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

Financial Statements

September 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

**KPMG LLP**
Suite 12000
1801 K Street, NW
Washington, DC 20006

# Independent Auditors' Report

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 statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

### *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, 2013 and 2012, and the results of its changes in net position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis on pages 3 through 10 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 February 17, 2014 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. That 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.

KPMG LLP

February 17, 2014

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

Management's Discussion and Analysis

September 30, 2013 and 2012

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, 2013 and September 30, 2012. 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 11. 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, with the difference between the two reported as net position. The statement of net position also provides the basis for evaluating the capital structure of the Medical Center and assessing its liquidity and financial flexibility. Over time, an increase or decrease in the Medical Center's net position is one indicator of whether its financial health is improving or deteriorating. It is recommended, that one considers additional, nonfinancial factors, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

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

The statement of revenues, expenses, and changes in net position presents changes to the Medical Center's net position during the most recent period. This statement measures the success of the Medical Center's operations during the years ending September 30, 2013 and 2012, 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 event giving rise to the change occurred, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement 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.


(Continued)

### *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, investing, 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 15 of this report.

## Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2013 and 2012, by $52.1 million and $51.7 million, respectively.
- The Medical Center's excess of revenues over (under) expenses was $427.9 thousand and ($322.4) thousand for the years ending September 30, 2013 and 2012, respectively. This represents a $750.3 thousand improvement for fiscal year 2013 compared to the same period last year.
- The Medical Center improved its operating loss by $2.5 million primarily as a result of improved operating efficiencies. Total operating revenues declined by $3.8 million (4.0%) while total operating expenses declined by $6.3 million (5.9%).
- The Medical Center recorded an $11.0 million and $13.7 million subsidy from the District of Columbia (the District) in fiscal years 2013 and 2012, respectively, and recognized it as nonoperating revenue.
  - 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.
  - During fiscal year 2012, $7.7 million of the subsidy was received as cash for continued operating support, and $6.0 million was recorded as an intra-agency allocation received from prior years.
- The Medical Center's total liabilities decreased from $25.1 million to $23.6 million during fiscal year 2013. 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 $1.5 million to $7.2 million during fiscal year 2013.
- During fiscal year 2013, the Medical Center recorded a $1.2 million, net, write off related to a managed Medicaid plan that was placed into receivership during October and ultimately sold to another managed Medicaid provider.
- During fiscal year 2012, the Medical Center recorded a $3.0 million third party settlement reserve due to District of Columbia (DC) Medicaid. This reserve is based on an estimated overpayment of Disproportional Share Hospital (DSH) revenue received in fiscal year 2011 that is estimated to exceed its Omnibus Budget Reconciliation Act (OBRA) limit of $11.9 million which may be due to DC Medicaid in fiscal year 2014.

**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, 2013 and 2012:

**Condensed Statements of Net Position**

| | 2013 | 2012 |
|---|---|---|
| Assets: | | |
| Current assets | $ 21,884,204 | $ 19,000,488 |
| Noncurrent assets: | | |
| Capital assets, net | 53,518,909 | 57,185,324 |
| Other assets | 340,954 | 605,751 |
| Total noncurrent assets | 53,859,863 | 57,791,075 |
| Total assets | 75,744,067 | 76,791,563 |
| Liabilities: | | |
| Current liabilities | 14,670,205 | 17,547,012 |
| Long-term liabilities | 8,955,841 | 7,554,461 |
| Total liabilities | 23,626,046 | 25,101,473 |
| Net Position: | | |
| Invested in capital assets | 52,327,588 | 56,229,031 |
| Unrestricted | (209,567) | (4,538,941) |
| Total net position | $ 52,118,021 | $ 51,690,090 |

Over time, the net position can serve as a useful indicator of an organizations financial position. As of September 30, 2013 and 2012, the Medical Center's assets exceeded liabilities by $52.1 million and $51.7 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2013 and 2012, capital assets represent 70.7% and 74.5% 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 declined by $3.7 million. The Medical Center's annual depreciation and amortization of $5.8 million exceeded the value of capital expenditures of $2.7 million. The Medical Center also recorded $629 thousand in retirements under its capitalized leases. The Medical Center uses these capital assets to provide medical care to citizens of the District's 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, 2013 and 2012, current assets represented 28.9% and 24.7%, respectively of total assets, and include cash resources that are subject to restriction on their use. Total current assets increased by $2.9 million. The increase was mainly due to the increase of the Medical Center's cash and cash equivalents by $3.4 million, offset by a decrease in net accounts receivable, inventories, and prepaid expenses and other current assets.

