, among other things, include continued tax exempt status of the Medical Center, loan repayment, maintenance of facilities, insurance coverage, restrict the sale or disposition of the property, place limits on the incurrence of additional debt and requires the Medical Center to meet certain measures of financial performance as long as the notes are outstanding.

Under the terms of the loan, the Medical Center is required to maintain certain deposits. Such deposits are included with investments limited as to use in the accompanying financial statements. The terms of the loan contain affirmative and negative covenants, requiring, among other things, certain periodic reporting, compliance items, financial covenants and restrictions on additional borrowings. The loan contain affirmative covenants that require the Medical Center to maintain a minimum, maximum annual debt service coverage ratio of not less than 1.25, commencing with the fiscal year ending December 31, 2016.

On December 1, 2015, the Medical Center closed on a $20,350,000 United States Department of Agriculture Rural Development loan. An advance of $3,000 was received by the Medical Center. No further advances will be made until all of the loan conditions are met. The remaining $5,000,000 loan will be closed when all loan conditions have been met and construction of the project described in Note 6 is substantially complete. At that time, the USDA loan funds will be available to pay off $25,350,000 of the Iowa Finance Authority Hospital Revenue and Bond Anticipation Notes, Series 2015 (Shenandoah Medical Center Project) noted above.

Unamortized debt issue costs and unamortized bond discount relate to the Medical Center's loan with the Iowa Finance Authority, which are being amortized over the life of the loan on a straight-line basis. Amortization expense of $7,537 in 2015 is included in interest expense in the consolidated statements of operations.

The principal payments required on the notes payable and capital lease obligations are as follows:

Years Ending December 31:	**Long-Term Debt**	**Capital Lease Obligations**
2016	$ --	1,732,358
2017	--	1,689,117
2018	25,353,000	1,083,220
	$ 25,353,000	4,504,695
Less amount representing interest		67,821
		$ 4,436,874

The assets recorded under capital leases consist of the following:

Electronic medical record system	$ 4,690,590
Endoscopy equipment	206,171
Surgical equipment	293,644
	5,190,405
Less: Accumulated amortization	767,809
Net book value	$ 4,422,596

A summary of interest expense and investment income on borrowed funds during the years ended December 31, 2015 and 2014 is as follows:

	2015	**2014**
Interest cost:		
Capitalized	$ 27,860	--
Expensed	87,895	25,936
	$ 115,845	25,936

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purpose at December 31, 2015 and 2014:

		2015	2014
Health care services for indigent children	$	1,023,321	1,118,564
Hospice		--	20,000
	$	1,023,321	1,138,564

Permanently restricted net assets at December 31, 2015 and 2014 are restricted to:

		2015	2014
Endowment	$	52,000	281,813
Beneficial interest in perpetual trusts		4,618,010	4,812,569
	$	4,670,010	5,094,382

(12) Professional Liability Insurance

The Medical Center carries a professional liability policy (including malpractice) which provides $1,000,000 of coverage for injuries per occurrence and $3,000,000 aggregate coverage. The Medical Center carries an umbrella policy which also provides an additional $1,000,000 of professional liability coverage per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only the claims which have occurred and are reported to the insurance company while the coverage is in force.

The Medical Center could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained, should coverage be limited and/or not available.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Medical Center does evaluate all incidents and claims along with prior claim experience to determine if a liability is to be recognized. For the years ending December 31, 2015 and 2014, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying consolidated financial statements.

(13) Pension Plan

The Medical Center has established a defined contribution pension plan for all employees who meet age and service requirements. Each qualifying employee has the option to contribute to the plan. The Medical Center matches the employee contribution up to a maximum of five percent of salary. The Medical Center’s contributions for each employee (and interest allocated to the employee’s account) begin vesting after one year of continuous service and are fully vested after seven years of continuous service.

Total Medical Center pension plan expense for 2015 and 2014 was $408,390 and $372,898.

(14) Commitments and Contingencies

SMC Affiliation

SMC finalized an affiliation agreement with Nebraska Health Systems, Inc. and Clarkson Regional Health Services, Inc. during 1999. In exchange for 49% ownership of Regional Ventures (Note 1) including certain rights and appointment of one board member, SMC received $2.9 million. This affiliation agreement includes certain withdrawal provisions which allow Nebraska Health System or SMC to request SMC to purchase Nebraska Health Systems' 49% ownership of Regional Ventures. That purchase price is based on a formula that considers current performance and the debt load of SMC. There is currently no intent from either party to withdrawal from the affiliation, thus no amount has been recorded by SMC for this potential transaction.

