DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 18-1-08HW

OIG

January 2018

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, 2017 AND 2016

Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation * Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration * Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- 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.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership * Transparency * Empowerment * Courage * Passion * Leadership

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

January 31, 2018

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 Fiscal Years Ended September 30, 2017, and 2016* (OIG No. 18-1-08HW). SB & Company, LLC (SB&C) conducted the audit and 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) 2017.

On December 29, 2017, SB&C 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. SB&C 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 Benjamin Huddle, 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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Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC (via email)

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

Financial Statements
(With Reports of Independent Public Accountants)

September 30, 2017 and 2016

SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

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SB & COMPANY, LLC
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
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 blended component unit of the Government of the District of Columbia, which comprise the statements of net position as of September 30, 2017 and 2016, 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 audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

SB & COMPANY, LLC
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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, 2017 and 2016, 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 2017, 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 the 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, 2017

SB & Company, LLC

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

Management's Discussion and Analysis
September 30, 2017 and 2016

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, 2017 and 2016; with 2015 included for comparative purposes. 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, which begin on page 16. 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 consider 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 for the years ended September 30, 2017 and 2016, 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 16 of this report.

Fiscal Year 2017 Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2017 and 2016, by $105.4 million and $98.4 million, respectively.
- The Medical Center's changes in net position was $7.0 million and $24.4 million for the years ended September 30, 2017 and 2016, respectively. The decrease between years was primarily due to a $14.1 million or 46.9% decrease in total subsidies (both operational and capital) from the District of Columbia (the District) and an overall 6.8% increase in total operating expenses.
- The Medical Center's operating loss increased by $3.3 million primarily as a result of overall $8.5 million or 6.8% increase in operating expenses, offset by $5.2 million increase in operating revenues.
- The Medical Center received $16.0 million and $30.1 million in subsidies from the District in fiscal years 2017 and 2016, respectively.
    - During fiscal year 2017, the entire $16.0 million of the subsidy received was for capital related costs.
    - 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.
- The Medical Center's total liabilities decreased from $29.6 million to $29.1 million during fiscal year 2017. This was primarily attributed to a decrease of $4.3 million in the third party settlement liability offset by $4.0 million increase in current liabilities.

- The Medical Center's net working capital (current assets minus current liabilities) decreased from $41.2 million to $32.5 million during fiscal year 2017. The decrease was primarily attributed to a decrease in cash of $11.8 million, caused by the decrease in total subsidies from the District. The decrease was offset by $6.9 million increase in patient receivables and $4.0 million increase in current liabilities.

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 the District 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 in subsidies from 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.

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

Management's Discussion and Analysis
September 30, 2017 and 2016

Financial Analysis of the Medical Center as a Whole

The statement 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, 2017, 2016, and 2015:

Condensed Statements of Net Position

	2017	2016	2015
Assets:			
Current assets	**$ 54,896,861**	$ 59,575,128	$ 37,035,404
Non-current assets:			
Capital assets, net	**79,386,529**	68,145,078	62,239,829
Other assets	**235,492**	262,012	836,661
Total non-current assets	**79,622,021**	68,407,090	63,076,490
Total assets	**134,518,882**	127,982,218	100,111,894
Liabilities:			
Current liabilities	**22,409,313**	18,384,686	19,342,994
Non-current liabilities	**6,699,705**	11,188,785	6,806,595
Total liabilities	**29,109,018**	29,573,471	26,149,589
Net Position:			
Net investment in capital assets	**79,350,344**	67,988,941	61,948,531
Restricted for capital projects	**19,121,086**	23,860,011	13,605,554
Unrestricted	**6,938,434**	6,559,795	(1,591,780)
Total net position	**$ 105,409,864**	$ 98,408,747	$ 73,962,305

2017 - The net position, over a period of time, can serve as a useful indicator of an organization's financial position. As of 2017 and 2016, the Medical Center's assets exceeded liabilities by $105.4 million and $98.4 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2017 and 2016, capital assets represent 59.0% and 53.2% 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 $11.2 million during the fiscal year 2017. The Medical Center's annual depreciation and amortization was $9.5 million in fiscal year 2017, an increase of $1.8 million from the previous year. The Medical Center uses these capital assets to provide medical care to citizens of the District Wards 7 and 8 and adjoining Prince Georges County, Maryland.

