GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

NOT-FOR-PROFIT HOSPITAL CORPORATION UNITED MEDICAL CENTER

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS)

OIG

FISCAL YEARS ENDED SEPTEMBER 30, 2015 AND 2014

DANIEL W. LUCAS
INSPECTOR GENERAL

OIG NO. 16-1-08HW MARCH 2016

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

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

March 31, 2016

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 504
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 316
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report issued by SB & Company, LLC (SBC) on the Not-For-Profit Hospital Corporation – United Medical Center financial statement for the years ended September 30, 2015, and 2014 (OIG No. 16-1-08HW). SBC submitted this component report as part of our overall contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2015.

SBC opined that the financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SBC identified no weaknesses in internal control.

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

Sincerely,

Daniel W. Lucas
Inspector General

DWL/lw

Enclosure

cc: See Distribution List

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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 component unit of the District of Columbia, which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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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, 2015, and its changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Balances

The accompanying financial statements of the Medical Center as of September 30, 2014, and for the year then ended were audited by other auditors whose report, dated February 27, 2015, expressed an unmodified opinion on those financial statements.

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 audits 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 22, 2016, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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
January 22, 2016

SB + Company, LLC

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

Management's Discussion and Analysis
September 30, 2015 and 2014

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, 2015 and 2014. 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 18. 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, deferred outflows, deferred inflows and liabilities. The difference between assets plus deferred outflows of resources, on the one hand, and liabilities plus deferred inflows of resources on the other, is reported as net position. The statement of net position also provides the basis for evaluating the capital structure of the Medical Center and assessing its liquidity and financial flexibility. Over time, an increase or decrease in the Medical Center's net position is one indicator of whether its financial health is improving or deteriorating. It is recommended that one considers additional nonfinancial factors, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

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

The statement of revenues, expenses and changes in net position presents changes to the Medical Center's net position during the most recent period. This statement measures the success of the Medical Center's operations during the fiscal years, and can be used to assess profitability and credit worthiness. Activities are reported as either operating or nonoperating. 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. Nonoperating 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 clinical 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 18 of this report.

Fiscal Year 2015 Financial Highlights

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

Fiscal Year 2014 Financial Highlights

- The Medical Center's total assets exceed its liabilities at September 30, 2014 and 2013, by $65.0 million and $52.1 million, respectively.
- The Medical Center's change in net position was $12.9 million and $427.9 thousand for the years ending September 30, 2014 and 2013, respectively. This represents a $12.5 million improvement for fiscal year 2014 compared to the same period last year.
- The Medical Center improved its operating loss by $9.2 million primarily as a result of improved operating efficiencies and growth in patient volumes. Total operating revenues increased by $16.1 million (17.9%) while total operating expenses grew by $6.9 million (6.8%).
- The Medical Center received $14.8 million and $11.0 million in subsidies from the District of Columbia (the District) in fiscal years 2014 and 2013, respectively, and recognized $13.3 million and $11.0 million as non-operating revenue for the years ended September 30, 2014 and 2013, respectively. Of the $14.8 million received in fiscal year 2014, $1.5 million of the amount was recorded as unearned revenue and reported as other liabilities.
    - During fiscal year 2014, $12.2 million of the subsidy received was for capital related costs and $2.6 million was for continued operating support.
    - During fiscal year 2013, $3.5 million of the subsidy was received for continued operating support, $5.5 million to reduce certain outstanding trade accounts payable and $2.0 million for meaningful use initiatives required under the Patient Protection and Affordable Care Act of 2010.
- The Medical Center's total liabilities decreased from $23.6 million to $20.0 million during fiscal year 2014. This was primarily attributed to the reduction of trade accounts payable.
- The Medical Center's net working capital (current assets minus current liabilities) increased from $7.2 million to $12.6 million during fiscal year 2014.
- The Medical Center received DC Medicaid meaningful use incentives of $1.5 million for the year ended September 30, 2014, which is included as a component of grant revenue in the statements of revenues, expenses, and changes in net position.
- The Medical Center's days cash on hand improved by 31.0 days, from 24.4 days in 2013 to 55.4 days in 2014.
- The Medical Center recognized a net reduction of $3.8 million in its third party settlement liability as a result of cost settlements with the Medicaid and Medicare programs.

