

Fort Washington Medical Center, Inc.

The Uniform Guidance
Financial and Compliance Report
December 31, 2017

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RSM US LLP

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 sheets as of December 31, 2017 and 2016, 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 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, 2017 and 2016, 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 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 19 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 19 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 30, 2018, and April 24, 2017, 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 those 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 30, 2018

Fort Washington Medical Center, Inc.

Balance Sheets

December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,271,799	\$ 1,673,401
Patient accounts receivable, net of uncollectible accounts (2017 – \$2,307,214; 2016 – \$3,185,895)	5,529,952	5,442,555
Inventory, prepaid expenses, and other current assets	2,089,581	1,820,692
Due from affiliates, net	240,778	129,366
Total current assets	10,132,110	9,066,014
Property and equipment, net	7,775,652	8,271,555
Assets limited as to use	1,801,119	1,729,276
	\$ 19,708,881	\$ 19,066,845
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, accrued expenses and other	\$ 7,416,882	\$ 6,472,399
Advances from third-party payors	612,227	790,285
Short-term financing	342,612	360,923
Current portion of capital lease obligations	327,307	291,010
Current portion of long-term debt	461,775	443,919
Total current liabilities	9,160,803	8,358,536
Obligations under capital leases, less current portion	182,824	425,479
Long-term debt, less current portion, net	5,973,037	6,320,187
Total liabilities	15,316,664	15,104,202
Commitments and contingencies		
Net assets:		
Unrestricted	4,285,217	3,855,643
Temporarily restricted	107,000	107,000
Total net assets	4,392,217	3,962,643
	\$ 19,708,881	\$ 19,066,845

See notes to financial statements.

Fort Washington Medical Center, Inc.

Statements of Operations

Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted revenue, gains and other support:		
Patient service revenue, net of contractual allowances and discounts	\$ 42,996,639	\$ 43,414,095
Provision for bad debt	(952,760)	(1,055,811)
Net patient service revenue less provision for bad debt	42,043,879	42,358,284
Other operating revenue, gains and support	677,819	348,001
Total unrestricted revenue, gains and other support	42,721,698	42,706,285
Expenses:		
Salaries and benefits	24,547,355	24,780,376
Supplies and services	16,728,928	17,122,312
Depreciation	961,119	980,745
Total expenses	42,237,402	42,883,433
Income (loss) from operations	484,296	(177,148)
Nonoperating income and losses:		
Interest income	11,268	5,805
Loss on disposal of assets	(65,990)	(858,000)
Total nonoperating income and losses	(54,722)	(852,195)
Excess (deficiency) of revenue over expenses	\$ 429,574	\$ (1,029,343)

See notes to financial statements.

Fort Washington Medical Center, Inc.

**Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016**

	2017	2016
Unrestricted net assets:		
Excess (deficiency) of revenue over expenses	\$ 429,574	\$ (1,029,343)
Increase (decrease) in unrestricted net assets	429,574	(1,029,343)
Increase (decrease) in net assets	429,574	(1,029,343)
Net assets:		
Beginning of year	3,962,643	4,991,986
End of year	\$ 4,392,217	\$ 3,962,643

See notes to financial statements.

Fort Washington Medical Center, Inc.

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ 429,574	\$ (1,029,343)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash and cash equivalents provided by operating activities:		
Depreciation	961,119	980,745
Loss on disposal of assets	65,990	858,000
Decrease in allowance for uncollectible accounts	(878,681)	1,006,740
Amortization of deferred financing costs	114,625	114,625
Changes in assets and liabilities:		
Decrease (increase) in:		
Patient accounts receivable	791,284	(377,569)
Inventory, prepaid expenses and other current assets	(268,889)	198,637
Incentive payments receivable	-	307,228
Net due from affiliates	(111,412)	107,879
Increase (decrease) in:		
Accounts payable, accrued expenses, and other	944,483	(527,579)
Advances from third-party payors	(178,058)	46,133
Net cash and cash equivalents provided by operating activities	1,870,035	1,685,496
Cash flows from investing activities:		
Acquisition of property and equipment	(438,451)	(1,083,912)
Decrease in assets limited as to use	(71,843)	(5,211)
Net cash and cash equivalents used in investing activities	(510,294)	(1,089,123)
Cash flows from financing activities:		
Principal payments on long-term debt	(443,919)	(426,754)
Proceeds from short-term financing	342,612	453,903
Principal payments on short-term financing	(360,923)	(446,779)
Principal payments on capital lease obligations	(299,113)	(383,182)
Net cash and cash equivalents used in financing activities	(761,343)	(802,812)
Net increase (decrease) in cash and cash equivalents	598,398	(206,439)
Cash and cash equivalents:		
Beginning	1,673,401	1,879,840
Ending	\$ 2,271,799	\$ 1,673,401
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 572,728	\$ 504,061
Supplemental schedule of noncash investing and financing activities:		
Equipment purchased through capital lease	\$ 92,755	\$ 571,620

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 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, gifts 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, 2017 and 2016.

