Fort Washington Medical Center, Inc.

Financial and Compliance Report
December 31, 2013

Contents

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Fort Washington Medical Center, Inc. (the Hospital) which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in net assets and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Washington Medical Center, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 3, 2014, and May 9, 2013, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards (page 19) 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 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.

The accompanying supplemental information on page 18 marked unaudited is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information on page 18 marked unaudited has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McGladrey LLP

Baltimore, Maryland
April 3, 2014

Fort Washington Medical Center, Inc.

Balance Sheets
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,061,622**	$ 1,950,937
Patient accounts receivable, net of uncollectible accounts (2013 – $2,304,568; 2012 – $2,836,820)	**5,243,940**	6,743,932
Inventory, prepaid expenses, and other current assets	**2,151,236**	1,935,472
Incentive payments receivable	**915,710**	-
Net due from affiliates	**1,798,158**	1,475,017
Total current assets	**11,170,666**	12,105,358
Property and Equipment, net	**6,894,643**	6,800,759
Assets Limited as to Use	**1,631,655**	1,453,983
Deferred Financing Costs, net of accumulated amortization (2013 – $793,317; 2012 – $702,969)	**1,299,629**	1,389,977
	$ 20,996,593	$ 21,750,077
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 7,068,904**	$ 7,854,760
Advances from third-party payors	**915,452**	845,952
Short-term financing	**456,254**	450,369
Current portion of capital lease obligations	**91,076**	87,688
Current portion of long-term debt	**403,483**	339,183
Total current liabilities	**8,935,169**	9,577,952
Obligations under Capital Leases, less current portion	**184,515**	275,590
Long-Term Debt, less current portion	**8,280,193**	8,875,861
Total liabilities	**17,399,877**	18,729,403
Commitments and Contingencies (Notes 8 and 10)		
Net Assets		
Unrestricted	**3,489,716**	2,913,674
Temporarily restricted	**107,000**	107,000
Total net assets	**3,596,716**	3,020,674
	$ 20,996,593	$ 21,750,077

See Notes to Financial Statements.

Fort Washington Medical Center, Inc.

Statements of Operations
Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted Revenue, Gains and Other Support		
Net patient service revenue	**$ 39,599,750**	$ 40,205,041
Provision for bad debt	**(1,850,854)**	(2,099,182)
Net patient service revenue less provision for bad debt	**37,748,896**	38,105,859
Other operating revenue, gains, and support	**1,758,315**	1,801,611
Total unrestricted revenue, gains, and other support	**39,507,211**	39,907,470
Expenses		
Salaries and benefits	**21,573,556**	22,348,086
Supplies and services	**16,544,519**	15,757,295
Depreciation and amortization	**813,842**	700,898
Total expenses	**38,931,917**	38,806,279
Income from operations	**575,294**	1,101,191
Other Income		
Interest income	**748**	808
Total other income	**748**	808
Excess of revenue over expenses	**$ 576,042**	$ 1,101,999

See Notes to Financial Statements.

Fort Washington Medical Center, Inc.

Statements of Changes in Net Assets
Years Ended December 31, 2013 And 2012

	2013	2012
Unrestricted Net Assets		
Excess of revenue over expenses	**$ 576,042**	$ 1,101,999
Increase in unrestricted net assets	**576,042**	1,101,999
Temporarily Restricted Net Assets		
Restricted contributions	**-**	-
Increase in temporarily restricted net assets	**-**	-
Increase in net assets	**576,042**	1,101,999
Net Assets		
Beginning of year	**3,020,674**	1,918,675
End of year	**$ 3,596,716**	$ 3,020,674

See Notes to Financial Statements.

Fort Washington Medical Center, Inc.

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	**$ 576,042**	$ 1,101,999
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	**801,129**	791,247
Decrease in allowance for uncollectible accounts	**(532,252)**	(418,914)
Amortization of mortgage discount	**12,713**	12,714
Changes in assets and liabilities:		
(Increase) decrease in:		
Patient accounts receivable	**2,032,244**	29,117
Inventory, prepaid expenses and other current assets	**(215,764)**	(2,426)
Incentive payments receivable	**(915,710)**	-
Net due from affiliates	**(323,141)**	(285,373)
Increase (decrease) in:		
Accounts payable, accrued expenses, and other	**(785,856)**	556,183
Advances from third-party payers	**69,500**	(127,176)
Net cash and cash equivalents provided by operating activities	**718,905**	1,657,371
Cash Flows from Investing Activities		
Acquisition of property and equipment	**(804,665)**	(818,228)
Increase in assets limited as to use	**(177,672)**	(170,672)
Net cash and cash equivalents used in investing activities	**(982,337)**	(988,900)
Cash Flows from Financing Activities		
Principal payments on long-term debt	**(70,833)**	(332,663)
Payment of deferred financing costs and debt discount	**(473,248)**	-
Proceeds from short-term financing	**585,348**	687,495
Principal payments on short-term financing	**(579,463)**	(645,028)
Principal payments on capital lease obligations	**(87,687)**	(84,425)
Net cash and cash equivalents used in financing activities	**(625,883)**	(374,621)
Net (decrease) increase in cash and cash equivalents	**(889,315)**	293,850
Cash and Cash Equivalents		
Beginning	**1,950,937**	1,657,087
Ending	**$ 1,061,622**	$ 1,950,937
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 556,462**	$ 600,422

