

COHEN  
RUTHERFORD  
+ KNIGHT<sup>PC</sup>  
Certified Public Accountants



Audited Financial Statements  
**Fort Washington Medical  
Center, Inc.**

December 31, 2010 and 2009

Audited Financial Statements  
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**-Contents-**

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## Report of Independent Auditors

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

We have audited the accompanying balance sheets of Fort Washington Medical Center, Inc. (the Hospital) as of December 31, 2010 and 2009, and the related statements of operations and changes in net assets (deficit) and cash flows for the years then ended. The Hospital is a wholly controlled subsidiary of Nexus Healthcare (Nexus), a not-for-profit corporation. 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



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Board of Directors  
Fort Washington Medical Center, Inc.  
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In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2011 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Hospital taken as a whole. The unaudited information on page 22 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2010 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Cohen, Rutherford + Knight, P.C.*

March 29, 2011  
Bethesda, Maryland

**Fort Washington Medical Center, Inc.**  
**Balance Sheets**

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<i>ASSETS</i>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,664,694	\$ 1,732,584
Patient accounts receivable, net of uncollectible accounts of \$3,282,780 in 2010 and \$4,745,961 in 2009 -- <i>Note F</i>	5,762,382	5,278,553
Inventory, prepaid expenses, and other current assets	1,899,057	1,831,961
Net due from affiliates -- <i>Note D</i>	791,486	787,702
<b>TOTAL CURRENT ASSETS</b>	<b>10,117,619</b>	<b>9,630,800</b>
<b>PROPERTY AND EQUIPMENT</b> , net -- <i>Note B</i>	5,507,360	6,069,233
<b>ASSETS LIMITED AS TO USE</b> -- <i>Note G</i>	1,121,396	961,730
<b>DEFERRED FINANCING COSTS</b> (net of accumulated amortization of \$524,803 and \$436,986 in 2010 and 2009)	1,526,679	1,614,496
<b>OTHER INTANGIBLE ASSETS</b>	781,504	781,504
	<b>\$ 19,054,558</b>	<b>\$ 19,057,763</b>
<i>LIABILITIES AND NET ASSETS</i>		
<b>CURRENT LIABILITIES</b>		
Accounts payable, accrued expenses and other	\$ 6,923,017	\$ 6,733,344
Advances from third party payers	999,242	931,198
Short-term financing	355,748	337,575
Current portion of capital lease obligations -- <i>Note C</i>	16,028	403,873
Current portion of long-term debt -- <i>Note C</i>	305,431	290,011
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,599,466</b>	<b>8,696,001</b>
<b>OBLIGATIONS UNDER CAPITAL LEASES</b> -- <i>Note C</i>	0	16,030
<b>LONG TERM DEBT</b> -- <i>Note C</i>	9,511,420	9,804,138
<b>TOTAL LIABILITIES</b>	<b>18,110,886</b>	<b>18,516,169</b>
<b>NET ASSETS</b>		
Unrestricted	836,672	434,594
Temporarily restricted	107,000	107,000
<b>NET ASSETS</b>	<b>943,672</b>	<b>541,594</b>
<b>COMMITMENTS AND CONTINGENCIES</b> -- <i>Note C</i>		
	<b>\$ 19,054,558</b>	<b>\$ 19,057,763</b>

*See notes to the financial statements*

**Fort Washington Medical Center, Inc.**  
**Statements of Operations**

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>UNRESTRICTED REVENUE, GAINS AND OTHER SUPPORT</b>		
Net patient service revenue -- <i>Note F</i>	\$ 40,806,413	\$ 43,922,479
Other operating revenue, gains, and support	545,165	451,680
<b>TOTAL UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>	<b>41,351,578</b>	<b>44,374,159</b>
<b>EXPENSES -- <i>Note E</i></b>		
Salaries and benefits	21,344,921	21,701,803
Supplies and services -- <i>Notes C and D</i>	15,218,984	15,285,763
Depreciation and amortization -- <i>Note B</i>	1,148,369	1,136,057
Provision for bad debts	3,242,721	4,891,745
<b>TOTAL EXPENSES</b>	<b>40,954,995</b>	<b>43,015,368</b>
<b>GAIN FROM OPERATIONS</b>	<b>396,583</b>	<b>1,358,791</b>
<b>OTHER GAINS</b>		
Interest income	5,495	5,716
<b>TOTAL OTHER GAINS</b>	<b>5,495</b>	<b>5,716</b>
<b>EXCESS REVENUE OVER EXPENSES</b>	<b>\$ 402,078</b>	<b>\$ 1,364,507</b>