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, 2015, 2014 and 2013:

Condensed Statements of Net Position

	2015	2014	2013
Assets:			
Current assets	**$ 37,035,404**	$ 28,876,430	$ 21,884,204
Non-current assets:			
Capital assets	**62,239,829**	55,888,700	53,518,909
Other assets	**836,661**	233,988	340,954
Total non-current assets	**63,076,490**	56,122,688	53,859,863
Total assets	**100,111,894**	84,999,118	75,744,067
Liabilities:			
Current liabilities	**19,342,994**	16,259,420	14,670,205
Non-current liabilities	**6,806,595**	3,730,721	8,955,841
Total liabilities	**26,149,589**	19,990,141	23,626,046
Net Position:			
Net Investment in Capital assets	**61,948,531**	55,057,125	52,327,588
Restricted for capital project	**13,605,554**	-	-
Unrestricted	**(1,591,780)**	9,951,852	(209,567)
Total net position	**$ 73,962,305**	$ 65,008,977	$ 52,118,021

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

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

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

Management's Discussion and Analysis
September 30, 2015 and 2014

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

Net working capital (current assets minus current liabilities) is an indicator to measure cash flow and the ability to service debts. A positive net working capital indicates that the Medical Center has money in order to maintain or expand its operations. As of September 30, 2015 and 2014, net working capital was $17.7 million and $12.6 million, respectively.

The Medical Center's net position increased by $9.0 million and increased by $12.9 million during the years ending September 30, 2015 and 2014. The following table reflects the change in net position for the years ended September 30, 2015 and 2014:

Changes in Net Position

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

2014 - Over time, the net position can serve as a useful indicator of an organization's financial position. As of September 30, 2014 and 2013, the Medical Center's assets exceeded liabilities by $65.0 million and $52.1 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2014 and 2013, capital assets represent 65.8% and 70.7% of total assets, respectively. Capital assets include land, land improvements, buildings, equipment, software, equipment under capital lease obligations and construction in progress. Net capital assets increased by $2.4 million during the fiscal year 2014. The Medical Center's annual depreciation and amortization was $6.3 million in fiscal year 2014, an increase of $436 thousand from the previous year. The Medical Center uses these capital assets to provide medical care to citizens of the District of Columbia Wards 7 and 8 and the adjoining Prince Georges County, Maryland. Consequently, these assets are not available for future spending.

The next largest portion of the Medical Center's assets is current assets. As of September 30, 2014 and 2013, current assets represented 34.0% and 28.9%, respectively of total assets, and includes cash resources that are subject to restriction on their use. Total current assets increased by $6.9 million. The increase was mainly due to increases in the Medical Center's cash and cash equivalents and other current assets of $9.7 million and $0.9 million, respectively, and offset by a decrease in net accounts receivables ($4.5 million).

Management's Discussion and Analysis
September 30, 2015 and 2014

Current liabilities represent 81.3% and 62.1% of the company's total liabilities as of September 30, 2014 and 2013, respectively. Current liabilities increased by 10.8% as of September 30, 2014 compared to the balance as of September 30, 2013. The change in current liabilities was primarily related to increases in accrued salaries and benefits ($1.6 million), third party settlements ($394 thousand) and other current liabilities ($1.8 million).

Net working capital (current assets minus current liabilities) is an indicator to measure cash flow and the ability to service debts. A positive net working capital indicates that the Medical Center has money in order to maintain or expand its operations. As of September 30, 2014 and 2013, net working capital was $12.6 million and $7.2 million, respectively.

The Medical Center's net position increased by $12.9 million and $427.9 thousand during the years ending September 30, 2014 and 2013. The following table reflects the change in net position for the years ended September 30, 2014 and 2013:

Changes in Net Position

Balance as of September 30, 2012	$ 51,690,090
Increase in net position	427,931
Balance as of September 30, 2013	52,118,021
Increase in net position	12,890,956
Balance as of September 30, 2014	$ 65,008,977

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

Management's Discussion and Analysis
September 30, 2015 and 2014

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, 2015, 2014 and 2013. 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, 2015, 2014 and 2013:

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

	2015	2014	2013
Revenues:			
Operating revenues:			
Net patient service revenue	**$ 92,015,419**	$ 92,933,146	$ 78,653,151
Disproportionate share revenues	**2,277,096**	7,378,468	7,191,884
Other operating revenue	**8,661,005**	6,238,238	4,110,663
Total operating revenue	**102,953,520**	106,549,852	89,955,698
Nonoperating revenues (expenses):			
Interest income (expense), net	**167,815**	(303,738)	(360,418)
Subsidy from District of Columbia	**27,792,157**	13,334,037	11,000,000
Other nonoperating revenue	**214,535**	1,968,598	1,103,337
Total nonoperating revenue	**28,174,507**	14,998,897	11,742,919
Total revenues	**131,128,027**	121,548,749	101,698,617
Expenses:			
Operating expenses:			
Salaries and benefits	**65,063,432**	64,304,163	63,539,710
Supplies	**15,074,436**	12,298,335	11,478,771
Depreciation and amortization	**7,052,446**	6,271,710	5,835,708
Other expense	**34,984,385**	25,783,585	20,416,497
Total operating expenses	**122,174,699**	108,657,793	101,270,686
Change in net position	**8,953,328**	12,890,956	427,931
Net position beginning of period	**65,008,977**	52,118,021	51,690,090
Net position end of period	**$ 73,962,305**	$ 65,008,977	$ 52,118,021

Management's Discussion and Analysis
September 30, 2015 and 2014

2015 – The Medical Center's total revenues were $131.1 million and $121.5 million for the years ended September 30, 2015 and 2014. Revenues from patient care services represent 70.2% and 76.5% of total revenues, respectively. The Medical Center receives approximately 82% of its clinical service revenue from public payers (primarily Medicare and Medicaid) and the remainder from private payers, including self-pay patients.

