Fort Washington Medical Center, Inc.

Financial And Compliance Report
December 31, 2011

Contents

McGladrey

Independent Auditor's Report

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

We have audited the accompanying balance sheet of Fort Washington Medical Center, Inc. (the Hospital) as of December 31, 2011, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital for the year ended December 31, 2010, were audited by other auditors whose report, dated March 29, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2011, and the results of operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2012, and other auditors have also issued their report dated March 29, 2011 on consideration of the Hospital's internal control over financial reporting and on the 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 the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The unaudited information on page 18 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 audits 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey & Pullen, LLP

Baltimore, Maryland
April 27, 2012

Fort Washington Medical Center, Inc.

Balance Sheets
December 31, 2011 And 2010

Assets	**2011**	2010
Current Assets		
Cash and cash equivalents	**$ 1,657,087**	$ 1,664,694
Patient accounts receivable, net of uncollectible accounts (2011 – $3,255,734; 2010 – $3,282,780)	**6,354,135**	5,762,382
Inventory, prepaid expenses, and other current assets	**1,933,046**	1,899,057
Net due from affiliates	**1,189,644**	791,486
Total current assets	**11,133,912**	10,117,619
Property And Equipment, Net	**6,683,429**	6,247,400
Assets Limited As To Use	**1,283,311**	1,121,396
Deferred Financing Costs, Net Of Accumulated Amortization (2011 – $612,620; 2010 – $524,803)	**1,480,326**	1,568,143
	$ 20,580,978	$ 19,054,558

Liabilities And Net Assets		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 7,298,577**	$ 6,923,017
Advances from third-party payers	**973,128**	999,242
Short-term financing	**407,902**	355,748
Current portion of capital lease obligations	**84,425**	16,028
Current portion of long-term debt	**321,802**	305,431
Total current liabilities	**9,085,834**	8,599,466
Obligations Under Capital Leases, less current portion	**363,278**	-
Long-Term Debt, less current portion	**9,213,191**	9,511,420
Total liabilities	**18,662,303**	18,110,886
Commitments And Contingencies (Notes 9 and 10)		
Net Assets		
Unrestricted	**1,811,675**	836,672
Temporarily restricted	**107,000**	107,000
Total net assets	**1,918,675**	943,672
	$ 20,580,978	$ 19,054,558

See Notes To Financial Statements.

Fort Washington Medical Center, Inc.

Statements Of Operations
Years Ended December 31, 2011 And 2010

	2011	2010
Unrestricted revenue, gains and other support		
Net patient service revenue	**$ 42,555,868**	$ 40,806,413
Other operating revenue, gains, and support	**569,470**	545,165
Total unrestricted revenue, gains, and other support	**43,125,338**	41,351,578
Expenses		
Salaries and benefits	**21,675,522**	21,344,921
Supplies and services	**16,020,562**	15,218,984
Depreciation and amortization	**782,775**	1,148,369
Provision for bad debts	**3,581,889**	3,242,721
Total expenses	**42,060,748**	40,954,995
Income from operations	**1,064,590**	396,583
Other income (expense)		
Interest income	**4,260**	5,495
Loss on disposal of property and equipment	**(93,847)**	-
Total other income (expense)	**(89,587)**	5,495
Excess of revenue over expenses	**$ 975,003**	$ 402,078

See Notes To Financial Statements.

Fort Washington Medical Center, Inc.

Statements Of Changes In Net Assets
Years Ended December 31, 2011 And 2010

	2011	2010
Unrestricted net assets		
Excess of revenue over expenses	**$ 975,003**	$ 402,078
Increase in unrestricted net assets	**975,003**	402,078
Temporarily restricted net assets		
Restricted contributions	**-**	-
Increase in temporarily restricted net assets	**-**	-
Increase in net assets	**975,003**	402,078
Net assets		
Beginning of year	**943,672**	541,594
End of year	**$ 1,918,675**	$ 943,672

See Notes To Financial Statements.

Fort Washington Medical Center, Inc.

