DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 17-1-08HW

February 2017

OIG

NOT-FOR-PROFIT HOSPITAL CORPORATION UNITED MEDICAL CENTER:

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS) FOR FISCAL YEARS ENDED SEPTEMBER 30. 2016 AND 2015

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- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

February 13, 2017

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Not-For-Profit Hospital Corporation – United Medical Center Financial Statements for the Fiscal Years Ended September 30, 2016, and 2015* (OIG No. 17-1-08HW) conducted by SB & Company, LLC (SBC). SBC submitted this component report as part of our overall contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2016.

On December 29, 2016, SBC issued its opinion on the financial statements and concluded that the financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SBC identified no significant deficiencies or material weaknesses in internal control over financial reporting.

If you have any questions concerning this report, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

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NOT-FOR-PROFIT HOSPITAL CORPORATION
UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Financial Statements Together with
Report of Independent Public Accountants

For the Years Ended September 30, 2016 and 2015

SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

TABLE OF CONTENTS

SEPTEMBER 30, 2016 AND 2015

	Page
Report of Independent Public Accountants	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows	15
Notes to Financial Statements	17
Report of Independent Public Accountants 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	32

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia
The Board of Directors of Not-For-Profit Hospital Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Not-For-Profit Hospital Corporation, commonly known as United Medical Center (the Medical Center), a component unit of the Government of the District of Columbia, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

1299 Pennsylvania Avenue NW • Suite 1120 • Washington • District of Columbia 20004 • P 202.803.2335 • F 202.756.1301

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of September 30, 2016 and 2015, and its changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2016, on our consideration of the Medical Center'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Washington, DC
December 29, 2016

SB + Company, LLC

Management's Discussion and Analysis
September 30, 2016 and 2015

The following is a discussion and analysis of Not-for-Profit Hospital Corporation's, commonly known as United Medical Center (the Medical Center), financial performance for the years ended September 30, 2016 and 2015, with 2014 for comparative purposes. The Medical Center is a component unit of the Government of the District of Columbia (the District). We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, including the accompanying notes to the basic financial statements. All amounts are reported in whole dollars unless otherwise stated.

Overview of the Financial Statements

Management's discussion and analysis (MD&A) is intended to serve as an introduction to the Medical Center's basic financial statements. The Medical Center's financial statements consist of three statements: a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

1. Statement of Net Position

The Statement of Net Position is designed to present information on all of the Medical Center's assets and liabilities. The difference between assets and liabilities is reported as net position. The statement of net position also provides the basis for evaluating the capital structure of the Medical Center and assessing its liquidity and financial flexibility. Over time, an increase or decrease in the Medical Center's net position is one indicator of whether its financial health is improving or deteriorating. It is recommended that one considers additional nonfinancial factors, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

2. Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents changes to the Medical Center's net position during the most recent period. This statement measures the success of the Medical Center's operations during the years ended September 30, 2016 and 2015, and can be used to assess profitability and credit worthiness. Activities are reported as either operating or non-operating. Operating revenues are generally earned by providing goods or services to various customers, patients and related parties. Operating expenses are incurred to acquire or procure the goods and services to carry out the Medical Center's mission. Non-operating revenues and expenses result from activities other than providing goods and services related to patient care. All changes in net position are reported as soon as the underlying events giving rise to the change occurred, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will result in cash flows only in future fiscal periods (e.g., uncollected patient receivables and earned but unused vacation leave). The utilization of capital assets is reflected in the Statement of Revenues, Expenses and Changes in Net Position as depreciation and amortization expense, which amortizes the cost of a long-lived asset over its expected useful life.

3. Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, and capital and related financing activities. The Statement describes the sources of cash, for what the cash was used, and the change in cash balance during the reporting period. This statement aids in the assessment of the Medical Center's ability to generate future net cash flows and to meet obligations and commitments as they come due. The primary source of operating cash flows was service revenues received from patients and their public and private insurance providers. Uses of these cash sources include payments as wages and fringe benefits to employees and payments to suppliers and contractors for goods and services procured by the Medical Center.

4. Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a complete understanding of the data provided in the basic financial statements. The notes to the financial statements commence on page 17 of this report.

Fiscal Year 2016 Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2016 and 2015, by $98.4 million and $74.0 million, respectively.
- The Medical Center's change in net position was $24.4 million and $9.0 million for the years ended September 30, 2016 and 2015, respectively. This represents a $15.4 million improvement for fiscal year 2016 compared to the same period last year due to DC capital subsidy.
- The Medical Center's operating loss decreased by $13.6 million primarily as a result of revenue cycle improvement and third party settlements.
- The Medical Center received $30.1 million and $26.3 million subsidy from the District of Columbia (the District) in fiscal years 2016 and 2015, respectively. The Medical Center recognized $27.8 million in fiscal year 2015, which included $1.5 million that was deferred in the prior year.
    - During fiscal year 2016, $20.1 million of the subsidy received was for capital related costs and $10.0 million was for continued operating support.
    - During fiscal year 2015, $19.3 million of the subsidy received was for capital related costs and $7.0 million was for continued operating support.
- The Medical Center's total liabilities increased from $26.1 million to $29.6 million during fiscal year 2016. This was primarily attributed to an increase of $4.6 million in the third party settlement liability.
- The Medical Center's net working capital (current assets minus current liabilities) increased from $17.7 million to $41.2 million during fiscal year 2016. The increase was attributed to the subsidy received from the District during the fiscal year which increased the cash balance.