Fort Washington Medical Center, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: Fort Washington Medical Center, Inc. (the Hospital), located in Fort Washington, Maryland, is a licensed 31-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, 2013 and 2012.

Management Estimates and Assumptions: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Patient accounts receivable arise from health care services provided primarily to residents of Maryland. The principal payors for these services are the patients, insurance companies (including CareFirst) and Medicare and certain Medicaid programs. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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

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 1.03% unit rate and charge per case increase effective July 1, 2012. This 1.03% included reconciliation of variances for the compliance period ended December 31, 2012. The Hospital received a 1.65% unit rate and charge per case increase effective July 1, 2013. This 1.65% included reconciliation of variances for the compliance period ended December 31, 2013.

Excess of Revenue Over Expenses: The statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, debt repayments and contributions of (and assets released from donor restrictions related to) long-lived assets.

Charity Care: The Hospital follows the disclosure guidance contained in FASB'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.)

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

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.

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

	Years
Building and land improvements	10 – 40
Fixed equipment	10 – 15
Movable equipment	3 – 5

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Mortgage Discounts and Issuance Costs: Deferred financing costs relate to the 2004 mortgage note, which was refinanced during the 2013, and are being amortized on a method approximating the interest method over the life of the related debt. The amortization for deferred financing costs was $90,348 and $90,349 for each of the years ended December 31, 2013 and 2012, respectively. Amortization expense related to the mortgage discount was $12,713 and $12,714 for years ended December 31, 2013 and 2012, respectively. These amounts are recorded as interest expense included in supplies and services expense in the statements of operations.

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

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

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

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, 2013 and 2012.

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

Generally, the Hospital is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before December 31, 2010.

Subsequent Events: The Hospital evaluated subsequent events through April 3, 2014, which is the date the financial statements were available to be issued.

Note 2. Patient Revenue and Accounts Receivable

At December 31, 2013 and 2012, the Hospital had gross patient accounts receivable from third-party payors and others as follows:

	Percentage	
	2013	2012
CareFirst	**15.1**	15.8
Worker's Compensation	**0.9**	1.1
Medicaid	**6.6**	6.4
Managed Care and Commercial	**33.2**	28.6
Medicare	**25.4**	32.2
Self-pay	**18.8**	15.9
	100.0	100.0

Note 2. Patient Revenue and Accounts Receivable (Continued)

Gross patient service revenue, by payer class, consisted of the following for the years ended December 31, 2013 and 2012:

	Percentage	
	2013	2012
CareFirst	**21.2**	20.5
Worker's Compensation	**0.5**	0.5
Medicaid	**6.0**	7.0
Managed Care and Commercial	**30.5**	29.4
Medicare	**34.7**	34.9
Self-pay	**7.1**	7.7
	100.0	100.0

Gross patient revenue consisted of the following split between inpatient and outpatient services for the years ended December 31, 2013 and 2012:

	2013	2012
Inpatient services	**$ 18,365,698**	$ 15,964,050
Outpatient services	**27,875,414**	30,319,035
	$ 46,241,112	$ 46,283,085

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, 2013 and 2012, is as follows:

	2013	2012
Carolyn Boone Lewis Health Care Center	**$ 1,792,050**	$ 1,468,909
Nexus Consulting, Inc.	**6,108**	6,108
	$ 1,798,158	$ 1,475,017

The Hospital allocates certain joint costs to the Center, such as certain compensation, insurance, and information technology costs. The Hospital has occasionally advanced funded certain accounts payable disbursements to the Center. The Hospital also allocated a charge to the Center annually for management services in the amount of $356,004 for each of the years ended December 31, 2013 and 2012, and the Hospital 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, 2013 and 2012:

	2013	2012
Land and land improvements	**$ 874,369**	$ 874,369
Building	**8,881,193**	8,873,194
Equipment	**11,109,172**	10,639,442
Leased equipment	**1,834,965**	1,834,965
	22,699,699	22,221,970
Less accumulated depreciation		
Building, land improvements and equipment	**16,742,733**	16,167,815
Leased equipment	**1,536,160**	1,400,296
	18,278,893	17,568,111
	4,420,806	4,653,859
Construction in progress	**2,473,837**	2,146,900
	$ 6,894,643	$ 6,800,759

Depreciation expense reported in the accompanying statements of operations includes amortization expense of $135,865 related to leased equipment for each of the years ended December 31, 2013 and 2012.