Statements Of Cash Flows
Years Ended December 31, 2011 And 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	**$ 975,003**	$ 402,078
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	**782,775**	1,148,369
Decrease in allowance for uncollectible accounts	**(27,046)**	(1,463,181)
Amortization of mortgage discount	**12,714**	12,713
Loss on disposal of property and equipment	**93,847**	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Patient accounts receivable	**(564,707)**	979,352
Inventory, prepaid expenses and other current assets	**(33,989)**	(67,096)
Net due from affiliates	**(398,158)**	(3,784)
Increase (decrease) in:		
Accounts payable, accrued expenses, and other	**375,560**	189,673
Advances from third-party payers	**(26,114)**	68,044
Net cash and cash equivalents provided by operating activities	**1,189,885**	1,266,168
Cash Flows From Investing Activities		
Acquisition of property and equipment	**(770,239)**	(498,679)
Increase in assets limited as to use	**(161,915)**	(159,666)
Net cash and cash equivalents used in investing activities	**(932,154)**	(658,345)
Cash Flows From Financing Activities		
Principal payments on long-term debt	**(294,572)**	(290,011)
Proceeds from short-term financing	**655,862**	457,390
Principal payments on short-term financing	**(603,708)**	(439,217)
Principal payments on capital lease obligations	**(22,920)**	(403,875)
Net cash and cash equivalents used in financing activities	**(265,338)**	(675,713)
Net decrease in cash and cash equivalents	**(7,607)**	(67,890)
Net Cash And Cash Equivalents:		
Beginning	**1,664,694**	1,732,584
Ending	**$ 1,657,087**	$ 1,664,694
Supplemental Disclosures Of Cash Flow Information		
Cash paid for interest	**$ 604,123**	$ 629,238
Supplemental Schedule Of Noncash Investing And Financing Activities		
Equipment purchased through capital lease	**$ 454,595**	$ -

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 41-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 wholly owned 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, 2011 and 2010.

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 payers, and others as services are rendered. Allowances for the excess of charges over anticipated patient or third party payer payments are included in the determination of net patient service revenue as reported in the statements of operations, whereas net uncollectible self-pay amounts are reported as an operating expense.

Patient accounts receivable arise from health care services provided primarily to residents of Maryland. The principal payers for these services are the patients, insurance companies (including CareFirst) and Medicare and certain Medicaid programs. Deducted from patient accounts receivable are estimates of uncollectible accounts related to self-paying patients and allowances for the excess charges over the payments to be received from third-party payers.

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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

The Maryland Health Services Cost Review Commission (HSCRC) regulates the Hospital's rates for all of its inpatient and outpatient services. As part of the regulatory process, the HSCRC approves unit rates and charges per case amounts, and the Hospital is required to charge within certain limits related to these approved amounts. The HSCRC charge per case methodology recognizes case mix changes. Annual compliance periods begin on July 1 and end on June 30. Variances (overcharges and undercharges), as well as penalties and interest incurred, during a rate year are generally accounted for in the following rate year's approved unit rates and charge per case. The Hospital received a 2.4 percent unit rate and charge per case increase effective July 1, 2010. This 2.4 percent included reconciliation of variances for the compliance period ended December 31, 2010. The Hospital received a 2.01 percent unit rate and charge per case increase effective July 1, 2011. This 2.01 percent included reconciliation of variances for the compliance period ended December 31, 2011.

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 revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, debt repayments and contributions of (and assets released from donor restrictions related to) long-lived assets.

Charity care: During the year ended December 31, 2011, the Hospital adopted 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.

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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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 years
Fixed equipment	10 – 15 years
Movable equipment	3 – 5 years

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 and are being amortized on a method approximating the interest method over the life of the related debt. The amortization for deferred financing costs was $87,817 for the years ended December 31, 2011 and 2010. Amortization expense related to the mortgage discount was $12,714 and $12,713 for the years ended December 31, 2011 and 2010, respectively. These amounts are included in interest expense in the statements of operations.

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

Advances from third-party payers: The Hospital will occasionally receive cash advances from various third party payers. 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, 2011 and 2010.