Management's Discussion and Analysis
September 30, 2016 and 2015

Fiscal Year 2015 Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2015 and 2014, by $74.0 million and $65.0 million, respectively.
- The Medical Center's net position increased by $9.0 million and $12.9 million for the years ended September 30, 2015 and 2014, respectively. This represents a $3.9 million decline in the growth of the net position for fiscal year 2015 compared to the same period last year.
- The Medical Center's operating loss increased by $17.1 million primarily as a result of significant increases in operating costs.
- The Medical Center received $26.3 million and $14.8 million subsidy from the District of Columbia (the District) in fiscal years 2015 and 2014, respectively, and recognized $27.8 million (includes $1.5 million that was deferred in the prior year) and $13.3 million as non-operating revenue for the years ended September 30, 2015 and 2014, respectively.
    - During fiscal year 2015, $19.3 million of the subsidy received was for capital related costs and $7.0 million was for continued operating support.
- The Medical Center's total liabilities increased from $20.0 million to $26.1 million during fiscal year 2015. This was primarily attributed to a $4.1 million increase in the third party settlement liability and a $4.0 million increase in accounts payable offset by minor decreases in other areas.
- The Medical Center's net working capital (current assets minus current liabilities) increased from $12.6 million to $17.7 million during fiscal year 2015. The increase was mostly attributed to the subsidy received from the District during the fiscal year which increased the cash balance.
- The Medical Center recognized electronic health record (meaningful use) incentives revenue of $2.8 million for the year ended September 30, 2015, which is included as a component of other operating revenues in the statement of revenues, expenses, and changes in net position.

Financial Analysis of the Medical Center as a Whole

The statements of net position provides the perspective of the Medical Center as a whole. The table below provides a summary of the Medical Center's total assets, liabilities and net position as of September 30, 2016, 2015, and 2014:

Condensed Statements of Net Position

	2016	2015	2014
Assets:			
Current assets	**$ 59,575,128**	$ 37,035,404	$ 28,876,430
Non-current assets:			
Capital assets, net	**68,145,078**	62,239,829	55,888,700
Other assets	**262,012**	836,661	233,988
Total non-current assets	**68,407,090**	63,076,490	56,122,688
Total assets	**127,982,218**	100,111,894	84,999,118
Liabilities:			
Current liabilities	**18,384,686**	19,342,994	16,259,420
Non-current liabilities	**11,188,785**	6,806,595	3,730,721
Total liabilities	**29,573,471**	26,149,589	19,990,141
Net Position:			
Net investment in capital assets	**67,988,941**	61,948,531	55,057,125
Restricted for capital projects	**23,860,011**	13,605,554	-
Unrestricted	**6,559,795**	(1,591,780)	9,951,852
Total net position	**$ 98,408,747**	$ 73,962,305	$ 65,008,977

2016 - The net position, over a period of time, can serve as a useful indicator of an organization's financial position. As of September 30, 2016 and 2015, the Medical Center's assets exceeded liabilities by $98.4 million and $74.0 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2016 and 2015, capital assets represent 53.2% and 62.2% of total assets, respectively. Capital assets include land, land improvements, buildings and improvements, equipment, software, equipment under capital lease obligations and construction in progress. Net capital assets increased by $5.9 million during the fiscal year 2016. The Medical Center's annual depreciation and amortization was $7.7 million in fiscal year 2016, an increase of $648 thousand from the previous year. The Medical Center uses these capital assets to provide medical care to citizens of the District of Columbia Wards 7 and 8 and the adjoining Prince Georges County, Maryland.

The next largest portion of the Medical Center's assets is current assets. As of September 30, 2016 and 2015, current assets represented 46.5% and 37.0%, respectively of total assets. Total current assets increased by $22.5 million. The increase was mainly due to increases in the Medical Center's cash, net accounts receivable, and other current assets of $14.8 million, $6.6 million, and $933 thousand, respectively.

Current liabilities represent 62.2% and 74.0% of the Medical Center's total liabilities as of September 30, 2016 and 2015, respectively. Current liabilities decreased by 5.0% as of September 30, 2016 compared to the balance as of September 30, 2015. The change in current liabilities was primarily related to a $1.8 million decrease in accounts payable offset by $863 thousand increase in other current liability accounts.

The following table reflects the change in net position for the years ended September 30, 2016 and 2015:

Changes in Net Position

Balance as of September 30, 2014	$	65,008,977
Increase in net position		8,953,328
Balance as of September 30, 2015		73,962,305
Increase in net position		24,446,442
Balance as of September 30, 2016	**$**	**98,408,747**

2015 - The net position, over a period of time, can serve as a useful indicator of an organization's financial position. As of September 30, 2015 and 2014, the Medical Center's assets exceeded liabilities by $74.0 million and $65.0 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2015 and 2014, capital assets represent 62.2% and 65.8% of total assets, respectively. Capital assets include land, land improvements, buildings and improvements, equipment, software, equipment under capital lease obligations and construction in progress. Net capital assets increased by $6.4 million during the fiscal year 2015. The Medical Center's annual depreciation and amortization was $7.0 million in fiscal year 2015, an increase of $781 thousand from the previous year. The Medical Center uses these capital assets to provide medical care to citizens of the District of Columbia Wards 7 and 8 and the adjoining Prince Georges County, Maryland. Consequently, these assets are not available for future spending.

The next largest portion of the Medical Center's assets is current assets. As of September 30, 2015 and 2014, current assets represented 37.0% and 34.0%, respectively of total assets, and includes cash resources that are subject to restriction on their use. Total current assets increased by $8.2 million. The increase was mainly due to increases in the Medical Center's cash and other current assets of $6.4 million and $2.1 million, and 0.3 million respectively, and offset by a decrease in third party settlements ($0.7 million).

Current liabilities represent 74.0% and 81.3% of the Medical Center's total liabilities as of September 30, 2015 and 2014, respectively. Current liabilities increased by 19.0% as of September 30, 2015 compared to the balance as of September 30, 2014. The change in current liabilities was primarily related to $4.0 million increase in accounts payable.

The following table reflects the change in net position for the years ended September 30, 2015 and 2014:

Changes in Net Position

Balance as of September 30, 2013	$	52,118,021
Increase in net position		12,890,956
Balance as of September 30, 2014		65,008,977
Increase in net position		8,953,328
Balance as of September 30, 2015	**$**	**73,962,305**

The statements of revenues, expenses and changes in net position presents information showing how the Medical Center's net position changed during the years ended September 30, 2016, 2015, and 2014. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The following table presents condensed financial information from the statements of revenues, expenses and changes in net position for the years ended September 30, 2016, 2015, and 2014:

