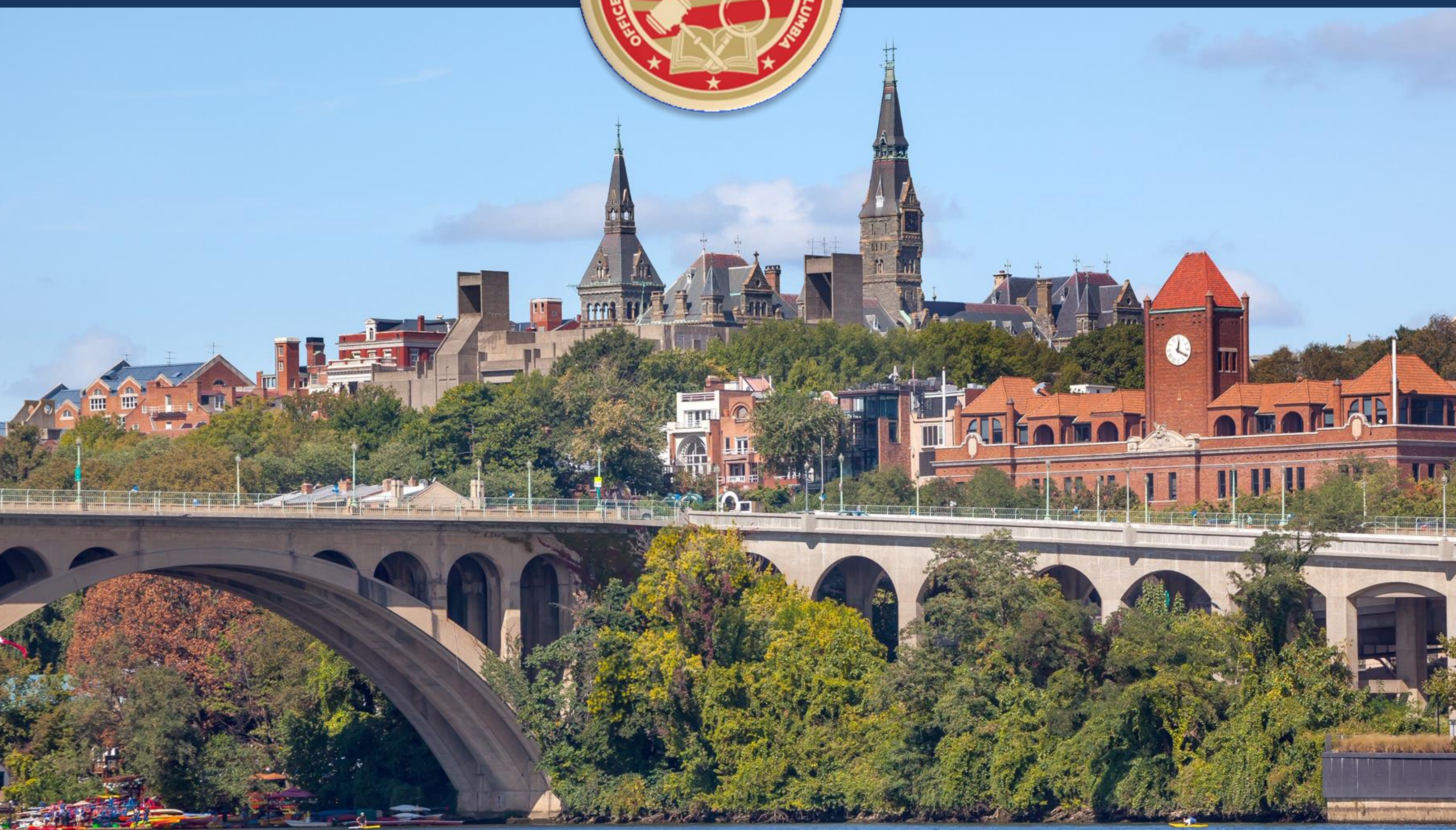
DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 20-1-06HW **January 2020**



NOT-FOR-PROFIT HOSPITAL CORPORATION
UNITED MEDICAL CENTER

Financial Statements (With Reports of Independent Public Accountants)
For Fiscal Years Ended September 30, 2019 and 2018

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, 2020

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, 2019 and 2018* (OIG No. 20-1-06HW). SB & Company, LLC (SBC) 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 2019.

On January 2, 2020, SBC issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. SBC identified no material weaknesses in internal control over financial reporting.

