Fort Washington Medical Center, Inc.

Financial and Compliance Report
December 31, 2014

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, 2014 and 2013, 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, 2014 and 2013, 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 15, 2015, and April 3, 2014, 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 on page 20 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 19 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 19 marked unaudited has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

McGladrey LLP

Baltimore, Maryland
April 15, 2015

Fort Washington Medical Center, Inc.

Balance Sheets
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	**$ 4,340,490**	$ 1,061,622
Patient accounts receivable, net of uncollectible accounts (2014 – $3,481,593; 2013 – $2,304,568)	**5,656,482**	5,243,940
Inventory, prepaid expenses, and other current assets	**2,130,284**	2,151,236
Incentive payments receivable	**-**	915,710
Net due from affiliates	**96,050**	1,798,158
Total current assets	**12,223,306**	11,170,666
Property and Equipment, Net	**7,941,245**	6,894,643
Assets Limited as to Use	**1,724,065**	1,631,655
Deferred Financing Costs, Net of Accumulated Amortization (2014 – $883,666; 2013 – $793,317)	**1,209,280**	1,299,629
	$ 23,097,896	$ 20,996,593
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, accrued expenses and other	**$ 7,703,467**	$ 7,068,904
Advances from third-party payors	**815,252**	915,452
Short-term financing	**404,354**	456,254
Current portion of capital lease obligations	**224,068**	91,076
Current portion of long-term debt	**410,252**	403,483
Total current liabilities	**9,557,393**	8,935,169
Obligations Under Capital Leases, Less Current Portion	**392,167**	184,515
Long-Term Debt, Less Current Portion	**8,170,890**	8,280,193
Total liabilities	**18,120,450**	17,399,877
Commitments and Contingencies		
Net Assets		
Unrestricted	**4,870,446**	3,489,716
Temporarily restricted	**107,000**	107,000
Total net assets	**4,977,446**	3,596,716
	$ 23,097,896	$ 20,996,593

See Notes to Financial Statements.

Fort Washington Medical Center, Inc.

Statements of Operations
Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Revenue, Gains and Other Support		
Net patient service revenue	$ 41,624,753	$ 39,599,750
Provision for bad debt	(769,502)	(1,850,854)
Net patient service revenue less provision for bad debt	40,855,251	37,748,896
Other operating revenue, gains, and support	1,384,179	1,758,315
Total unrestricted revenue, gains, and other support	42,239,430	39,507,211
Expenses		
Salaries and benefits	22,429,065	21,573,556
Supplies and services	17,440,896	16,544,519
Depreciation and amortization	989,346	813,842
Total expenses	40,859,307	38,931,917
Income from operations	1,380,123	575,294
Other Income		
Interest income	607	748
Total other income	607	748
Excess of revenue over expenses	$ 1,380,730	$ 576,042

See Notes to Financial Statements.

Fort Washington Medical Center, Inc.

Statements of Changes in Net Assets
Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Excess of revenue over expenses	$ 1,380,730	$ 576,042
Increase in unrestricted net assets	1,380,730	576,042
Increase in net assets	1,380,730	576,042
Net Assets		
Beginning of year	3,596,716	3,020,674
End of year	$ 4,977,446	$ 3,596,716

See Notes to Financial Statements.

Fort Washington Medical Center, Inc.

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	$ 1,380,730	$ 576,042
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	965,069	801,129
(Increase) decrease in allowance for uncollectible accounts	1,177,025	(532,252)
Amortization of mortgage discount	24,277	12,713
Changes in assets and liabilities:		
(Increase) decrease in:		
Patient accounts receivable	(1,589,567)	2,032,244
Inventory, prepaid expenses and other current assets	20,952	(215,764)
Incentive payments receivable	915,710	(915,710)
Net due from affiliates	1,702,108	(323,141)
Increase (decrease) in:		
Accounts payable, accrued expenses, and other	44,896	(785,856)
Advances from third-party payers	(100,200)	69,500
Net cash and cash equivalents provided by operating activities	4,541,000	718,905
Cash Flows From Investing Activities		
Acquisition of property and equipment	(1,331,655)	(804,665)
Increase in assets limited as to use	(92,410)	(177,672)
Net cash and cash equivalents used in investing activities	(1,424,065)	(982,337)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(403,483)	(70,833)
Payment of deferred financing costs and debt discount	-	(473,248)
Proceeds from short-term financing	518,763	585,348
Principal payments on short-term financing	(570,663)	(579,463)
Proceeds from mortgage discount refund	276,672	-
Principal payments on capital lease obligations	340,644	(87,687)
Net cash and cash equivalents provided by (used in) financing activities	161,933	(625,883)
Net increase (decrease) in cash and cash equivalents	3,278,868	(889,315)
Cash and Cash Equivalents		
Beginning	1,061,622	1,950,937
Ending	$ 4,340,490	$ 1,061,622
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 437,835	$ 556,462
Supplemental Schedule of Noncash Investing and Financing Activities		
Equipment purchased through capital lease	$ 589,667	$ -

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Fort Washington Medical Center, Inc. (the Hospital), located in Fort Washington, Maryland, is a licensed 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 controlled by Nexus Health, Inc. (Nexus), formerly known as The Greater Southeast Community Hospital Foundation, Inc.