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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Generally, the Hospital is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for years before December 31, 2008.

Reclassifications: Certain amounts in the 2010 financial statements have been reclassified to conform to the presentation in the 2011 financial statements. These reclassifications had no effect on the previously reported net asset or change in net assets.

Subsequent events: The Hospital evaluated subsequent events through April 27, 2012, which is the date the financial statements were available to be issued.

Recent changes in accounting standards: Some health care entities recognize patient service revenue at the time the services are rendered regardless of whether the entity expects to collect that amount. Concerns have been raised by constituents that such accounting practices result in a gross-up of revenue for amounts that are not expected ultimately to be collected. Additionally, because health care entities make their own judgments regarding adjustments to revenue and bad debts, those judgments are different from one another and comparability is impaired, making analysis difficult for financial statement users.

To provide information to assist financial statement users in assessing an entity's sources of net revenue and changes in its allowance for doubtful accounts, the FASB has issued ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (a consensus of the FASB Emerging Issues Task Force)*. This ASU requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay, to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statements of operations. This represents a change in the presentation of certain health care entities' statements of operations as the provision for bad debts will be reclassified from an operating expense to a reduction from revenue (net of contractual allowances and discounts). Also, a health care entity is required to provide enhanced disclosure about its policies for recognizing revenue and assessing bad debts. Further, the ASU requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The amendments in this ASU are effective for the first annual period ending after December 15, 2012, and annual periods thereafter, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statements of activities should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in the ASU should be provided for the period of adoption and subsequent reporting periods. Management is currently evaluating the impact of this pronouncement on the Hospital's financial statements and related note disclosures.

Note 2. Patient Revenue And Accounts Receivable

At December 31, 2011 and 2010, the Hospital had gross patient accounts receivable from third-party payers and others as follows:

	Percentage	
	2011	2010
CareFirst	**12.2**	13.0
Worker's Compensation	**1.0**	2.2
Medicaid	**7.9**	6.2
Managed Care and Commercial	**26.4**	21.0
Medicare	**15.7**	12.0
Self-pay	**36.8**	45.6
	100.0	100.0

Gross patient service revenue, by payer class, consisted of the following for the years ended December 31, 2011 and 2010:

	Percentage	
	2011	2010
CareFirst	**20.4**	21.5
Worker's Compensation	**0.7**	0.7
Medicaid	**4.1**	4.6
Managed Care	**26.1**	24.4
Commercial	**5.6**	5.1
Medicare	**34.5**	33.7
Self-pay	**8.6**	10.0
	100.0	100.0

Gross patient revenue consisted of the following spilt between inpatient and outpatient services for the years ended December 31, 2011 and 2010:

	2011	2010
Inpatient services	**$ 19,885,600**	$ 23,371,322
Outpatient services	**27,373,057**	22,128,152
	$ 47,258,657	$ 45,499,474

Note 3. Related Party Transactions

As a wholly-owned 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, 2011 and 2010, is as follows:

	2011	2010
Carolyn Boone Lewis Health Care Center	**$ 1,183,536**	$ 780,264
Nexus Consulting, Inc.	**6,108**	11,222
	$ 1,189,644	$ 791,486

The Hospital allocates certain joint costs to the Center, such as certain compensation, insurance, and information technology costs. The Hospital has occasionally advance funded certain accounts payable disbursements to the Center. The Hospital also allocated a charge to the Center annually for management services in the amount of $356,004 for the years ended December 31, 2011 and 2010, and is allocated a $120,000 charge annually from the Center for contracted dietary services.

Note 4. Property And Equipment

Property and equipment consists of the following at December 31, 2011 and 2010:

	2011	2010
Land and land improvements	**$ 858,569**	$ 847,869
Building	**8,835,188**	8,770,582
Equipment	**10,303,915**	9,837,932
Leased equipment	**1,834,965**	1,380,370
	21,832,637	20,836,753
Less accumulated depreciation		
Building, land improvements and equipment	**15,664,107**	15,205,606
Leased equipment	**1,264,431**	1,190,832
	16,928,538	16,396,438
	4,904,099	4,440,315
Construction in progress	**1,779,330**	1,807,085
	$ 6,683,429	$ 6,247,400

Depreciation expense reported in the accompanying statements of operations includes amortization expense of $73,599 and $224,325 related to leased equipment for the years ended December 31, 2011 and 2010, respectively.