*See notes to the financial statements*

**Fort Washington Medical Center, Inc.**  
**Statements of Changes in Net Assets (Deficit)**

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>UNRESTRICTED NET ASSETS</b>		
Excess revenue over expenses	\$ 402,078	\$ 1,364,507
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	402,078	1,364,507
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Restricted contributions	0	46,000
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	0	46,000
<b>INCREASE IN NET ASSETS</b>	402,078	1,410,507
<b>NET ASSETS (DEFICIT) BEGINNING OF YEAR</b>	541,594	(868,913)
<b>NET ASSETS END OF YEAR</b>	<u>\$ 943,672</u>	<u>\$ 541,594</u>

*See notes to the financial statements*

**Fort Washington Medical Center, Inc.**  
**Statements of Cash Flows**

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES AND OTHER GAINS</b>		
Change in net assets	\$ 402,078	\$ 1,410,507
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities and other gains:		
Depreciation and amortization	1,148,369	1,136,057
Provision for bad debts	3,242,721	4,891,745
Amortization of mortgage discount	12,713	12,713
Decrease (increase) in:		
Patient accounts receivable, net	(3,726,550)	(4,698,355)
Inventory, prepaid expenses and other current assets	(67,096)	(163,279)
Net due to/from affiliates	(3,784)	(195,849)
Other intangible assets	0	105
Assets whose use is limited	0	(46,000)
Decrease in accounts payable, accrued expenses, and other liabilities	257,717	(931,949)
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,266,168</b>	<b>1,415,695</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(498,679)	(505,978)
<b>NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES</b>	<b>(498,679)</b>	<b>(505,978)</b>
<b>FINANCING ACTIVITIES</b>		
Payment on long-term debt	(290,011)	(267,272)
Proceeds from short-term financing	457,390	433,896
Payment on short-term financing	(439,217)	(449,277)
Payment on capital lease obligations	(403,875)	(187,244)
<b>NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES</b>	<b>(675,713)</b>	<b>(469,897)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>91,776</b>	<b>439,820</b>
<b>NET CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR</b>	<b>2,648,314</b>	<b>2,208,494</b>
<b>NET CASH AND CASH EQUIVALENTS, AT END OF YEAR</b>	<b>\$ 2,740,090</b>	<b>\$ 2,648,314</b>
<b>SUPPLEMENTAL SCHEDULE OF CASH FLOW TRANSACTIONS</b>		
Interest paid	\$ 629,238	\$ 662,285
Capital lease obligation for new equipment	\$ 0	\$ 202,095

*See notes to the financial statements*

## **Fort Washington Medical Center, Inc.**

### **Notes to the Financial Statements**

#### **Note A - Organization and Summary of Significant Accounting Policies**

##### **Organization**

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. Nexus Health (Nexus), formerly known as The Greater Southeast Community Hospital Foundation, Inc. owns 100% of the voting stock.

##### **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 revenues 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 (*see Note F*). 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 (*see Note F*). 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.

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

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

**Net Patient Service Revenue and Patient Accounts Receivable - 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 charge 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 recouped in the following rate year's approved unit rates and charge per case. The Hospital received a 2.4% unit rate and charge per case increase effective July 1, 2010. This 2.4% included reconciliation of variances for the compliance period ended December 31, 2010.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the 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. These records include the amount of revenue foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended December 31:

	<u>2010</u>	<u>2009</u>
Charges forgone, based on established rates	<u>\$ 602,822</u>	<u>\$ 634,221</u>

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

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

**Cash and Cash Equivalents**

Cash equivalents are financial instruments with original maturities of less than ninety days, and are recorded at market value. Cash and cash equivalents are maintained in financial institutions, for which an aggregate of \$250,000 per financial institution is insured by the Federal Deposit Insurance Corporation (FDIC). Total deposits maintained at these institutions routinely exceed the maximum limit insured the FDIC.

**Inventory**

Inventories are stated at the lower of cost or market. The weighted average cost method is used to determine the carrying 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 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 useful life of the equipment. Expenditures, which materially increase values, change capacities, or extend useful 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 improvements	10-40
Fixed equipment	10-15
Movable equipment	3-15

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.

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

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

**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.

**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 (*see Note C*) and of amounts limited by donor restrictions.

**Recent Changes in Accounting Standards**

In August 2010, the Financial Accounting Standards Board (FASB) amended the Accounting Standards Codification (ASC) for health care entities to require that cost be used as the measurement basis for charity care disclosures and that cost be identified as the direct and indirect costs of providing charity care. This amendment is effective for fiscal years beginning after December 15, 2010. Also in August 2010, the FASB amended the ASC for health care entities to clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without considerations of insurance recoveries. This amendment is effective for fiscal years and interim periods within those years, beginning after December 31, 2010. Management is currently evaluating the impact of adoption of these changes in accounting on the Hospital's future financial statements.

