Fort Washington Medical Center, Inc.

The Uniform Guidance
Financial and Compliance Report
December 31, 2015

Contents

RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Fort Washington Medical Center, Inc. (the Hospital), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in net assets and cash flows for the years 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 of 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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
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 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 21 marked unaudited is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information on page 21 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 reports dated April 27, 2016 and April 15, 2015, 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 these reports 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. Those reports are 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.

RSM US LLP

Baltimore, Maryland
April 27, 2016

Fort Washington Medical Center, Inc.

Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,879,840**	$ 4,340,490
Patient accounts receivable, net of uncollectible accounts (2015 – $2,179,155; 2014 – $3,481,593)	**6,071,726**	5,656,482
Inventory, prepaid expenses, and other current assets	**2,019,329**	2,130,284
Incentive payments receivable	**307,228**	-
Net due from affiliates	**237,245**	96,050
Total current assets	**10,515,368**	12,223,306
Property and equipment, net	**8,454,768**	7,941,245
Assets limited as to use	**1,724,065**	1,724,065
	$ 20,694,201	$ 21,888,616
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, accrued expenses and other	**$ 6,999,978**	$ 7,703,467
Advances from third-party payors	**744,152**	815,252
Short-term financing	**353,799**	404,354
Current portion of capital lease obligations	**232,045**	224,068
Current portion of long-term debt	**426,754**	410,252
Total current liabilities	**8,756,728**	9,557,393
Obligations under capital leases, less current portion	**296,006**	392,167
Long-term debt, less current portion	**6,649,481**	6,961,610
Total liabilities	**15,702,215**	16,911,170
Commitments and contingencies		
Net assets:		
Unrestricted	**4,884,986**	4,870,446
Temporarily restricted	**107,000**	107,000
Total net assets	**4,991,986**	4,977,446
	$ 20,694,201	$ 21,888,616

See notes to financial statements.

Fort Washington Medical Center, Inc.

Statements of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted revenue, gains and other support:		
Patient service revenue, net of contractual allowances and discounts	**$ 41,940,895**	$ 41,624,753
Provision for bad debt	**(376,607)**	(769,502)
Net patient service revenue less provision for bad debt	**41,564,288**	40,855,251
Other operating revenue, gains, and support	**854,872**	1,384,179
Total unrestricted revenue, gains, and other support	**42,419,160**	42,239,430
Expenses:		
Salaries and benefits	**24,277,948**	22,429,065
Supplies and services	**17,175,797**	17,555,521
Depreciation	**951,537**	874,721
Total expenses	**42,405,282**	40,859,307
Income from operations	**13,878**	1,380,123
Other income:		
Interest income	**662**	607
Total other income	**662**	607
Excess of revenue over expenses	**$ 14,540**	$ 1,380,730

See notes to financial statements.

Fort Washington Medical Center, Inc.

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

	2015	2014
Unrestricted net assets:		
Excess of revenue over expenses	**$ 14,540**	$ 1,380,730
Increase in unrestricted net assets	**14,540**	1,380,730
Increase in net assets	**14,540**	1,380,730
Net assets:		
Beginning of year	**4,977,446**	3,596,716
End of year	**$ 4,991,986**	$ 4,977,446

See notes to financial statements.

Fort Washington Medical Center, Inc.

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

	2015	2014
Cash flows from operating activities:		
Change in net assets	**$ 14,540**	$ 1,380,730
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation	**951,537**	874,721
(Decrease) increase in allowance for uncollectible accounts	**(1,302,438)**	1,177,025
Amortization of deferred financing costs	**114,625**	114,625
Changes in assets and liabilities:		
(Increase) decrease in:		
Patient accounts receivable	**887,194**	(1,589,567)
Inventory, prepaid expenses and other current assets	**110,955**	20,952
Incentive payments receivable	**(307,228)**	915,710
Net due from affiliates	**(141,195)**	1,702,108
Increase (decrease) in:		
Accounts payable, accrued expenses, and other	**(703,489)**	634,563
Advances from third-party payers	**(71,100)**	(100,200)
Net cash and cash equivalents (used in) provided by operating activities	**(446,599)**	5,130,667
Cash flows from investing activities:		
Acquisition of property and equipment	**(1,301,923)**	(1,331,655)
Increase in assets limited as to use	**-**	(92,410)
Net cash and cash equivalents used in investing activities	**(1,301,923)**	(1,424,065)
Cash flows from financing activities:		
Principal payments on long-term debt	**(410,252)**	(403,483)
Proceeds from short-term financing	**453,903**	518,763
Principal payments on short-term financing	**(504,458)**	(570,663)
Proceeds from financing cost refund	**-**	276,672
Principal payments on capital lease obligations	**(251,321)**	(249,023)
Net cash and cash equivalents used in financing activities	**(712,128)**	(427,734)
Net (decrease) increase in cash and cash equivalents	**(2,460,650)**	3,278,868
Cash and cash equivalents:		
Beginning	**4,340,490**	1,061,622
Ending	**$ 1,879,840**	$ 4,340,490
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 451,523**	$ 437,835
Supplemental schedule of noncash investing and financing activities:		
Equipment purchased through capital lease	**$ 163,137**	$ 589,667