The next largest portion of the Medical Center's assets is current assets. As of September 30, 2017 and 2016, current assets represented 40.8% and 46.5%, respectively of total assets. Total current assets decreased by $4.7 million. The decrease was mainly due to the decrease in the Medical Center's cash of $11.8 million as a result of lower subsidies from the District.

Current liabilities represent 77.0% and 62.2% of the Medical Center's total liabilities as of September 30, 2017 and 2016, respectively. Current liabilities increased by $4.0 million or 21.9% as of September 30, 2017 compared to the balance as of September 30, 2016. The change in current liabilities was primarily related to cash management resulting in increases in accounts payable and accrued expenses, salaries and benefits and other liabilities of approximately $2.3 million, $1.3 million and $432 thousand, respectively.

The following table reflects the change in net position for the years ended September 30, 2017 and 2016:

Changes in Net Position

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
Increase in net position	7,001,117
Balance as of September 30, 2017	**$ 105,409,864**

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 and cash equivalents, net accounts receivables, 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 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, 2017, 2016 and 2015. 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, 2017, 2016 and 2015:

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

	2017	2016	2015
Revenues:			
Operating revenues:			
Net patient service revenues	**$ 107,472,388**	$ 104,737,594	$ 92,015,419
Disproportionate share revenues	**3,909,666**	6,943,487	2,277,096
Other operating revenues	**13,737,759**	8,240,919	8,661,005
Total operating revenues	**125,119,813**	119,922,000	102,953,520
Nonoperating revenues:			
Interest income, net	**-**	-	167,815
Subsidy from District of Columbia	**15,984,180**	30,112,868	27,792,157
Other nonoperating revenues	**-**	-	214,535
Total nonoperating revenues	**15,984,180**	30,112,868	28,174,507
Total revenues	**141,103,993**	150,034,868	131,128,027
Expenses:			
Operating expenses:			
Salaries and benefits	**71,071,467**	68,537,954	65,063,432
Supplies	**14,775,507**	15,465,673	15,074,436
Depreciation and amortization	**9,481,654**	7,700,221	7,052,446
Other expenses	**38,774,248**	33,884,578	34,984,385
Total operating expenses	**134,102,876**	125,588,426	122,174,699
Changes in net position	**7,001,117**	24,446,442	8,953,328
Net position, beginning of period	**98,408,747**	73,962,305	65,008,977
Net position, end of period	**$ 105,409,864**	$ 98,408,747	$ 73,962,305

2017 – The Medical Center's total operating revenues were $125.1 million and $119.9 million for the years ended September 30, 2017 and 2016. Revenues from patient care services represent 76.2% and 69.8% of total revenues, respectively. The Medical Center receives approximately 90.8% of its service revenue from governmental payors (primarily Medicare and Medicaid) and the remainder from various other nongovernmental payors.

Net patient service revenues, net of provision for bad debt, increased 2.9% in fiscal year 2017 compared to the prior fiscal year, primarily due to revenue cycle improvements.

The Medical Center's total costs were $134.1 million and $125.6 million for the years ended September 30, 2017 and 2016, an increase of $8.5 million. The increase was primarily due to expansion of service lines and onboarding of new physicians.

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. Revenues from patient care services represent 69.8% and 70.2% of total revenues, respectively.

Net patient service revenues, 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, 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.