Management's Discussion and Analysis
September 30, 2016 and 2015

Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	2016	2015	2014
Revenues:			
Operating revenues:			
Net patient service revenue	**$ 104,737,594**	$ 92,015,419	$ 92,933,146
Disproportionate share revenues	**6,943,487**	2,277,096	7,378,468
Other operating revenues	**8,240,919**	8,661,005	6,238,238
Total operating revenues	**119,922,000**	102,953,520	106,549,852
Nonoperating revenues (expenses):			
Interest income, net	**-**	167,815	(303,738)
Subsidy from District of Columbia	**30,112,868**	27,792,157	13,334,037
Other nonoperating revenues	**-**	214,535	1,968,598
Total nonoperating revenues	**30,112,868**	28,174,507	14,998,897
Total revenues	**150,034,868**	131,128,027	121,548,749
Expenses:			
Operating expenses:			
Salaries and benefits	**68,537,954**	65,063,432	64,304,163
Supplies	**15,465,673**	15,074,436	12,298,335
Depreciation and amortization	**7,700,221**	7,052,446	6,271,710
Other expense	**33,884,578**	34,984,385	25,783,585
Total operating expenses	**125,588,426**	122,174,699	108,657,793
Change in net position	**24,446,442**	8,953,328	12,890,956
Net position, beginning of period	**73,962,305**	65,008,977	52,118,021
Net position, end of period	**$ 98,408,747**	$ 73,962,305	$ 65,008,977

2016 – The Medical Center's total operating revenues were $119.9 million and $103.0 million for the years ended September 30, 2016 and 2015, respectively. Revenues from patient care services represent 69.8% and 70.2% of total revenues, respectively.

Net patient service revenue, net of provision for bad debt, increased 13.8% in fiscal year 2016 compared to the prior fiscal year. Contributing factors for the improved performance in fiscal year 2016 were primarily due to enhancement in revenue cycle processes and a 1.7% growth in Inpatient Admissions, and improvement in skilled nursing facility rates.

The Medical Center's total costs were $125.6 million and $122.2 million for the years ended September 30, 2016 and 2015, respectively, an increase of $3.4 million. The increase was primarily due to expansion of services in primary, clinical and specialty care, related recruitment of new physicians, and conversion of contract labor.

2015 - The Medical Center's total operating revenues were $103.0 million and $106.5 million for the years ended September 30, 2015 and 2014, respectively. Revenues from patient care services represent 70.2% and 76.5% of total revenues, respectively. Net patient service revenue was fairly consistent with prior year.

The Medical Center's total cost were $122.2 million and $108.7 million for the years ended September 30, 2015 and 2014, respectively, an increase of $13.5 million. The increase was primarily due to growth in patient volumes, expansion of services in primary, clinical and specialty care, and recruitment of new physicians.

Capital and Debt Administration

Capital Assets

The Medical Center's capital assets as of September 30, 2016, 2015, and 2014 amount to $68.1 million, $62.2 million and $55.9 million (net of accumulated depreciation and amortization), respectively. This investment in capital assets includes land, land improvements, buildings and improvements, equipment, software, equipment under capital lease obligations, and construction in progress.

The following table summarizes the Medical Center's capital assets net of accumulated depreciation and amortization as of September 30, 2016, 2015, and 2014 respectively:

	2016	2015	2014
Asset Category:			
Land	**$ 8,100,000**	$ 8,100,000	$ 8,100,000
Construction in progress	**6,444,570**	4,944,937	5,031,371
Land improvements	**368,520**	66,464	195,018
Buildings and improvements	**38,303,241**	33,783,020	33,283,175
Equipment	**11,310,842**	11,145,820	8,056,175
Equipment under capital lease obligations	**159,631**	294,663	511,617
Software	**3,458,274**	3,904,925	711,344
Capital assets, net	**$ 68,145,078**	$ 62,239,829	$ 55,888,700

See notes 1 and 4 to the basic financial statements for additional disclosure on capital assets.

Long-term Liabilities

As of September 30, 2016, 2015, and 2014, the Medical Center had total long-term liabilities outstanding of \$11.2 million, \$6.8 million, and \$3.7 million, respectively. The following table summarizes the Medical Center's long-term debt, which is presented in more detail in Note 5 of the basic financial statements:

	2016	2015	2014
Capital lease obligations	**$ 36,185**	$ 131,959	$ 254,857
Estimated third party settlements	**8,948,623**	4,339,475	276,955
Other liabilities	**2,203,977**	2,335,161	3,198,909
Total noncurrent liabilities	**$ 11,188,785**	$ 6,806,595	$ 3,730,721

Economic Factors

- ***The Patient Protection and Affordable Care Act of 2010*** – The Affordable Care Act (ACA) will continue to have a profound economic impact on the nation's healthcare system and on the Medical Center in particular. Among the numerous provisions of the Act, those with the greatest effect on the Medical Center include the Medicaid population expansion and the individual mandate, both of which enlarged the Medical Center's insured population and concomitantly shrink its uninsured population; and the decrease of Medicare and Medicaid disproportionate share hospital (DSH) payments. However, the uncertainty of the recent presidential election may impact the ACA. Other legislation that may impact the Medical Center include requirements related to the "meaningful use" of electronic health records; Medicare prospective payment system rate changes; and the increasingly aggressive Medicare and Medicaid programs use of Recovery Audit Collectors (RAC) to recover allegedly improper payments.

- ***Medicare Sequestration*** – On April 1, 2013, a provision of the Budget Control Act of 2011 requiring mandatory across-the-board reductions in Federal spending commenced (commonly referred to as sequestration). The provision included a 2% reduction to Medicare payments made to healthcare providers, including payments made under the meaningful use incentive program. The payment reduction is effective until 2023, however it is not possible to determine how future congressional actions to reduce the federal deficit will impact the Medical Center's revenues.

- ***Pay for Performance*** – The Affordable Care Act mandated programs that affect reimbursement through evaluation of the quality of care and cost of care provided to patients at the federal level; however, there are an increasing number of programs arising from state, including DC Medicaid and private interests. These programs provide incentives (and/or penalties) for reporting performance data and those that provide incentives (and/or penalties) based on benchmarking performance data against other providers regionally and nationally. The pay for performance programs will continue into the future and the Medical Center is aggressively monitoring and enhancing its quality performance programs in an effort to maintain incentive dollars.

- ***Certain Significant Risks and Uncertainties*** – Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. There is a reasonable possibility that estimates could change by material amounts. Management periodically reviews and adjusts recorded amounts due to or from third-party payors.