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.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

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.

Income (loss) from operations: The statements of operations include income (loss) from operations. Changes in unrestricted net assets which are excluded from income (loss) 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.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

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

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 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 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.

	<u>Years</u>
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 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, 2017 and 2016. The amortization for deferred financing costs was \$90,349 for each of the years ended December 31, 2017 and 2016. Amortization expense related to the mortgage discount was \$24,276 for each of the years ended December 31, 2017 and 2016. These amounts are recorded as interest expense included in supplies and services expense in the statements of operations.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

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 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, 2017 and 2016.

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, 2014.

Reclassifications: Certain 2016 amounts have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on the previously reported change in 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 August 2016, the FASB issued 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. The ASU will be effective for the Hospital for the fiscal year ending December 31, 2018. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management is evaluating the impact of this standard on the Hospital's financial statements.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

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

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, 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.

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 June 30, 2020. 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.

Subsequent events: The Hospital evaluated subsequent events through April 30, 2018, which is the date the financial statements were available to be issued.

Note 2. Patient Revenue and Accounts Receivable

At December 31, 2017 and 2016, the Hospital had gross patient accounts receivable from third-party payors and others as follows:

	Percentage	
	2017	2016
CareFirst	11.6	12.0
Worker's Compensation	0.7	0.9
Medicaid	5.0	4.7
Managed Care and Commercial	34.6	36.2
Medicare	25.2	27.5
Self-pay	22.9	18.7
	<u>100.0</u>	<u>100.0</u>

Gross patient service revenue, by payor class, consisted of the following for the years ended December 31, 2017 and 2016:

	Percentage	
	2017	2016
CareFirst	15.1	16.3
Worker's Compensation	0.4	0.3
Medicaid	7.9	7.4
Managed Care and Commercial	32.2	31.3
Medicare	39.3	39.5
Self-pay	5.1	5.2
	<u>100.0</u>	<u>100.0</u>

Fort Washington Medical Center, Inc.

Notes to Financial Statements

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Gross patient revenue:		
Inpatient services	\$ 18,731,978	\$ 18,693,056
Outpatient services	30,315,401	30,037,296
Physician services	573,757	780,851
	<u>49,621,136</u>	<u>49,511,203</u>
Deductions:		
Discounts and allowances	(5,632,285)	(5,314,766)
Charity care	(992,212)	(782,342)
	<u>(6,624,497)</u>	<u>(6,097,108)</u>
	42,996,639	43,414,095
Less:		
Provision for bad debt	(952,760)	(1,055,811)
Net patient service revenue	<u>\$ 42,043,879</u>	<u>\$ 42,358,284</u>

Note 3. 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, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Carolyn Boone Lewis Health Care Center	\$ 11,166	\$ 8,879
Nexus Consulting, Inc.	(43,016)	4,065
Fort Washington Ambulatory Services, LLC	272,628	116,422
	<u>\$ 240,778</u>	<u>\$ 129,366</u>

The Hospital allocated \$272,628 to Ambulatory Services for legal fees and management service fees. The amounts allocated to Ambulatory Services were repaid to the Hospital in 2018.

Fort Washington Medical Center, Inc.**Notes to Financial Statements**

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 994,282	\$ 987,300
Building and building improvements	9,951,270	9,902,825
Equipment	12,387,221	12,352,893
Leased equipment	2,611,185	2,551,488
	<u>25,943,958</u>	<u>25,794,506</u>
Less accumulated depreciation:		
Building, land improvements and equipment	(18,277,946)	(17,797,776)
Leased equipment	(1,841,761)	(1,658,074)
	<u>(20,119,707)</u>	<u>(19,455,850)</u>
	5,824,251	6,338,656
Construction in progress	1,951,401	1,932,899
Property and equipment, net	<u>\$ 7,775,652</u>	<u>\$ 8,271,555</u>

Depreciation expense reported in the accompanying statements of operations includes \$183,687 and \$249,413 related to leased equipment for years ended December 31, 2017 and 2016, respectively.

During 2016, management determined construction in progress costs totaling \$858,000 no longer supported the Hospital's anticipated construction projects. As such, the Hospital wrote off these costs, which are reflected as a nonoperating loss on disposal of assets within the statements of operations.

On April 4, 2018, the Hospital entered into an AIA agreement 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 financed through a state bond bill and a matched amount from the Hospital's restricted funds.

Note 5. Assets Limited as to Use

Assets limited as to use consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Mortgage reserve fund	\$ 1,632,959	\$ 1,622,276
Donor restricted cash	105,160	61,000
Pledges receivable	63,000	46,000
	<u>\$ 1,801,119</u>	<u>\$ 1,729,276</u>

Fort Washington Medical Center, Inc.

Notes to Financial Statements

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 \$1,890 and \$5,078 in 2017 and 2016, respectively, and accrued at a rate of approximately 2.73% and 2.60% per annum in 2017 and 2016, respectively. The outstanding balance of this financing was \$342,612 and \$360,923 as of December 31, 2017 and 2016, 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.