Capital and Debt Administration

Capital Assets

The Medical Center's capital assets as of September 30, 2017, 2016 and 2015 amount to $79.4 million, $68.1 million and $62.2 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, 2017, 2016, and 2015 respectively:

	2017	2016	2015
Asset Category:			
Land	**$ 8,100,000**	$ 8,100,000	$ 8,100,000
Construction in progress	**8,261,954**	6,444,570	4,944,937
Land improvements	**345,338**	368,520	66,464
Buildings and improvements	**45,984,926**	38,303,241	33,783,020
Equipment	**14,192,591**	11,310,842	11,145,820
Equipment under capital lease obligations	**53,261**	159,631	294,663
Software	**2,448,459**	3,458,274	3,904,925
Capital assets, net	**$ 79,386,529**	$ 68,145,078	$ 62,239,829

Long-term Liabilities

As of September 30, 2017, 2016 and 2015, the Medical Center had total long-term liabilities outstanding of $6.7 million, $11.2 million, and $6.8 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:

	2017	2016	2015
Capital lease obligations	$ -	$ 36,185	$ 131,959
Estimated third party settlements	**4,683,228**	8,948,623	4,339,475
Other liabilities	**2,016,477**	2,203,977	2,335,161
Total long-term liabilities	**$ 6,699,705**	$ 11,188,785	$ 6,806,595

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 associated Medicare disproportionate share hospital (DSH) payments. However, it is uncertain how future congressional actions may impact the ACA. Other legislation that may impact the Medical Center include 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.

- ***The American Recovery and Reinvestment Act of 2009*** – The American Recovery and Reinvestment Act of 2009 (ARRA) mandated a reduction to the applicable percentage of increase to the Inpatient Prospective Payment System payment rate for eligible hospitals that are not meaningful Electronic Health Record (EHR) users. The hospital did not successfully demonstrate meaningful use of certified EHR technology during calendar year 2016. The calendar year 2017 meaningful use attestation will occur in March 2018. Beginning October 1, 2017, the hospital will not receive the full Medicare market basket rate increase.

- ***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 the District 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 recorded amounts receivable from or payable to third-party payors and may adjust these balances as new information becomes available. In addition, revenues received under certain third-party agreements is subject to audit. Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenues in the year that the adjustment becomes known.

- ***The District Universal Paid Leave*** – The District Council 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 city 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 city government. Under the plan approved by the council, the city 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. New legislation was introduced in June 2017, *Universal Paid Leave Pay Structure Amendment Act of 2017*, to amend certain provisions of the existing plan. The Amendment is still pending with the District Council.

- ***Medicaid Disproportionate Share Revenues*** – The Medicaid program pays the Medical Center DSH payments for servicing certain low income patients. Due to the closure of the Obstetrics Unit in August 2017, the Medical Center will no longer qualify for DSH payments.

- ***District of Columbia Minimum Wage Increase*** – The "Fair Shot Minimum Wage Amendment Act of 2016" signed into law on June 27, 2016 after unanimous passage by the District Council. Under the new law, the minimum wage will progressively increase to $15.00 per hour on July 1, 2020, then increasing each successive year starting in 2021 in proportion to the increase in the Consumer Price Index (CPI). The Medical Center's budget will reflect the change in minimum wage each year.

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

Management's Discussion and Analysis
September 30, 2017 and 2016

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 Blended Component Unit of the District of Columbia)

Statements of Net Position
September 30, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash	**$ 25,855,336**	$ 37,611,412
Patient receivables, net of allowances for estimated uncollectibles of $11,583,753 and $5,209,504, respectively	**24,240,257**	17,371,740
Inventories	**1,903,502**	1,717,218
Prepaid expenses and other assets	**2,897,766**	2,874,758
Total current assets	**54,896,861**	59,575,128
Capital assets, net	**79,386,529**	68,145,078
Estimated settlements due from third party payors	**235,492**	262,012
Total assets	**134,518,882**	127,982,218
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	**10,259,447**	7,991,883
Accrued salaries and benefits	**8,807,886**	7,483,294
Current portion of obligations under capital leases	**36,185**	119,952
Other liabilities	**3,305,795**	2,789,557
Total current liabilities	**22,409,313**	18,384,686
Obligations under capital leases, net of current portion	**-**	36,185
Estimated settlements due to third party payors	**4,683,228**	8,948,623
Other long-term liabilities	**2,016,477**	2,203,977
Total liabilities	**29,109,018**	29,573,471
Net position:		
Net investment in capital assets	**79,350,344**	67,988,941
Restricted for:		
Expendable		
Capital projects	**19,121,086**	23,860,011
Unrestricted	**6,938,434**	6,559,795
Total net position	**$ 105,409,864**	$ 98,408,747