Current liabilities represent 62.1% and 69.9 % of the company's total liabilities as of September 30, 2013 and 2012 respectively. Current liabilities were reduced by 16.4% as of September 30, 2013 compared to the balance as of September 30, 2012. The reduction was primarily related to the decline 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, 2013 and 2012, net working capital was $7.2 million and $1.5 million, respectively.

The Medical Center's net position increased by $427.9 thousand and decreased by $322.4 thousand during the years ending September 30, 2013 and 2012. The following table reflects the change in net position for the years ended September 30, 2013 and 2012:

**Changes in Net Position**

| | | |
|---|---|---|
| Balance as of September 30, 2011 | $ | 52,012,508 |
| Deficiency of revenues under expenses | | (322,418) |
| Decrease in net position | | (322,418) |
| Balance as of September 30, 2012 | | 51,690,090 |
| Excess of revenues over expenses | | 427,931 |
| Increase in net position | | 427,931 |
| Balance as of September 30, 2013 | $ | 52,118,021 |

The statement 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, 2013 and 2012. 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 statement of revenues, expenses and changes in net position for the years ended September 30, 2013 and 2012:

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

| | 2013 | 2012 |
|---|---|---|
| Revenues: | | |
| Operating revenues: | | |
| Net patient service revenue | $ 78,653,151 | $ 86,274,338 |
| Disproportionate share revenues, net | 7,191,884 | 4,197,391 |
| Other operating revenue | 4,110,663 | 3,266,448 |
| Total operating revenue | 89,955,698 | 93,738,177 |
| Nonoperating revenues (expenses): | | |
| Investment income (expense), net | (360,418) | (295,229) |
| Subsidy from District of Columbia | 11,000,000 | 7,700,000 |
| Intra-agency allocation | — | 6,000,000 |
| Other nonoperating revenue | 1,103,337 | 135,157 |
| Total nonoperating revenue | 11,742,919 | 13,539,928 |
| Total revenues | 101,698,617 | 107,278,105 |
| Expenses: | | |
| Operating expenses: | | |
| Salaries and benefits | 63,539,710 | 65,352,935 |
| Supplies | 11,478,771 | 11,034,470 |
| Depreciation and amortization | 5,835,708 | 5,756,099 |
| Other expense | 20,416,497 | 25,457,019 |
| Total operating expenses | 101,270,686 | 107,600,523 |
| Excess of revenues over (under) expenses | 427,931 | (322,418) |
| Net position beginning of period | 51,690,090 | 52,012,508 |
| Net position end of period | $ 52,118,021 | $ 51,690,090 |


(Continued)

The Medical Center's total revenues were $101.7 million and $107.3 million for the years ended September 30, 2013 and 2012. Revenues from patient care services represent 77.3% and 80.4% of total revenues, respectively. The Medical Center receives approximately 83% 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 declined 8.8% in fiscal year 2013 compared to the same period last year.

- For fiscal year 2013, the Medicaid program reduced the inpatient reimbursement to the Medical Center from 102% of allowable cost to 98% of allowable cost. The Medicaid program represents approximately 44% of the Medical Center's inpatient revenue.
- During fiscal year 2013, the Medical Center recorded a $1.2 million, net, write off of patient accounts receivable, for a managed Medicaid plan that was placed into receivership during October and ultimately sold to another managed Medicaid provider,

The total cost of all programs and services was $101.3 million and $107.6 million for the years ended September 30, 2013 and 2012, a reduction of $6.3 million, as a result of improved operating efficiencies as well as corresponding decrease in net patient service revenue.

- Labor costs, which include salaries, benefits and contract labor declined by $3.5 million and represent 55% of the overall reduction in total operating expenses compared to the same period last year.
- Non-labor costs excluding depreciation and amortization, declined by $2.9 million.

The Medical Center's net position increased $427.9 thousand, or 0.8%, during fiscal year 2013, and decreased $322.4 thousand, or 0.6%, during fiscal year 2012.