- ***Proposed DC Family and Medical Leave*** – The District gave final approval in December 2016, to a plan that will provide private-sector workers paid family and medical leave benefits. The bill, which passed by a veto-proof margin of 9 to 4, guarantees eight weeks of paid time off to new parents, six weeks to workers caring for ailing family members and two weeks of personal sick time. To pay for it, the District will levy a new 0.62 percent payroll tax on employers small and large to generate $250 million annually, which will be distributed by a new arm of the District government. Under the plan approved by the council, the District would reimburse employees for 90 percent of their first $900 in weekly pay and 50 percent of their remaining weekly pay, with a cap of $1,000 per week. The District's chief financial officer estimates that the District could begin offering those benefits during the 2019 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Medical Center's financial activities and to demonstrate the Medical Center's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

The Office of the Chief Financial Officer
Not-for-Profit Hospital Corporation
United Medical Center
1310 Southern Avenue, S.E.
Washington, DC 20032
(202) 574-6993

NOT-FOR-PROFIT HOSPITAL CORPORATION
UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statements of Net Position
September 30, 2016 and 2015

ASSETS	2016	2015
Current assets:		
Cash	**$ 37,611,412**	$ 22,829,483
Patient receivables, net of allowances for estimated uncollectibles of $5,209,504 and $5,976,096, respectively	**17,371,740**	10,803,724
Inventories	**1,717,218**	1,460,282
Prepaid expenses and other assets	**2,874,758**	1,941,915
Total current assets	**59,575,128**	37,035,404
Capital assets, net	**68,145,078**	62,239,829
Estimated settlements due from third party payors	**262,012**	836,661
Total assets	**127,982,218**	100,111,894
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	**7,991,883**	9,812,831
Accrued salaries and benefits	**7,483,294**	7,133,927
Current portion of obligations under capital leases	**119,952**	159,339
Other liabilities	**2,789,557**	2,236,897
Total current liabilities	**18,384,686**	19,342,994
Obligations under capital leases, net of current portion	**36,185**	131,959
Estimated settlements due to third party payors, net of current portion	**8,948,623**	4,339,475
Other long-term liabilities	**2,203,977**	2,335,161
Total liabilities	**29,573,471**	26,149,589
Net position:		
Net investment in capital assets	**67,988,941**	61,948,531
Restricted for:		
Expendable		
Capital projects	**23,860,011**	13,605,554
Unrestricted	**6,559,795**	(1,591,780)
Total net position	**$ 98,408,747**	$ 73,962,305

The accompanying notes are an integral part of these financial statements.

NOT-FOR-PROFIT HOSPITAL CORPORATION
UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Patient service revenue, net of contractual allowance and other adjustments of $223,383,516 and $204,392,146, respectively	**$ 117,963,559**	$ 102,709,021
Provision for bad debts	**(13,225,965)**	(10,693,602)
Net patient service revenue, less provision for bad debts	**104,737,594**	92,015,419
Disproportionate share revenues	**6,943,487**	2,277,096
Grant revenues	**1,300,048**	4,161,765
Other operating revenues	**6,940,871**	4,499,240
Total operating revenues	**119,922,000**	102,953,520
Operating expenses:		
Salaries and wages	**54,391,375**	51,448,801
Employee benefits	**14,146,579**	13,614,631
Contract labor	**3,938,211**	5,206,737
Supplies	**15,465,673**	15,074,436
Professional fees	**8,640,496**	7,821,688
Purchased services	**13,431,180**	13,784,092
Depreciation and amortization	**7,700,221**	7,052,446
Utilities	**2,807,929**	3,051,610
Insurance	**1,813,239**	1,919,366
Rent and leases	**785,350**	678,825
Repairs and maintenance	**1,296,040**	1,452,515
Other expenses	**1,172,133**	1,069,552
Total operating expenses	**125,588,426**	122,174,699
Operating loss	**(5,666,426)**	(19,221,179)
Nonoperating revenues (expenses):		
Interest income, net	**-**	167,815
District Subsidy - operating	**10,000,000**	8,506,971
Other nonoperating revenue, net	**-**	214,535
Total nonoperating revenues	**10,000,000**	8,889,321
Change in net position before District Capital Subsidy	**4,333,574**	(10,331,858)
District subsidy- capital	**20,112,868**	19,285,186
Changes in net position	**24,446,442**	8,953,328
Net position, beginning of year	**73,962,305**	65,008,977
Net position, end of year	**$ 98,408,747**	$ 73,962,305

The accompanying notes are an integral part of these financial statements.

NOT-FOR-PROFIT HOSPITAL CORPORATION
UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from and on behalf of patients	**$ 110,296,862**	$ 95,480,863
Payments to employees and fringe benefits	**(68,188,587)**	(64,697,343)
Payments to suppliers and contractors	**(51,941,633)**	(45,832,709)
Other receipts and payments, net	**8,243,050**	8,829,908
Net cash from operating activities	**(1,590,308)**	(6,219,281)
Cash flows from noncapital financing activities:		
Proceeds from District of Columbia	**10,000,000**	7,000,000
Net cash from noncapital financing activities	**10,000,000**	7,000,000
Cash flows from capital and related financing activities:		
Cash received in contribution from the District of Columbia	**20,112,868**	19,285,186
Repayment of capital lease obligations	**(135,161)**	(326,829)
Purchase of capital assets	**(13,605,470)**	(13,348,375)
Net cash from capital and related financing activities	**6,372,237**	5,609,982
Net increase in cash and cash equivalents	**14,781,929**	6,390,701
Cash, beginning of year	**22,829,483**	16,438,782
Cash, end of year	**$ 37,611,412**	$ 22,829,483

The accompanying notes are an integral part of these financial statements.

NOT-FOR-PROFIT HOSPITAL CORPORATION
UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (5,666,426)**	$ (19,221,179)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation and amortization	**7,700,221**	7,052,446
Provision for bad debts	**13,225,965**	10,693,602
Effect of changes in noncash operating assets and liabilities:		
Patient receivables, net	**(19,793,981)**	(12,754,586)
Inventories	**(256,936)**	(45,464)
Prepaid expenses and other assets	**(932,843)**	(156,927)
Estimated settlements due to third party payors	**5,183,797**	3,249,331
Accounts payable and accrued expenses	**(1,820,948)**	3,961,811
Accrued salaries and benefits	**349,367**	366,089
Other liabilities	**421,476**	635,596
Net cash from operating activities	**$ (1,590,308)**	$ (6,219,281)

The accompanying notes are an integral part of these financial statements.

