FORT WASHINGTON MEDICAL CENTER, INC.

FINANCIAL AND COMPLIANCE REPORT

DECEMBER 31, 2018

PBMares SM

ASSURANCE, TAX & ADVISORY SERVICES

FORT WASHINGTON MEDICAL CENTER, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fort Washington Medical Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Fort Washington Medical Center, Inc. (the Hospital), which comprise the balance sheet as of December 31, 2018, the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Fort Washington Medical Center, Inc. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

2017 Financial Statements

The financial statements of the Hospital, as of and for the year ended December 31, 2017, were audited by other auditors, whose report, dated April 30, 2018, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying supplemental information on page 23 marked unaudited is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information on page 23 marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2019, on our consideration of the Hospital'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 this report is solely 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. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

PBMares, LLP

Norfolk, Virginia
May 6, 2019

FINANCIAL STATEMENTS

FORT WASHINGTON MEDICAL CENTER, INC.

BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 2,162,482**	$ 2,271,799
Patient accounts receivable, net of uncollectible accounts (2018 – $2,354,662; 2017 – $2,307,214)	**7,459,858**	6,643,070
Inventory, prepaid expenses, and other current assets	**2,087,302**	2,089,581
Due from affiliates, net	**209,695**	240,778
Total current assets	**11,919,337**	11,245,228
Property and Equipment, net	**7,518,378**	7,775,652
Assets Limited As to Use	**2,324,779**	1,801,119
	$ 21,762,494	$ 20,821,999
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable, accrued expenses and other	**$ 8,660,985**	$ 8,530,000
Advances from third-party payors	**708,020**	612,227
Short-term financing	**340,847**	342,612
Current portion of capital lease obligations	**128,964**	327,307
Current portion of long-term debt	**480,349**	461,775
Total current liabilities	**10,319,165**	10,273,921
Obligations Under Capital Leases, less current portion	**53,860**	182,824
Long-Term Debt, less current portion, net	**5,607,314**	5,973,037
Total liabilities	**15,980,339**	16,429,782
Commitments and Contingencies		
Net Assets:		
Without donor restrictions	**5,675,155**	4,285,217
With donor restrictions	**107,000**	107,000
Total net assets	**5,782,155**	4,392,217
	$ 21,762,494	$ 20,821,999

See Notes to Financial Statements.

FORT WASHINGTON MEDICAL CENTER, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Patient service revenue, net of contractual allowances and discounts	**$ 46,897,595**	**$ -**	**$ 46,897,595**
Provision for bad debt	**(1,690,916)**	**-**	**(1,690,916)**
Net patient service revenue less provision for bad debt	**45,206,679**	**-**	**45,206,679**
Other Operating Revenue, Gains and Support	**590,003**	**-**	**590,003**
Total revenue, gains and other support	**45,796,682**	**-**	**45,796,682**
Expenses:			
Salaries and benefits	**25,066,899**	**-**	**25,066,899**
Supplies and services	**18,443,287**	**-**	**18,443,287**
Depreciation	**930,575**	**-**	**930,575**
Total expenses	**44,440,761**	**-**	**44,440,761**
Income from operations	**1,355,921**	**-**	**1,355,921**
Non-Operating Income and Losses:			
Interest income	**27,310**	**-**	**27,310**
Gain on disposal of assets	**6,707**	**-**	**6,707**
Total nonoperating income and losses	**34,017**	**-**	**34,017**
Excess of revenue over expenses	**1,389,938**	**-**	**1,389,938**
Net Assets:			
Beginning of year	**4,285,217**	**107,000**	**4,392,217**
End of year	**$ 5,675,155**	**$ 107,000**	**$ 5,782,155**

See Notes to Financial Statements.

FORT WASHINGTON MEDICAL CENTER, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Patient service revenue, net of contractual allowances and discounts	$ 42,996,639	$ -	$ 42,996,639
Provision for bad debt	(952,760)	-	(952,760)
Net patient service revenue less provision for bad debt	42,043,879	-	42,043,879
Other Operating Revenue, Gains and Support	677,819	-	677,819
Total revenue, gains and other support	42,721,698	-	42,721,698
Expenses:			
Salaries and benefits	24,547,355	-	24,547,355
Supplies and services	16,728,928	-	16,728,928
Depreciation	961,119	-	961,119
Total expenses	42,237,402	-	42,237,402
Income from operations	484,296	-	484,296
Non-Operating Income and Losses:			
Interest income	11,268	-	11,268
Loss on disposal of assets	(65,990)	-	(65,990)
Total nonoperating income and losses	(54,722)	-	(54,722)
Excess of revenue over expenses	429,574	-	429,574
Net Assets:			
Beginning of year	3,855,643	107,000	3,962,643
End of year	$ 4,285,217	$ 107,000	$ 4,392,217