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

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Patient service revenues, net of contractual allowance and other adjustments of $216,914,801 and $210,157,551, respectively	**$ 121,366,517**	$ 117,963,559
Provision for bad debts	**(13,894,129)**	(13,225,965)
Net patient service revenues, less provision for bad debts	**107,472,388**	104,737,594
Disproportionate share revenues	**3,909,666**	6,943,487
Grant revenues	**1,441,132**	1,300,048
Other operating revenues	**12,296,627**	6,940,871
Total operating revenues	**125,119,813**	119,922,000
Operating expenses:		
Salaries and wages	**56,171,860**	54,391,375
Employee benefits	**14,899,607**	14,146,579
Contract labors	**6,014,535**	3,938,211
Supplies	**14,775,507**	15,465,673
Professional fees	**9,085,544**	8,640,496
Purchased services	**15,139,951**	13,431,180
Depreciation and amortization	**9,481,654**	7,700,221
Utilities	**3,019,367**	2,807,929
Insurance	**1,796,404**	1,813,239
Rent and leases	**876,461**	785,350
Repairs and maintenance	**1,930,932**	1,296,040
Other expenses	**911,054**	1,172,133
Total operating expenses	**134,102,876**	125,588,426
Operating loss	**(8,983,063)**	(5,666,426)
Nonoperating revenues:		
District subsidy - operating	**-**	10,000,000
Total nonoperating revenues	**-**	10,000,000
Change in net position before District Capital Subsidy	**(8,983,063)**	4,333,574
District subsidy - capital	**15,984,180**	20,112,868
Changes in net position	**7,001,117**	24,446,442
Net position, beginning of year	**98,408,747**	73,962,305
Net position, end of year	**$ 105,409,864**	$ 98,408,747

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

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

Statements of Cash Flows
For the Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from and on behalf of patients	**$ 100,274,662**	$ 110,296,862
Payments to employees and fringe benefits	**(69,746,875)**	(68,188,587)
Payments to suppliers and contractors	**(51,162,745)**	(51,941,633)
Other receipts and payments, net	**13,737,759**	8,243,050
Net cash from operating activities	**(6,897,199)**	(1,590,308)
Cash flows from noncapital financing activities:		
Proceeds from District of Columbia	**-**	10,000,000
Net cash from noncapital financing activities	**-**	10,000,000
Cash flows from capital and related financing activities:		
Cash received in contribution from the District of Columbia	**15,984,180**	20,112,868
Repayment of capital lease obligations	**(119,952)**	(135,161)
Purchase of capital assets	**(20,723,105)**	(13,605,470)
Net cash from capital and related financing activities	**(4,858,877)**	6,372,237
Net change in cash	**(11,756,076)**	14,781,929
Cash, beginning of year	**37,611,412**	22,829,483
Cash, end of year	**$ 25,855,336**	$ 37,611,412
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (8,983,063)**	$ (5,666,426)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation and amortization	**9,481,654**	7,700,221
Provision for bad debts	**13,894,129**	13,225,965
Effect of changes in noncash operating assets and liabilities:		
Patient receivables, net	**(20,762,646)**	(19,793,981)
Inventories	**(186,284)**	(256,936)
Prepaid expenses and other assets	**(23,008)**	(932,843)
Estimated settlements due to/from third party payors	**(4,238,875)**	5,183,797
Accounts payable and accrued expenses	**2,267,564**	(1,820,948)
Accrued salaries and benefits	**1,324,592**	349,367
Other liabilities	**328,738**	421,476
Net cash from operating activities	**$ (6,897,199)**	$ (1,590,308)

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.