If you have questions about this report, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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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, 2019 and 2018

SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Medical Center's 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 controls 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 controls 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 controls. 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

SB & COMPANY, LLC
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Opinion

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, 2019 and 2018, and the changes in its financial 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 January 2, 2020, on our consideration of the Medical Center's internal controls 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls 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 controls over financial reporting and compliance.

Washington, DC
January 2, 2020

SB + Company, LLC

Management's Discussion and Analysis
September 30, 2019 and 2018

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 2019, and 2018, with 2017 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 13. 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: statements of net position; statements of revenues, expenses, and changes in net position; and statements 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. ***Statements 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. ***Statements 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 ending September 30, 2019 and 2018, 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 depreciates or amortizes the cost of a long-lived asset over its expected useful life.

3. *Statements of Cash Flows*

The final required statement is the Statement of Cash Flows. The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, and capital and related financing activities. The Statements of Cash Flows describes the sources of cash, for what the cash was used, and the change in cash balance during the reporting period. The Statement of Cash Flows 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 2019 Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2019 and 2018, by $91.9 million and $94.5 million, respectively.
- The Medical Center's change in net position was ($2.6) million and ($10.9) million for the years ended September 30, 2019 and 2018, respectively. The positive change in net position was primarily due to$17.5 million received from the reinstatement of disproportionate share revenue.
- The Medical Center's operating loss includes $11.4 million and $11.7 million of depreciation expense for the years ended September 30, 2019 and 2018, respectively.
- The Medical Center's operating loss decreased by $12.6 million primarily as a result of reinstatement of disproportionate share revenues.
- The Medical Center received $36.3 million and $41.0 million subsidy from the District of Columbia (the District) in fiscal years 2019 and 2018, respectively.
    - During fiscal year 2019, $2 million of the subsidy received was for capital related costs. $34.3 million was for continued operating support.
    - During fiscal year 2018, $8.8 million of the subsidy received was for capital related costs. $32.2 million was for continued operating support.
- The Medical Center's total liabilities decreased from $31.8 million to $30.3 million during fiscal year 2019.
- The Medical Center's net working capital (current assets minus current liabilities) increased from $27.9 million to $31.8 million during fiscal year 2019.

Fiscal Year 2018 Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2018 and 2017, by $94.5 million and $105.4 million, respectively.
- The Medical Center's change in net position was ($10.9) million and $7.0 million for the years ended September 30, 2018 and 2017, respectively. The decrease in net position was primarily due to 10.1% reduction in operating revenues and a 11.3% increase in total operating expenses.
- The Medical Center's operating loss increase includes $11.7 million and $9.1 million of depreciation expense for the years ended September 30, 2018 and 2017, respectively.
- The Medical Center's operating loss increased by $27.7 million primarily as a result of increases in various expense categories and reduction in operating revenues due to lower activities.
- The Medical Center received $41.0 million and $16.0 million subsidy from the District of Columbia (the District) in fiscal years 2018 and 2017, respectively.
    - During fiscal year 2018, $8.8 million of the subsidy received was for capital related costs and $32.2 million was for continued operating support.
    - During fiscal year 2017, $16.0 million of the subsidy received was for capital related costs.
- The Medical Center's total liabilities increased from $29.1 million to $31.8 million during fiscal year 2018. This was primarily attributed to an increase of $4.2 million in current liabilities.

The Medical Center's net working capital (current assets minus current liabilities) decreased from $32.5 million to $27.9 million during fiscal year 2018. The decrease was attributed to the increase in current liabilities of $4.2 million resulting from timing of vendor payables.

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, 2019, 2018, and 2017:

Condensed Statements of Net Position

	2019	2018	2017
Assets:			
Current assets	**$ 53,903,856**	$ 54,515,023	$ 54,896,861
Non-current assets:			
Capital assets, net	**68,253,650**	71,822,908	79,386,529
Other assets	**-**	-	235,492
Total non-current assets	**68,253,650**	71,822,908	79,622,021
Total assets	**122,157,506**	126,337,931	134,518,882
Liabilities:			
Current liabilities	**22,128,617**	26,592,681	22,409,313
Non-current liabilities	**8,128,775**	5,232,247	6,699,705
Total liabilities	**30,257,392**	31,824,928	29,109,018
Net Position:			
Net investment in capital assets	**68,253,650**	71,822,908	79,350,344
Restricted for capital projects	**14,035,736**	22,463,844	19,121,086
Unrestricted	**9,610,728**	226,251	6,938,434
Total net position	**$ 91,900,114**	$ 94,513,003	$ 105,409,864