(15) Other Revenue

Other revenue for the years ended December 31, 2015 and 2014 consisted of the following:

		2015	2014
CMS electronic health records incentive payments	$	1,650,919	244,139
Cafeteria and dietary		169,230	169,867
Professional, management and accounting services to SAS		559,062	518,403
340B drug discount program		2,035,882	1,405,279
Rental		152,387	150,565
Net assets released from restrictions for operations		43,037	1,000
Other		167,419	137,456
Total other revenue	$	4,777,936	2,626,709

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the hospital's Medicare share fraction, which includes a 20% incentive. If meaningful use criteria are not met in future periods, the Medical Center is subject to penalties that would reduce future payments for services. The final amount for any payment year is determined based upon an audit by the Medicare administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center uses a grant accounting model to recognize EHR incentive revenue. Under this model, the Medical Center records EHR incentive revenue when it is reasonably assured that it will meet the meaningful use objective for the required reporting period and that the grant will be received. The Medical Center has recorded an incentive of $1,650,919 and $244,139 for the years ended December 31, 2015 and 2014, respectively, as other operating revenue.

340B Drug Pricing Program

The Medical Center participates in the 340B Drug Pricing Program (340B Program) enabling the Medical Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases and enter into certain contracts with unrelated pharmacies who provide certain prescriptive drugs to System outpatients. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near future. During 2015 and 2014 the Medical Center recognized $2,035,882 and $1,405,279, respectively, of other operating revenue related to the 340B Program contracts with unrelated pharmacies.

(16) Functional Expenses

The Medical Center provides general healthcare services to residents within its geographic location. Expenses included in the consolidated statements of operations relate to the provision of these services.

(17) Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2015 and 2014, was as follows:

	2015	2014
Medicare	26%	32%
Medicaid	16	12
Blue Cross	25	16
Other third-party payors	14	16
Patients	19	24
	100%	100%

Consolidating Balance Sheet
December 31, 2015

	Shenandoah Medical Center	Shenandoah Medical Center Foundation	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 688,155	214,454	--	902,609
Short-term investments	322,669	65,642	--	388,311
Investments limited as to use, current portion	1,247,734	--	--	1,247,734
Receivables -				
Patients, net of allowances for doubtful accounts of $2,961,000 in 2015	10,206,784	--	--	10,206,784
Related party	126,328	--	(73,309)	53,019
Other	3,840,288	--	--	3,840,288
Inventories	1,040,538	--	--	1,040,538
Prepaid expenses	262,578	--	--	262,578
Estimated third-party payor settlements	408,870	--	--	408,870
Total current assets	18,143,944	280,096	(73,309)	18,350,731
Investments limited as to use, net of current portion	28,938,879	--	--	28,938,879
Property and equipment, net	15,669,977	--	--	15,669,977
Beneficial interest in perpetual trusts	4,618,010	--	--	4,618,010
Equity in Shenandoah Ambulance Service	378,181	--	--	378,181
Other long-term asset	1,742	--	--	1,742
Total assets	$ 67,750,733	280,096	(73,309)	67,957,520
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	$ 1,694,242	--	--	1,694,242
Accounts payable -				
Trade	3,195,246	97,264	(73,309)	3,219,201
Property and equipment	1,247,734	--	--	1,247,734
Accrued salaries, vacation and benefits payable	1,596,984	--	--	1,596,984
Accrued interest	27,860	--	--	27,860
Deferred Medicare revenue	1,910,399	--	--	1,910,399
Total current liabilities	9,672,465	97,264	(73,309)	9,696,420
Long-term debt, net of current portion	27,806,294	--	--	27,806,294
Total liabilities	37,478,759	97,264	(73,309)	37,502,714
Net Assets:				
Unrestricted	24,578,643	182,832	--	24,761,475
Temporarily restricted	1,023,321	--	--	1,023,321
Permanently restricted	4,670,010	--	--	4,670,010
Total net assets	30,271,974	182,832	--	30,454,806
Total liabilities and net assets	$ 67,750,733	280,096	(73,309)	67,957,520