Net patient service revenue was fairly consistent with prior year. However, for the year ended September 30, 2015, the Medical Center recorded a contingent liability adjustment of $3 million for anticipated payment to DC Medicaid in connection with SNF 2011 Medicaid Cost audit. The adjustment resulted in a reduction in the net patient service revenue by the same amount. Excluding the impact of the adjustment, net patient service revenue grew 2.2% in fiscal year 2015 compared to the same period last year. Contributing factors for the improved performance in fiscal year 2015 included the following:

- Growth in inpatient admissions 2.3% when compared to fiscal year 2014.
- Experienced better inpatient payor mix in 2015 when compared to previous year. Medicare, HMO Medicaid-Medicare, & Commercial Managed Care payor mix increased by 1.6%, 0.3%, and 18.6% respectively when compared to fiscal year 2014. Medicaid, Commercial and Self-pay payor mix decreased by 2.9%, 9.8%, and 27.8% respectively.
- Average length of stay decreased by 2% despite increases in case acuity.
- Improved case mix index (CMI) of 1.0956 compared to 1.0667 in fiscal year 2014.

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

- Labor costs, which include salaries, benefits and contract labor increased by $1.6 million and represents 12.2% of the overall growth in total operating expenses compared to the same period last year. The increase was primarily related to contract labor as several key vacant positions were staffed with interim positions.
- Non-labor costs excluding depreciation and amortization, increased by $11.1 million or representing 82.0% of the overall growth.

The Medical Center's net position increased $9.0 million, or 13.8%, and increased $12.9 million, or 24.7%, during fiscal years 2015 and 2014, respectively.

2014 - The Medical Center's total revenues were $121.5 million and $101.7 million for the years ended September 30, 2014 and 2013. Revenues from patient care services represent 76.5% and 77.3% of total revenues, respectively. The Medical Center receives approximately 82% of its clinical service revenue from public payers (primarily Medicare and Medicaid) and the remainder from private payers, including self-pay patients.

Net patient service revenue grew 18.2% in fiscal year 2014 compared to the same period last year. Contributing factors for the improved performance in fiscal year 2014 included the following:

- Growth in inpatient admissions and emergency department visits of 12% and 6%, respectively, when compared to fiscal year 2013.

- Experienced better inpatient payor mix in 2014 when compared to previous year. Medicare, HMO Medicare & Medicaid payor mix increased by 3% respectively and Commercial payor mix increased by 2% when compared to fiscal year 2013.
- Average length of stay decreased by 4% despite increases in case acuity.
- Improved case mix index (CMI) of 1.0667 compared to 1.0244 in fiscal year 2013.

The total cost of all programs and services was $108.7 million and $101.3 million for the years ended September 30, 2014 and 2013, an increase of $7.4 million. The increase in program and services cost was primarily due to growth in patient volumes, expansion of services in primary, clinical and specialty care, recruitment of new physicians, rise in insurance expense and increased utility costs.

- Labor costs, which include salaries, benefits and contract labor increased by $3.0 million and represents 44% of the overall growth in total operating expenses compared to the same period last year. The increase was primarily related to increase in services in fiscal year 2014.
- Non-labor costs excluding depreciation and amortization, increased by $3.9 million or 13.2%.

The Medical Center's net position increased $12.9 million, or 24.7%, and $427.9 thousand, or 0.8%, during fiscal years 2014 and 2013, respectively.