Note 5. Assets Limited As To Use

Assets limited as to use consisted of the following as of December 31, 2011 and 2010:

	2011	2010
Mortgage reserve fund	**$ 1,176,311**	$ 1,012,303
Donor restricted cash	**61,000**	61,000
Pledges receivable	**46,000**	48,093
	$ 1,283,311	$ 1,121,396

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 and $328,093, less an allowance of $280,000, as of December 31, 2011 and 2010, respectively.

The payment terms of the pledges receivable as of December 31, 2011, are as follows:

2012	$ 191,200
2013	67,400
2014	67,400
	326,000
Less allowance for uncollectible accounts	(280,000)
	$ 46,000

Note 6. Short-Term Financing And Term Loan

<u>Short-term financing</u>: During 2011 and 2010, the Hospital borrowed 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 $5,369 in 2011 and $6,423 in 2010 at a rate of approximately 2.70 percent and 2.88 percent per annum, respectively. The outstanding balance of this financing was $407,902 and $355,748 as of December 31, 2011 and 2010, respectively.

<u>Commercial bank loan</u>: In January 2008, the Hospital obtained a loan in the amount of $250,000 from a commercial bank. The loan was funded by the transfer of existing balances from the Hospital's line of credit. The term of the loan is 75 months, and the loan bears interest based on *The Wall Street Journal* prime rate plus two percent per annum. The Hospital is required to make interest-only payments monthly and quarterly principal payments of $10,000 with the remaining unpaid principal and interest due at maturity. The loan is guaranteed by Nexus, which has pledged 100 percent of the stock it owns in the Hospital as security for the loan. The loan contains restrictive covenants. In the opinion of management, the Hospital is in compliance with all applicable covenants as of December 31, 2011.

Note 6. Short-Term Financing And Term Loan (Continued)

Scheduled principal repayments of the loan are as follows:

Years Ending December 31,		
2012	$	40,000
2013		40,000
2014		19,984
	$	99,984

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. The loan proceeded to final endorsement after cost certification for the maximum insurable amount of $11,055,000 on March 13, 2008. As of December 31, 2011 and 2010, the outstanding balance on the loan was $9,435,009 and $9,687,726, respectively. The term of the loan is 25 years and the loan bears interest at 6.125 percent per annum, payable in monthly installments. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. In the opinion of management, the Hospital is in compliance with all applicable covenants as of December 31, 2011.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 as follows:

Years Ending December 31,		
2012	$	281,802
2013		299,183
2014		317,636
2015		337,227
2016		358,027
Thereafter		8,082,686
		9,676,561
Less mortgage discount		(241,552)
	$	9,435,009

Interest expense on all financing arrangements was $615,104 and $639,239 for the years ended December 31, 2011 and 2010, respectively.

Note 8. Leases

The Hospital leases medical and office equipment under eight leases requiring monthly payments ranging from approximately $140 to $10,750, and the term of these leases expire through 2015.

The Hospital also leases facility and office space under three leases, and 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 with Nexus (see Note 3). The corporate headquarters office lease is subject to annual escalations. Monthly rental payments range from approximately $1,350 to $14,000, and the term of these leases expire through 2015.

Note 8. Leases (Continued)

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, 2011 and 2010, was $1,108,618 and $930,047, respectively.