## Capital and Debt Administration

### *Capital Assets*

The Medical Center's capital assets as of September 30, 2013 and 2012 amount to $53.5 million and $57.2 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 as of September 30, 2013 and 2012, respectively:

| | 2013 | 2012 |
|---|---|---|
| Asset category: | | |
| Land | $ 8,100,000 | $ 8,100,000 |
| Land improvements | 360,132 | 525,245 |
| Buildings and improvements | 35,010,008 | 37,432,436 |
| Equipment | 8,165,634 | 10,306,015 |
| Equipment under capital lease obligations | 838,181 | 695,905 |
| Software | 271,845 | 125,723 |
| Construction in progress | 773,109 | — |
| Capital assets, net | $ 53,518,909 | $ 57,185,324 |

See notes 1 and 3 to the financial statements for additional disclosure on capital assets.


(Continued)

***Long-term Liabilities***

As of September 30, 2013 and 2012, the Medical Center had total long-term liabilities outstanding of $9.0 million and $7.6 million respectively. The following table summarizes the Medical Center's long-term liabilities, which is presented in more detail in note 4 of the financial statements:

| | 2013 | 2012 |
|---|---|---|
| Capital lease obligations | $ 562,959 | $ 274,216 |
| Estimated third party settlements | 3,864,071 | 3,643,162 |
| Other liabilities | 4,528,811 | 3,637,083 |
| Total long-term liabilities | $ 8,955,841 | $ 7,554,461 |

**Economic Factors**

The Patient Protection and Affordable Care Act of 2010 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 be fully implemented in 2014 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 as well as decrease Medicare and Medicaid DSH payments. In fiscal year 2014, Medicare will reduce up to 75% of the DSH payments it makes to qualified hospitals. Medicaid will also introduce significant reductions in Medicaid DSH payments to qualified hospitals. Other legislation that may impact the Medical Center includes 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.

**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

As of September 30, 2013 and 2012

| Assets | 2013 | 2012 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents (includes restricted cash of $1,686,931 and $1,704,057 as of September 30, 2013 and 2012) | $ 6,769,524 | $ 3,338,922 |
| Accounts receivable, net of allowances for estimated uncollectibles of $7,566,287 and $7,827,579 as of September 30, 2013 and 2012 (note 2) | 13,238,324 | 13,424,809 |
| Inventories | 1,249,011 | 1,519,770 |
| Prepaid expenses and other assets | 627,345 | 716,987 |
| Total current assets | 21,884,204 | 19,000,488 |
| Capital assets, net (note 3) | 53,518,909 | 57,185,324 |
| Estimated third-party payor settlements (note 5) | 238,567 | 448,164 |
| Other noncurrent assets, net | 102,387 | 157,587 |
| Total assets | $ 75,744,067 | $ 76,791,563 |
| **Liabilities and Net Position** | | |
| Current liabilities: | | |
| Accounts payable (note 2) | $ 7,987,184 | $ 9,487,912 |
| Accrued salaries and benefits | 5,170,281 | 5,668,013 |
| Current portion of obligations under capital leases | 628,362 | 682,077 |
| Estimated third-party payor settlements (note 5) | 424,542 | 698,552 |
| Other liabilities | 459,836 | 1,010,458 |
| Total current liabilities | 14,670,205 | 17,547,012 |
| Obligations under capital leases, net of current portion (note 4) | 562,959 | 274,216 |
| Estimated third-party payor settlements, net of current portion (note 5) | 3,864,071 | 3,643,162 |
| Other long-term liabilities (note 4) | 4,528,811 | 3,637,083 |
| Total liabilities | 23,626,046 | 25,101,473 |
| Net Position: | | |
| Invested in capital assets | 52,327,588 | 56,229,031 |
| Unrestricted | (209,567) | (4,538,941) |
| Total net position | 52,118,021 | 51,690,090 |
| Total liabilities and net position | $ 75,744,067 | $ 76,791,563 |