Capital and Debt Administration

Capital Assets

The Medical Center's capital assets as of September 30, 2015, 2014 and 2013 amount to $62.2 million, $55.9 million and $53.5 million (net of accumulated depreciation and amortization) respectively. This investment in capital assets includes land, land improvements, buildings, 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 at September 30, 2015, 2014 and 2013 respectively:

	2015	**2014**	**2013**
Asset Category:			
Land	**$ 8,100,000**	$ 8,100,000	$ 8,100,000
Construction in progress	**4,944,937**	5,031,371	773,109
Land improvements	**66,464**	195,018	360,132
Buildings and improvements	**33,783,020**	33,283,175	35,010,008
Equipment	**11,145,820**	8,056,175	8,165,634
Equipment under capital lease obligations	**294,663**	511,617	838,181
Software	**3,904,925**	711,344	271,845
Capital assets, net	**$ 62,239,829**	$ 55,888,700	$ 53,518,909

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

Long-term Liabilities

As of September 30, 2015, 2014 and 2013, the Medical Center had total long-term liabilities outstanding of $6.8 million, $3.7 million, and $9.0 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:

	2015	2014	2013
Capital lease obligations	**$ 131,959**	$ 254,857	$ 562,959
Estimated third party settlements	**4,339,475**	276,955	3,864,071
Other liabilities	**2,335,161**	3,198,909	4,528,811
Total noncurrent liabilities	**$ 6,806,595**	$ 3,730,721	$ 8,955,841

Economic Factors

- ***The Patient Protection and Affordable Care Act of 2010*** – The Affordable Care Act 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 and that will continue to be implemented in 2015 include the Medicaid population expansion and the so-called individual mandate, both of which should enlarge the Medical Center's insured population and concomitantly shrink its uninsured population; and the decrease of Medicare and Medicaid disproportionate share hospital (DSH) payments. Other legislation that may impact the Medical Center include requirements related to the "meaningful use" of electronic health records; Medicare prospective payment system rate changes; and the increasingly aggressive Medicare and Medicaid programs use of Recovery Audit Collectors (RAC) to recover allegedly improper payments.

- ***International Classification of Diseases v10 (ICD-10)*** – Code of Federal Regulations (45 CFR Part 162) requires healthcare providers to implement ICD-10 no later than October 1, 2015. The implementation date was delayed from October 1, 2014. ICD-10 represents a significant change in the standard healthcare coding system and will impact every system, process and transaction that contains or uses a diagnosis code or inpatient procedure code. The Medical Center has fully implemented ICD-10 as of September 30, 2015.

- ***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.

- ***Medicaid Inpatient (IP) & Outpatient (OP) Payment System Rebasing*** – During fiscal year 2014, District of Columbia Healthcare Finance (DHCF) used a hospital-specific base rate reimbursing each hospital at 98% of their cost. Effective October 1, 2014 (fiscal year 2015), DHCF implemented a single district-wide base rate for all acute care hospitals. The district wide base rate reimburses 98% of costs for District hospitals, as a group. Transfers, high cost outliers and low cost outlier continue to be paid, but the methodology for calculating the high cost and low cost outliers was modified. Substantial changes were made to add-on payments for medical education and capital. DHCF is phasing-in limits to capital, direct medical education and indirect medical education payments. This change increased the Medical Center's Medicaid base rate by re-allocating add-on payments into the base rate. Final rates for fiscal year 2015 are based on data from fiscal year 2013 cost reports. The Medical Center is the only hospital identified as being located in an Economic Development Zone within the District. The District government has a policy of providing a 2% favorable consideration to qualified businesses in Economic Development Zones. Accordingly, the Medical Center received a 2% increase to the district-wide base rate.

- Additionally, outpatient payments underwent drastic changes in fiscal year 2015. Effective October 1, 2014, DCHF changed the percentage based structure of reimbursement to payment based on the Enhanced Ambulatory Payment Grouper (EAPG). Similar to the Medicare DRG program, EAPGs "group together procedure and medical visits that share similar clinical characteristics, resource utilization patterns and cost so that payment is based on the relative intensity of the entire visit."

- ***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 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 monitoring its performance in an effort to attain incentive dollars.

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) 574-6611

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

Statements of Net Position
September 30, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	**$ 22,829,483**	$ 16,438,782
Patient receivable, net of allowances for estimated uncollectibles of $5,976,096 and $7,418,490, respectively	**10,803,724**	8,742,740
Inventories	**1,460,282**	1,414,818
Prepaid expenses and other assets	**1,941,915**	1,625,186
Estimated settlements due from third party payors	**-**	654,904
Total current assets	**37,035,404**	28,876,430
Capital assets, net	**62,239,829**	55,888,700
Estimated settlements due from third party payors	**836,661**	186,801
Other noncurrent assets, net	**-**	47,187
Total assets	**100,111,894**	84,999,118
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	**9,812,831**	5,851,020
Accrued salaries and benefits	**7,133,927**	6,767,838
Current portion of obligations under capital leases	**159,339**	576,718
Estimated settlements due to third party payors	**-**	818,232
Other liabilities	**2,236,897**	2,245,612
Total current liabilities	**19,342,994**	16,259,420
Obligations under capital leases, net of current portion	**131,959**	254,857
Estimated settlements due to third party payors, net of current portion	**4,339,475**	276,955
Other long-term liabilities	**2,335,161**	3,198,909
Total liabilities	**26,149,589**	19,990,141
Net position:		
Net investment in capital assets	**61,948,531**	55,057,125
Restricted for:		
Expendable		
Capital Projects	**13,605,554**	-
Unrestricted	**(1,591,780)**	9,951,852
Total net position	**$ 73,962,305**	$ 65,008,977