See independent auditor's report

Consolidating Statement of Operations
For the Year Ended December 31, 2015

	Shenandoah Medical Center	Shenandoah Medical Center Foundation	Eliminations	Consolidated
UNRESTRICTED REVENUE:				
Net patient service revenue	$ 36,537,858	--	--	36,537,858
Provision for bad debts	(3,248,531)	--	--	(3,248,531)
Net patient service revenue less provision for bad debts	33,289,327	--	--	33,289,327
Other revenue	4,777,936	--	--	4,777,936
Total unrestricted revenue	38,067,263	--	--	38,067,263
EXPENSES:				
Salaries and wages	18,160,633	--	--	18,160,633
Employee benefits	3,415,262	--	--	3,415,262
Professional and purchased services	5,478,800	--	--	5,478,800
Repair and maintenance	632,489	--	--	632,489
Supplies and other expenses	6,675,224	--	--	6,675,224
Utilities	442,954	--	--	442,954
Insurance	198,607	--	--	198,607
Interest	115,845	--	--	115,845
Depreciation	2,567,687	--	--	2,567,687
Total expenses	37,687,501	--	--	37,687,501
OPERATING INCOME	379,762	--	--	379,762
NONOPERATING GAINS (LOSSES), NET:				
Investment income	427,148	282	--	427,430
Income from beneficial interest in perpetual trusts	43,875	--	--	43,875
Gifts and bequests	75,549	61,954	(78,797)	58,706
Fundraising expenses	--	(94,655)	78,797	(15,858)
Gain on Shenandoah Ambulance Service operations	39,035	--	--	39,035
Gain (loss) on Auxiliary operations	(1,995)	--	--	(1,995)
Total nonoperating gains (losses), net	583,612	(32,419)	--	551,193
EXCESS OF REVENUE OVER (UNDER) EXPENSES	963,374	(32,419)	--	930,955
NET ASSETS RELEASED FROM RESTRICTIONS FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	141,466	20,000	--	161,466
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	(522,607)	--	--	(522,607)
NET ASSET RECLASSIFICATION	216,663	--	--	216,663
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 798,896	(12,419)	--	786,477

See independent auditor's report

Consolidating Statement of Changes in Net Assets
For the Year Ended December 31, 2015

	Shenandoah Medical Center	Shenandoah Medical Center Foundation	Eliminations	Consolidated
UNRESTRICTED NET ASSETS:				
Excess of revenue over expenses	$ 963,374	(32,419)	--	930,955
Net assets released from restrictions for the purchase of property and equipment	141,466	20,000	--	161,466
Change in net unrealized gains and losses on other than trading securities	(522,607)	--	--	(522,607)
Net asset reclassification	216,663	--	--	216,663
Increase (decrease) in unrestricted net assets	798,896	(12,419)	--	786,477
TEMPORARILY RESTRICTED NET ASSETS:				
Contributions and grants	5,632	--	--	5,632
Investment income	42,329	--	--	42,329
Income from beneficial interest in perpetual trusts	86,184	--	--	86,184
Change in net unrealized gains and losses on other than trading securities	(44,885)	--	--	(44,885)
Net assets released from restrictions for operations	(43,037)	--	--	(43,037)
Net assets released from restrictions for the purchase of property and equipment	(141,466)	(20,000)	--	(161,466)
Decrease in temporarily restricted net assets	(95,243)	(20,000)	--	(115,243)
PERMANENTLY RESTRICTED NET ASSETS:				
Change in value of beneficial interest in perpetual trusts	(194,559)	--	--	(194,559)
Change in net unrealized gains and losses on other than trading securities	(13,150)	--	--	(13,150)
Net asset reclassification	(216,663)	--	--	(216,663)
Decrease in permanently restricted net assets	(424,372)	--	--	(424,372)
INCREASE (DECREASE) IN NET ASSETS	279,281	(32,419)	--	246,862
NET ASSETS, beginning of year	29,992,693	215,251	--	30,207,944
NET ASSETS, end of year	$ 30,271,974	182,832	--	30,454,806