FORT WASHINGTON MEDICAL CENTER, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	**$ 1,389,938**	$ 429,574
Adjustments to change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation, depletion and amortization	**930,575**	961,119
(Gain) loss on disposal of assets	**(6,707)**	65,990
Decrease (increase) in allowance for uncollectible accounts	**47,448**	(878,681)
Amortization of deferred financing costs	**114,625**	114,625
Changes in assets and liabilities:		
Decrease (increase) in:		
Patient accounts receivable	**(864,236)**	791,284
Inventory, prepaid expenses and other current assets	**2,279**	(268,889)
Net due from affiliates	**31,083**	(111,412)
Increase (decrease) in:		
Accounts payable, accrued expenses, and other	**130,985**	944,482
Advances from third-party payors	**95,793**	(178,057)
Net cash and cash equivalents provided by operating activities	**1,871,783**	1,870,035
Cash Flows From Investing Activities:		
Acquisition of property and equipment	**(666,594)**	(438,451)
Increase in assets limited as to use	**(523,660)**	(71,843)
Net cash and cash equivalents used in investing activities	**(1,190,254)**	(510,294)
Cash Flows From Financing Activities:		
Principal payments on long-term debt	**(461,774)**	(443,919)
Proceeds from short-term financing	**437,143**	342,612
Principal payments on short-term financing	**(438,908)**	(360,923)
Principal payments on capital lease obligations	**(327,307)**	(299,113)
Net cash and cash equivalents used in financing activities	**(790,846)**	(761,343)
Net increase (decrease) in cash and cash equivalents	**(109,317)**	598,398
Cash and Cash Equivalents:		
Beginning	**2,271,799**	1,673,401
Ending	**$ 2,162,482**	$ 2,271,799

See Notes to Financial Statements.

FORT WASHINGTON MEDICAL CENTER, INC.

STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	**$ 463,936**	$ 515,230
Supplemental Schedule of Noncash Investing and Financing Activities:		
Equipment purchased through capital lease	**$ -**	$ 92,755

See Notes to Financial Statements.

FORT WASHINGTON MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Fort Washington Medical Center, Inc. (the Hospital), located in Fort Washington, Maryland, is a licensed 32-bed acute care general hospital. The Hospital provides inpatient and outpatient services primarily for residents of Prince George's County, Maryland and the surrounding areas. Admitting physicians are practitioners who practice primarily in the local area. The Hospital was incorporated in Maryland in 1989 and is organized as a not-for-profit corporation. The Hospital is controlled by Nexus Health, Inc. (Nexus), formerly known as The Greater Southeast Community Hospital Foundation, Inc.

A summary of the Hospital's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) and the *AICPA Audit and Accounting Guide for Health Care Entities*. Under this guidance, the Hospital is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions:

- ***Net assets without donor restrictions:*** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

- ***Net assets with donor restrictions:*** Net assets subject to donor – (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Hospital has no permanently restricted net assets at December 31, 2018 and 2017.

The component of net assets without donor restrictions is comprised of amounts designated by the Board for various functions which amounted to $670,378 and $624,706 as of December 31, 2018 and 2017, respectively.

Management estimates and assumptions: The presentation of financial statements in conformity with accounting principles generally accepted 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Net patient service revenue and patient accounts receivable: The Hospital reports net patient service revenue at the estimated net realizable amounts from patients, third-party payors and others as services are rendered. Allowances for the excess of charges over anticipated patient or third-party payer payments and net uncollectible self-pay amounts are included in the determination of net patient service revenue as reported in the statements of operations.

Patient accounts receivable arise from health care services provided primarily to residents of Maryland. The principal payors for these services are the patients, insurance companies (including CareFirst) and Medicare and certain Medicaid programs. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor 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 Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties 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 Hospital 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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans, or policies.

Effective July 1, 2014, the Hospital entered an agreement with the Health Services Cost Review Commission (HSCRC) to implement the Global Budget Revenue (GBR) methodology. The GBR agreement establishes a prospective, fixed revenue base for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, the Hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Hospital to adjust unit rates, within certain limits, to achieve the overall revenue base at rate year end. Any overcharge or undercharge relative to the approved GBR target is prospectively added to or subtracted from the subsequent year's GBR amount. Although the GBR methodology does not adjust for changes in volume or service mix, the GBR approved revenue is adjusted annually for inflation and for changes in payor mix and uncompensated care, infrastructure requirements, population driven volume increases and performance in quality-based or efficiency-based programs. The Hospital may receive an annual adjustment to its approved revenue for the change in population and market shifts in the Hospital's service area. The GBR methodology is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income from operations: The statements of operations include income from operations. Changes in net assets without donor restrictions which are excluded from income from operations, consistent with industry practice, include interest income, gains and losses on disposals of property and equipment, unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, debt repayments and contributions of (and assets released from donor restrictions related to) long-lived assets.