A summary of the Hospital's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) and the *AICPA Audit and Accounting Guide for Health Care Entities*. Under this guidance, the Hospital is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets:

> *Unrestricted net assets* represent contributions, gifts, and grants which have no donor-imposed restrictions or which arise as a result of operations.
>
> *Temporarily restricted net assets* represent contributions, gift, and grants which have donor-imposed limitations on their use for a specified time period or purpose.
>
> *Permanently restricted net assets* represent contributions, gifts and grants that have been restricted by donors to be maintained by the Hospital in perpetuity. The Hospital has no permanently restricted net assets at December 31, 2014 and 2013.

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

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

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

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

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

Effective July 1, 2014, the Hospital entered an agreement with the Health Services Cost Review Commission (HSCRC) to implement the Global Budget Revenue (GBR) methodology. The GBR agreement establishes a prospective, fixed revenue base for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, the Hospital's revenue for all HSCRC regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Hospital to adjust unit rates, within certain limits, to achieve the overall revenue base at rate year end. Any overcharge or undercharge relative to the approved GBR target is prospectively added to or subtracted from the subsequent year's GBR amount. Although the GBR methodology does not adjust for changes in volume or service mix, the GBR approved revenue is adjusted annually for inflation, and for changes in payor mix and uncompensated care. The Hospital may receive an annual adjustment to its approved revenue for the change in population in the Hospital's service area. The GBR methodology is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

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

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

Charity care: The Hospital follows the disclosure guidance contained in FASB's Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure – a consensus of the FASB Emerging Issues Task Force.* This ASU requires that the measurement of charity care by a health care entity for disclosure purposes be based on the direct and indirect costs of providing the charity care, and that the Hospital provide disclosure regarding the method used to identify or determine such costs. The measurement and disclosure requirements in this were required to be applied to all periods presented in the financial statements. (See Note 12 for further information.)

Cash and cash equivalents: Cash and cash equivalents consist principally of bank deposits, money market accounts, and repurchase agreements, except for assets limited as to use, that are readily convertible into cash with an original maturity of three months or less. Periodically during the year, the Hospital's cash balances may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. Management does not believe the Hospital is exposed to any significant financial risk.

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 $90,349 and $90,348 for the years ended December 31, 2014 and 2013, respectively. Amortization expense related to the mortgage discount was $24,277 and $12,713 for years ended December 31, 2014 and 2013, respectively. These amounts are recorded as interest expense included in supplies and services expense in the statements of operations.

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

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

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

Income taxes: The Hospital is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Hospital had no net unrelated business income for the years ended December 31, 2014 and 2013.

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, 2011.

Recently issued accounting pronouncement: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and create new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017. The impact of adopting ASU 2014-09 on the Hospital's financial statements for subsequent periods has not yet been determined.

Subsequent events: The Hospital evaluated subsequent events through April 15, 2015, which is the date the financial statements were available to be issued.

Note 2. Patient Revenue and Accounts Receivable

At December 31, 2014 and 2013, the Hospital had gross patient accounts receivable from third-party payors and others as follows:

	Percentage	
	2014	2013
CareFirst	16.2	15.1
Worker's Compensation	0.9	0.9
Medicaid	8.6	6.6
Managed Care and Commercial	34.6	33.2
Medicare	26.7	25.4
Self-pay	13.0	18.8
	100.0	100.0

Gross patient service revenue, by payer class, consisted of the following for the years ended December 31, 2014 and 2013:

	Percentage	
	2014	2013
CareFirst	19.8	21.2
Worker's Compensation	0.3	0.5
Medicaid	7.1	6.0
Managed Care and Commercial	31.9	30.5
Medicare	35.3	34.7
Self-pay	5.6	7.1
	100.0	100.0

Gross patient revenue consisted of the following split between inpatient and outpatient services for the years ended December 31, 2014 and 2013:

	2014	2013
Inpatient services	$ 19,500,140	$ 18,365,698
Outpatient services	29,172,442	27,875,414
	$ 48,672,582	$ 46,241,112

Note 3. Related Party Transactions

As a controlled subsidiary of Nexus, the Hospital is affiliated with Nexus's other subsidiaries, which include Carolyn Boone Lewis Health Care Center (the Center) and Nexus Consulting, Inc. The composition of net due from affiliates as of December 31, 2014 and 2013, is as follows:

	2014	2013
Carolyn Boone Lewis Health Care Center	$ 72,710	$ 1,792,050
Nexus Consulting, Inc.	23,340	6,108
	$ 96,050	$ 1,798,158

The Hospital allocated certain joint costs to the Center, such as certain compensation, insurance, and information technology costs. The Hospital has occasionally advanced funded certain accounts payable disbursements to the Center. The Hospital also allocated a charge to the Center annually for management services in the amount of $356,004 for each of the years ended December 31, 2014 and 2013, and the Hospital is allocated a $120,000 charge annually from the Center for contracted dietary services. The Center was sold with an effective date of December 31, 2014.