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

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

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $10,693,602 and $12,573,679, respectively	**$ 92,015,419**	$ 92,933,146
Disproportionate share revenues, net	**2,277,096**	7,378,468
Grant revenues	**4,161,765**	2,280,221
Other operating revenues	**4,499,240**	3,958,017
Total operating revenues	**102,953,520**	106,549,852
Operating expenses:		
Salaries and wages	**51,448,801**	50,831,347
Employee benefits	**13,614,631**	13,472,816
Contract labor	**5,206,737**	4,319,889
Supplies	**15,074,436**	12,298,335
Professional fees	**7,821,688**	5,621,149
Purchased services	**13,784,092**	8,799,159
Depreciation and amortization	**7,052,446**	6,271,710
Utilities	**3,051,610**	2,472,938
Insurance	**1,919,366**	2,319,452
Rent and leases	**678,825**	533,677
Repairs and maintenance	**1,452,515**	800,348
Other expense	**1,069,552**	916,973
Total operating expenses	**122,174,699**	108,657,793
Operating loss	**(19,221,179)**	(2,107,941)
Nonoperating revenues (expenses):		
Interest income (expense), net	**167,815**	(303,738)
District subsidy - operating	**8,506,971**	13,334,037
Other nonoperating revenue, net	**214,535**	1,968,598
Total nonoperating revenues	**8,889,321**	14,998,897
Change in net position before District Capital Subsidy	**(10,331,858)**	12,890,956
District subsidy - capital	**19,285,186**	-
Change in net position	**8,953,328**	12,890,956
Net position, beginning of year	**65,008,977**	52,118,021
Net position, end of year	**$ 73,962,305**	$ 65,008,977

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

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

Statements of Cash Flows
For the Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from and on behalf of patients	**$ 95,480,863**	$ 92,447,701
Payments to employees and fringe benefits	**(64,697,343)**	(62,706,606)
Payments to suppliers and contractors	**(45,832,709)**	(39,955,150)
Other receipts and payments, net	**8,829,908**	13,988,352
Net cash from operating activities	**(6,219,281)**	3,774,297
Cash flows from noncapital financing activities:		
Proceeds from District of Columbia	**7,000,000**	14,841,008
Net cash from noncapital financing activities	**7,000,000**	14,841,008
Cash flows from capital and related financing activities:		
Cash received in contribution from the District of Columbia	**19,285,186**	-
Repayment of capital lease obligations	**(326,829)**	(359,746)
Purchase of capital assets	**(13,348,375)**	(8,586,301)
Net cash from capital and related financing activities	**5,609,982**	(8,946,047)
Net increase in cash and cash equivalents	**6,390,701**	9,669,258
Cash and cash equivalents, beginning of year	**16,438,782**	6,769,524
Cash and cash equivalents, end of year	**$ 22,829,483**	$ 16,438,782

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

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

Statements of Cash Flows
For the Years Ended September 30, 2015 and 2014

	2015	2014
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (19,221,179)**	$ (2,107,941)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation and amortization	**7,052,446**	6,271,710
Provision for bad debts	**10,693,602**	12,573,679
Effect of changes in noncash operating assets and liabilities:		
Patient receivables, net	**(12,754,586)**	(8,078,095)
Inventories	**(45,464)**	(165,807)
Prepaid expenses and other assets	**(156,927)**	(997,840)
Estimated settlements due to third party payors	**3,249,331**	(3,796,564)
Accounts payable and accrued expenses	**3,961,811**	(2,136,164)
Accrued salaries and benefits	**366,089**	1,597,557
Other liabilities	**635,596**	613,762
Net cash from operating activities	**$ (6,219,281)**	$ 3,774,297

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 354-bed facility that serves as the primary community healthcare provider to the Southeast area of the District of Columbia (the District). The Medical Center provides inpatient, outpatient, psychiatric, skilled nursing, and emergency care services for residents of the District primarily located in Ward 7 and Ward 8.

The Medical Center was created as an independent instrumentality of the District government. The primary purposes of the 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.

The Medical Center depends on financial resources flowing from, or associated with, the District of Columbia, a related entity. Funds flowing from the District of Columbia to the Medical Center are subject to changes to the District's laws and appropriations. The Medical Center received $26.3 million and $14.8 million in subsidies from the District for the years ended September 30, 2015 and 2014, respectively.