Charity care: The Hospital follows the disclosure guidance contained in FASB Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure – a consensus of the FASB Emerging Issues Task Force*. This ASU requires that the measurement of charity care by a health care entity for disclosure purposes be based on the direct and indirect costs of providing the charity care and that the Hospital provide disclosure regarding the method used to identify or determine such costs. The measurement and disclosure requirements in this standard were required to be applied to all periods presented in the financial statements (see Note 13 for further information).

Cash and cash equivalents: Cash and cash equivalents consist principally of bank deposits, money market accounts and repurchase agreements, except for assets limited as to use, that are readily convertible into cash with an original maturity of three months or less. Periodically during the year, the Hospital's cash balances may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. Management does not believe the Hospital is exposed to any significant financial risk on cash and cash equivalents.

Inventory: Inventories are stated at the lower of cost or net realizable value. The weighted average cost method is used to determine the cost value of inventories.

Property and equipment: Property and equipment are recorded on the basis of cost, except for donated items, which are recorded at fair market value at the date of the donation. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated economic life of the equipment. Expenditures, which materially increase values, change capacities, or extend economic lives, are capitalized. The cost of property and equipment and the related accumulated depreciation are removed from the accounts in the year assets are sold or retired and any profit or loss on disposition is credited or charged to other gains or losses, as appropriate. Depreciation expense is computed utilizing the straight-line method over the following estimated economic lives of the assets.

	Years
Building and Land Improvements	10 - 40
Fixed Equipment	10 - 15
Movable Equipment	3 - 5

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from income (loss) from operations, 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 temporarily 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 in service.

Mortgage discounts and issuance costs: Deferred financing costs relate to the 2004 mortgage note, which was refinanced during 2013, and are being amortized on a method approximating the interest method over the life of the related debt. Mortgage discounts and issuance costs are reflected as a reduction of the obligation on the balance sheets as of December 31, 2018 and 2017. The amortization for deferred financing costs was $90,348 for each of the years ended December 31, 2018 and 2017. Amortization expense related to the mortgage discount was $24,276 for each of the years ended December 31, 2018 and 2017. These amounts are recorded as interest expense included in supplies and services expense in the statements of operations.

Assets limited as to use: Assets limited as to use are comprised of cash and cash equivalents held by a trustee in accordance with the Hospital's mortgage loan and amounts limited by donor restrictions.

Advances from third-party payors: The Hospital will occasionally receive cash advances from various third-party payors. These amounts have been reported in the accompanying balance sheets as a current liability.

Functional allocation of expenses: The cost of program and supporting services activities have been summarized on a functional basis. The schedule of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. (See Note 14)

Income taxes: The Hospital is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Hospital had no net unrelated business income for the years ended December 31, 2018 and 2017.

The Hospital has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, the Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated the Hospital's tax positions and has concluded that the Hospital has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.

Generally, the Hospital is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before December 31, 2015.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

***Recently issued accounting pronouncements*:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers* and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts* and create new Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers*. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of this standard on the Hospital's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for the Hospital for the year ending December 31, 2020. The adoption of this standard is expected to result in the Hospital recognizing right-of-use assets and lease liabilities for some leases currently accounted for as operating leases under the legacy lease accounting guidance. Management is evaluating the impact of this standard on the Hospital's financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the fiscal year ending December 31, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The adoption of ASU 2016-18 is not expected to have a material impact on the financial statements.

During 2018, the Hospital adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows.

Subsequent events: The Hospital evaluated subsequent events through May 6, 2019, which is the date the financial statements were available to be issued.

Note 2. Patient Revenue and Accounts Receivable

At December 31, 2018 and 2017, the Hospital had gross patient accounts receivable from third-party payors and others as follows:

	Percentage	
	2018	2017
CareFirst	**9.4**	11.6
Worker's Compensation	**0.9**	0.7
Medicaid	**6.3**	5.0
Managed Care and Commercial	**35.7**	34.6
Medicare	**26.1**	25.2
Self-pay	**21.6**	22.9
	100.0	100.0

Gross patient service revenue, by payor class, consisted of the following for the years ended December 31, 2018 and 2017:

	Percentage	
	2018	2017
CareFirst	**13.8**	15.1
Worker's Compensation	**0.6**	0.4
Medicaid	**7.9**	7.9
Managed Care and Commercial	**32.7**	32.2
Medicare	**40.2**	39.3
Self-pay	**4.8**	5.1
	100.0	100.0

Note 2. Patient Revenue and Accounts Receivable (Continued)