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

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

**Income Taxes**

Under Section 501(c)(3) of the Internal Revenue Code and applicable income tax regulations of the State of Maryland, the Hospital is exempt from income taxes except for taxes on income unrelated to its business purpose. The Hospital received a 501(c)(3) determination letter from the Internal Revenue Service in 1991. The Hospital is entitled to rely on this determination as long as there are no substantial changes in its character, purposes, or methods of operation. Management has concluded that there have been no such changes and therefore the Hospital's status as a public charity exempt from federal income taxation remains in effect. The state in which the Hospital operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation. Exemption from other state taxes, such as real and personal property taxes, is separately determined.

The Hospital had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. Tax periods for which no return is filed remain open for examination indefinitely.

Management has also considered the impact of unrelated business activities and has concluded that the Company is not subject to unrelated business tax or any other taxes that could be imposed by the IRC or state taxing authorities. As such, no provision is made for income taxes and no asset or liability has been recognized for deferred taxes.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purposes.

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

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

**Excess of Revenue over Expenses**

The statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue 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 (*see Note C*) and contributions of (and assets released from donor restrictions related to) long-lived assets.

**Short-term Financing**

During 2010 and 2009, 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 \$6,423 in 2010 at a rate of approximately 2.88% per annum and \$9,599 in 2009 at a rate of approximately 3.75% per annum.

**Deferred Financing Costs**

Deferred financing costs relate to the 2004 mortgage note (*see Note C*) and will be amortized over the life of the related debt.

**Other Intangible Assets**

Other intangible assets consist of costs associated with obtaining a certificate of need (CON). Management expects to receive the CON once their expansion project is approved.

**Subsequent Events**

Subsequent events have been evaluated by management through March 29, 2011 which is the date that the financial statements were available to be issued.

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

**Note B - Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 847,869	\$ 840,161
Building	8,770,582	8,533,238
Equipment	9,837,932	9,615,360
Leased equipment	<u>1,380,370</u>	<u>1,380,370</u>
	20,836,753	20,369,129
Less accumulated depreciation:		
Buildings and equipment	15,205,606	14,369,376
Leased equipment	<u>1,190,832</u>	<u>966,506</u>
	<u>16,396,438</u>	<u>15,335,882</u>
	4,440,315	5,033,247
Construction-in-progress	<u>1,067,045</u>	<u>1,035,986</u>
	<u>\$ 5,507,360</u>	<u>\$ 6,069,233</u>

Depreciation expense reported in the accompanying statements of operations includes amortization expense of \$224,325 and \$182,211 related to leased equipment for each of the years ended December 31, 2010 and 2009.

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

**Note C - Commitments and Contingencies**

**Long-Term Debt**

On October 31, 2002, the Hospital entered into an agreement with the master trustee and certain major bondholders of its former Obligated Group (consisting of Nexus and all of the entities it owned or controlled including the Hospital) that called for the release of the Hospital from all indebtedness and other obligations associated with the Series 1993 Prince Georges County, Maryland Revenue bonds (Greater Southeast Health Care System Issue) in exchange for a payment of \$8,000,000.

*HUD Mortgage Loan*

On December 23, 2004, the Hospital entered into a taxable mortgage loan insured by the United States Department of Housing and Urban Development (HUD) through its Federal Housing Administration (FHA). The \$11,055,000 mortgage loan provided the \$8,000,000 required to satisfy the October 31, 2002 agreement and approximately \$3,055,000 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, 2010 and 2009, the outstanding balance on the loan was \$9,687,726 and \$9,925,024, respectively. The term of the loan is twenty-five years and the loan bears interest at 6.125% per annum, payable in monthly installments. The loan is subject to restrictive covenants. The Hospital is in compliance with all applicable covenants as of December 31, 2010.

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.

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

**Note C - Commitments and Contingencies - Continued**

**Long-Term Debt - Continued**

*Commercial Bank Loan*

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 seventy-five 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% of the stock it owns in the Hospital as security for the loan. The loan contains restrictive covenants. The Hospital is in compliance with all applicable covenants as of December 31, 2010.

Scheduled principal repayments of long-term debt are as follows:

<u>Year Ending December 31</u>	
2011	\$ 305,431
2012	321,802
2013	339,183
2014	326,762
2015	337,227
2016 and thereafter	<u>8,440,712</u>
	10,071,117
Less: mortgage discount	<u>(254,266)</u>
	<u><u>\$ 9,816,851</u></u>

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

**Note C - Commitments and Contingencies - Continued**

**Leases**

The Hospital leases some of its facilities 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, 2010 and 2009 was \$930,047 and \$841,607, respectively.