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Not-For-Profit Hospital Corporation, commonly known as United Medical Center (the Medical Center) is a 354-bed facility that serves as the primary community healthcare provider to the Southeast area of the District of Columbia (the District). The Medical Center provides inpatient, outpatient, psychiatric, skilled nursing, and emergency care services for residents of the District primarily located in Ward 7 and Ward 8.

The Medical Center was created as an independent instrumentality of the District government. The primary purposes of the Medical Center are to receive the land, improvements on the land, equipment, and other assets of the Medical Center, to operate and take all actions necessary to ensure the continued operations of the Medical Center; and to sell or otherwise transfer all or part of the Medical Center and site, if and when a buyer is identified.

For financial reporting purposes, the Medical Center is reported as a discretely presented component unit of the District. Consistent with the authoritative guidance of the Governmental Accounting Standards Board (GASB), the Medical Center is a legally separate entity, and the District appoints a voting majority of the organization's board. The Medical Center also depends on financial resources flowing from, or associated with, the District, a related entity and the District is able to impose its will on the Medical Center. Funds flowing from the District to the Medical Center are subject to changes to the District's laws and appropriations.

The Medical Center owns and operates a 120-bed Skilled Nursing Facility (SNF). As a distinct part of the Medical Center, the SNF provides short or long-term residential care, 24 hours a day. Residents receive a full range of services from a team of skilled healthcare professionals. Net revenues from resident services and operating expenses of the SNF are included in the financial statements of the Medical Center.

The GASB establishes standards for external financial reporting for all state and local government entities. These standards require a statement of net position, a statement of revenues, expenses and change in net position and a statement of cash flows. They also require the classification of net position into three components—net investment in capital assets; amounts that are restricted; and amounts that are unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at the end of the reporting period, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount.

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Reporting Entity (continued)

- Restricted – This component consist of restricted assets reduced by liabilities related to those assets. Assets may be restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted assets are either expendable or nonexpendable. Nonexpendable assets are those that are required to be retained in perpetuity. It is the policy of the Medical Center to use restricted resources first, followed by unrestricted, when expenses are incurred for purposes for which any of these resources are available. Therefore, the Medical Center considers restricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted net position is available.
- Unrestricted – This component is the net amount of the assets, and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

The accounting policies and practices of the Medical Center conform to U.S. generally accepted accounting principles (US GAAP) applicable to an enterprise fund of a government medical center. The financial statement presentation and significant accounting policies adopted by the Medical Center conform to the general practice within the healthcare industry, as published by the American Institute of Certified Public Accountants in its audit and accounting guide, *Health Care Entities.*

(b) Enterprise Fund Accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts and contractual allowances and other contingencies.

(d) Cash

Cash include amounts invested in accounts with depository institutions which are readily converted to cash. Total deposits maintained at these institutions at times exceed the amount insured by Federal agencies and therefore, bear a risk of loss. The Medical Center has not experienced such losses on these funds.

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Inventories

Inventories, which primarily consist of medical supplies and pharmaceuticals, are valued at the lower of cost or market with cost determined generally on the first-in-first-out basis.

(f) Revenue Recognition

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payors. As a result, there is at least a possibility that recorded estimates could change in the near term. Variances between preliminary estimates of net patient service revenue and final third party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs.

Patient accounts receivable are recorded net of estimated contractual allowances and amounts estimated to be uncollectible. The total estimated allowances for contractual and doubtful accounts as of September 30, 2016 and 2015, was approximately $42.1 million and $33.0 million, respectively.

In addition to patient accounts receivable, the Medical Center received $30.1 million and $26.3 million subsidy from the District for the years ended September 30, 2016 and 2015, respectively. Of the $30.1 million received in fiscal year 2016, $20.1 million was for capital costs and $10 million was for continued operating support. Accordingly, the Medical Center recognized a total of $30.1 million and $27.8 million (includes $1.5 million that was deferred in the prior year) as non-operating revenue for years ended September 30, 2016 and 2015, respectively.

Amounts received under grants are recognized as revenue when the related expenses are incurred or when the grant requirements are met. This includes revenue earned associated with the Meaningful Use Incentive payments as part of the movement towards electronic health records. See further explanation (m) below.

(g) Disproportionate Share Hospital Revenues

Disproportionate Share Hospital Revenue (DSH) is funding received by the Medical Center for the treatment of indigent patients. DSH revenue is recognized as operating revenue in the year to which it is applied. The Medical Center is dependent on DSH revenues to fund a portion of its operating expenses. The Medical Center recognized $6.9 million, including a prior year settlement, and $2.3 million in Medicaid DSH revenues for the years ended September 30, 2016 and 2015, respectively.

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Fair Market Value of Financial Instruments

The carrying amounts of the Medical Center's financial instruments that include cash, patient receivables, inventories, prepaid expenses and other assets, accounts payable and accrued expenses, accrued salaries and benefits and other liabilities, as reported in the accompanying statements of net position approximate their fair market value.

(i) Capital Assets

The Medical Center defines capital assets as classes of assets with an initial aggregate cost of more than $3,000, and estimated useful lives in excess of one year. Land, land improvements, buildings and improvements, equipment, equipment under capital lease obligations, software, and construction in progress are stated at cost at the date of acquisition, estimated historical cost (if actual cost records are not available) or fair market value at the date of donation. When assets are sold or otherwise disposed of, the assets and related accumulated depreciation or amortization are removed from the accounts, and any remaining gain or loss is charged to operations. Repairs and maintenance are charged to expense when incurred. Capital assets are depreciated or amortized using the straight line method over the estimated useful lives of the assets.

Equipment under capital lease obligations is amortized on a straight-line basis over the shorter period of the lease terms or the estimated useful lives of the equipment. Such amortization is included in depreciation and amortization in the accompanying financial statements.