Gross patient revenue consisted of the following split between inpatient, outpatient and physician services for the years ended December 31, 2018 and 2017:

	2018	2017
Gross Patient Revenue:		
Inpatient services	**$ 19,174,065**	$ 19,534,243
Outpatient services	**34,261,653**	29,513,289
Physician services	**606,147**	573,604
	54,041,865	49,621,136
Deductions:		
Discounts and allowances	**(6,101,867)**	(5,632,285)
Charity care	**(1,042,403)**	(992,212)
	(7,144,270)	(6,624,497)
	46,897,595	42,996,639
Less:		
Provision for bad debt	**(1,690,916)**	(952,760)
Net patient service revenue	**$ 45,206,679**	$ 42,043,879

Note 3. Financial Assets and Liquidity Resources

As of December 31, 2018 and 2017, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, schedules principal payments on debt and capital construction costs not financed with debt were as follows:

	2018	2017
Financial Assets:		
Cash and cash equivalents	**$ 2,045,403**	$ 1,686,198
Accounts receivable, net	**7,459,858**	6,643,070
Board designations:		
Funds temporarily restricted available for operations	**117,079**	585,601
Total financial assets available within one year	**9,622,340**	8,914,869
Liquidity Resources	**-**	-
Total financial assets and liquidity resources available within one year	**$ 9,622,340**	$ 8,914,869

Note 4. Related Party Transactions

As a controlled subsidiary of Nexus, the Hospital is affiliated with Nexus' other subsidiaries, which include Carolyn Boone Lewis Health Care Center (the Center), Nexus Consulting, Inc., and Fort Washington Ambulatory Services, LLC (Ambulatory Services). The composition of net due from affiliates as of December 31, 2018 and 2017, is as follows:

	2018	2017
Carolyn Boone Lewis Health Care Center	**$ 15,993**	$ 11,166
Nexus Consulting, Inc.	**(58,969)**	(43,016)
Fort Washington Ambulatory Services, LLC	**252,671**	272,628
	$ 209,695	$ 240,778

The Hospital allocated $272,628 to Ambulatory Services for legal fees and management service fees for the year ended December 31, 2017. Amounts repaid by Ambulatory Services in 2018 were $213,490 and an additional $193,533 was advanced in 2018.

Note 5. Property and Equipment

Property and equipment consists of the following at December 31, 2018 and 2017:

	2018	2017
Land and land improvements	**$ 971,228**	$ 994,282
Building and building improvements	**9,959,384**	9,951,270
Equipment	**12,837,931**	12,387,175
Leased equipment	**2,611,185**	2,611,185
	26,379,728	25,943,912
Less accumulated depreciation:		
Building, land improvements and equipment	**(18,960,375)**	(18,277,899)
Leased equipment	**(2,011,760)**	(1,841,762)
	(20,972,135)	(20,119,661)
	5,407,593	5,824,251
Construction in progress	**2,110,785**	1,951,401
Property and equipment, net	**$ 7,518,378**	$ 7,775,652

Depreciation expense reported in the accompanying statements of operations includes $169,999 and $183,687 related to leased equipment for years ended December 31, 2018 and 2017, respectively.

Note 5. Property and Equipment (Continued)

On April 4, 2018, the Hospital entered into a contract with a construction company to commence work on designing and making improvements to the emergency department. The estimated cost of the design and construction services is approximately $1.1 million, which will be partially funded through a grant from the State of Maryland equal to the lesser of $560,000 or the amount of matching funds set aside by the Organization's Board. At December 31, 2018, the Board had set aside $558,514 for this project. The estimated completion date is September 2019.

Note 6. Assets Limited as to Use

Assets limited as to use consisted of the following as of December 31, 2018 and 2017:

	2018	2017
Mortgage reserve fund	**$ 1,659,265**	$ 1,632,959
Restricted grant funds	**558,514**	-
Donor restricted cash	**61,000**	105,160
Pledges receivable	**46,000**	63,000
	$ 2,324,779	$ 1,801,119

Note 7. Short-Term Financing

The Hospital borrows funds to finance its annual insurance premium payments. Interest payable on these amounts is included in current liabilities as accrued expenses. Payments are made monthly and the total balance is due within one year. Interest expense was $5,190 and $1,890 in 2018 and 2017, respectively, and accrued at a rate of approximately 3.00% and 2.73% per annum in 2018 and 2017, respectively. The outstanding balance of this financing was $340,847 and $342,612 as of December 31, 2018 and 2017, respectively.

Note 8. Mortgage Loan

On December 23, 2004, the Hospital entered into an $11,055,000 taxable mortgage loan insured by the United States Department of Housing and Urban Development (HUD) through its Federal Housing Administration (FHA). The loan provided for the satisfaction of the Hospital's previous bond obligation and for construction, new equipment and financing costs.