For financial reporting purposes, the Medical Center is reported as a blended 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvements of those assets or related debt are included in this component. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same component 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 and deferred inflows of resources 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 US 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.

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

(d) Cash and Cash Equivalents

The Medical Center considers all highly-liquid, temporary investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents 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 Deposit Insurance Corp (FDIC) and therefore, bear a risk of loss. The Medical Center has not experienced such losses on these funds.

(e) Inventories

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

(f) Revenue Recognition

Net patient service revenues are 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 revenues and final third party settlements are included in net patient service revenues 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 allowance for contractual and doubtful accounts as of September 30, 2017 and 2016 was approximately $48.3 million and $42.1 million, respectively.

The Medical Center receives subsidies from District for capital asset acquisitions. This non-operating revenue is recorded when capital contributions are made by the District, which are recorded as non-operating revenues in the accompanying statements of revenues, expenses, and changes in net position. The Medical Center also received funding from the District to defray the cost of the Obstetrics program and other management related operating expenses. These amounts are recognized as revenues when the related expenses are incurred, and is recorded in other operating revenues in the accompanying statements of revenues, expenses, and changes in net position.

Amounts received under grants and the District outpatient access are recognized as revenues when the related expenses are incurred or when the requirements are met. This includes revenue earned associated with the Meaningful Use incentive payments as part of the movement towards electronic health records.

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

(g) Disproportionate Share Hospital Revenues

Disproportionate Share Hospital Revenues (DSH) are funding received by the Medical Center from Medicaid for the treatment of indigent patients. DSH revenues are recognized as operating revenues 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 $3.9 million and $6.9 million in Medicaid DSH revenues for the years ended September 30, 2017 and 2016, respectively.

(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 asset and related accumulated depreciation 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	3-5 years

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

(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.

(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 revenues. 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 $132 thousand and $593 thousand of charity care during the years ended September 30, 2017 and 2016, respectively, 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 such as 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 revenues in the accompanying statements of revenues, expenses, and changes in net position. The Medical Center anticipates no future incentive payments.

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 Revenues

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 an 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 a methodology that considers payor experience by age category.

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 Administrative Contractor (MAC). In addition, the Medical Center receives payments for residents in 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 (RUGs).

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. For fiscal year 2017, the Medical Center is also paid DSH adjustment for servicing certain low income patients and does not anticipate future DSH payments. 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 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 (IRC) 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 2017, the Medical Center adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.*

This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments, which requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this statement was effective for the year ended September 30, 2017 and resulting in the Medical Center being reported as a blended component unit of the District.

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

(r) New Pronouncements

In fiscal year 2017, GASB Statement No. 87, *Leases* was issued which will be effective for the year ending June 30, 2021. The Medical Center has not completed the process of evaluating the impact that will result from adopting this GASB statement, but does not expect this GASB statement would have a material effect on the financial statements. The Medical Center will be adopting this GASB statement, as applicable, by its effective date.

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, 2017 and 2016, total cash held was $25.9 million, and $37.6 million, respectively, of which $19.1 million and $23.9 million was set aside for capital expenditures from the District capital subsidy. Interest earned in this account for the years ended September 30, 2017 and 2016 was $1.2 thousand and $1.5 thousand, respectively.

The Medical Center maintains cash at a financial institution. The cash balance at the financial institution is insured under the 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 Financial Institutions Deposit and Investment Amendment 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, 2017 and 2016, 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, 2017 and 2016, consisted of these amounts:

	2017	2016
Patient Accounts Receivable:		
Receivable from patients and their insuance carriers	**$ 9,196,291**	$ 6,739,517
Receivable from Medicare	**14,049,236**	8,734,036
Receivable from Medicaid	**12,578,483**	7,107,691
Total patient accounts receivable	**35,824,010**	22,581,244
Less allowance for uncollectible amounts	**11,583,753**	5,209,504
Patient accounts receivable, net	**$ 24,240,257**	$ 17,371,740
Accounts Payable and Accrued Expenses:		
Payable to employees	**$ 7,895,420**	$ 6,770,721
Payable to suppliers	**10,259,447**	7,991,883
Payable to payroll taxing authorities and others	**912,466**	712,573
Total accounts payable and accrued expenses	**$ 19,067,333**	$ 15,475,177

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset additions, and balances for the year ended September 30, 2017 were as follows:

Asset Class	September 30, 2016	Additions	September 30, 2017
Non-depreciable:			
Land	$ 8,100,000	$ -	**$ 8,100,000**
Construction in progress	6,444,570	1,817,384	**8,261,954**
Total non-depreciable	14,544,570	1,817,384	**16,361,954**
Depreciable and amortizable:			
Land improvements	1,205,674	-	**1,205,674**
Buildings and improvements	54,434,937	11,174,469	**65,609,406**
Equipment	28,401,410	6,616,295	**35,017,705**
Equipment under capital lease obligations	1,567,602	-	**1,567,602**
Software	7,032,153	1,114,957	**8,147,110**
Total depreciable and amortizable	92,641,776	18,905,721	**111,547,497**
Less accumulated depreciation and amortization for:			
Land improvements	(837,154)	(23,182)	**(860,336)**
Buildings and improvements	(16,131,696)	(3,492,784)	**(19,624,480)**
Equipment	(17,090,568)	(3,734,546)	**(20,825,114)**
Equipment under capital lease obligations	(1,407,971)	(106,370)	**(1,514,341)**
Software	(3,573,879)	(2,124,772)	**(5,698,651)**
Total accumulated depreciation and amortization	(39,041,268)	(9,481,654)	**(48,522,922)**
Capital assets, net	$ 68,145,078	$ 11,241,451	**$ 79,386,529**

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

Asset Class	September 30, 2015	Additions	September 30, 2016
Non-depreciable:			
Land	$ 8,100,000	$ -	$ 8,100,000
Construction in progress	4,944,937	1,499,633	6,444,570
Total non-depreciable	13,044,937	1,499,633	14,544,570
Depreciable and amortizable:			
Land improvements	889,472	316,202	1,205,674
Buildings and improvements	46,971,057	7,463,880	54,434,937
Equipment	25,393,440	3,007,970	28,401,410
Equipment under capital lease obligations	1,567,602	-	1,567,602
Software	5,714,368	1,317,785	7,032,153
Total depreciable and amortizable	80,535,939	12,105,837	92,641,776
Less accumulated depreciation and amortization for:			
Land improvements	(823,008)	(14,146)	(837,154)
Buildings and improvements	(13,188,037)	(2,943,659)	(16,131,696)
Equipment	(14,247,620)	(2,842,948)	(17,090,568)
Equipment under capital lease obligations	(1,272,939)	(135,032)	(1,407,971)
Software	(1,809,443)	(1,764,436)	(3,573,879)
Total 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

5. LONG-TERM LIABILITIES

A schedule of the Medical Center's long-term liabilities as of September 30, 2017 and 2016 were as follows:

	2016	Additions	Reductions	2017	Amounts due in one year
Capital lease obligations	$ 156,137	$ -	$ (119,952)	**$ 36,185**	$ 36,185
Estimated third party settlements	8,948,623	4,735,730	(9,001,125)	**4,683,228**	-
Other liabilities	2,203,977	940,876	(1,128,376)	**2,016,477**	-
Total noncurrent liabilities	$ 11,308,737	$ 5,676,606	$ (10,249,453)	**$ 6,735,890**	$ 36,185

	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

Scheduled principal and interest repayments on capital lease obligations as of September 30, 2017, were $36,185 and $442, respectively.

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 settled for all years through 2014. Medicaid DSH survey results remain unsettled for fiscal years 2014 through 2017 and are subject to final audit. The results of cost reports and DSH audit settlements, as well as the Medical Center's estimates for settlements, of all fiscal years through 2017 are reflected in the accompanying financial statements.