See accompanying notes to 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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Operating revenues: | | |
| Net patient service revenue (net of provision for bad debts $14,900,753 and $10,443,791 in 2013 and 2012) | $ 78,653,151 | $ 86,274,338 |
| Disproportionate share revenues (note 10) | 7,191,884 | 4,197,391 |
| Grant revenues | 771,402 | 350,542 |
| Other operating revenues | 3,339,261 | 2,915,906 |
| Total operating revenues | 89,955,698 | 93,738,177 |
| Operating expenses: | | |
| Salaries and wages | 50,726,780 | 52,986,292 |
| Employee benefits | 12,812,930 | 12,366,643 |
| Contract labor | 2,061,313 | 3,729,450 |
| Supplies | 11,478,771 | 11,034,470 |
| Professional fees | 5,247,913 | 4,655,210 |
| Purchased services | 7,201,721 | 7,123,798 |
| Depreciation and amortization | 5,835,708 | 5,756,099 |
| Utilities | 2,255,911 | 2,304,755 |
| Insurance | 1,559,076 | 4,766,875 |
| Rent and leases | 485,008 | 650,749 |
| Repairs and maintenance | 967,015 | 720,446 |
| Other expense | 638,540 | 1,505,736 |
| Total operating expenses | 101,270,686 | 107,600,523 |
| Operating loss | (11,314,988) | (13,862,346) |
| Nonoperating revenues (expenses): | | |
| Investment income (expense), net | (360,418) | (295,229) |
| Subsidy from District of Columbia (note 10) | 11,000,000 | 7,700,000 |
| Intra-agency Allocation (note 10) | — | 6,000,000 |
| Other nonoperating revenue, net | 1,103,337 | 135,157 |
| Total nonoperating revenues (expenses) | 11,742,919 | 13,539,928 |
| Excess of revenues over (under) expenses | 427,931 | (322,418) |
| Net position, beginning of year | 51,690,090 | 52,012,508 |
| Net position, end of year | $ 52,118,021 | $ 51,690,090 |

See accompanying notes to financial statements.

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

Statements of Changes in Net Position

For the years ended September 30, 2013 and 2012

| | | |
|---|---|---|
| Balance at September 30, 2011 | $ | 52,012,508 |
| Deficiency of revenues under expenses | | (322,418) |
| Decrease in net position | | (322,418) |
| Balance at September 30, 2012 | | 51,690,090 |
| Excess of revenues over expenses | | 427,931 |
| Increase in net position | | 427,931 |
| Balance at September 30, 2013 | $ | 52,118,021 |

**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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Receipts from and on behalf of patients | $ 78,996,133 | $ 89,044,932 |
| Payments to employees and fringe benefits | (64,037,442) | (64,744,914) |
| Payments to suppliers and contractors | (31,591,153) | (36,217,199) |
| Other receipts and payments, net | 11,302,547 | 7,463,839 |
| Net cash used in operating activities | (5,329,915) | (4,453,342) |
| **Cash flows from investing activities:** | | |
| Receipts and payments of interest and dividends | (360,418) | (160,072) |
| Net cash used in investing activities | (360,418) | (160,072) |
| **Cash flows from noncapital financing activities:** | | |
| Repayment of notes payable | — | (54,598) |
| Proceeds from District of Columbia | 11,000,000 | 7,700,000 |
| Net cash provided by noncapital financing activities | 11,000,000 | 7,645,402 |
| **Cash flows from capital and related financing activities:** | | |
| Repayment of capital lease obligations | (291,274) | (186,269) |
| Purchase of property, plant, and equipment | (1,587,791) | (1,034,341) |
| Net cash used in capital and related financing activities | (1,879,065) | (1,220,610) |
| Net increase in cash and cash equivalents | 3,430,602 | 1,811,378 |
| Cash and cash equivalents, beginning of period | 3,338,922 | 1,527,544 |
| Cash and cash equivalents, end of period | $ 6,769,524 | $ 3,338,922 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ (11,314,988) | $ (13,862,346) |
| Adjustments to reconcile operating loss to net cash flows used in operating activities: | | |
| Depreciation and amortization | 5,835,708 | 5,756,099 |
| Provision for bad debts | 14,900,753 | 10,443,791 |
| Changes in assets and liabilities: | | |
| Increase in patient receivables | (14,714,267) | (11,991,441) |
| (Increase) decrease in inventories | 270,759 | (211,649) |
| Decrease in prepaid expenses and other assets | 89,641 | 341,335 |
| Decrease in third party payor settlements | 156,496 | 4,318,253 |
| Decrease in accounts payable | (1,500,728) | (2,760,396) |
| Increase (decrease) in accrued salaries and benefits | (497,732) | 608,018 |
| Increase in other liabilities | 1,444,443 | 2,904,994 |
| Net cash used in operating activities | $ (5,329,915) | $ (4,453,342) |

**Noncash Investing, Capital, and Financing Activities:**

The Medical Center entered into capital lease obligations of $526,302 and $343,941 for new equipment in fiscal year 2013 and 2012, respectively.