During the year ended December 31, 2013, the loan was refinanced through the same lender to lower the interest from 6.125% to 3.95% per annum, payable in monthly installments. The term of the loan was not changed and the last payment is due in 2030. Fees in the amount of $473,248 paid to the lender were recorded as additional discount on the loan in accordance with accounting standards applicable to debt modifications.

Note 8. Mortgage Loan (Continued)

As of December 31, 2018 and 2017, the outstanding balance on the loan was $7,226,868 and $7,688,642, respectively, payable in $63,098 monthly installments including interest at 3.95%. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. As of December 31, 2018 and 2017, the Hospital was not in compliance with certain financial covenants. As such, certain types of additional borrowings and disbursements, as defined in the underlying loan agreement, are currently not permitted. Under the terms of the HUD-insured mortgage loan, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets limited as to use. The loan is secured by the Hospital premises and all the assets and cash flows contained therein.

Scheduled principal repayments of the mortgage are due in future years as follows:

Years Ending December 31:	Amounts
2019	$ 480,349
2020	499,670
2021	519,768
2022	540,675
2023	562,422
Thereafter	4,623,984
	7,226,868
Less unamortized financing costs and discounts	(1,139,205)
	$ 6,087,663

Interest expense on all financing arrangements, including amortization of deferred financing costs, was $462,001 and $513,688 for the years ended December 31, 2018 and 2017, respectively.

Note 9. Leases

The Hospital leases medical and office equipment under leases requiring monthly payments ranging from approximately $266 to $7,948, and terms that expire through 2023.

The Hospital also guarantees the rental payments for its corporate headquarters office lease. The corporate headquarters office lease has been extended through January 2020 and is subject to annual escalations. Monthly rental payments charged to the Hospital during fiscal year 2018 ranged from $13,063 to $13,485. Such payments have been included in the aggregate future minimum rentals table below. In addition, the Hospital leases other facility space and equipment under cancelable and non-cancelable operating leases with terms of one year or less.

Rental expense associated with the Hospital's operating leases for the years ended December 31, 2018 and 2017, was $522,903 and $557,641, respectively.

Note 9. Leases (Continued)

The Hospital has capital lease arrangements for medical equipment for use in operations. The remaining lease terms range from one to three years, expiring through 2022. Monthly payments range from approximately $842 to $17,004. Interest expense related to these leases for the years ended December 31, 2018 and 2017 was $23,916 and $41,386, respectively, and is reported as a component of supplies and services expense in the accompanying statements of operations.

The aggregate future minimum rentals, as of December 31, 2018, under the operating and capital leases are as follows:

	Operating	Capital
Years ending December 31:		
2019	$ 231,914	$ 134,848
2020	38,632	25,555
2021	24,881	21,449
2022	-	10,724
Total	$ 295,427	192,576
Less amount representing interest		(9,752)
Present value of future minimum lease payments		182,824
Less current portion of obligation under capital leases		(128,964)
Obligations under capital leases – excluding current portion		$ 53,860

Note 10. Employee Benefit Plan

Pension: Employees of the Hospital and an affiliate participated in a noncontributory Defined Contribution Plan and currently participate in an Employee Thrift Plan that covers substantially all Hospital employees. Participant benefits became fully vested upon completion of five years of credited service or attainment of their normal retirement age. The Plan Administrator amended the Defined Contribution Plan to vest participants in 100% of their account balances as of December 8, 2000, with notice to participants as required by Section 204(h) of the Employee Retirement Income Security Act of 1974, as amended.

The Board of Directors of the Hospital voted to terminate the Defined Contribution Plan effective June 30, 2004, after which time no further contributions were made. Administrative expenses related to completion of plan termination incurred totaled $15,200 and $89,565 in 2018 and 2017, respectively.

Contributions to the Employee Thrift Plan are based on a match of up to 3% of compensation and participants are immediately vested in those amounts. The Employee Thrift Plan allows for a discretionary contribution at the option of management. Pension expense for the Employee Thrift Plan was $279,772 and $255,460 for the Hospital for the years ended December 31, 2018 and 2017, respectively. There were no discretionary contributions for the years ended December 31, 2018 and 2017.

Note 11. Commitments and Contingencies

Insurance: The Hospital currently maintains professional liability insurance coverage on a claims-made basis and general liability insurance coverage on an occurrence basis. The limits for professional liability insurance are $1,000,000 for each covered person and a $3,000,000 total limit. The limits for general liability are $1,000,000 per each occurrence, $3,000,000 general aggregate, $3,000,000 products/completed operations, $50,000 fire damage and $1,000,000 personal/advertising injury. The Hospital's coverage is subject to a deductible of $50,000 for each incident and $150,000 in the aggregate. In addition, the Hospital maintains an excess liability insurance policy with a limit of $10,000,000 for each incident and $10,000,000 in the aggregate. The charge to operating expenses for insurance coverage for the years ended December 31, 2018 and 2017, was $644,842 and $627,908, respectively.