All capital assets other than land and construction in progress are depreciated or amortized utilizing the straight-line method of depreciation over the following estimated useful lives of the assets:

Land improvements	5-25 years
Buildings and improvements	10-40 years
Building fixtures	5-20 years
Equipment	3-15 years
Computers	5 years
Software	3-10 years

(j) Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both the reported claims and claims incurred but not yet reported. These amounts are included as a component of other long-term liabilities in the statements of net position.

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge and does not pursue collection of amounts determined to qualify as charity care. These amounts are not reported as revenue. The Medical Center maintains records to identify and monitor the level of charity care provided. The criteria for charity service considers family income, net worth, and other eligibility criteria at time of application. The Medical Center provided $0.6 million of charity care during each of the years ended September 30, 2016 and 2015, based on the cost to charge ratio.

(l) Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues generally result from exchange transactions associated with providing health care services - the Medical Center's principal activity. Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are incurred to provide healthcare services, financing and administrative costs.

(m) Meaningful Use Incentives

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals when they adopt, implement or upgrade certified Electronic Health Record (EHR) technology and become "meaningful users," as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety, and effectiveness of care. Incentive payments are paid out over varying transitional schedules depending on the type of incentive (Medicare and Medicaid) and recipient (hospital or eligible provider). Eligible hospitals can attest for both Medicare and Medicaid incentives. For Medicare incentives, eligible hospitals receive payments over four years. For Medicaid incentives, eligible hospitals receive payments based on the relevant State adopted payment structure. Revenue recognition occurs when certain clinical measurements have been attested to. These amounts are included as a component of grant revenue in the accompanying statements of revenue, expenses, and changes in net position.

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Risk Management

The Medical Center is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, medical malpractice, and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage.

(o) Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. The Medical Center's inpatient services, outpatient services, and physician services are recognized when the services are rendered based on billable charges.

The Medical Center's policy is to write-off patient receivables which are identified as uncollectible. Patient accounts receivable are reduced by allowance for uncollectible accounts to reserve for accounts which are expected to become uncollectible in future years. In evaluating the collectability of accounts receivable, the Medical Center utilizes historical collections and age of accounts.

A summary discussion of the payment agreements with major third-party payors is as follows:

Medicare

Payments to the Medical Center from Medicare for inpatient acute and psychiatric services are made on a prospective basis. Under this program, payments are made at a predetermined specified rate for each discharge, based on a patient's diagnosis, weighted by an acuity factor. The Medical Center is paid a disproportionate share adjustment for servicing certain low income patients. Outpatient services are paid at prospectively determined rates per procedure under a methodology which utilizes ambulatory payment classifications (APCs). Similar to the inpatient rates, outpatient rates vary according to the procedures performed. Other outpatient services are based on fee schedules. Additional payments are made to the Medical Center for the cost of cases that have an unusually high cost in comparison to national averages. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. In addition, the Medical Center receives payments for residents in the Skilled Nursing Facility (SNF) who are covered by Medicare. The Medicare program pays the per diem prospective payment rates, which cover all routine services, ancillary services, and capital-related costs for a resident's Part A stay. The program pays different rates for residents according to case-mix adjustments, which are based on residents' Resource Utilization Groups, or RUGs score.

1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Net Patient Service Revenue (continued)

Medicaid

The Medical Center is paid by Medicaid based on All Patient Refined Diagnosis-Related Group (APR-DRG) at a predetermined specified rate for each discharge, subject to a weight or acuity factor, based on patient's diagnosis. Outpatient services are reimbursed based on Enhanced Ambulatory Payment Groups (EAPGs). EAPGs group together procedure and medical visits that share similar clinical characteristics, resource utilization patterns and cost so that the payment is based on the relative intensity of the entire visit. The Medical Center is also paid a disproportionate share adjustment for servicing certain low income patients. The District's Medicaid program reimburses for skilled nursing facility care on a per diem rate.

Other Insurance Carriers

The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily or procedure rates. The CareFirst agreement contains a "most-favored nations" clause which means CareFirst would reimburse the Medical Center at or a rate that is lower than the other third-party commercial payors.

(p) Income Taxes

The principal operations of the Medical Center, as an instrumentality of the District, are recognized as exempt from income tax under the applicable income tax regulations of the Internal Revenue Code and the District. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(q) Application of Accounting Standards

In fiscal year 2016, the Medical Center adopted one new accounting standard as follows:

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

This Statement identifies, in the context of the current governmental financial reporting environment, the hierarchy of Generally Accepted Accounting Principles (GAAP). This Statement, which supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP; and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. Implementation of this statement had no material impact on the Medical Center's fiscal year 2016 financial statements.

2. CASH

The Medical Center's cash is held in various bank accounts. These accounts were established and approved by the Office of the Chief Financial Officer (OCFO), Office of Finance and Treasury (OFT) for the District of Columbia. As of September 30, 2016 and 2015, total cash was $37.6 million, and $22.8 million, respectively, of which $23.9 million and $13.6 million was set aside for capital expenditures from the District capital subsidy. Interest earned in this account for the years ended September 30, 2016 and 2015 was $1.5 thousand and $1.2 thousand, respectively.

The Medical Center maintains cash balances and securities at several financial institutions. The cash balance at each financial institution is insured under the Federal Deposit Insurance Corporation (FDIC) up to $250 thousand and securities are insured up to $500 thousand under Securities Investor Protection Corporation (SIPC). At times, the balances on deposit and securities will exceed the balance insured by the FDIC and SIPC. The total deposits held are collateralized at 102%. The Medical Center has a sweep investment account that is a repurchase sweep investment and is in accordance with the District Financial Institutions and Deposit Act of 1997 and the investment policy. The District's investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, banker's acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. As of September 30, 2016 and 2015, there were no deposits exposed to custodial credit risk.

3. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Medical Center as of September 30, 2016 and 2015, consisted of these amounts:

	2016	2015
Patient Accounts Receivable:		
Receivable from patients and their insuance carriers	**$ 6,739,517**	$ 6,842,108
Receivable from Medicare	**8,734,036**	5,062,210
Receivable from Medicaid	**7,107,691**	4,875,502
Total patient accounts receivable	**22,581,244**	16,779,820
Less allowance for uncollectible amounts	**5,209,504**	5,976,096
Patient accounts receivable, net	**$ 17,371,740**	$ 10,803,724

	2016	2015
Accounts Payable and Accrued Expenses:		
Payable to employees	**$ 6,770,721**	$ 6,473,636
Payable to suppliers	**7,991,883**	9,812,831
Payable to payroll taxing authorities and others	**712,573**	660,291
Total accounts payable and accrued expenses	**$ 15,475,177**	$ 16,946,758

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset additions, retirements, and balances for the years ended September 30, 2016 and 2015 were as follows:

	September 30, 2015	Additions	Transfers	Retirements	September 30, 2016
Land	$ 8,100,000	$ -	$ -	$ -	**$ 8,100,000**
Construction in progress	4,944,937	1,499,633	-	-	**6,444,570**
Land improvements	889,472	316,202	-	-	**1,205,674**
Buildings and improvements	46,971,056	7,463,880	-	-	**54,434,936**
Equipment	25,393,440	3,007,972	-	-	**28,401,412**
Equipment under capital lease obligations	1,567,602	-	-	-	**1,567,602**
Software	5,714,369	1,317,783	-	-	**7,032,152**
Total costs	93,580,876	13,605,470	-	-	**107,186,346**
Less: accumulated depreciation and amortization	(31,341,047)	(7,700,221)	-	-	**(39,041,268)**
Capital assets, net	$ 62,239,829	$ 5,905,249	$ -	$ -	**$ 68,145,078**

	September 30, 2014	Additions	Transfers	Retirements	September 30, 2015
Land	$ 8,100,000	$ -	$ -	$ -	$ 8,100,000
Construction in progress	5,031,371	3,493,103	(3,579,537)	-	4,944,937
Land improvements	889,472	-	-	-	889,472
Buildings and improvements	43,827,096	3,143,960	-	-	46,971,056
Equipment	19,280,138	6,113,302	-	-	25,393,440
Equipment under capital lease obligations	2,081,651	-	-	(514,049)	1,567,602
Software	1,528,808	606,024	3,579,537	-	5,714,369
Total costs	80,738,536	13,356,389	-	(514,049)	93,580,876
Less: accumulated depreciation and amortization	(24,849,836)	(7,005,260)	-	514,049	(31,341,047)
Capital assets, net	$ 55,888,700	$ 6,351,129	$ -	$ -	$ 62,239,829

Accumulated amortization of equipment under capital lease obligations was $1.4 million and $1.3 million as of September 30, 2016 and 2015, respectively.

5. LONG-TERM LIABILITIES

A schedule of the Medical Center's long-term liabilities as of September 30, 2016 and 2015 were as follows:

	2015	Additions	Reductions	2016	Amounts due in one year
Capital lease obligations	$ 291,298	$ -	$ (135,161)	$ 156,137	$ 119,952
Estimated third party settlements	4,339,475	9,170,718	(4,561,570)	8,948,623	-
Other liabilities	2,335,161	-	(131,184)	2,203,977	-
Total noncurrent liabilities	$ 6,965,934	$ 9,170,718	$ (4,827,915)	$ 11,308,737	$ 119,952

	2014	Additions	Reductions	2015	Amounts due in one year
Capital lease obligations	$ 618,127	$ -	$ (326,829)	$ 291,298	$ 159,339
Estimated third party settlements	276,955	4,339,475	(276,955)	4,339,475	-
Other liabilities	3,198,909	759,877	(1,623,625)	2,335,161	-
Total noncurrent liabilities	$ 4,093,991	$ 5,099,352	$ (2,227,409)	$ 6,965,934	$ 159,339

Scheduled principal and interest repayments on capital lease obligations as of September 30, 2016, were as follows:

	Capital lease obligations	
	Principal	Interest
Years Ending September 30:		
2017	$ 119,952	$ 2,577
2018	36,185	442
Total	$ 156,137	$ 3,019

6. THIRD PARTY SETTLEMENTS

The Medical Center is reimbursed for serving a disproportionate share of low income patients, reimbursable Medicare bad debt, a high percentage of End-Stage Renal Disease (ESRD) beneficiaries, and certain other items at a tentative rate with final settlement determined after the Medical Center's submission of annual reports and audits thereof by State and Federal agencies an through their contractors. Cost Reports for the Medicare program have been final settled for all years through 2014. Medicaid DSH survey results remain unsettled for fiscal years 2013 through 2016 and are subject to final audit. Results of cost report and DSH audit settlements, as well as the Medical Center's estimates for settlements, of all fiscal years through 2016, are reflected in the accompanying financial statements.

The estimated settlements due from third party payors represent the anticipated meaningful use incentive payments from Medicare and Medicaid. The estimated amounts that are receivable as of September 30, 2016 and 2015, were $262 thousand and $837 thousand, respectively.

7. MEDICAL MALPRACTICE CLAIMS

The Medical Center is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Medical Center and are currently in various stages of litigation. Additional claims may be asserted against the Medical Center arising from services provided to patients through September 30, 2016. The Medical Center purchases professional and general liability insurance to cover medical malpractice claims. The liability recorded as of September 30, 2016 and 2015, within the line item other long term liabilities in the statements of net position, represents costs associated with litigating and settling claims.

8. COMPENSATED ABSENCES

The Medical Center's accumulated leave policy allows employees to accumulate unused leave at various limits depending on employee's classification and years of service. Effective January 1, 2015 the accrual rate changed for all eligible employees including three of the unions to a maximum of 352 hours. The IUOE, UFSO unions accepted the new rates, however, the 1199 SEIU and DCNA's accrual rate remains the same as the original rate.

Prior to January 1, 2015, employees were generally allowed to accrue accumulated leave up to a maximum of 480 hours. Employees who had unused hours over 352 effective January 1, 2015, were grandfathered. These employees have a two year window to utilize the hours over 352 or receive $0.50 on the dollar cash out. Unused hours at the end of the second year will be forfeited.

The accrued accumulated leave balance is payable to employees in those cases where (1) employee did not take scheduled time off to meet operational needs, and the employee's request is approved by the Vice President and Chief Executive Officer, or (2) upon qualified separation of employment.

The Medical Center's accumulated leave policy allows regular full-time and part-time employees paid leave benefits. The Medical Center records accumulated leave as an expense and related liability as the benefit accrues to employees based on salary rates and accumulated leave hours. The policy of the Medical Center is to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave as the amounts do not vest and are not payable upon termination of the employee. All vacation pay is accrued when earned.