The Medical Center owns and operates a 120-bed skilled nursing facility. As a distinct part of the Medical Center, the skilled nursing facility 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 skilled nursing facility are included in the financial statements of the Medical Center.

The Governmental Accounting Standards Board (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.
- 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.

(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.

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

(e) Inventories

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

(f) Revenue Recognition

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

Patient accounts receivable are recorded net of estimated contractual allowances and amounts estimated to be uncollectible. The total estimated allowance for contractual and doubtful accounts as of September 30, 2015 and 2014 was approximately $33.0 million and $37.3 million, respectively.

In addition to patient accounts receivable, the Medical Center received $26.3 million and $14.8 million subsidy from the District for the years ended September 30, 2015 and 2014, respectively. Of the $26.3 million received in fiscal year 2015, $19.3 million was for capital costs and $7.0 million was for continued operating support. Accordingly, the Medical Center recognized a total of $27.8 million (includes $1.5 million that was deferred in the prior year) and $13.3 million as non-operating revenue for years ended September 30, 2015 and 2014, respectively.

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

(g) Disproportionate Share Hospital Revenues

Disproportionate Share Hospital Revenue (DSH) is funding received by the Medical Center for the treatment of indigent patients. DSH revenue is recognized as operating revenue in the year to which it is applied. The Medical Center is dependent on DSH revenues to fund a portion of its operating expenses. The Medical Center recognized $2.3 million and $7.4 million in Medicaid DSH revenues for the years ended September 30, 2015 and 2014, respectively. The Medical Center expects that DSH revenue will continue; however, there is no assurance that the revenue will not be reduced, restricted, or eliminated in the future.

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

(h) Fair Market Value of Financial Instruments

The carrying amounts of the Medical Center's financial instruments, as reported in the accompanying statements of net position approximate their fair market value.

(i) Capital Assets

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.

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

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

(j) Estimated Malpractice Costs

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

(k) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge and does not pursue collection of amounts determined to qualify as charity care. These amounts are not reported as revenue. The Medical Center maintains records to identify and monitor the level of charity care provided. The criteria for charity service considers family income, net worth, and other eligibility criteria at time of application. The Medical Center provided \$0.6 million and \$1.1 million of charity care during the years ended September 30, 2015 and 2014, respectively, based on the cost to charge ratio.

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

(l) Operating Revenues and Expenses

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

(m) Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments to eligible professionals and hospitals participating in Medicare and Medicaid programs that adopt certified Electronic Health Records (EHRs) but only if the technology is being used in a "meaningful" way that supports the ultimate goals of improving quality, safety, and efficiency of care. "Meaningful Use" is defined with specific quality performance metrics for eligible healthcare professionals and hospitals and certain thresholds must be met and maintained to receive payment. Revenue recognition occurs when certain clinical measurements have been attested to. The Medical Center recorded meaningful use incentives of $2.8 million and $1.5 million for the years ended September 30, 2015 and 2014, respectively. They are included as a component of grant revenue in the statements of revenue, expenses, and changes in net position.

(n) Risk Management

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

(o) Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary discussion of the payment agreements with major third-party payors is as follows:

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

(o) Net Patient Service Revenue (continued)

Medicare

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

Medicaid

The Medical Center is paid by Medicaid based on diagnosis-related group (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 a fixed-rate per visit basis determined by Medicaid. The Medical Center is also paid a disproportionate share adjustment for servicing certain low income patients. The District's Medicaid program reimburses for skilled nursing facility care on a per diem rate.

For the year ended September 30, 2014, District of Columbia Healthcare Finance (DHCF) used a hospital-specific base rate. Effective October 1, 2014, DHCF implemented a single district-wide base rate for all acute care hospitals. Additionally, outpatient payments underwent drastic changes in fiscal year 2015. Effective October 1, 2014, DCHF changed the percentage based structure of reimbursement to payment based on the Enhanced Ambulatory Payment Grouper (EAPG). Similar to the Medicare DRG program, EAPGs "group together procedure and medical visits that share similar clinical characteristics, resource utilization patterns and cost so that payment is based on the relative intensity of the entire visit."

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

(o) Net Patient Service Revenue (continued)

Other Insurance Carriers

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

(p) Income Taxes

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

(q) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year financial statement presentation, the effect of which is not material.

(r) Application of Accounting Standards

In fiscal year 2014, the Medical Center adopted one new accounting standard as follows:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as limiting the use of the term deferred in financial statement presentation.

Implementation of this statement had no material impact on the fiscal year 2014 financial statements of the Medical Center.

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, 2015 and 2014, total cash held was $22.8 million, and $16.4 million, respectively, of which $13.6 million and $9.4 million was set aside for capital expenditures from the District capital subsidy. 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. Interest earned in this account for the years ended September 30, 2015 and 2014 was $1.2 thousand and $2.4 thousand, respectively.