As of December 31, 2017 and 2016, the outstanding balance on the loan was \$7,688,642 and \$8,132,561, respectively. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. As of December 31, 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:	
2018	\$ 461,775
2019	480,349
2020	499,670
2021	519,768
2022	540,675
Thereafter	5,186,405
	<hr/>
	7,688,642
Less unamortized financing costs and discounts	(1,253,830)
	<hr/>
	\$ 6,434,812

Interest expense on all financing arrangements, including amortization of deferred financing costs, was \$513,688 and \$546,562 for the years ended December 31, 2017 and 2016, respectively.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

Note 8. Leases

The Hospital leases medical and office equipment under fourteen leases requiring monthly payments ranging from approximately \$214 to \$21,581, and the term of these leases expire through 2018.

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 has been extended through July 2018 and is subject to annual escalations. Monthly rental payments charged to the Hospital during fiscal year 2017 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, 2017 and 2016, was \$557,641 and \$826,778, respectively.

The Hospital has capital lease arrangements for medical equipment for use in operations. The remaining lease terms range from two to four years, expiring through 2022. Monthly payments range from approximately \$720 to \$17,000. Interest expense related to these leases for the years ended December 31, 2017 and 2016 was 33,667 and \$60,564, 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, 2017, under the operating and capital leases are as follows:

	Operating	Capital
Years ending December 31:		
2018	\$ 207,543	\$ 351,223
2019	46,227	134,848
2020	-	25,555
2021	-	21,449
2022	-	10,723
Total	<u>\$ 253,770</u>	<u>\$ 543,798</u>
Less amount representing interest		<u>(33,667)</u>
Present value of future minimum lease payments		510,131
Less current portion of obligation under capital leases		<u>(327,307)</u>
Obligations under capital leases – excluding current portion		<u>\$ 182,824</u>

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.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

Note 9. Employee Benefit Plans (Continued)

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 \$89,565 and \$7,907 in 2017 and 2016 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 was amended to provide for a discretionary contribution at the option of management. Pension expense for the Employee Thrift Plan was \$255,460 and \$261,488 for the Hospital for the years ended December 31, 2017 and 2016, respectively. There were no discretionary contributions for the years ended December 31, 2017 and 2016.

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 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, 2017 and 2016, was \$627,908 and \$658,218, 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, 2017.

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 expires March 2018 and includes an annual commitment of \$750,000, subject to termination. 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.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

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.

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 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, 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 84.16% and 86.17% for the years ended December 31, 2017 and 2016, respectively.

Fort Washington Medical Center, Inc.

Notes to Financial Statements

Note 12. Charity Care (Continued)

The following information measures the level of charity care provided during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cost of charity care provided	<u>\$ 835,046</u>	<u>\$ 674,144</u>

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Health care services (direct)	\$ 36,979,866	\$ 35,877,554
General and administrative (supportive)	6,192,515	7,689,554
Fundraising	17,781	372,136
	<u>\$ 43,190,162</u>	<u>\$ 43,939,244</u>

General and administrative expenses include the provision for bad debt expense of \$952,760 and \$1,055,811 for the years ended December 31, 2017 and 2016, respectively.

Fort Washington Medical Center, Inc.

**Other Statistical Information (Unaudited)
Years Ended December 31, 2017 and 2016**

	2017	2016
Inpatient:		
Patient days	7,544	8,226
Admissions	2,107	2,265
Average length of stay	3.58	3.63
Surgical procedures	451	485
Outpatient:		
Emergency service visits	39,754	41,474
Observation service visits	1,456	1,163
Surgical procedure visits	1,508	1,724
Inpatient radiology service visits	5,836	5,861
Outpatient radiology service visits	24,290	24,469
Laboratory service visits	691	829

Fort Washington Medical Center, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017**

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:			
Mortgage Insurance Hospitals	14.128	N/A	<u>\$ 7,688,642</u>
Total balance			<u><u>\$ 7,688,642</u></u>

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.

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

Note 2. Composition of Balance

Section 242 Mortgage Insured Loan amount represents the balance of the loan outstanding as of December 31, 2017. 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:	
2018	\$ 461,775
2019	480,349
2020	499,670
2021	519,768
2022	540,675
Thereafter	5,186,405
	<u>\$ 7,688,642</u>

**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, 2017, 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 30, 2018.

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 misstatements may exist that we have not 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 30, 2018

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance**

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

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, 2017. 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 the requirements of laws, regulations, contracts, and grants 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, 2017.

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, material weaknesses may exist that have not been identified.

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

RSM US LLP

Baltimore, Maryland
April 30, 2018

Fort Washington Medical Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2017**

Section I. Summary of Independent Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

* Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
* Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:

* Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
* Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> 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)?

 Yes X No

Identification of major programs:

CFDA Numbers
14.128

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

Dollar threshold to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes No

(Continued)

Fort Washington Medical Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2017**

Section II. Financial Statement Findings

No Findings Noted.

Section III. Federal Award Findings and Questioned Costs

No Findings Noted.