The Hospital has a capital lease arrangement for medical equipment for use in operations. The lease term is five years, expiring in November 2016, and bears interest at an annual rate of 3.8 percent, payable monthly. Interest expense related to this lease for the year ended December 31, 2011, was $1,439, 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, 2011, under the operating and capital leases are as follows:

Years Ending December 31,	Operating	Capital
2012	$ 441,339	$ 99,967
2013	357,476	99,967
2014	283,007	99,967
2015	151,398	99,967
2016	-	91,637
Total	$ 1,233,220	491,505
Less amount representing interest		(43,802)
Present value of future minimum lease payments		447,703
Less current portion of obligation under capital leases		(84,425)
Obligations under capital leases – excluding current portion		$ 363,278

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 percent 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 percent 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 $426,373 and $443,245 for the Hospital for the years ended December 31, 2011 and 2010, respectively. In 2011, management elected not to fund the discretionary contribution previously accrued for plan year 2010, resulting in a reduction of pension expense in the amount of $183,378. In 2010, management elected not to fund the discretionary contribution previously accrued for plan year 2009, resulting in a reduction of pension expense in the amount of $384,569. Management accrued a discretionary contribution for plan year 2011.

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 each covered person and $3,000,000 total limit. The limits for general liability are $1,000,000 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, 2011 and 2010, was $874,154 and $859,593, 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, 2011 and 2010.

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 fined and penalties, as well as repayments of previously billed and collected revenue from patient services. Management believes that the Hospital is in substantial compliance with current laws and regulations.

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 0.83 for each of the years ended December 31, 2011 and 2010.

The following information measures the level of charity care provided during the years ended December 31, 2011 and 2010:

	2011	2010
Cost of charity care provided	**$ 570,653**	$ 500,342

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 were as follows for the years ended December 31, 2011 and 2010:

	2011	2010
Health care services (direct)	**$ 32,027,118**	$ 29,957,033
General and administrative (supportive)	**10,033,630**	10,997,962
	$ 42,060,748	$ 40,954,995

Fort Washington Medical Center, Inc.

Other Statistical Information (Unaudited)
Years Ended December 31, 2011 And 2010

	2011	2010
Inpatient days	**8,928**	10,924
Admissions	**2,393**	3,119
Average length of stay	**3.73**	3.55
Inpatient surgical procedures	**563**	521
Inpatient endoscopy	**209**	186
	772	707
Ambulatory surgery visits	**2,422**	2,706
Radiology services	**29,068**	28,680
Laboratory services	**3,403**	3,897
Emergency services	**46,766**	45,720
Observation services	**1,073**	85
Total outpatient visits	**80,310**	78,382

Fort Washington Medical Center, Inc.

Schedule Of Expenditures Of Federal Awards
Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor Program Or Cluster Title	Federal CFDA Number	Federal Expenditures
Major Program:		
U.S. Department of Housing and Urban Development:		
Section 242 Mortgage Insured Loan	14.128	$ 9,676,561
Total balance		$ 9,676,561

See 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. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A- 133*, Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2. Composition Of Balance

Section 242 Mortgage Insured Loan amount represents the balance of the loan outstanding as of December 31, 2011.

McGladrey

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 the financial statements of Fort Washington Medical Center, Inc. (the Hospital) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 27, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Baltimore, Maryland
April 27, 2012

McGladrey

Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of Fort Washington Medical Center, Inc. (the Hospital) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Hospital's major federal programs for the year ended December 31, 2011. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Baltimore, Maryland
April 27, 2012

Fort Washington Medical Center, Inc.

Schedule Of Findings And Questioned Costs
Year Ended December 31, 2011

Section I. Summary Of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
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)?	____ Yes	X None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____ Yes	X 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

Dollar threshold to distinguish between Type A and Type B programs	$300,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

Schedule Of Findings And Questioned Costs
Year Ended December 31, 2011

Section II. Findings Relating To The Financial Statement Audit As Required To Be Reported In Accordance With *Government Auditing Standards* Generally Accepted In The United States Of America

A. Significant Deficiencies Or Material Weakness In Internal Control

None Reported

B. Compliance Findings

None Reported

Section III. Findings And Questioned Costs For Federal Awards

A. Significant Deficiencies Or Material Weakness In Internal Control

None Reported

B. Compliance Findings

None Reported

Fort Washington Medical Center, Inc.

Summary Schedule Of Prior Audit Findings
Year Ended December 31, 2011

There were no prior audit findings reported.