As of September 30, 2016 and 2015, $2.9 million and $3.1 million, respectively, were recorded as accrued vacation, within the line item accrued salaries and benefits in the statements of net position.

9. RETIREMENT PLANS

During the current fiscal year, the Medical Center administered two types of retirement plans available to its employees.

(a) Defined Contribution Plan

The Medical Center maintains a defined contribution plan in accordance with Internal Revenue Code (IRC) Section 401(a) covering substantially all employees. It provides matching contributions up to 3% of employees' compensation by the Medical Center for the fiscal years ended September 30, 2016 and 2015. Participants vest in their accounts at a rate of 20% for each year of service, with 100% vesting after 5 years of service. For the fiscal years ended September 30, 2016 and 2015, the Medical Center's contributions to the 401(a) defined contribution plan were $594 thousand and $624 thousand, respectively. The Medical Center's contribution liability as of September 30, 2016 and 2015, were $103 thousand and $104 thousand, respectively. Forfeitures may be used first to reduce the Medical Center's contribution, and then to pay any expenses payables to the plan. The forfeited balances as of September 30, 2016 and 2015, were $50 thousand and $43 thousand, respectively. The Medical Center contracts with ICMA-RC, as its third-party administrator for this plan.

(b) Deferred Compensation Plan

The Medical Center offers its employees a deferred compensation plan in accordance with IRC Section 457(b), which allows employees in calendar years 2016 and 2015 to defer up to $18 thousand of compensation under the IRS annual limitations. The participants are fully vested in their contributions to the 457(b) plan at all times. The Medical Center does not contribute to the deferred compensation plan. This plan is also administered by ICMA-RC.

10. COMMITMENTS AND NONCANCELABLE OPERATING LEASES

The Medical Center is committed under various non-cancelable operating leases, all of which are related to equipment and software leases. The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2016, that have initial remaining lease terms in excess of one year:

Years Ending September 30:	Amount
2017	$ 67,272
2018	44,848
Total	**$ 112,120**

11. TRANSACTIONS WITH RELATED PARTIES

The Medical Center receives payments from the District for services provided to Medicaid-eligible residents of the District. The Medical Center also receives grant funding for certain expenditure needs and to cover additional costs of providing services to certain at-risk populations of the District. The Medical Center received $30.1 million and $26.3 million subsidy from the District for the years ended September 30, 2016 and 2015, respectively. Of the $30.1 million received in fiscal year 2016, $20.1 million was for capital related costs and $10.0 million was for continued operating support.

The following is a summary of related party transaction balances as of September 30, 2016 and 2015:

	2016	2015
Accounts receivable due from DC Medicaid	**$ 7,033,555**	$ 4,804,209
Net patient revenue - DC Medicaid	**30,785,937**	27,128,311
DSH revenues - DC Medicaid	**6,943,487**	2,277,096
Other revenue - DC Medicaid Meaningful Use Grant	**-**	2,776,315

12. CONCENTRATIONS OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of who are local residents and insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2016 and 2015, were as follows:

	2016	2015
Medicare	**26%**	19%
Medicaid	**18%**	13%
HMO Medicare/Medicaid	**26%**	38%
HMO/PPO	**8%**	10%
Commercial/Other	**11%**	9%
Self Pay	**11%**	11%
Total	**100%**	100%

The Medical Center's policy is to write-off all patient accounts that have been identified as uncollectible. An allowance for uncollectible accounts is recorded for accounts not yet written-off that are expected to become uncollectible in future period.

13. COMMITMENTS AND CONTINGENCIES

Litigation Matters

The Medical Center is named as a party in legal proceedings and investigations that occur in the normal course of the Medical Center's operations. Although the ultimate outcome of the legal proceedings and investigations is unknown, the Medical Center is vigorously defending its position in each case.

Collective Bargaining Agreements

During fiscal year 2014, it was determined that the Medical Center is a political subdivision of the District government, and as such, the National Labor Relations Board (NLRB) has no jurisdiction over the Medical Center's bargaining units or collective bargaining agreements, and falls under local jurisdiction of District law. There are several differences when operating under NLRB and local jurisdiction, which include the collective bargaining unit's inability to strike or call a strike which would violate local law.

The Medical Center has several collective bargaining agreements in effect with unions representing certain employees, all of which now require additional negotiations and subsequent District approvals based on the jurisdiction finding from 2014. The agreement with 1199 Service Employees International Union (SEIU) United Healthcare Workers East expired on April 30, 2012. The agreement was extended until May 31, 2012. The Medical Center completed the renegotiations of the Collective Bargaining Agreement on May 4, 2012; however, the agreements were not ratified or fully executed until December 5, 2016. Consequently, in fiscal year 2016 the parties operated under previous terms. In fiscal year 2016, the members of SEIU were 506 employees, representing 41.3% of the Medical Center's staff and $16.7 million in salaries and benefits expenses.

The agreement with the District of Columbia Nurses Association (DCNA) expired on January 7, 2013. The agreement was extended until September 6, 2013. The Medical Center is currently negotiating with DCNA on the terms of agreements. In fiscal year 2016, DCNA had 301 members, representing 24.6% of the Medical Center's staff and $22.8 million in salaries and benefits expenses. The agreement with International Union of Engineers (IUOE) expires on September 30, 2017. In fiscal year 2016, IUOE had 24 members representing 2.0% of the Medical Center's staff and $1.4 million in salaries and benefits expenses. The agreement with United Federation of Special Police and Security Officers Local 672 (UFSPSO) expires September 30, 2017. In fiscal year 2016, UFSPSO had 25 members representing 2.0% of the Medical Center's staff and $1.1 million in salaries and benefits.

14. SUBSEQUENT EVENTS

The Medical Center evaluated the subsequent events and transactions through December 29, 2016, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements, or requires additional disclosure.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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*

The Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia
The Board of Directors of Not-For-Profit Hospital Corporation:

We have audited 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, the financial statements of the Not-For-Profit Hospital Corporation, commonly known as United Medical Center (the Medical Center), a component unit of the Government of the District of Columbia, which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center'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 Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center'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.

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Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, D.C.
December 29, 2016

SB & Company, LLC