Note 5. Assets Limited as to Use

Assets limited as to use consisted of the following as of December 31, 2013 and 2012:

	2013	2012
Mortgage reserve fund	**$ 1,524,655**	$ 1,346,983
Donor restricted cash	**61,000**	61,000
Pledges receivable	**46,000**	46,000
	$ 1,631,655	$ 1,453,983

In 2008, the Hospital commenced a capital campaign and contributions from the campaign will be used to fund major renovation and construction projects. Gross pledges receivable were $326,000, less an allowance of $280,000, as of both December 31, 2013 and 2012.

The payment terms of the pledges receivable as of December 31, 2013, are as follows:

Year Ending December 31,	
2014	$ 326,000
Less allowance for uncollectible accounts	(280,000)
	$ 46,000

Note 6. Short-Term Financing and Term Loan

Short-Term Financing: 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 $7,617 in 2013 and $4,533 in 2012 at a rate of approximately 2.60% per annum. The outstanding balance of this financing was $456,254 and $450,369 as of December 31, 2013 and 2012, respectively.

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 75 months, and the loan bears interest based on *The Wall Street Journal* prime rate plus 2% per annum (effective interest rate at 12/31/2013, 5.25%).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 on April 16, 2014. 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 remaining principal balance as of December 31, 2013, is $9,094 and is included in the current portion of the long-term debt on the accompanying balance sheet.

Note 7. Mortgage Loan

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

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

As of December 31, 2013 and 2012, the outstanding balance on the loan was $8,683,676 and $9,165,919, respectively. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. Under the terms of the HUD-insured mortgage loan, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets limited as to use. The loan is secured by the Hospital premises, and all the assets and cash flows contained therein.

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

Years Ending December 31,	
2014	$ 394,298
2015	410,321
2016	426,754
2017	443,941
2018	461,775
Thereafter	7,226,867
	9,363,956
Less mortgage discount	(689,374)
	$ 8,674,582

Interest expense on all financing arrangements was $557,096 and $610,181 for the years ended December 31, 2013 and 2012, 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 2018.

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 2018.

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, 2013 and 2012, was $1,209,573 and $1,200,387, 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%, payable monthly. Interest expense related to this lease for the years ended December 31, 2013 and 2012, was $15,406 and $15,542, respectively, and is reported as a component of supplies and services expense in the accompanying statements of operations.

The aggregate future minimum rentals, as of December 31, 2013, under the operating and capital leases are as follows:

Years Ending December 31,	Operating	Capital
2014	$ 367,724	$ 99,967
2015	236,114	99,967
2016	77,348	91,637
2017	53,694	-
2018	49,332	-
Total	$ 784,212	291,571
Less amount representing interest		(15,980)
Present value of future minimum lease payments		275,591
Less current portion of obligation under capital leases		(91,076)
Obligations under capital leases – excluding current portion		$ 184,515

Note 9. Employee Benefit Plans

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

Note 9. Employee Benefit Plans (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 $440,511 and $431,030 for the Hospital for the years ended December 31, 2013 and 2012, respectively. In 2013, management elected not to fund the discretionary contribution previously accrued for plan year 2012, resulting in a reduction of pension expense in the amount of $194,830. In 2012, management elected not to fund the discretionary contribution previously accrued for plan year 2011, resulting in a reduction of pension expense in the amount of $184,076. Management accrued a discretionary contribution for plan year 2013.

Note 10. Commitments and Contingencies

Insurance: The Hospital currently maintains professional liability insurance coverage on a claims-made basis and general liability insurance coverage on an occurrence basis. The limits for professional liability insurance are $1,000,000 for each covered person and a $3,000,000 total limit. The limits for general liability are $1,000,000 per each occurrence, $3,000,000 general aggregate, $3,000,000 products/completed operations, $50,000 fire damage and $1,000,000 personal/advertising injury. The coverages are subject to a deductible of $50,000 for each incident and $150,000 in the aggregate. In addition, the Hospital maintains an excess liability insurance policy with a limit of $10,000,000 for each incident and $10,000,000 in the aggregate. The charge to operating expenses for insurance coverage for the years ended December 31, 2013 and 2012, was $892,853 and $873,450, 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, 2013 and 2012.

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.