See independent auditor's report

Shenandoah Medical Center and Affiliate

Exhibit 4

Divisional Balance Sheets – Shenandoah Medical Center
December 31, 2015 and 2014

	2015				2014			
	Hospital	Elm Heights	Eliminations	Total SMC	Hospital	Elm Heights	Eliminations	Total SMC
ASSETS								
Current assets:								
Cash and cash equivalents	$ 453,980	234,175	--	688,155	1,436,590	675,105	--	2,111,695
Short-term investments	--	322,669	--	322,669	--	321,775	--	321,775
Investments limited as to use, current portion	1,247,734	--	--	1,247,734	--	--	--	--
Receivables -								
Patient, net of allowances for estimated uncollectible accounts of $2,961,000 in 2015 and $1,892,000 in 2014	9,989,216	217,568	--	10,206,784	6,910,780	105,269	--	7,016,049
Related party	126,328	--	--	126,328	78,178	--	--	78,178
Other	3,840,288	--	--	3,840,288	407,579	--	--	407,579
Inventories	1,027,060	13,478	--	1,040,538	785,157	16,171	--	801,328
Prepaid expenses	253,929	8,649	--	262,578	209,102	6,244	--	215,346
Due from Elm Heights/Hospital	34,052	750,459	(784,511)	--	15,131	500,000	(515,131)	--
Estimated third-party payor settlements	408,870	--	--	408,870	--	--	--	--
Total current assets	17,381,457	1,546,998	(784,511)	18,143,944	9,842,517	1,624,564	(515,131)	10,951,950
Investments limited as to use, net of current portion	28,938,879	--	--	28,938,879	9,322,606	--	--	9,322,606
Property and equipment, net	15,141,928	528,049	--	15,669,977	10,640,566	532,527	--	11,173,093
Beneficial interest in perpetual trusts	3,287,330	1,330,680	--	4,618,010	3,416,746	1,395,823	--	4,812,569
Equity in Shenandoah Ambulance Service	378,181	--	--	378,181	339,146	--	--	339,146
Other long-term asset	1,742	--	--	1,742	1,742	--	--	1,742
Total assets	$ 65,129,517	3,405,727	(784,511)	67,750,733	33,563,323	3,552,914	(515,131)	36,601,106
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	$ 1,694,242	--	--	1,694,242	--	--	--	--
Line of credit	--	--	--	--	2,305,914	--	--	2,305,914
Accounts payable -								
Trade	3,130,469	64,777	--	3,195,246	1,132,782	82,696	--	1,215,478
Property and equipment	1,247,734	--	--	1,247,734	309,195	--	--	309,195
Accrued salaries, vacation and benefits payable	1,456,264	140,720	--	1,596,984	1,729,147	195,868	--	1,925,015
Accrued interest	27,860	--	--	27,860	--	--	--	--
Estimated third-party payor settlements	--	--	--	--	521,740	--	--	521,740
Deferred Medicare revenue	1,910,399	--	--	1,910,399	331,071	--	--	331,071
Due to Elm Heights/Hospital	750,459	34,052	(784,511)	--	500,000	15,131	(515,131)	--
Total current liabilities	10,217,427	239,549	(784,511)	9,672,465	6,829,849	293,695	(515,131)	6,608,413
Long-term debt, net of current portion	27,806,294	--	--	27,806,294	--	--	--	--
Total liabilities	38,023,721	239,549	(784,511)	37,478,759	6,829,849	293,695	(515,131)	6,608,413
Net Assets:								
Unrestricted	22,743,145	1,835,498	--	24,578,643	21,916,351	1,863,396	--	23,779,747
Temporarily restricted	1,023,321	--	--	1,023,321	1,118,564	--	--	1,118,564
Permanently restricted	3,339,330	1,330,680	--	4,670,010	3,698,559	1,395,823	--	5,094,382
Total net assets	27,105,796	3,166,178	--	30,271,974	26,733,474	3,259,219	--	29,992,693
Total liabilities and net assets	$ 65,129,517	3,405,727	(784,511)	67,750,733	33,563,323	3,552,914	(515,131)	36,601,106

See independent auditor's report

Divisional Statements of Operations – Shenandoah Medical Center
For the Years Ended December 31, 2015 and 2014