The estimated settlements due from third party payors represent the DSH and anticipated Meaningful Use incentive payments from Medicare and Medicaid. The estimated amounts that are receivable as of September 30, 2017 and 2016 were $235 thousand and $262 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 Medica1l Center arising from services provided to patients through September 30, 2017. The Medical Center purchases professional and general liability insurance to cover medical malpractice claims. The liability recorded as of September 30, 2017 and 2016, 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 non-union employees to a maximum of 352 hours. The IUOE and 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, non-union 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 had 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 were forfeited. Most employees used up excess vacation prior to the end of the two year window. All employees opted to take excess vacation prior to implementation of payout.

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, 2017 and 2016, $3.0 million and $2.9 million, respectively, were recorded as accrued vacation, within the line item accrued salaries and benefits in the statement 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 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, 2017 and 2016. 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, 2017 and 2016, the Medical Center's contributions to the 401(a) defined contribution plan were $631 thousand and $594 thousand, respectively. Forfeitures may be used first to reduce the Medical Center's contribution, and then to pay any expenses payable to the plan. The forfeited contributions as of September 30, 2017 and 2016, were $15 thousand and $50 thousand, respectively. The Medical Center contracts with ICMA-RC, as its third-party administrator for this plan.

9. RETIREMENT PLANS (continued)

(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 2017 and 2016 to defer up to $18,000 of compensation under the Internal Revenue Service (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 noncancelable operating leases, all of which are related to equipment and software leases. As of September 30, 2017, the future minimum payments were $44,848, for the year ending September 30, 2018.

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 $16.0 million and $30.1 million subsidy from the District for the years ended September 30, 2017 and 2016, respectively.

The following is a summary of related party transactions, and balances as of September 30, 2017 and 2016:

	2017	2016
Accounts receivables due from the District Medicaid	**$ 4,163,561**	$ 7,033,555
Net patient revenues - the District Medicaid	**33,926,617**	30,785,937
DSH revenues - the District Medicaid	**3,909,666**	6,943,487
Other revenues - the District Medicaid Meaningful Use Grant	**299,653**	-
Funding for management related expenses	**3,600,000**	1,650,000
Funding for obstetrics	**2,000,000**	-
The District outpatient access payments	**1,857,857**	699,425
Provider fees	**425,223**	455,547

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, 2017 and 2016, were as follows:

	2017	2016
Medicare	**31%**	26%
Medicaid	**16%**	18%
HMO Medicare/Medicaid	**23%**	26%
HMO/PPO	**8%**	8%
Commercial/Other	**9%**	11%
Self Pay	**13%**	11%
Total	**100%**	100%

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

The Medical center has four main collective bargaining agreements in effect with unions representing certain employees, all of which will require additional negotiations and subsequent District approval. The agreement with 1199 Service Employees International Union (SEIU) United Healthcare Workers East, the International Union of Engineers (IUOE), and the United Federation of Special Police and Security Officers Local 672 (UFSPSO) are up for renewal in FY 2018; Finally, the District of Columbia Nurses Association (DCNA) is up for renewal. Arbitration was rewarded and is awaiting final contracts. The Medical Center has completed negotiations with DCNA through FY 2018 and is awaiting ratification of the new collective bargaining agreement which was arbitrated and ruled on in July 2017. This agreement will be up for renewal in FY 2019.

14. SUBSEQUENT EVENTS

The Medical Center has evaluated subsequent events from the statement of net position date through December 29, 2017, 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 require additional disclosure.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
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 Not-For-Profit Hospital Corporation, commonly known as United Medical Center (the Medical Center), a blended component unit of the Government of the District of Columbia, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated December 29, 2017.

Internal Controls over Financial Reporting

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

A deficiency in internal controls 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 controls, 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 controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal controls over financial reporting 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 controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal controls 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 controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
December 29, 2017

SB & Company, LLC