See 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 34-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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets:

> ***Unrestricted net assets*** represent contributions, gifts, and grants which have no donor-imposed restrictions or which arise as a result of operations.
>
> ***Temporarily restricted net assets*** represent contributions, gift, and grants which have donor-imposed limitations on their use for a specified time period or purpose.
>
> ***Permanently restricted net assets*** represent contributions, gifts and grants that have been restricted by donors to be maintained by the Hospital in perpetuity. The Hospital has no permanently restricted net assets at December 31, 2015 and 2014.

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.

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.

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

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.

Excess of revenue over expenses: The statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include interest income, 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.

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

Charity care: The Hospital follows the disclosure guidance contained in FASB's 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 were required to be applied to all periods presented in the financial statements (see Note 12 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 market. 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

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 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 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 the 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, 2015 and 2014. The amortization for deferred financing costs was $90,349 for the years ended December 31, 2015 and 2014. Amortization expense related to the mortgage discount was $24,276 for years ended December 31, 2015 and 2014. These amounts are recorded as interest expense included in supplies and services expense in the statements of operations.

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

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 of 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.

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, 2015 and 2014.

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, 2012.

Recently adopted accounting pronouncement: In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU was adopted by the Hospital for the year ending December 31, 2015. The adoption of this standard resulted in a reclassification of debt issuance costs from an asset to contra-liability balance on the Hospital's balance sheets as of December 31, 2015 and 2014. In addition, the adoption of the standard resulted in amortization of the debt issuance costs being reported as interest expense on the Hospital's statements of operations for the years ended December 31, 2015 and 2014.

Recently issued accounting pronouncement: 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. The impact of adopting ASU 2014-09 on the Hospital's financial statements for subsequent periods has not yet been determined.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that 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, 2019. 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.

Reclassifications: Certain 2014 amounts have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on previously reported change in net assets.

Subsequent events: The Hospital evaluated subsequent events through April 27, 2016, which is the date the financial statements were available to be issued.

Note 2. Patient Revenue and Accounts Receivable

At December 31, 2015 and 2014, the Hospital had gross patient accounts receivable from third-party payors and others as follows:

	Percentage	
	2015	2014
CareFirst	13.7	16.2
Worker's Compensation	1.1	0.9
Medicaid	10.5	9.9
Managed Care and Commercial	34.0	33.2
Medicare	28.5	26.8
Self-pay	12.2	13.0
	100.0	100.0

Gross patient service revenue, by payer class, consisted of the following for the years ended December 31, 2015 and 2014:

	Percentage	
	2015	2014
CareFirst	17.5	19.8
Worker's Compensation	0.4	0.3
Medicaid	7.5	7.1
Managed Care and Commercial	32.0	31.9
Medicare	37.1	35.3
Self-pay	5.5	5.6
	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, 2015 and 2014:

	2015	2014
Gross patient revenue:		
Inpatient services	$ 19,696,732	$ 20,123,928
Outpatient services	28,594,723	28,548,654
Physician services	211,015	299,247
	48,502,470	48,971,829
Deductions:		
Discounts and allowances	(5,646,886)	(5,892,064)
Charity care	(914,689)	(1,455,012)
	(6,561,575)	(7,347,076)
	41,940,895	41,624,753
Less: provision for bad debt	(376,607)	(769,502)
Net patient service revenue	$ 41,564,288	$ 40,855,251

Note 3. Related Party Transactions

As a controlled subsidiary of Nexus, the Hospital is affiliated with Nexus's other subsidiaries, which include Carolyn Boone Lewis Health Care Center (the Center) and Nexus Consulting, Inc. The composition of net due from affiliates as of December 31, 2015 and 2014, is as follows:

	2015	2014
Carolyn Boone Lewis Health Care Center	$ 213,222	$ 72,710
Nexus Consulting, Inc.	24,023	23,340
	$ 237,245	$ 96,050

The Hospital allocated certain joint costs to the Center, such as certain compensation, insurance, and information technology costs. The Hospital has occasionally advanced funded certain accounts payable disbursements to the Center. The Hospital also allocated a charge to the Center for management and wind-down services in the amount of $180,000 and $356,004 for the years ended December 31, 2015 and 2014, respectively. During the year ended December 31, 2014, the Hospital was allocated a $120,000 charge from the Center for contracted dietary services. The Center was sold with an effective date of December 31, 2014.

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2015 and 2014:

	2015	2014
Land and land improvements	$ 965,229	$ 874,369
Building	9,664,656	9,088,415
Equipment	12,255,499	11,824,144
Leased equipment	2,588,478	2,424,692
	25,473,862	24,211,620
Less accumulated depreciation		
Building, land improvements and equipment	(17,785,612)	(17,285,108)
Leased equipment	(2,017,272)	(1,782,466)
	(19,802,884)	(19,067,574)
	5,670,978	5,144,046
Construction in progress	2,783,790	2,797,199
	$ 8,454,768	$ 7,941,245

Depreciation expense reported in the accompanying statements of operations includes $234,806 and $246,306 related to leased equipment for years ended December 31, 2015 and 2014, respectively.

Note 5. Assets Limited as to Use

Assets limited as to use consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Mortgage reserve fund	$ 1,617,065	$ 1,617,065
Donor restricted cash	61,000	61,000
Pledges receivable	46,000	46,000
	$ 1,724,065	$ 1,724,065

In 2008, the Hospital commenced a capital campaign and contributions from the campaign will be used to fund major renovation and construction projects. Gross pledges receivable were $326,000, less an allowance of $280,000, as of both December 31, 2015 and 2014.

The payment terms of the pledges receivable as of December 31, 2015, are scheduled to be received as follows:

Year ending December 31:	
2016	$ 326,000
Less allowance for uncollectible accounts	(280,000)
	$ 46,000

Note 6. 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 $5,167 and $6,086 in 2015 and 2014, respectively, and accrued at a rate of approximately 2.60% per annum. The outstanding balance of this financing was $353,799 and $404,354 as of December 31, 2015 and 2014, respectively.

Note 7. 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. During the year ended December 31, 2014, a refund of $276,672 of these costs was issued by the lender which decreased the loan discount balance accordingly.

As of December 31, 2015 and 2014, the outstanding balance on the loan was $8,559,315 and $8,969,567, respectively. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. 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:	
2016	$ 426,754
2017	443,919
2018	461,775
2019	480,349
2020	499,670
Thereafter	6,246,848
	8,559,315
Less unamortized financing costs and discounts	(1,483,080)
	$ 7,076,235

Interest expense on all financing arrangements, including amortization of deferred financing costs, was $564,468 and $555,419 for the years ended December 31, 2015 and 2014, respectively.

Note 8. Leases

The Hospital leases medical and office equipment under eight leases requiring monthly payments ranging from approximately $258 to $21,581, and the term of these leases expire through 2019.

The Hospital also guarantees the rental payments for its corporate headquarters office lease, under the terms of which the Hospital and Center, are proportionally allocated all related rent expense through its management fee arrangement (see Note 3). Since the sale of the Center in December 2014, all rent is charged to the Hospital. The corporate headquarters office lease is subject to annual escalations. Monthly rental payments charged to the Hospital ranged from $12,643 to $13,907. During the year ended December 31, 2015, the Hospital signed a lease extension, the term of which expires July 2018. 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, 2015 and 2014, was $952,771 and $1,104,454, respectively.

The Hospital has capital lease arrangements for medical equipment for use in operations. The lease terms range from three to five years, expiring through 2020. Monthly payments range from approximately $720 to $8,300. Interest expense related to these leases for the years ended December 31, 2015 and 2014, was $51,814 and $39,980, 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, 2015, under the operating and capital leases are as follows:

Years ending December 31:	Operating	Capital
2016	$ 245,366	$ 267,703
2017	210,107	125,727
2018	136,628	125,727
2019	5,610	79,391
2020	-	4,106
Total	$ 597,711	602,654
Less amount representing interest		(74,603)
Present value of future minimum lease payments		528,051
Less current portion of obligation under capital leases		(232,045)
Obligations under capital leases - excluding current portion		$ 296,006

Note 9. Employee Benefit Plans

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.