## (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 Hospital Corporation was created as an independent instrumentality of the District. 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, a related entity. Funds flowing from the District to the Medical Center are subject to changes to the District's laws and appropriations. The Medical Center received an $11.0 million and $13.7 million subsidy (comprise of $6.0 million in an inter-agency allocation and $7.7 million in cash) from the District and recognized it as nonoperating revenue in fiscal year 2013 and fiscal year 2012, respectively. On January 14, 2013, the Mayor of the District announced that Huron Healthcare had been awarded a two-year $12.7 million contract to address certain operational and financial matters of the Medical Center. The contract is being funded by the District and thus, those costs are not currently reflected in the financial results of the Medical Center.

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 expenses of the skilled nursing facility are presented 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 activities and changes in net position and a statement of cash flows. They also require the classification of net position into three components—invested in capital assets; amounts that are restricted; and amounts that are unrestricted. These classifications are defined as follows:

- Invested 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.

- 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 (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 using the economic resources measurement focus.

### *(c) Use of Estimates*

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

### *(d) Cash 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) Restricted Cash*

Restricted cash consists of funds made available by the District through its approved budget for funding the near-term operations of the Medical Center, which are released to the Medical Center upon the District's authorization.

### *(f) 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.

### *(g) 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 statues, 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, 2013 and 2012 was approximately $39.0 million and $36.3 million, respectively.

In addition to patient accounts receivable, the Medical Center received a $11.0 million and $13.7 million subsidy from the District, which has been recognized as nonoperating revenue for the years ended September 30, 2013 and 2012, respectively. Of the $11.0 million received in fiscal year 2013, the Medical Center received $3.5 million 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. In fiscal year 2012, $7.7 million of the subsidy was received in cash, for continued operating support and $6.0 million was received as an intra-agency allocation.

### *(h) Disproportionate Share Hospital Revenues*

Disproportionate Share Hospital (DSH) revenue 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 $7.2 million and $4.2 million net, in Medicaid DSH revenues for the years ended September 30, 2013 and 2012, respectively. The Medical Center expects that the DSH revenue will continue, however, there is no assurance that the revenue will not be reduced, restricted, or eliminated in the future.

***(i) Fair Market Value of Financial Instruments***

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

***(j) 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 inception.. 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.

The half-year depreciation convention is applied during the year in which the assets are acquired or disposed. All owned capital assets other than land 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 |

***(k) Estimated Malpractice Costs***

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not yet reported.

***(l) 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 net patient service 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 utilizes a cost to charge ratio methodology to convert charity care to cost. The estimated cost of services provided is determined based on the relationship of total operating costs to gross charges. Total operating costs for purposes of this ratio exclude bad debt expense. Total gross patient charges are then offset with any related reimbursements. The Medical Center provided $691 thousand and $2.9 million of charity care at cost during the years ended September 30, 2013 and 2012, respectively, based on the cost to charge ratio.

### *(m) Operating Revenues and Expenses*

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

### *(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 of the payment agreements with major third-party payors is as follows:

#### 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. Sub-acute services are reimbursed on a prospective rate, based on a patient's level of acuity. 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 who are covered by Medicare. The Medicare program pays the skilled nursing facility 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 diagnostic related groupings at a predetermined specified rate for each discharge, subject to a weight or acuity factor, based on a 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.

**Other Insurance Carriers**

The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily or procedure rates. The CareFirst agreement contains a "most-favored nations" clause which means CareFirst would reimburse the Medical Center at a rate that is lower than the other third-party 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 2013, the Medical Center adopted two new accounting standards as follows:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63

in the Medical Center's financial statements was the renaming of "Net Assets", including changing the name of the financial statement from the "Statement of Net Assets" to "Statement of Net Position".