The Hospital is involved in litigation arising in the ordinary course of the Hospital's business. Based on the advice of counsel, management does not believe that, individually or in the aggregate, any such claims, investigations and lawsuits will have a material adverse effect on the Hospital's results of operations, cash flows or financial position.

Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. Management and the Hospital's legal counsel intend to vigorously defend against these claims. It is the opinion of management that the commercial insurance in force is adequate to provide for potential losses resulting from any pending or threatened litigation as of December 31, 2018.

Other: In April 2015, the Hospital entered into an agreement with a third party vendor to be provided with hospitalist and intensivist services. The agreement expired March 2018 and included an annual commitment of $750,000. In March 2018, the Hospital entered into an agreement with a different entity to provide hospitalist and intensivist services. The agreement runs from April 2018 to March 2021 and includes an annual commitment of $720,000, subject to termination.

Note 12. Certain Risks and Uncertainties

The Hospital's ability to maintain and/or increase future revenue could be adversely affected by (1) the HSCRC's changes to rate setting methodology or predicted results and related rate setting modifications that it considers necessary to effectively regulate Maryland hospitals' rates; (2) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee-for-service networks and capitated fee arrangements (the rate setting process in the State of Maryland prohibits hospitals from entering into discounted fee arrangements; however, managed care contracts may provide for exclusive service arrangements); (3) proposed and/or future changes in the laws, rules, regulations and policies relating to the definition, activities and/or taxation of not-for-profit tax-exempt entities; (4) the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (5) the future of Maryland's certificate of need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate the Hospital's ability to expand new services and (6) the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010.

Note 12. Certain Risks and Uncertainties (Continued)

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violation of these laws and regulations could result in the imposition of fines and penalties, as well as repayments of previously billed and collected revenue from patient services.

Note 13. Charity Care

In the ordinary course of business, the Hospital renders services to patients who are financially unable to pay for medical care. The Hospital provides care to these patients who meet certain criteria under its charity care policy without charge or at amounts less than the established rates. The Hospital provides care to all patients regardless of ability to pay. It is the policy of the Hospital to provide financial assistance (charity care) based on inability to pay or high medical expenses for patients who meet specified financial criteria and request such assistance. The Hospital communicates the availability of financial assistance on its website and in Hospital publications, as well as on posted notices in admitting, registration, patient accounts, and emergency and administration departments. Financial assistance may be extended when a review of a patient's individual financial circumstances has been conducted and documented. A determination of financial assistance is re-evaluated every six months, as necessary. The Hospital's financial assistance policy is re-evaluated every calendar year, at a minimum and the related poverty table is updated annually. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as a component of net patient service revenue or patient accounts receivable.

The Hospital maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Hospital's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The ratio of cost to gross charges was 81.24% and 84.16% for the years ended December 31, 2018 and 2017, respectively.

The following information measures the level of charity care provided during the years ended December 31, 2018 and 2017:

	2018	2017
Cost of charity care provided	**$ 846,848**	$ 835,046

NOTES TO FINANCIAL STATEMENTS

Note 14. Functional Expenses

The Hospital provides health care services to the community, including general inpatient and outpatient medical, surgical and rehabilitation services. Expenses related to providing these services, including provision for bad debt, were as follows for the year ended December 31, 2018:

	Program	Management and General	Fundraising	Total Expenses
Compensation of Officers, Directors	**$ 349,825**	**$ 406,390**	**$ -**	**$ 756,215**
Other Salaries and Wages	**17,825,081**	**2,555,757**	**-**	**20,380,838**
Pension Plan Contributions	**244,107**	**28,091**	**-**	**272,198**
Other Employee Benefits	**1,620,418**	**530,103**	**-**	**2,150,521**
Payroll Taxes	**1,306,227**	**200,900**	**-**	**1,507,127**
Legal	**10,020**	**424,606**	**-**	**434,626**
Accounting	**-**	**233,613**	**-**	**233,613**
Other Fees	**441,925**	**104,884**	**602**	**547,411**
Advertising	**-**	**1,704**	**-**	**1,704**
Office Expenses	**156,398**	**41,499**	**-**	**197,897**
Occupancy	**169,144**	**198,002**	**-**	**367,146**
Travel	**12,556**	**31,573**	**-**	**44,129**
Conferences Conventions, and Meetings	**4,331**	**79,422**	**992**	**84,745**
Interest	**462,001**	**-**	**-**	**462,001**
Depreciation, Depletion and Amortization	**838,076**	**92,499**	**-**	**930,575**
Insurance	**583,775**	**61,067**	**-**	**644,842**
Medical Supplies	**3,852,077**	**6,560**	**-**	**3,858,637**
Purchased Services	**8,115,224**	**244,105**	**58,080**	**8,417,409**
Professional Fees	**2,185,926**	**219**	**-**	**2,186,145**
Bad Debts	**1,690,916**	**-**	**-**	**1,690,916**
Other	**117,092**	**153,962**	**2,462**	**273,516**
Utilities	**490,443**	**43,266**	**-**	**533,709**
Equipment Rental	**141,770**	**13,426**	**561**	**155,757**
Total per functional schedule	**$ 40,617,332**	**$ 5,451,648**	**$ 62,697**	**$ 46,131,677**