	2015				2014			
	Hospital	Elm Heights	Eliminations	Total SMC	Hospital	Elm Heights	Eliminations	Total SMC
UNRESTRICTED REVENUE:								
Net patient service revenue	$ 33,781,991	2,755,867	--	36,537,858	30,862,010	2,707,180	--	33,569,190
Provision for bad debts	(3,181,182)	(67,349)	--	(3,248,531)	(3,344,645)	(6,055)	--	(3,350,700)
Net patient service revenue less provision for bad debts	30,600,809	2,688,518	--	33,289,327	27,517,365	2,701,125	--	30,218,490
Other revenue	4,948,887	19,656	(190,607)	4,777,936	2,811,166	18,467	(202,924)	2,626,709
Total unrestricted revenue	35,549,696	2,708,174	(190,607)	38,067,263	30,328,531	2,719,592	(202,924)	32,845,199
EXPENSES:								
Salaries and wages	16,533,947	1,619,518	7,168	18,160,633	14,750,299	1,585,593	2,248	16,338,140
Employee benefits	3,068,813	346,449	--	3,415,262	2,672,710	331,819	--	3,004,529
Professional and purchased services	5,320,339	344,200	(185,739)	5,478,800	3,899,937	276,289	(192,912)	3,983,314
Repair and maintenance	596,813	35,706	(30)	632,489	559,963	28,160	(50)	588,073
Supplies and other expenses	6,420,327	266,903	(12,006)	6,675,224	5,067,194	253,140	(12,210)	5,308,124
Utilities	371,056	71,898	--	442,954	441,959	69,591	--	511,550
Insurance	181,578	17,029	--	198,607	171,185	20,607	--	191,792
Interest	115,845	--	--	115,845	25,936	--	--	25,936
Depreciation	2,483,761	83,926	--	2,567,687	1,829,995	87,014	--	1,917,009
Total expenses	35,092,479	2,785,629	(190,607)	37,687,501	29,419,178	2,652,213	(202,924)	31,868,467
OPERATING INCOME (LOSS)	457,217	(77,455)	--	379,762	909,353	67,379	--	976,732
NONOPERATING GAINS (LOSSES), NET:								
Investment income	425,352	1,796	--	427,148	573,515	1,851	--	575,366
Income from beneficial interest in perpetual trusts	548	43,327	--	43,875	8,977	38,714	--	47,691
Gifts and bequests	71,115	4,434	--	75,549	13,993	1,085	--	15,078
Gain on Shenandoah Ambulance Service operations	39,035	--	--	39,035	11,623	--	--	11,623
Gain (loss) on Auxiliary operations	(1,995)	--	--	(1,995)	3,617	--	--	3,617
Total nonoperating gains, net	534,055	49,557	--	583,612	611,725	41,650	--	653,375
EXCESS OF REVENUE OVER (UNDER) EXPENSES	991,272	(27,898)	--	963,374	1,521,078	109,029	--	1,630,107
NET ASSETS RELEASED FROM RESTRICTIONS FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	141,466	--	--	141,466	76,467	--	--	76,467
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	(522,607)	--	--	(522,607)	(229,529)	--	--	(229,529)
TRANSFERS TO AFFILIATE	--	--	--	--	(34,130)	--	--	(34,130)
NET ASSET RECLASSIFICATION	216,663	--	--	216,663	--	--	--	--
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 826,794	(27,898)	--	798,896	1,333,886	109,029	--	1,442,915

See independent auditor's report

Federal Grantor/Pass-Through Agency/Program or Cluster Title	Federal CFDA # Number	Pass-Through Entity Identifying Number	Total Expenditures
U.S. Department of Agriculture			
Direct Program			
Community Facilities Loans and Grants	10.766	N/A	$ 2,637,340
Total Expenditures of Federal Awards			$ 2,637,340

The accompanying notes are an integral part of this schedule

Notes to the Schedule

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Medical Center under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Medical Center.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit* Organizations, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3. Loan

The balance of loans outstanding at December 31, 2015 consists of:

CFDA Number	Name of Federal Program or Cluster	Outstanding Balance at December 31, 2015
10.766	Department of Agriculture – Community Facilities Loans and Grants	$3,000

SEIM JOHNSON

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*

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

We have audited, in accordance with the 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, the financial statements of Shenandoah Medical Center and Affiliate (Medical Center), which comprise of the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of operations, change in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's consolidated financial statements are free from 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 consolidated 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*.

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Medical Center's Response to Findings

The Medical Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seim Johnson, LLP

Omaha, Nebraska
June 22, 2016.

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Shenandoah Medical Center and Affiliate (Medical Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended December 31, 2015. The Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Seim Johnson, LLP

Omaha, Nebraska,
June 22, 2016.

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

- Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __x__ No
- Significant deficiency(ies) identified? __x__ Yes ____ None Reported

- Noncompliance material to financial statements noted? ____ Yes __x__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____ Yes __x__ No
- Significant deficiency(ies) identified? ____ Yes __x__ None Reported

- Type of auditor's report issued on compliance for major federal programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ____ Yes __x__ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.766	Department of Agriculture – Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs: $750,000

- Auditee qualified as low-risk auditee? ____ Yes __X__ No

II. FINANCIAL STATEMENT FINDINGS

Significant Deficiency

Item 2015-001

Criteria:	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.
Condition:	We identified misstatements in the financial statements during the audit that were not initially identified by the Medical Center's internal controls.
Effect:	There were inaccuracies in certain account reconciliations, including accounts payable and accounts receivable payor groupings. Audit journal entries were required to adjust third-party payor settlements and contractual allowances at year end.
Cause:	Due to changes in business operations, the implementation of a new accounting system, and data accumulation changes, management did not timely reconcile inconsistencies, certain reconciliations, and year-end third-party payor estimates.
Recommendation:	The Medical Center should review its reconciliation and settlement estimation procedures to ensure timely and accurate financial statement preparation.
Response:	The Medical Center concurs with the recommendation.
Conclusion:	Response accepted.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.