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, 2015 and 2014, consisted of these amounts:

	2015	2014
Patient Accounts Receivable:		
Receivable from patients and their insuance carriers	**$ 6,842,108**	$ 8,631,346
Receivable from Medicare	**5,062,210**	3,240,892
Receivable from Medicaid	**4,875,502**	4,288,992
Total patient accounts receivable	**16,779,820**	16,161,230
Less allowance for uncollectible amounts	**5,976,096**	7,418,490
Patient accounts receivable, net	**$ 10,803,724**	$ 8,742,740

	2015	2014
Accounts Payable and Accrued Expenses:		
Payable to employees	**$ 6,473,636**	$ 6,089,003
Payable to suppliers	**9,812,831**	5,851,020
Payable to payroll taxing authorities and others	**660,291**	678,835
Total accounts payable and accrued expenses	**$ 16,946,758**	$ 12,618,858

Notes to Financial Statements
September 30, 2015 and 2014

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset additions, retirements, and balances for the years ended September 30, 2015 and 2014 were as follows:

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

	September 30, 2013	Additions	Transfers	Retirements	September 30, 2014
Land	$ 8,100,000	$ -	$ -	$ -	$ 8,100,000
Construction in progress	773,109	4,258,262	-	-	5,031,371
Land improvements	889,472	-	-	-	889,472
Buildings and improvements	43,018,130	808,966	-	-	43,827,096
Equipment	16,403,222	2,876,916	-	-	19,280,138
Equipment under capital lease obligations	2,081,651	-	-	-	2,081,651
Software	886,651	642,157	-	-	1,528,808
Total costs	72,152,235	8,586,301	-	-	80,738,536
Less: accumulated depreciation and amortization	(18,633,326)	(6,216,510)	-	-	(24,849,836)
Capital assets, net	$ 53,518,909	$ 2,369,791	$ -	$ -	$ 55,888,700

5. LONG-TERM LIABILITIES

A schedule of the Medical Center's long-term liabilities as of September 30, 2015 and 2014 were as follows:

	September 30, 2014	Additions	Reductions	September 30, 2015
Capital lease obligations	$ 254,857	$ -	$ (122,898)	**$ 131,959**
Estimated third party settlements	276,955	4,339,475	(276,955)	**4,339,475**
Other liabilities	3,198,909	759,877	(1,623,625)	**2,335,161**
Total noncurrent liabilities	$ 3,730,721	$ 5,099,352	$ (2,023,478)	**$ 6,806,595**

The terms and due dates of the Medical Center's long-term debt, including capital lease obligations, as of September 30, 2015 and 2014 follows:

- Capital lease obligations, at varying rates of imputed interest from 1.4% to 5.25% were collateralized by leased equipment with a net book value (carrying amount) at approximately $291 thousand and $512 thousand as of September 30, 2015 and 2014, respectively.
- Estimated third party settlement liabilities include a reserve of $3 million for anticipated payments to DC Medicaid in connection with fiscal year 2011 Medicaid cost audit for the skilled nursing facility as well as estimated settlements on Medicare cost reports.

Scheduled principal and interest repayments on capital lease obligations are as follows:

	Capital Lease Obligations	
	Principal	**Interest**
Years Ending September 30:		
Current	$ 159,339	$ 6,463
2017	95,775	2,577
2018	36,184	442
Total	$ 291,298	$ 9,482

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 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 programs have been final settled for all years through 2012. Results of cost report settlements, as well as the Medical Center's estimates for settlements, of all fiscal years through 2015 are reflected in the accompanying financial statements.

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase of $214 thousand and an increase of $3.8 million in net patient service revenues for years ended September 30, 2015 and 2014, respectively.

7. MEDICAL MALPRACTICE CLAIMS

The Medical Center is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Medical Center and are currently in various stages of litigation. Additional claims may be asserted against the Medical Center arising from services provided to patients through September 30, 2015. The Medical Center purchases professional and general liability insurance to cover medical malpractice claims. The liability recorded as of September 30, 2015 and 2014, within the line item other long term liabilities in the statement 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. Generally, all employees are allowed to accrue accumulated leave up to a maximum of 480 hours. 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.

Effective January 1, 2015 the accrual rate changed for all eligible employees including three of the unions to a maximum of 352 hours. Three of the four unions that accepted the new rate are IUOE, UFSO, and 1199 SEIU. DCNA's accrual rate remains the same as the original rate.