Note 11. Certain Risks and Uncertainties (Continued)

In January 2014, the Centers for Medicare & Medicaid Services (CMS) and the State of Maryland jointly announced a new initiative to modernize Maryland's unique all-payer rate-setting system for hospital services aimed at improving patient health and reducing costs. This initiative will replace Maryland's 36-year-old Medicare waiver to allow the state to adopt new policies that reduce per capita hospital expenditures and improve health outcomes as encouraged by the Affordable Care Act. Under the new model, Maryland hospitals will commit to achieving significant quality improvements, including reductions in Maryland hospitals' 30-day hospital readmissions rate and hospital acquired conditions rate. Maryland will limit all-payer annual per capita hospital growth, including inpatient and outpatient care, to 3.58%, below historical trends. Maryland will also limit annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate per year for 2015 – 2018. The new model will allow Maryland to set global budgets and other alternative approaches to payment that reward systems of care that provide improved outcomes at lower cost. Management is currently assessing the impact of this new model on its operations and financial reporting.

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

Note 12. Charity Care

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

The Hospital maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Hospital's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The ratio of cost to gross charges was 0.83 for each of the years ended December 31, 2013 and 2012.

The following information measures the level of charity care provided during the years ended December 31, 2013 and 2012:

	2013	2012
Cost of charity care provided	**$ 1,660,480**	$ 1,497,088

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, 2013 and 2012:

	2013	2012
Health care services (direct)	**$ 29,321,904**	$ 29,593,632
General and administrative (supportive)	**11,104,738**	11,153,967
Fundraising	**356,129**	157,862
	$ 40,782,771	$ 40,905,461

General and administrative expense includes provision for bad debt expense of $1,850,854 and $2,099,182 for the years ended December 31, 2013 and 2012, respectively.

Note 14. Management Services Agreement

On September 1, 2013, the Hospital entered into management services agreement with University of Maryland Medical System Corporation (UMMS) whereby the Hospital's current Chief Executive Officer (CEO) and Chief Financial Officer (CFO) became direct employees of UMMS, and UMMS was tasked with providing management supervision for the operation and business development of the Hospital. The CEO and CFO report directly to the Board of Directors of the Hospital and are responsible for supervising the day-to-day operation, management, administrative supervision, and maintenance of the facility on behalf of the Hospital. The agreement is for the period of nine months where, if not terminated by any party, will continue on month-to-months basis thereafter. Under the terms of the agreement, the Hospital reimburses UMMS semi-monthly for salaries, employment taxes and one half of the benefits paid out to the CEO and CFO. All other additional services provided to the Hospital by UMMS are on a flat rate fee and must be approved by the Hospital's Board of Directors. The total amount paid to UMMS by the Hospital during the year ended December 31, 2013 was $168,237.

Fort Washington Medical Center, Inc.

Other Statistical Information (Unaudited)
Years Ended December 31, 2013 and 2012

	2013	2012
Inpatient days	**8,248**	8,093
Admissions	**2,306**	2,185
Average length of stay	**3.58**	3.70
Inpatient surgical procedures	**628**	699
Ambulatory surgery visits	**2,131**	2,381
Radiology services	**25,699**	29,759
Laboratory services	**3,219**	3,219
Emergency services	**43,881**	45,715
Observation services	**1,730**	1,550
Total outpatient visits	**74,529**	80,243

Fort Washington Medical Center, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Indentifying Number	Federal Expenditures
Major Program			
U.S. Department of Housing and Urban Development:			
Section 242 Mortgage Insured Loan	14.128	N/A	$ 9,363,956
Total balance			$ 9,363,956

See Notes to Schedule of Expenditures of Federal Awards.

Fort Washington Medical Center, Inc.

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Fort Washington Medical Center, Inc. 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, 2013. During the year ended December 31, 2013, the loan was refinanced through the same lender to lower the interest from 6.125% to 3.95% per annum, payable in monthly installments. The term of the loan was not changed and the last payment is due in 2030. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. Under the terms of the HUD-insured mortgage loan, the Hospital is required to maintain certain deposits with a trustee. The loan is secured by the Fort Washington Medical Center, Inc. premises, and all the assets and cash flows contained therein.

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

Years Ending December 31,		
2014	$	394,298
2015		410,321
2016		426,754
2017		443,941
2018		461,775
Thereafter		7,226,867
		9,363,956
Less mortgage discount		(689,374)
	$	8,674,582

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fort Washington Medical Center, Inc. (the Hospital), which comprise the balance sheets as of December 31, 2013, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Baltimore, Maryland
April 3, 2014

McGladrey

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures Federal Awards Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Fort Washington Medical Center, Inc.'s (the Hospital) compliance with the types of compliance requirements described in the OMB 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, 2013. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McGladrey LLP

Baltimore, Maryland
April 3, 2014

Fort Washington Medical Center, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Section I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
* Material weakness(es) identified?	___ Yes	X No
* Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes	X None Reported
Noncompliance material to financial statements noted?	___ Yes	X No

Federal Awards

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

(Continued)

Fort Washington Medical Center, Inc.

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2013

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, 2013

There were no prior audit findings reported.