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2014 and 2013:

	2014	2013
Land and land improvements	$ 874,369	$ 874,369
Building	9,088,415	8,881,193
Equipment	11,824,144	11,109,172
Leased equipment	2,424,692	1,834,965
	24,211,620	22,699,699
Less accumulated depreciation		
Building, land improvements and equipment	(17,285,047)	(16,742,733)
Leased equipment	(1,782,527)	(1,536,160)
	(19,067,574)	(18,278,893)
	5,144,046	4,420,806
Construction in progress	2,797,199	2,473,837
	$ 7,941,245	$ 6,894,643

Depreciation expense reported in the accompanying statements of operations includes amortization expense of $216,212 and $135,685 related to leased equipment for years ended December 31, 2014 and 2013, respectively.

Note 5. Assets Limited as to Use

Assets limited as to use consisted of the following as of December 31, 2014 and 2013:

	2014	2013
Mortgage reserve fund	$ 1,617,065	$ 1,524,655
Donor restricted cash	61,000	61,000
Pledges receivable	46,000	46,000
	$ 1,724,065	$ 1,631,655

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, 2014 and 2013.

The payment terms of the pledges receivable as of December 31, 2014, are scheduled to be received as follows:

Year Ending December 31,	
2015	$ 326,000
Less allowance for uncollectible accounts	(280,000)
	$ 46,000

Note 6. 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 $6,086 and $7,617 in 2014 and 2013, respectively, and accrued at a rate of approximately 2.60% per annum. The outstanding balance of this financing was $404,354 and $456,254 as of December 31, 2014 and 2013, respectively.

Note 7. Mortgage Loan

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

During the year ended December 31, 2013, the loan was refinanced through the same lender to lower the interest from 6.125% to 3.95% per annum, payable in monthly installments. The term of the loan was not changed and the last payment is due in 2030. Fees in the amount of $473,248 paid to the lender were recorded as additional discount on the loan in accordance with accounting standards applicable to debt modifications. During the year ended December 31, 2014, a refund of $276,672 of these costs was issued by the lender which decreased the loan discount balance accordingly.

Note 7. Mortgage Loan (Continued)

As of December 31, 2014 and 2013, the outstanding balance on the loan was $8,581,142 and $8,683,676, 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:

Year Ending December 31,		
2015	$	410,252
2016		426,754
2017		443,919
2018		461,775
2019		480,349
Thereafter		6,746,518
		8,969,567
Less mortgage discount		(388,425)
	$	8,581,142

Interest expense on all financing arrangements was $440,795 and $557,096 for the years ended December 31, 2014 and 2013, respectively.

Note 8. Leases

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

The Hospital also guarantees the rental payments for its corporate headquarters office lease, under the terms of which the Hospital and Center are proportionally allocated all related rent expense through its management fee arrangement with Nexus (see Note 3). The corporate headquarters office lease is subject to annual escalations. Monthly rental payments charged to the Hospital ranged from $13,485 to $13,907, and the lease term expires July 2015. Nexus has notified the landlord of its intent to exercise the first of two renewal options, which will extend the lease through July 2018. Such payments have been included in the aggregate future minimum rentals table below.

In addition, the Hospital leases other facility space and equipment under cancelable and non-cancelable operating leases with terms of one year or less.

Rental expense associated with the Hospital's operating leases for the years ended December 31, 2014 and 2013, was $1,104,454 and $1,209,573, respectively.

Note 8. Leases (Continued)

The Hospital has capital lease arrangements for medical equipment for use in operations. The lease terms are for five years, expiring through 2016. Monthly payments range from approximately $720 to $8,300. Interest expense related to these leases for the years ended December 31, 2014 and 2013, was $11,364 and $15,406, 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, 2014, under the operating and capital leases are as follows:

Year Ending December 31,	Operating	Capital
2015	$ 430,516	$ 272,502
2016	228,159	230,810
2017	231,668	90,988
2018	220,668	90,988
2019	5,610	45,494
Total	$ 1,116,621	730,782
Less amount representing interest		(114,547)
Present value of future minimum lease payments		616,235
Less current portion of obligation under capital leases		(224,068)
Obligations under capital leases – excluding current portion		$ 392,167

Note 9. Employee Benefit Plans

Pension: Employees of the Hospital and an affiliate participated in a noncontributory Defined Contribution Plan and currently participate in an Employee Thrift Plan that covers substantially all Hospital employees. Participant benefits became fully vested upon completion of five years of credited service or attainment of their normal retirement age. The Plan Administrator amended the Defined Contribution Plan to vest participants in 100% of their account balances as of December 8, 2000, with notice to participants as required by Section 204(h) of the Employee Retirement Income Security Act of 1974, as amended.