## (2) Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Medical Center as of September 30, 2013 and 2012, consisted of these amounts:

***Patient Accounts Receivable***

| | 2013 | 2012 |
|---|---|---|
| Receivable from patients and their insurance carriers | $ 10,400,891 | $ 9,131,916 |
| Receivable from Medicare | 4,687,949 | 5,432,161 |
| Receivable from Medicaid | 5,715,771 | 6,688,311 |
| Total patient accounts receivable | 20,804,611 | 21,252,388 |
| Less allowance for uncollectible amounts | 7,566,287 | 7,827,579 |
| Patient accounts receivable, net | $ 13,238,324 | $ 13,424,809 |

***Accounts Payable and Accrued Expenses***

| | 2013 | 2012 |
|---|---|---|
| Payable to employees | $ 4,872,441 | $ 5,026,807 |
| Payable to suppliers | 7,987,184 | 9,487,912 |
| Payable to payroll taxing authorities and others | 297,840 | 641,206 |
| Total accounts payable and accrued expenses | $ 13,157,465 | $ 15,155,925 |



(Continued)

## (3) Capital Assets and Depreciation

Property, plant and equipment additions, retirements, and balances for years ended September 30, 2013 and 2012 were as follows:

| | Balance September 30, 2012 | Additions | Retirements | Balance September 30, 2013 |
|---|---|---|---|---|
| Land | $ 8,100,000 | $ — | $ — | $ 8,100,000 |
| Land improvements | 889,472 | — | — | 889,472 |
| Buildings and improvements | 42,918,857 | 99,273 | — | 43,018,130 |
| Equipment | 15,919,750 | 483,472 | — | 16,403,222 |
| Equipment under capital lease obligations | 1,555,349 | 1,155,134 | (628,832) | 2,081,651 |
| Software | 654,713 | 231,938 | — | 886,651 |
| Construction in progress | — | 773,109 | — | 773,109 |
| Total costs | 70,038,141 | 2,742,926 | (628,832) | 72,152,235 |
| Less accumulated depreciation and amortization | (12,852,817) | (5,780,509) | — | (18,633,326) |
| Capital assets, net | $ 57,185,324 | $ (3,037,583) | $ (628,832) | $ 53,518,909 |

## (4) Long-Term Liabilities

A schedule of the Medical Center's long-term liabilities as of September 30, 2013 and 2012 were as follows:

| | Balance September 30, 2012 | Additions | Reductions | Balance September 30, 2013 |
|---|---|---|---|---|
| Capital lease obligations | $ 274,216 | $ 378,796 | $ (90,053) | $ 562,959 |
| Estimated third party settlements | 3,643,162 | 564,934 | (344,025) | 3,864,071 |
| Other liabilities | 3,637,083 | 1,809,269 | (917,541) | 4,528,811 |
| Total long-term liabilities | $ 7,554,461 | $ 2,752,999 | $ (1,351,619) | $ 8,955,841 |


(Continued)

***Long-Term Liabilities***

The terms and due dates of the Medical Center's long-term liabilities, including capital lease obligations, as of September 30, 2013 and 2012 were as 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 $2.1 million and $1.6 million as of September 30, 2013 and 2012, respectively.

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

| | Capital lease obligations | |
|---|---|---|
| | **Principal** | **Interest** |
| Year ending September: | | |
| 2014 | $ 361,048 | $ 24,670 |
| 2015 | 308,102 | 12,958 |
| 2016 | 122,897 | 6,463 |
| 2017 | 95,775 | 2,577 |
| 2018 | 36,185 | 442 |
| Total | $ 924,007 | $ 47,110 |

The current portion of obligations under capital leases consists of $267 thousand and $346 thousand of additional principal lease payments that were due and payable as of September 30, 2013 and 2012, respectively.

## (5) Third Party Settlements

Certain services rendered by the Medical Center are reimbursed by third-party payors at cost based upon costs reports filed after year-end. Contractual allowances are recorded based upon preliminary estimates of reimbursable costs. The Medical Center's net patient revenue recorded under cost reimbursement agreements for the current and prior years is subject to audit and retroactive adjustment by significant third-party payors for the following years:

| | |
|---|---|
| Medicare | 2006 – 2007 |
| Medicare | 2010 – 2013 |

Final settlements and changes in estimates related to Medicare third-party cost reports for prior years resulted in a decrease of $844 thousand and an increase of $1.1 million of net patient service revenues for the years ended September 30, 2013 and 2012, respectively.

## (6) 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, 2013. The Medical Center purchases professional and general liability insurance to cover medical malpractice claims.

## (7) 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 a minimum of 208 hours of accumulated leave up to a maximum of 480 hours, and department heads or other designated personnel can accrue a minimum of 248 hours of leave up to a maximum of 480 hours. The accrued accumulated leave balance is payable to employees in those cases where (1) the Medical Center is short-staffed, (2) at the employee's request, and approved by the Vice President and Chief Executive Officer, or (3) upon separation of employment.