2019 - The net position, over a period of time, can serve as a useful indicator of an organization's financial position. As of September 30, 2019 and 2018, the Medical Center's assets exceeded liabilities by $91.9 million and $94.5 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2019 and 2018, capital assets represent 55.9% and 56.8% 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 decreased by $3.6 million during the fiscal year 2019. The Medical Center's annual depreciation and amortization was $11.4 million in fiscal year 2019, a decrease of $301 thousand 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 the adjoining Prince Georges County, Maryland.

The next largest portion of the Medical Center's assets is current assets, which is mostly comprised of cash and cash equivalents and net patient receivables. As of September 30, 2019 and 2018, current assets represented 44.1% and 43.2%, respectively of total assets. Total current assets decreased by $611 thousand. The decrease was mainly due to the $4.4 million decrease in the Medical Center's accounts receivable, inventory and prepaid expenses offset by $3.8 million increase in cash.

Current liabilities represent 73.1% and 83.6% of the Medical Center's total liabilities as of September 30, 2019 and 2018, respectively. Current liabilities decreased by $4.5 million or 16.8% as of September 30, 2019 compared to the balance as of September 30, 2018. The change in current liabilities was primarily due to the timing of vendor payments.

The following table reflects the change in net position for the years ended September 30, 2019:

Changes in Net Position

Balance as of September 30, 2017	$ 105,409,864
Decrease in net position	(10,896,861)
Balance as of September 30, 2018	94,513,003
Decrease in net position	(2,612,889)
Balance as of September 30, 2019	**$ 91,900,114**

2018 - The net position, over a period of time, can serve as a useful indicator of an organization's financial position. As of 2018 and 2017, the Medical Center's assets exceeded liabilities by $94.5 million and $105.4 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2019 and 2017, capital assets represent 56.8% and 59.0% 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 decreased by $7.6 million during the fiscal year 2018. The Medical Center's annual depreciation and amortization was $11.7 million in fiscal year 2018, an increase of $2.3 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 the adjoining Prince Georges County, Maryland.

The next largest portion of the Medical Center's assets is current assets which is mostly comprised of cash and cash equivalents and net patient receivables. As of September 30, 2018 and 2017, current assets represented 43.2% and 40.8%, respectively of total assets. Total current assets decreased by $382 thousand. The decrease was mainly due to the $2.7 million decrease in the Medical Center's accounts receivable, inventory and prepaid expenses offset by $2.3 million increase in cash.

Management's Discussion and Analysis
September 30, 2019 and 2018

Current liabilities represent 83.6% and 77.0% of the Medical Center's total liabilities as of September 30, 2018 and 2017, respectively. Current liabilities increased by $4.2 million or 18.7% as of September 30, 2018 compared to the balance as of September 30, 2017. The change in current liabilities was primarily related to due to the timing of vendor payments.

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, 2019, 2018, and 2017. 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, 2019, 2018, and 2017:

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

	2019	2018	2017
Revenues:			
Operating revenues:			
Net patient service revenues	**$ 80,155,923**	$ 89,118,289	$ 107,472,388
Disproportionate share revenues	**14,294,933**	-	3,909,666
Other operating revenues	**30,624,204**	23,351,168	13,737,759
Total operating revenues	**125,075,060**	112,469,457	125,119,813
Nonoperating revenues:			
Subsidy from District of Columbia	**22,049,421**	25,827,149	15,984,180
Total nonoperating revenues	**22,049,421**	25,827,149	15,984,180
Total revenues	**147,124,481**	138,296,606	141,103,993
Expenses:			
Operating expenses:			
Salaries and benefits	**71,373,855**	73,716,805	71,071,467
Supplies	**13,604,157**	15,889,851	14,775,507
Depreciation and amortization	**11,448,837**	11,749,872	9,481,654
Other expenses	**53,310,521**	47,836,939	38,774,248
Total operating expenses	**149,737,370**	149,193,467	134,102,876
Changes in net position	**(2,612,889)**	(10,896,861)	7,001,117
Net position, beginning of year	**94,513,003**	105,409,864	98,408,747
Net position, end of year	**$ 91,900,114**	$ 94,513,003	$ 105,409,864

2019 – The Medical Center's total operating revenues were $125.1 million and $112.5 million for the years ended September 30, 2019 and 2018. Revenues from patient care services represent 62.7% and 79.2% of total operating revenues, respectively. The Medical Center receives approximately 90.1% of its patient service revenue from governmental payors (primarily Medicare and Medicaid) and the remainder from various other nongovernmental payors.