The Hospital entered into capital lease agreements to obtain medical equipment for use in operations. Interest expense related to these leases for the years ended December 31, 2010 and 2009 was \$9,493 and \$24,029, respectively, and is reported as a component of supplies and services expense in the accompanying statements of operations.

**Pension**

Employees of the Hospital and an affiliate participated in a noncontributory Defined Contribution Plan and currently participate in an Employee Thrift Plan that covers substantially all Hospital employees. Participant benefits became fully vested upon completion of five years of credited service or attainment of their normal retirement age. The Plan Administrator amended the Defined Contribution Plan to vest participants in 100% of their account balances as of December 8, 2000, with notice to participants as required by Section 204(h) of the Employee Retirement Income Security Act of 1974, as amended. The Board of Directors of the Hospital voted to terminate the Defined Contribution Plan effective June 30, 2004 at which time no further contributions were made.

## **Fort Washington Medical Center, Inc.**

### **Notes to the Financial Statements - Continued**

#### **Note C - Commitments and Contingencies - Continued**

##### **Pension - Continued**

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 \$443,245 and \$651,001 for the Hospital for the years ended December 31, 2010 and 2009, respectively. In 2009, management elected not to fund the discretionary contribution previously accrued for plan year 2008, resulting in a reduction of pension expense in the amount of \$370,568. 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 2010.

##### **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 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 each incident and \$150,000 aggregate. In addition, the Hospital maintains an excess liability insurance policy with a limit of \$10,000,000 each incident and \$10,000,000 aggregate. The charge to operating expenses for insurance coverage for the years ended December 31, 2010 and 2009 was \$859,593 and \$870,322, respectively.

##### **Legal**

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, 2010 and 2009.

## **Fort Washington Medical Center, Inc.**

### **Notes to the Financial Statements - Continued**

#### **Note C - Commitments and Contingencies - Continued**

##### **Business Risks**

The Hospital's ability to maintain and/or increase future revenues 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; and (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 (6) the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010.

##### **Risks and Uncertainties**

During September 2008, certain large U.S. financial institutions failed, primarily as a result of holdings in troubled subprime loans or assets collateralized with such distressed loans. These institutional failures, and the negative economic conditions that contributed to these failures, generated substantial volatility in global financial markets and substantial uncertainty regarding access to capital and the continued viability of many other financial institutions. These conditions create uncertainty regarding the Hospital's future ability to access to capital and the cost of such capital, and resulting impact on the future financial position, operations and cash flows of the Hospital could be material.

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

**Note D - Related-Party Transactions**

As a wholly-owned subsidiary of Nexus, the Hospital is affiliated with Nexus' 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 is as follows:

	<b>December 31</b>	
	<u><b>2010</b></u>	<u><b>2009</b></u>
Carolyn Boone Lewis Health Care Center	\$ 780,264	\$ 746,987
Nexus Consulting, Inc.	11,222	40,715
	<u><u>\$ 791,486</u></u>	<u><u>\$ 787,702</u></u>

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 and \$237,708 for the years ended December 31, 2010 and 2009, respectively, and is allocated a \$120,000 charge annually from the Center for contracted dietary services.

**Note E - 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:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Health care services (direct)	\$ 29,957,033	\$ 32,493,673
General and administrative (supportive)	10,997,962	10,521,695
	<u><u>\$ 40,954,995</u></u>	<u><u>\$ 43,015,368</u></u>

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

**Note F - Business and Credit Concentrations**

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.

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

	<u>2010</u>	<u>2009</u>
CareFirst	13.0 %	12.7 %
Worker's Compensation	2.2	1.5
Medicaid	6.2	13.7
Managed Care and Commercial	21.0	27.5
Medicare	12.0	11.8
Self-pay	45.6	32.8
	<u>100.0 %</u>	<u>100.0 %</u>

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

	<u>2010</u>	<u>2009</u>
CareFirst	21.5 %	20.6 %
Worker's Compensation	0.7	0.7
Medicaid	4.6	4.9
Managed Care	24.4	22.2
Commercial	5.1	9.3
Medicare	33.7	30.6
Self-pay	10.0	11.7
	<u>100.0 %</u>	<u>100.0 %</u>

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

**Note F - Business and Credit Concentrations - Continued**

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

	<u>2010</u>	<u>2009</u>
Inpatient services	\$ 23,371,322	\$ 23,564,891
Outpatient services	22,128,152	24,435,259
	<u>\$ 45,499,474</u>	<u>\$ 48,000,150</u>

**Note G – Assets Limited as to Use**

Assets limited as to use consisted of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Mortgage reserve fund	\$ 1,012,303	\$ 854,730
Donor restricted cash	61,000	61,000
Pledges receivable	48,093	46,000
	<u>\$ 1,121,396</u>	<u>\$ 961,730</u>

In 2008, the Hospital commenced a capital campaign and contributions from the campaign are being used to fund major renovation and constructions projects. Gross pledges receivable were \$328,093 as of December 31, 2010 less an allowance of \$280,000.