Note 14. Functional Expenses (Continued)

Expenses related to providing these services, including provision for bad debt, were as follows for the year ended December 31, 2017:

	Program	Management and General	Fundraising	Total Expenses
Compensation of Officers, Directors	$ 293,088	$ 395,893	$ -	$ 688,981
Other Salaries and Wages	16,767,348	3,033,374	-	19,800,722
Pension Plan Contributions	222,634	27,123	-	249,757
Other Employee Benefits	1,643,489	692,216	-	2,335,705
Payroll Taxes	1,252,119	220,071	-	1,472,190
Legal	37,317	150,018	-	187,335
Accounting	-	268,066	-	268,066
Other Fees	467,121	44,074	99	511,294
Advertising	1,030	3,450	-	4,480
Office Expenses	103,213	86,726	-	189,939
Occupancy	185,211	189,591	-	374,802
Travel	23,702	33,784	3,540	61,026
Conferences, Conventions and Meetings	61,838	32,933	996	95,767
Interest	513,688	-	-	513,688
Depreciation, Depletion and Amortization	867,218	93,901	-	961,119
Insurance	567,038	60,870	-	627,908
Medical Supplies	3,800,105	4,350	-	3,804,455
Purchased Services	7,118,412	186,245	-	7,304,657
Professional Fees	1,877,123	1,458	-	1,878,581
Bad Debts	952,760	-	-	952,760
Other	73,935	88,097	3,814	165,846
Utilities	515,586	42,659	-	558,245
Equipment Rental	151,465	30,406	968	182,839
Total per functional schedule	$ 37,495,440	$ 5,685,305	$ 9,417	$ 43,190,162

SUPPLEMENTARY INFORMATION

FORT WASHINGTON MEDICAL CENTER, INC.

OTHER STATISTICAL INFORMATION (Unaudited)
Years Ended December 31, 2018 and 2017

	2018	2017
Inpatient:		
Patient days	**7,180**	7,544
Admissions	**2,064**	2,107
Average length of stay	**3.48**	3.58
Surgical procedures	**400**	451
Outpatient:		
Emergency service visits	**37,912**	39,754
Observation service visits	**1,417**	1,456
Surgical procedure visits	**1,290**	1,508
Inpatient radiology service visits	**5,152**	5,836
Outpatient radiology service visits	**24,614**	24,290
Laboratory service visits	**477**	691

COMPLIANCE SECTION

FORT WASHINGTON MEDICAL CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
Major Program:				
U.S. Department of Housing and Urban Development:				
Section 242 - Program Mortgage Insurance Hospitals	14.128	N/A	N/A	$ 7,226,868
Total Expenditures of Federal Awards				$ 7,226,868

FORT WASHINGTON MEDICAL CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Fort Washington Medical Center, Inc. (the Hospital) and is presented on the accrual basis of accounting. 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 Hospital, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hospital.

Note 2. Summary of Significant Accounting Policy

Expenditures reported on the Schedule for the Section 242 - Program Mortgage Insurance Hospitals represent the balance of the loan outstanding as of December 31, 2018.

Note 3. Indirect Cost Rate

The Hospital elected to utilize the 10% de minimus indirect cost rate.

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
Fort Washington Medical Center, Inc.

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 Fort Washington Medical Center, Inc. (the Hospital), a nonprofit organization, which comprise the balance sheet as of December 31, 2018, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 have not been 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 deficiency in internal control, described in the accompanying schedule of findings and questions costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2018-001.

The Hospital's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of the 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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Norfolk, Virginia
May 6, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Fort Washington Medical Center, Inc.

Report on Compliance for the Major Federal Program

We have audited Fort Washington Medical Center, Inc.'s (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2018. The Hospital's major federal program is 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 award applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program 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 Hospital'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 the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on the Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on the major federal program is not modified with respect to these matters.

The Hospital's Response to Findings

The Hospital's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Hospital 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 Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Hospital's internal control over compliance.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-002, that we consider to be a significant deficiency.