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 was amended to provide for a discretionary contribution at the option of management. Pension expense for the Employee Thrift Plan was $257,116 and $405,603 for the Hospital for the years ended December 31, 2015 and 2014, respectively. In 2015, management elected not to fund the discretionary contribution previously accrued for plan year 2014, resulting in a reduction of pension expense in the amount of $152,874. In 2014, management elected not to fund the discretionary contribution previously accrued for plan year 2013, resulting in a reduction of pension expense in the amount of $190,745. No discretionary contribution was accrued for the plan year 2015.

Note 10. 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 coverages are 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, 2015 and 2014, was $660,715 and $815,422, 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, 2015 and 2014.

Other: In April 2015, the Hospital entered into an agreement with a third party vendor to be provided hospitalist and intensivist services. The agreement expires March 2018 and includes an annual commitment of $750,000, subject to termination.

Note 11. 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.

In January 2014, the Centers for Medicare & Medicaid Services (CMS) and the State of Maryland jointly announced a new initiative to modernize Maryland's unique all-payer rate-setting system for hospital services aimed at improving patient health and reducing costs. As such, in July 2014, the Hospital adopted the Global Budget Revenue (GBR) model established by the HSCRC. GBR methodology is central to achieving the three part aim set forth in the State of Maryland's All-Payer Model of promoting better care, better health, and lower cost for all Maryland patients. In contrast to the previous Medicare waiver that focused on controlling increases in Medicare inpatient payments per case, the new All-Payer Model focuses on controlling increases in total hospital revenue per capita. GBR methodology is an extension of the Total Patient Revenue (TPR) methodology, which encourages hospitals to focus on population-based health management by prospectively establishing a fixed annual revenue cap for each GBR hospital.

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 fined and penalties, as well as repayments of previously billed and collected revenue from patient services.

Note 12. 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, 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 81.4% and 82.5% for the years ended December 31, 2015 and 2014, respectively.

The following information measures the level of charity care provided during the years ended December 31, 2015 and 2014:

	2015	2014
Cost of charity care provided	$ 914,689	$ 1,455,012

Note 13. 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 years ended December 31, 2015 and 2014:

	2015	2014
Health care services (direct)	$ 34,713,395	$ 30,695,979
General and administrative (supportive)	7,988,056	10,691,020
Fundraising	80,438	241,810
	$ 42,781,889	$ 41,628,809

General and administrative expense includes provision for bad debt expense of $376,607 and $769,502 for the years ended December 31, 2015 and 2014, respectively.

Fort Washington Medical Center, Inc.

Other Statistical Information (Unaudited)
Years Ended December 31, 2015 and 2014

	2015	2014
Inpatient		
Patient days	**8,539**	8,271
Admissions	**2,250**	2,178
Average length of stay	**3.80**	3.80
Surgical procedures	**513**	567
Outpatient		
Emergency service visits	**42,978**	44,500
Observation service visits	**1,068**	1,693
Surgical procedure visits	**2,049**	1,901
Radiology service visits	**29,688**	30,191
Laboratory service visits	**806**	899

Fort Washington Medical Center, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Major Program:			
U.S. Department of Housing and Urban Development:			
Section 242 Mortgage Insured Loan	14.128	N/A	$ 8,559,315
Total balance			$ 8,559,315

See notes to schedule of expenditures of federal awards.

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 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. Composition of Balance

Section 242 Mortgage Insured Loan amount represents the balance of the loan outstanding as of December 31, 2015. 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. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. Under the terms of the HUD-insured mortgage loan, the Hospital is required to maintain certain deposits with a trustee. 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:	
2016	$ 426,754
2017	443,919
2018	461,775
2019	480,349
2020	499,670
Thereafter	6,246,848
	$ 8,559,315

RSM US LLP

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.
Fort Washington, Maryland

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), which comprise the balance sheet as of December 31, 2015, and the related statements of operations, 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 April 27, 2016.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

RSM US LLP

Baltimore, Maryland
April 27, 2016

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

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

Report on Compliance for Each 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, 2015. 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 awards 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 Each 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, 2015.

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 items 2015-002, 2015-003 and 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

The Hospital's response to the noncompliance findings identified in our audit are 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

The Hospital's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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.