Net patient service revenue, net of provision for bad debt, decreased 12.0% in fiscal year 2019 compared to the prior fiscal year due to corresponding decreases in patient care activities.

The Medical Center's total costs were $149.7 million and $149.2 million for the years ended September 30, 2019 and 2018, an increase of $0.5 million.

2018 – The Medical Center's total operating revenues were $112.5 million and $125.1 million for the years ended September 30, 2018 and 2017. Revenues from patient care services represent 79.2% and 85.9% of total revenues, respectively. The Medical Center receives approximately 97.2% of its service revenue from governmental payors (primarily Medicare and Medicaid) and the remainder from various other nongovernmental payors.

Net patient service revenue, net of provision for bad debt, decreased 17.1% in fiscal year 2018 compared to the prior fiscal year due to major decreases in patient care activities.

The Medical Center's total costs were $149.2 million and $134.1 million for the years ended September 30, 2018 and 2017, an increase of $15.1 million. The increase was primarily due to expansion of service lines and onboarding of new physicians.

Capital and Debt Administration

Capital Assets

The Medical Center's capital assets as of September 30, 2019, 2018 and 2017 amount to $68.3 million, $71.8 million and $79.4 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, 2019, 2018, and 2017, respectively:

	2019	2018	2017
Asset Category:			
Land	**$ 8,100,000**	$ 8,100,000	$ 8,100,000
Construction in progress	**840,142**	417,147	8,261,954
Land improvements	**298,968**	322,157	345,338
Buildings and improvements	**45,743,923**	49,045,816	45,984,926
Equipment	**10,220,160**	12,472,530	14,192,591
Equipment under capital lease obligations	**-**	3,899	53,261
Software	**3,050,457**	1,461,359	2,448,459
Capital assets, net	**$ 68,253,650**	$ 71,822,908	$ 79,386,529

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

Long-term Liabilities

As of September 30, 2019, 2018 and 2017, the Medical Center had total long-term liabilities outstanding of $8.1 million, $5.2 million, and $6.7 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:

	2019	2018	2017
Capital lease obligations	$ -	$ -	$ 36,185
Estimated third party settlements	**6,011,826**	2,815,770	4,683,228
Other liabilities	**2,116,949**	2,416,477	2,016,477
Total long-term liabilities	**$ 8,128,775**	$ 5,232,247	$ 6,735,890

Economic Factors

- ***The Patient Protection and Affordable Care Act of 2010*** – The uncertainty of 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 resurgence in 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 successfully demonstrated meaningful use of Certified EHR Technology during calendar year 2018. Beginning October 1, 2019, the hospital will 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, revenue 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 revenue in the year that the adjustment becomes known.

- ***District of Columbia Universal Paid Leave*** – The D.C. Council gave final approval in December 2017, 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 2018*, Universal Paid Leave Pay Structure Amendment Act of 2018*, to amend certain provisions of the existing plan. The Amendment continues to remain pending with the District Council.

  Effective July 1, 2019, the District began collecting taxes from employers for the Universal Paid Leave program. The Medical Center paid $180,768 for the mandated taxes.

- ***Medicaid Disproportionate Share Revenues*** – The Medicaid program pays the Medical Center Disproportionate Share (DSH) payments for servicing certain low income patients. Due to the closure of the Obstetrics Unit in August 2018, the Medical Center was excluded from receiving DSH payments. The Medical Center appealed the decision which was adjudicated in favor of the Medical Center in fiscal year 2019 and the Medical Center received $17.5 million in DSH payments in fiscal year 2019.

- ***District of Columbia Minimum Wage Increase*** – The "Fair Shot Minimum Wage Amendment Act of 2017" signed into law on June 27, 2018 after unanimous passage by the D.C. 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). Beginning July 1, 2019, the minimum wage in the District of Columbia increased from $13.25 per hour to $14.00 per hour for all workers, regardless of size of employer. The Medical Center adjusted the wages of all eligible employees to $14.00 per hour. The Medical Center's budget will reflect the change in minimum wage each year.