The Board of Directors of the Hospital voted to terminate the Defined Contribution Plan effective June 30, 2004, after which time no further contributions were made.

Contributions to the Employee Thrift Plan are based on a match of up to 3% of compensation and participants are immediately vested in those amounts. The Employee Thrift Plan was amended to provide for a discretionary contribution at the option of management. Pension expense for the Employee Thrift Plan was $405,603 and $440,511 for the Hospital for the years ended December 31, 2014 and 2013, respectively. In 2014, management elected not to fund the discretionary contribution previously accrued for plan year 2013, resulting in a reduction of pension expense in the amount of $190,745. 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. Management accrued a discretionary contribution for plan year 2014.

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, 2014 and 2013, was $757,243 and $892,853, 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, 2014 and 2013.

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. As such, in July 2014, the Hospital became one of thirteen hospitals in the State of Maryland to adopt the Global Budget Revenue (GBR) model established by the HSCRC. GBR methodology is central to achieving the three part aim set forth in the State of Maryland's All-Payer Model of promoting better care, better health, and lower cost for all Maryland patients. In contrast to the previous Medicare waiver that focused on controlling increases in Medicare inpatient payments per case, the new All-Payer Model focuses on controlling increases in total hospital revenue per capita. GBR methodology is an extension of the Total Patient Revenue (TPR) methodology, which encourages hospitals to focus on population-based health management by prospectively establishing a fixed annual revenue cap for each GBR hospital.

Under GBR contracts, each hospital's total maximum annual revenue is known at the beginning of each fiscal year. Annual revenue is determined from an historical base period that is adjusted to account for inflation updates, infrastructure requirements, population driven volume increases, performance in quality-based or efficiency-based programs, changes in payer mix and changes in levels of uncompensated care. Annual revenue may also be modified for changes in services levels, market share, or shifts of services to unregulated settings.

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 82.5% for each of the years ended December 31, 2014 and 2013.

Note 12. Charity Care (Continued)

The following information measures the level of charity care provided during the years ended December 31, 2014 and 2013:

	2014	2013
Cost of charity care provided	$ 1,455,012	$ 1,660,480

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, 2014 and 2013:

	2014	2013
Health care services (direct)	$ 29,985,668	$ 29,321,904
General and administrative (supportive)	11,401,331	11,104,738
Fundraising	241,810	356,129
	$ 41,628,809	$ 40,782,771

General and administrative expense includes provision for bad debt expense of $769,502 and $1,850,854 for the years ended December 31, 2014 and 2013, respectively.

Fort Washington Medical Center, Inc.

Other Statistical Information (Unaudited)
Years Ended December 31, 2014 and 2013

	2014	2013
Inpatient		
Patient days	**8,271**	8,333
Admissions	**2,178**	2,306
Average length of stay	**3.80**	3.61
Surgical procedures	**567**	628
Outpatient		
Emergency service visits	**44,500**	43,881
Observation service visits	**1,693**	1,730
Surgical procedure visits	**1,901**	2,132
Radiology service visits	**54,745**	56,888
Laboratory service visits	**899**	1,391

Fort Washington Medical Center, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Major Program			
U.S. Department of Housing and Urban Development:			
Section 242 Mortgage Insured Loan	14.128	N/A	$ 8,969,567
Total balance			$ 8,969,567

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, 2014. During the year ended December 31, 2014, the loan was refinanced through the same lender to lower the interest from 6.125% to 3.95% per annum, payable in monthly installments. The term of the loan was not changed and the last payment is due in 2030. The loan is subject to restrictive covenants, including restrictions on additional long-term borrowings and prepayment of the outstanding obligation. Under the terms of the HUD-insured mortgage loan, the Hospital is required to maintain certain deposits with a trustee. The loan is secured by the Hospital premises, and all the assets and cash flows contained therein.

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

Year Ending December 31,		
2015	$	410,252
2016		426,754
2017		443,919
2018		461,775
2019		480,349
Thereafter		6,746,518
		8,969,567
Less mortgage discount		(388,425)
	$	8,581,142

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, 2014, 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 15, 2015.

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 15, 2015

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 of 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 program for the year ended December 31, 2014. 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, 2014.

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 15, 2015

Fort Washington Medical Center, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

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

Commitments and Contingencies

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

(Continued)

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, 2014

There were no prior audit findings reported.