The payment terms of the pledges receivable as of December 31, 2010 are as follows:

2011	\$ 193,293
2012	67,400
2013	<u>67,400</u>
	328,093
Less: allowance for uncollectible accounts	<u>(280,000)</u>
	<u>\$ 48,093</u>

**Fort Washington Medical Center**  
 Other Statistical Information  
 Unaudited  
 December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Inpatient Days	10,924	11,042
Admissions	3,119	3,160
Average Length of Stay	3.55	3.64
Inpatient Surgical Procedures	521	593
Inpatient Endoscopy	186	202
Total Inpatient Surgery	<u>707</u>	<u>795</u>
Ambulatory Surgery Visits	2,706	3,420
Radiology Services	28,680	31,241
Laboratory Services	3,897	3,511
Emergency Services	45,720	47,555
Total Outpatient Visits	<u>78,297</u>	<u>82,307</u>

**Fort Washington Medical Center, Inc.**  
 Schedule of Expenditures of Federal Awards  
 December 31, 2010

<b>Federal Grantor/Pass-Through Grantor Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>MAJOR PROGRAM:</b>		
<b>U.S. Department of Housing and Urban Development:</b>		
Section 242 Mortgage Insured Loan	14.128	<u>\$ 9,687,726</u>
<b>Total Balance</b>		<u><u>\$ 9,687,726</u></u>

*See accompanying notes to the schedule*

**Fort Washington Medical Center, Inc.**

Notes to the Schedule of Expenditures of Federal Awards

December 31, 2010

**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, 2010.

**Independent Auditors' 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***

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, 2010, and have issued our report thereon dated March 29, 2011. 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***

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 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.

The Board of Directors  
Fort Washington Medical Center, Inc  
Fort Washington, Maryland  
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Our consideration of internal control over financial reporting 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 financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all significant deficiencies or material weaknesses have been identified. 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 grants, 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*.

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

*Cohen, Rutherford + Knight, P.C.*

March 29, 2011  
Bethesda, Maryland

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133**

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 *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2010. The Hospital's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

The Board of Directors  
Fort Washington Medical Center, Inc.  
Fort Washington, Maryland  
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In our opinion the Hospital complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

### ***Internal Control Over Compliance***

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected. A significant deficiency is a control deficiency, or a combination of control deficiencies, that is less severe than a material weakness, 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 would not necessarily identify all deficiencies in internal control that might be 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 and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Cohen, Rutherford + Knight, P.C.*

March 29, 2011  
Bethesda, Maryland

**Fort Washington Medical Center, Inc.**  
**Schedule of Findings and Questioned Costs**  
 December 31, 2010

**SECTION I - Summary of Auditor's Results**

**Financial Statements**

**Type of Auditor's Report Issued:**

Unqualified

**Internal Control Over Financial Reporting:**

Material Weakness(es) Identified?

\_\_\_\_\_ Yes

None reported

Significant Deficiency(ies) Identified Not Considered To Be Material Weaknesses?

\_\_\_\_\_ Yes

None reported

**Noncompliance Material to Financial Statements Noted?**

\_\_\_\_\_ Yes

No

**Federal Awards**

**Internal Control Over Major Programs:**

Material Weakness(es) Identified?

\_\_\_\_\_ Yes

No

Significant Deficiency(ies) Identified Not Considered To Be Material Weaknesses?

\_\_\_\_\_ Yes

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 Circular A-133, Section .510(a)?**

\_\_\_\_\_ Yes

No

**Identification of Major Programs:**

**GRANT IDENTIFICATION NUMBER**

**PROGRAM TITLE**

CFDA No = 14.128

U.S. Department of Housing and Urban Development  
 Section 242 Mortgage Insured Loan

**Dollar Threshold Used to Distinguish between Type A and Type B Programs:**

\$300,000

**Auditee Qualified as Low-Risk Auditee?**

\_\_\_\_\_ Yes

No

**SECTION II - Financial Statement Findings**

No matters were reported

**SECTION III - Federal Award Findings And Questioned Costs**

No matters were reported