RSM US LLP

Baltimore, Maryland
April 27, 2016

Fort Washington Medical Center, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

Section I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
* Material weakness(es) identified?	____ Yes	X No	
* Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X 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 that are not considered to be material weakness(es)?	X Yes	____ None Reported	
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	X Yes	____ No	

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.128	U.S. Department of Housing and Urban Development: Section 242 Mortgage Insured Loan

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

(Continued)

Section II. Financial Statement Findings

A. Significant Deficiencies in Internal Control
None noted.

B. Material Weaknesses in Internal Control
None noted.

C. Compliance Findings
None noted.

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Section III. Findings and Questioned Costs for Federal Awards

A. Significant Deficiencies in Internal Control

2015-001 Data Collection Form Submission

Criteria: As outlined in 2 CFR section 200.512(a) auditees are required to submit annually the Data Collection Form (DCF) to the Federal Audit Clearinghouse (FAC) within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.

Condition: The audit report for the year ended December 31, 2014, was provided April 15, 2015. The DCF was submitted and accepted by the FAC on January 16, 2016.

Effect: The DCF was not submitted timely as required by the OMB Uniform Guidance 2 CFR section 200.512(a).

Cause: Management did not have adequate controls in place to ensure that all reporting objectives, including timely submission, were met.

Recommendation: Management should strengthen controls surrounding the annual DCF Federal reporting requirement to ensure timely submission for future audit periods.

View of Responsible Official: Management had misinterpreted timely submission of the DCF to be no later than September 30th after completion of the audit period. Our schedule did not reflect the required date. Management made an effort to submit the required data collection form in June, 2015 to the FAC. At the time of our attempted submission, the FAC was offline because the website had been hacked. The FAC was offline until December 2015. When we were made aware of the fact that the site was operational again, we submitted the audit report. For purposes of our reporting to the U.S. Department of Housing and Urban Development as required in our regulatory agreement, management submitted its annual audit to its account executive in a timely manner immediately after the completion of the audit on April 22, 2015.

B. Material Weaknesses in Internal Control
None noted.

C. Compliance Findings

2015-002 See Item 2015-001 Above.

2015-003 Reporting Requirements – U.S. Department of Housing and Urban Development: Section 242 Mortgage Insured Loan (CFDA # 14.128)

Criteria: As outlined in the Hospital's Regulatory Agreement with HUD dated July 1, 2013, the Hospital is required to file with the Commissioner quarterly unaudited financial reports within 40 days following the end of each quarter of the Hospital's fiscal year. The Hospital is also required to submit an annual budget within 30 days of the start of the fiscal year.

Condition: For the year ended December 31, 2015, two quarterly reports were submitted after the 40 day requirement. The quarterly reports for the first and second quarters due May 9, 2015 and August 9, 2015, respectively, were submitted on October 19, 2015. An annual budget for the year ended December 31, 2015 was not submitted.

Effect: The condition resulted in regulatory non-compliance for the HUD Section 242 Mortgage Insured Loan.

Cause: Management does not have an adequate tracking system to ensure that all required reports are submitted timely.

Recommendation: Management should institute a formal tracking system to ensure compliance with the applicable reporting requirements of the Hospital's programs throughout the year.

View of Responsible Official: Management agrees with the finding and will implement an improved tracking system to insure the submission of all reports in a timely manner. The submission item will be added to the month end closing process on a quarterly basis to insure timely submission.

2015-004 Equipment Management – U.S. Department of Housing and Urban Development: Section 242 Mortgage Insured Loan (CFDA # 14.128)

Criteria: As outlined in 2 CFR section 200.313(d) a physical inventory of property acquired through a federal award must be taken and the results reconciled with the property records at least once every two years.

Condition: The Hospital performed physical inventories on May 1, 2013 and February 29, 2016.

Effect: A physical inventory was not performed within a two year period as required by the OMB Uniform Guidance 2 CFR section 200.313(d).

Cause: Management does not have an adequate tracking system to ensure all periodic compliance procedures related to equipment management are performed.

Recommendation: Management should institute a formal tracking system of regulatory requirements to ensure all periodic compliance requirements, including bi-annual inventories, are performed timely.

View of Responsible Official: Asset inventories were conducted in calendar years 2013 in May and in December 2015 by the Materials Management staff, with a verification review performed by the Accounting Department in February 2016. Going forward, the equipment inventory for HUD purchased assets will be conducted in December along with the annual physical inventory counts for medical supplies.

Fort Washington Medical Center, Inc.

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2015

There were no prior audit findings reported.