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, 2015 and 2014, $3.1 million and $3.7 million, respectively, was 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 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, 2015 and 2014. 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, 2015 and 2014, the Medical Center's contributions to the 401(a) defined contribution plan were $624 thousand and $625 thousand, respectively. The Medical Center contracts with VOYA Retirement Insurance & Annuity Company (VOYA) (formerly ING Life Insurance & Annuity Company), 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 2015 and 2014 to defer up to $18 thousand and $17.5 thousand respectively of compensation under the IRS annual limitations. The participants are fully vested in their contributions to the 457(b) plan at all times. The Medical Center does not contribute to the deferred compensation plan. This plan is also administered by VOYA.

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. The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2015, that have initial remaining lease terms in excess of one year:

Years Ending September 30:	**Amount**
2016	$ 67,272
2017	67,272
2018	44,848
Total	**$ 179,392**

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 $26.3 million and $14.8 million subsidy from the District for the years ended September 30, 2015 and 2014, respectively. Of the $26.3 million received in fiscal year 2015, $19.3 million was for capital related costs and $7.0 million was for continued operating support.

The following is a summary of related party transaction balances as of September 30, 2015 and 2014:

	2015	2014
Accounts receivable due from DC Medicaid	**$ 4,804,209**	$ 4,243,238
Net patient revenue - DC Medicaid	**27,128,311**	24,854,595
DSH revenues - DC Medicaid	**2,277,096**	7,378,468
Other revenue - DC Medicaid Meaningful Use Grant	**2,776,315**	1,498,586

12. CONCENTRATIONS OF CREDIT RISK

The Medical Center maintains cash and cash equivalent 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; however, the Medical Center has not experienced any losses related to this concentration to date and believes it is not exposed to any significant credit risks.

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 at September 30, 2015 and 2014 are as follows:

	2015	2014
Medicare	**19 %**	25 %
Medicaid	**13**	16
HMO Medicare/Medicaid	**38**	27
HMO/PPO	**10**	7
Commercial/Other	**9**	14
Self Pay	**11**	11
	100 %	100 %

12. CONCENTRATIONS OF CREDIT RISK (continued)

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

13. COMMITMENTS AND CONTINGENCIES

Litigation Matters

The Medical Center and the District are in litigation in one civil action case with Capital Behavioral Health, LLC (CBH) and in another civil action case with UMC Development, LLC (UMC Dev) and Jacksophie GSCH, LLC (Jacksophie). CBH is seeking an order requiring the transfer of the Medical Center, including its real property assets among other assets, to CBH based on claims the District improperly foreclosed upon, seized assets from, and engaged in fraudulent transfers with Capitol Medical Center, LLC and CMC Realty, LLC, to the detriment of CBH. UMC Dev and Jacksophie seek to recover damages based upon claims that the foreclosure was improper and injurious to their interests. The CBH litigation is pending, and the Medical Center and District are both seeking dismissal on several substantive and procedural grounds.

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

Collective Bargaining Agreements

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

The Medical Center has several collective bargaining agreements in effect with unions representing certain employees, all of which now require additional negotiations and subsequent District approvals based on the recent jurisdiction finding discussed above. The agreement with 1199 Service Employees International Union (SEIU) United Healthcare Workers East expired on April 30, 2012. The agreement was extended until May 31, 2012. The Medical Center completed the renegotiations of the Collective Bargaining Agreement on May 4, 2012; however, the agreements were not ratified or fully executed. The parties are currently operating under previous terms until a new agreement is accepted by both parties. In fiscal year 2015, the members of SEIU were 464 employees, representing 38.3% of the Medical Center's staff and $17.9 million in salaries and benefits expenses.

13. COMMITMENTS AND CONTINGENCIES (continued)

Collective Bargaining Agreements (continued)

The agreement with the District of Columbia Nurses Association (DCNA) expired on January 7, 2013. The agreement was extended until September 6, 2013. The Medical Center is currently negotiating with DCNA on the terms of agreements. In fiscal year 2015, DCNA had 308 members, representing 25.4% of the Medical Center's staff and $23.2 million in salaries and benefits expenses. The agreement with International Union of Engineers (IUOE) expires on September 30, 2017. In fiscal year 2015, IUOE had 27 members representing 2.2% of the Medical Center's staff and $1.7 million in salaries and benefits expenses. The agreement with United Federation of Special Police and Security Officers Local 672 (UFSPSO) expires September 30, 2017. In fiscal year 2015, UFSPSO had 26 members representing 2.1% of the Medical Center's staff and $1.1 million in salaries and benefits.

14. SUBSEQUENT EVENTS

The Medical Center has evaluated subsequent events from the statement of net position date through January 22, 2015, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose other than the item noted below.

The Medical Center obtained an additional $5,000,000 cash subsidy from the District to fund its operations during the month of December, 2015. The Medical Center management is in the process of developing a strategic plan to address the needs to improve its overall financial results. The plan includes revenue enhancement opportunities, cost containment, and expense reduction.