- ***Pricing Transparency*** – The Centers for Medicare & Medicaid Services' (CMS) fiscal year 2019 Inpatient Prospective Payment System (IPPS) final rule, instituted new price transparency requirements for all hospitals. Effective January 1, 2019, hospitals must make available to the public a listing of their standard charges via the internet. Additionally, IPPS hospitals must also post their standard charge for each Diagnostic Related Group (DRG). The hospital successfully met this requirement on December 23, 2018 by posting the Medical Center's Charge Master to its website as well as to the CMS website.

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, 2019 and 2018

ASSETS	2019	2018
Current assets:		
Cash and cash equivalents	**$ 31,932,976**	$ 28,147,889
Patient receivables, net of allowances for estimated uncollectibles	**18,294,792**	22,907,301
Inventories	**1,272,822**	1,519,568
Prepaid expenses and other receivables	**2,403,266**	1,940,265
Total current assets	**53,903,856**	54,515,023
Capital assets, net	**68,253,650**	71,822,908
Total noncurrent assets	**68,253,650**	71,822,908
Total assets	**122,157,506**	126,337,931
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	**12,129,367**	14,637,904
Accrued salaries and benefits	**8,588,223**	8,312,788
Other liabilities	**1,411,027**	3,641,989
Total current liabilities	**22,128,617**	26,592,681
Estimated settlements due to third party payors	**6,011,826**	2,815,770
Other long-term liabilities	**2,116,949**	2,416,477
Total noncurrent liabilities	**8,128,775**	5,232,247
Total liabilities	**30,257,392**	31,824,928
Net position:		
Net investment in capital assets	**68,253,650**	71,822,908
Restricted for:		
Expendable		
Capital projects	**14,035,736**	22,463,844
Unrestricted	**9,610,728**	226,251
Total net position	**$ 91,900,114**	$ 94,513,003

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, 2019 and 2018

	2019	2018
Operating revenues:		
Patient service revenues, net of contractual allowance and other adjustments of $232,146,074 and $221,061,058, respectively	**$ 94,836,067**	$ 100,431,229
Provision for bad debts	**(14,680,144)**	(11,312,940)
Net patient service revenues, less provision for bad debts	**80,155,923**	89,118,289
Disproportionate share revenues, net	**14,294,933**	-
Grant revenues	**479,092**	323,783
District grants	**15,366,723**	15,221,344
Other operating revenues	**14,778,389**	7,806,041
Total operating revenues	**125,075,060**	112,469,457
Operating expenses:		
Salaries and wages	**57,259,309**	58,171,431
Employee benefits	**14,114,546**	15,545,374
Contract labors	**3,164,214**	3,928,669
Supplies	**13,604,157**	15,889,851
Professional fees	**19,796,325**	11,423,467
Purchased services	**18,337,525**	22,794,579
Depreciation and amortization	**11,448,837**	11,749,872
Utilities	**3,139,148**	2,892,876
Insurance	**3,055,069**	2,844,097
Rent and leases	**945,338**	707,561
Repairs and maintenance	**3,090,924**	1,582,919
Other expenses	**1,781,978**	1,662,771
Total operating expenses	**149,737,370**	149,193,467
Operating loss	**(24,662,310)**	(36,724,010)
Nonoperating revenues:		
District subsidy - operating	**20,000,000**	17,000,000
Total nonoperating revenues	**20,000,000**	17,000,000
Change in net position before District Capital Subsidy	**(4,662,310)**	(19,724,010)
District subsidy - capital	**2,049,421**	8,827,149
Changes in net position	**(2,612,889)**	(10,896,861)
Net position, beginning of year	**94,513,003**	105,409,864
Net position, end of year	**$ 91,900,114**	**$ 94,513,003**

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

Statements of Cash Flows
For the Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from and on behalf of patients	**$ 102,259,421**	$ 88,819,279
Payments to employees and fringe benefits	**(71,098,420)**	(74,211,903)
Payments to suppliers and contractors	**(72,169,960)**	(57,270,704)
Other receipts and payments, net	**30,624,204**	23,351,168
Net cash from operating activities	**(10,384,755)**	(19,312,160)
Cash flows from noncapital financing activities:		
Proceeds from District of Columbia	**20,000,000**	17,000,000
Net cash from noncapital financing activities	**20,000,000**	17,000,000
Cash flows from capital and related financing activities:		
Cash received in capital contribution from the District of Columbia	**2,049,421**	8,827,149
Repayment of capital lease obligations	**-**	(36,185)
Purchase of capital assets	**(7,879,579)**	(4,186,251)
Net cash from capital and related financing activities	**(5,830,158)**	4,604,713
Net change in cash	**3,785,087**	2,292,553
Cash and cash equivalents, beginning of year	**28,147,889**	25,855,336
Cash and cash equivalents, end of year	**$ 31,932,976**	$ 28,147,889
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (24,662,310)**	$ (36,724,010)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation and amortization	**11,448,837**	11,749,872
Provision for bad debts	**14,680,144**	11,312,940
Effect of changes in non-cash operating assets and liabilities:		
Patient receivables, net	**(10,067,635)**	(9,979,984)
Inventories	**246,746**	383,934
Prepaid expenses and other receivables	**(463,001)**	957,501
Accounts payable and accrued expenses	**(2,508,537)**	4,378,457
Accrued salaries and benefits	**275,435**	(495,098)
Estimated settlements due to/from third party payors	**3,196,056**	(1,631,966)
Other liabilities	**(2,530,490)**	736,194
Net cash from operating activities	**$ (10,384,755)**	$ (19,312,160)

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 (the Hospital Corporation), commonly known as United Medical Center (the Medical Center) is a 330-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 Hospital Corporation 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 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 Medical Center'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 expense 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 consists 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 accounting principles generally accepted in the United States of America (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.

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 agencies 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 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 allowance for contractual and doubtful accounts as of September 30, 2019 and 2018, was approximately $42.4 million and $50.8 million, respectively.

The Medical Center receives subsidies from the District to support general operations and for capital asset acquisitions. This non-operating revenue is recorded when capital contributions are made by the District, which is recorded as non-operating revenues in the accompanying statements of revenues, expenses, and changes in net position. The Medical Center also receives funding to defray the costs of management related operating expenses, union payroll obligations and the funding of emergency department physicians and hospitalists. These amounts are recognized as revenues when related expenses are incurred and are recorded in District grants 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 revenue 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 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 received $17.5 million in Medicaid DSH revenues for the year ended September 30, 2019 which includes the settlement of prior year amounts. The Medical Center did not receive any funding for DSH for the year ended September 30, 2018.

(h) Fair Market Value of Financial Instruments

The carrying amounts of the Medical Center's financial instruments that include cash equivalents, patient receivables, and accounts payable, 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 $5,000 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 building improvements	5-40 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 revenue. The Medical Center maintains records to identify and monitor the level of charity care provided. The criteria used for charity service considers family income, net worth, and other eligibility criteria at time of application. The Medical Center provided approximately $1 million and $368 thousand of charity care during the years ended September 30, 2019 and 2018, 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 transactions associated with providing health care services - the Medical Center's principal activity. Operating expenses are incurred to provide healthcare services, financing and administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(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 revenues, expenses, and changes in net position. The Medical Center will continue to monitor compliance with EHR technology to avoid future payment penalties.

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 when they 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 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. Beginning February 1, 2018, the District's Medicaid program reimbursed skilled nursing facility care based on a prospective per diem rate based on severity of illness and resource needs using a residents' Resource Utilization Group (RUG) score / Health Insurance Prospective Payment System (HIPPS) and now requires documentation.

Health Insurance Prospective Payment System rate codes represent specific sets of patient characteristics (or case-mix groups) health insurers use to make payment determinations under several prospective payment systems. Case-mix groups are developed based on research into utilization patterns among various provider types. For the payment systems that use HIPPS codes, clinical assessment data is the basic input. A standard patient assessment instrument is interpreted by case-mix grouping software algorithms, which assign the case mix group. For payment purposes, at least on HIPPS code is defined to represent each case-mix group. These HIPPS codes are reported on claims to insurers.

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.

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

(q) New Pronouncements

The Medical Center has adopted the provisions of GASB issued Statement 83 entitled *Certain Asset Retirement Obligations* as of September 30, 2019 and 2018. The adoption of this standard did not have a material effect on these statements.

The GASB also issued statements GASB No. 84, *Fiduciary Activities*, GASB No. 85, *Omnibus 2018*, and GASB No. 87, *Leases*. These statements may have a material effect on the Medical Center's financial statements once implemented. The Medical Center will be analyzing the effects of these pronouncements and plans to adopt them, as applicable, by their effective date.

2. CASH AND CASH EQUIVALENTS

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. As of September 30, 2019 and 2018, total cash and cash equivalents held was $31.9 million, and $28.1 million, respectively, of which $14.0 million and $22.5 million, respectively, was set aside for capital expenditures from the District capital subsidy. Interest earned in this account for the years ended September 30, 2019 and 2018 was $44.6 thousand and $1.3 thousand, respectively.

The Medical Center maintains cash and cash equivalents 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, 2019, 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, 2019 and 2018, consisted of these amounts:

	2019	2018
Patient Accounts Receivable:		
Receivable from patients and their insuance carriers	**$ 10,568,299**	$ 14,509,161
Receivable from Medicare	**6,594,715**	7,323,437
Receivable from Medicaid	**10,474,947**	13,100,267
Total patient accounts receivable, net of contractual allowance	**27,637,961**	34,932,865
Less allowance for uncollectible amounts	**9,343,169**	12,025,564
Patient accounts receivable, net	**$ 18,294,792**	$ 22,907,301

	2019	2018
Accounts Payable and Accrued Expenses:		
Payable to employees	**$ 7,934,466**	$ 6,329,009
Payable to suppliers	**12,129,367**	14,637,904
Payable to payroll taxing authorities and others	**653,757**	1,983,779
Total accounts payable and accrued expenses	**$ 20,717,590**	$ 22,950,692

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset additions, and balances for the year ended September 30, 2019, were as follows:

Asset Class	September 30, 2018	Additions	Transfer in (out)	September 30, 2019
Non-depreciable:				
Land	$ 8,100,000	$ -	$ -	**$ 8,100,000**
Construction in progress	417,147	422,995		**840,142**
Total non-depreciable	8,517,147	422,995	-	**8,940,142**
Depreciable and amortizable:				
Land improvements	1,205,674	-	-	**1,205,674**
Buildings and improvements	73,966,488	2,428,570	-	**76,395,058**
Equipment	37,944,788	2,171,227	-	**40,116,015**
Equipment under capital lease obligations	1,567,602	-	-	**1,567,602**
Software	8,894,003	2,856,787	-	**11,750,790**
Total depreciable and amortizable	123,578,555	7,456,584	-	**131,035,139**
Less accumulated depreciation and amortization for:				
Land improvements	(883,517)	(23,189)	-	**(906,706)**
Buildings and improvements	(24,920,672)	(5,730,463)	-	**(30,651,135)**
Equipment	(25,472,258)	(4,423,597)	-	**(29,895,855)**
Equipment under capital lease obligations	(1,563,703)	(3,899)	-	**(1,567,602)**
Software	(7,432,644)	(1,267,689)	-	**(8,700,333)**
Total accumulated depreciation and amortization	(60,272,794)	(11,448,837)	-	**(71,721,631)**
Capital assets, net	$ 71,822,908	$ (3,569,258)	$ -	**$ 68,253,650**

Capital asset additions, and balances for the year ended September 30, 2018, were as follows:

Asset Class	September 30, 2017	Additions	Transfer in (out)	September 30, 2018
Non-depreciable:				
Land	$ 8,100,000	$ -	$ -	$ 8,100,000
Construction in progress	8,261,954	417,148	(8,261,955)	417,147
Total non-depreciable	16,361,954	417,148	(8,261,955)	8,517,147
Depreciable and amortizable:				
Land improvements	1,205,674	-	-	1,205,674
Buildings and improvements	65,609,406	95,127	8,261,955	73,966,488
Equipment	35,017,705	2,927,083	-	37,944,788
Equipment under capital lease obligations	1,567,602	-	-	1,567,602
Software	8,147,110	746,893	-	8,894,003
Total depreciable and amortizable	111,547,497	3,769,103	8,261,955	123,578,555
Less accumulated depreciation and amortization for:				
Land improvements	(860,336)	(23,181)	-	(883,517)
Buildings and improvements	(19,624,480)	(5,296,192)	-	(24,920,672)
Equipment	(20,825,114)	(4,647,144)	-	(25,472,258)
Equipment under capital lease obligations	(1,514,341)	(49,362)	-	(1,563,703)
Software	(5,698,651)	(1,733,993)	-	(7,432,644)
Total accumulated depreciation and amortization	(48,522,922)	(11,749,872)	-	(60,272,794)
Capital assets, net	$ 79,386,529	$ (7,563,621)	$ -	$ 71,822,908

5. LONG-TERM LIABILITIES

A schedule of the Medical Center's long-term liabilities as of September 30, 2019 and 2018, were as follows:

	2018	Additions	Reductions	2019	Amounts due in one year
Estimated third party settlements	$ 2,815,770	$ 5,454,679	$ (2,258,623)	**$ 6,011,826**	$ -
Other liabilities	2,416,477	-	(299,528)	**2,116,949**	-
Total noncurrent liabilities	$ 5,232,247	$ 5,454,679	$ (2,558,151)	**$ 8,128,775**	$ -

	2017	Additions	Reductions	2018	Amounts due in one year
Capital lease obligations	$ 36,185	$ -	$ (36,185)	$ -	$ -
Estimated third party settlements	4,683,228	330,615	(2,198,073)	2,815,770	-
Other liabilities	2,016,477	400,000	-	2,416,477	-
Total noncurrent liabilities	$ 6,735,890	$ 730,615	$ (2,234,258)	$ 5,232,247	$ -

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 and through their contractors. Cost Reports for the Medicare program have been final settled for all years through 2015. Medicaid DSH survey results remain unsettled for fiscal years 2015 through 2018 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 2019 are reflected in the accompanying financial statements.

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, 2019. The Medical Center purchases professional and general liability insurance to cover medical malpractice claims. The liability recorded as of September 30, 2019 and 2018, within the line item other long term liabilities in the statements of net position, represents estimated 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 basic maximum of 352 hours. The International Union of Operating Engineers (IUOE) and the United Federation of Special Police and Security Officers (UFSPSO) unions accepted the new rates, however, the 1199 Service Employees International Union (SEIU) and District of Columbia Nursing Association (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 will be forfeited. Most employees used up excess vacation prior. 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 paid time off benefits. There is no liability for unpaid disability reserve 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, 2019 and 2018, $2.9 million and $3.3 million, respectively, was 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, 2019 and 2018. 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, 2019 and 2018, the Medical Center's contributions to the 401(a) defined contribution plan were $567 thousand and $521 thousand, respectively. Forfeitures may be used first to reduce the Medical Center's contribution, and then to pay any expenses payable to the plan.

9. RETIREMENT PLANS (continued)

(a) Defined Contribution Plan (continued)

The forfeited contributions as of September 30, 2019 and 2018, were $17 thousand and $69 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 2019 and 2018 to defer up to $19.0 thousand and $18.5 thousand of compensation under the IRS annual limitations, respectively. 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. 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 and subsidy funding for certain operating and capital expenditure needs.

The following is a summary of related party transactions included in the accompanying financial statements as of September 30, 2019 and 2018:

	2019	2018
Patient receivables, net		
Accounts receivables due from the District Medicaid	**$ 9,713,649**	$ 6,911,416
Patient service revenues		
Net patient revenues - the District Medicaid	**23,325,893**	23,743,867
DSH revenues - the District Medicaid	**17,466,346**	-
Grant Revenues		
Other revenues - the District Medicaid Meaningful Use Grant	**159,249**	-
District Grants		
Funding for union retro accrual	**-**	5,400,000
Funding for management related expenses	**6,760,773**	6,513,888
Funding for ED physicians and hospitalists	**7,500,000**	1,545,753
The District outpatient access payments	**1,105,950**	1,761,703
Direct subsidy - operating	**20,000,000**	17,000,000
Direct subsidy - capital	**2,049,421**	8,827,149
Purchased services		
Provider fees	**(366,150)**	(326,195)

11. 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 gross receivables from patients and third-party payors as of September 30, 2019 and 2018 were as follows:

	2019	2018
Medicare	**27%**	31%
Medicaid	**21%**	16%
HMO Medicare/Medicaid	**21%**	23%
HMO/PPO	**8%**	8%
Commercial/Other	**6%**	9%
Self Pay	**17%**	13%
Total	**100%**	100%

12. 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 are under negotiation and are targeted to be updated in fiscal year 2020. All the agreements are currently valid.

13. SUBSEQUENT EVENTS

The Medical Center has evaluated subsequent events from the statement of net position date through January 2, 2020, the date these financial statements were available for issue, noting no additional events that affect the financial statements as of September 30, 2019 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 Mayor, Council of the Government of the District of Columbia,
the Board of Directors of Not-For-Profit Hospital Corporation and
Inspector General of the Government of the District of Columbia

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, 2019, 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 January 2, 2020.

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
January 2, 2020

SB & Company, LLC