The Medical Center's accumulated leave policy allows regular full-time and part-time employees with 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 since the amounts do not vest and are not payable upon termination of the employee. All vacation pay is accrued when earned. The liability recorded as of September 30, 2013 and 2012, within the line item Accrued Salaries and Benefits, includes all salary related benefit payments.

## (8) 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 all employees. It provides matching contributions up to 3% of employees' compensation by the organization for the fiscal years ending September 30, 2013 and 2012. 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 ending September 30, 2013 and 2012, the Medical Center's contributions to the 401(a) plan were $649 thousand and $652 thousand, respectively. The Medical Center contracts with ING 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 fiscal year 2013 to defer up to $18 thousand of compensation under the IRS annual limitations. The participants are fully vested in their contributions to the 457(b) plan at all times. This plan is also administered by ING.

## (9) 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, 2013, that have initial remaining lease terms in excess of one year:

| | | |
|---|---|---|
| 2014 | $ | 152,774 |
| 2015 | | 114,594 |
| 2016 | | 114,594 |
| 2017 | | 71,215 |
| 2018 | | 44,848 |
| Total | $ | 498,025 |

## (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 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 an $11.0 million and $13.7 million subsidy from the District and recognized it as nonoperating revenue in fiscal year 2013 and fiscal year 2012, respectively. Of the $11.0 million received during fiscal year 2013, the Medical Center received $3.5 million 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. In fiscal year 2012, $7.7 million of the subsidy was received in cash for continued operating support and $6.0 million was received as an intra-agency allocation.

On January 14, 2013, the Mayor of the District of Columbia announced that Huron Healthcare had been awarded a two-year $12.7 million contract to address certain operational and financial matters of the Medical Center. The contract is being funded by the District of Columbia and thus, those costs are not currently reflected in the financial results of the Medical Center. Of the $12.7 million, approximately $2.7 million is being utilized to fund key management positions of the Medical Center over the two-year contract period. The following is a summary of other related party transaction balances as of September 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Accounts receivable due from DC Medicaid | $ 5,844,324 | $ 6,609,501 |
| Net patient revenue – DC Medicaid | 29,362,234 | 26,595,328 |
| DSH revenues - DC Medicaid | 7,191,884 | 4,197,391 |
| Nonoperating revenue-DC Department of Health grant | — | 178,335 |


(Continued)

## (11) 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 as of September 30, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Medicare | 26% | 23% |
| Medicaid | 17 | 22 |
| HMO Medicare/Medicaid | 28 | 25 |
| HMO/PPO | 7 | 8 |
| Commercial/Other | 9 | 8 |
| Patients | 13 | 14 |
| | 100% | 100% |

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

## (12) 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 that the District improperly foreclosed upon seized assets from, and engaged in fraudulent transfers with Capital Medical Center, LLC and CMC Realty, LLC to the detriment of CBH. UMC Dev and Jacksophie seek to recover damages based on claims that the foreclosure was improper and injurious to their interests. The CBH litigation is pending, and the Medical Center and the District both are seeking dismissal on several substantive and procedural grounds.


(Continued)

***Collective Bargaining Agreements***

During fiscal year 2013, it was determined that the Medical Center is a political subdivision of the District 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 (CBA) on May 4, 2012, however the agreement was not ratified or fully executed. The parties are currently operating under previous terms until a new agreement is accepted by both parties and ratified after the Medical Center and the District approvals are received. The agreement with the District of Columbia Nurses Association (DCNA) expired on December 5, 2013. The agreement was extended until March 5, 2014. The agreement with International Union of Engineers (IUOE) expires on September 30, 2014. The agreement with United Federation of Special Police and Security Officers Local 672 (UFSO) expired on November 26, 2013 and has been extended until February 24, 2014. All collective bargaining units have been informed about the need to amend the agreements for compliance and business purposes. Once negotiations are complete and proper with the Medical Center and the District approvals obtained, the agreements can be ratified by its members. The members of 1199 SEIU represent 38.7% of the total Medical Center's staff and DCNA members, IUOE members and UFSO members each represent 23.4%, 3.0% and 2.7% of the total Medical Center's staff respectively.

## (13) Subsequent Events

The Medical Center has evaluated subsequent events from the statement of net position date through February 17, 2014, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.