Purpose of this Report

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.

PBMares, LLP

Norfolk, Virginia
May 6, 2019

FORT WASHINGTON MEDICAL CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2018

Section I – SUMMARY OF 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	____No
Noncompliance material to financial statements noted?	_X_ Yes	____No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____Yes	_X_ No
• Significant deficiency(ies) identified?	_X_ Yes	____No

Type of auditor's report issued on compliance for major federal program: *Unmodified*

• Any audit findings disclosed that are required to be reported in accordance with Section 02 CFR 200.516(a)?	_X_ Yes	____No

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
14.128	U.S. Department of Housing and Urban Development Section 242 – Program Mortgage Insurance Hospitals

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

Auditee qualified as low-risk auditee?	_X_ Yes	____No

Section II. FINANCIAL STATEMENT FINDINGS

2018-001 Management of Overpaid Accounts Receivable

Criteria or Specific Requirement: Federal Healthcare Regulations and contracts and agreements with third party insurance carriers require that overpayments be reported and returned within a specific number of days from identification. For example, the Patient Protection and Affordable Care Act requires overpayments from Medicare and Medicaid be returned within 60 days from identification.

Condition: During our testing of accounts receivable, we noted overpayments not properly returned within the required time periods.

Cause: Significant deficiency in internal controls over monitoring credit balances in accounts receivable and adhering to Federal Healthcare Regulations as well as agreements with third party insurance carriers with respect to timely returns of overpayments.

Effect of Potential Effect: Noncompliance with Federal Healthcare regulations and overpayments not being returned within the specified timeframe as required. The Hospital can be subject to fines and treble damages as a result of this noncompliance.

Identification as a Repeat Finding: No

Recommendation: We recommend that this process and the Hospital's policies regarding the timely disposition of credit balances be carefully monitored each month.

View of responsible officials of the auditee: Management agrees with the recommendation and will take steps to resolve the issue and avoid reoccurrence.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-002 Finding – Equipment and Real Property Noncompliance

Identification of the Federal Program: U.S. Department of Housing and Urban Development Section 242 – Program Mortgage Insurance Hospitals CFDA 14.128.

Criteria or Specific Requirement: Uniform Guidance requires recipients of federal funds to maintain property records that include a description of the property, a serial number or other identification number, the acquisition date, cost of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition: During our testing of equipment and real property, we noted items not properly recorded as disposed, and items not properly tagged with an identification number.

Cause: Significant deficiency in internal controls over maintaining the property records to ensure that all assets were tagged with an identifying number or that the disposal was properly recorded.

Effect of Potential Effect: We could not account for all of the assets on the inventory listing.

Questioned Costs: Not applicable, as all of the assets noted as exceptions in our testing are fully depreciated and have no fair market value.

Identification as a Repeat Finding: No

Recommendation: We recommend that management strengthen their policies and procedures to ensure all assets are properly recorded as disposed and properly identified with a waterproof tag.

View of responsible officials of the auditee: Management agrees with the recommendation and will take steps to ensure all fixed assets are properly identified and tracked.

FWMC
FORT WASHINGTON MEDICAL CENTER
A Nexus Health Company

CORRECTIVE ACTION PLAN
YEAR ENDED December 31, 2018

2018-001:

Finding: Management of Overpaid Accounts Receivable

Corrective Actions Taken or Planned:

Management has been constantly working to improve the process of identifying, processing and returning over payments that have resulted in credit balances with third party insurers and patients. The hospital has previously incorporated the weekly identification of new credit balances into its routine monitoring of account balances and this has resulted in fewer new balances of this nature. Management is aware of the guidelines for the various payers with regard to over payments and strives to return payments as they are identified. A special project will be undertaken to reduce credit balances significantly over the course of the next six months including detailed research of each account to provide payment to the appropriate payer or proper application of the paid balance.

2018-002:

Finding: -Equipment and Real Property Noncompliance

Corrective Actions Taken or Planned:

During the audit testing, two equipment inventory items were not located due to disposal of equipment without proper notice to accounting, and some of the sample asset's tags were faded or had fallen off as a result of repetitive cleanings. As a corrective measure, to address the asset tags, Theresa Pittman, Corporate Controller will remove all the labels placed on the equipment when it was acquired in 2005 and replace them with waterproof tags that will withstand repeated cleanings without fading or falling off. To address proper tracking of equipment, the accounting department will re-issue to all departments a notice of proper asset disposal procedures for all HUD "funded" fixed assets. In addition this informational notice will be included in the new hire orientation packages. Notice of proper asset disposal will be re-issued to all departments no later than May 31, 2019. Re-labeling of HUD equipment has already began and will be completed no later than May 31, 2019

FORT WASHINGTON MEDICAL CENTER, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2018

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs.