PRESENTATION TO

THE COUNCIL OF THE DISTRICT OF COLUMBIA

COMMITTEE ON HEALTH

COUNCILMEMBER YVETTE ALEXANDER, CHAIR

UMC
UNITED
MEDICAL CENTER

NOT-FOR-PROFIT HOSPITAL CORPORATION

PERFORMANCE OVERSIGHT

FISCAL YEAR 2012

MICHAEL DAVIS
CHIEF FINANCIAL OFFICER
NOT-FOR-PROFIT HOSPITAL CORPORATION

MARCH 14, 2013

Good afternoon Councilmember Alexander and members of the Committee on Health. My name is Michael Davis. I am the Chief Financial Officer of the Not-for-Profit Hospital Corporation (commonly known as United Medical Center). I have been at the hospital since July 2012. Prior to joining UMC, I was located in Nashville, TN. I have over 30 – years of hospital financial experience ranging from single facility operations to multi-facility operations.

As you have heard from our CEO, United Medical Center has seen double digit growth related to volumes since the district has taken over the operations. Total Encounters which is an indicator of access to our services has an annualized growth rate of almost 13%. Because UMC provides care to primarily low income population, net revenue due to declining reimbursement trends and reduction of DSH was the primary factors contributing to the loss associated with fiscal year 2012.

As Mr. DeLisi stated, FY 2012, UMC had a net loss of $322 thousand which was $2.8 million below FY 2011. The $2, 8 million negative variance was impacted by three major factors:

- Reduction of DSH revenue which accounted for $10.7 million negative variance.
- The growth in expenses relative to the growth in net patient service revenue which accounted for a $4.2 million negative variance.
- The recording of a District subsidy which consisted of a $7.7 million cash payment received in FY 2012 and $6.0 million cash payment received in FY 2010 for a positive variance of $13.7 million.

Mr. DeLisi went into great detail related to the impact of DSH so I will not repeat what he has accurately described.

While our net patient service revenue increased 10.9% compared to fiscal year 2011, the growth was reflected in our highest resource intensive areas such as our Emergency Room, and Behavioral Health Unit causing expenses to grow at 14.3% and therefore outpace the rate of growth in revenue.

It should be noted that the hospital was informed in June of FY 2012, approximately 8 months into its then current Fiscal year, that it had been overpaid and there would be no further DSH payments made to UMC for the third and fourth quarter and the hospital also would need to pay back approximately $700 thousand. This caused a significant impact on the hospital's ability to meet current obligations to provide needed healthcare services to the community. As a result the District provided $7.7 million over the last three months to offset the reduction of DSH and to assist the hospital in meeting its current obligations.

As a result of the loss of DSH, and the continued cash and earnings shortfall associated with the challenges of providing care to an increasing number of patients at declining reimbursement levels, UMC is operating in a continual cash deficit. This cash deficit is not the result of the hospital's lack of collections. Between FY 2011 and FY 2012 patient collections increased approximately 13% and is currently trending in line with revenues being generated. As previously stated, it was primarily caused by the significant reduction of DSH payments (reduced by 50%) and the cost of provided care to patients at lower reimbursement. At the end of FY 2012, Cash on Hand was $3.3 million which represents approximately 11 days operating cash. As of this meeting we have continued to see a decline in available cash and are now operating at approximately 4 days cash on hand. It is not atypical for a hospital to hold

as much as 125 days in cash on hand. We are also experiencing difficulty in making timely payments to many of our vendors, which the hospital relies to provide vital supplies and services to provide patient care services. Our Average Payment Period (which is the average time we pay our vendors) was almost 63 days at the end of FY 2012 and has increased to almost 70 days as of today. I believe that the hospital will need additional support in FY 2013 and quite possibly in FY 2014 as we reform the hospital with the assistance of Huron Healthcare.

As you are aware, Huron Healthcare was selected to assist the hospital in a reformation that better aligns the services provided to the community needs. This is a two year project that will better prepare the hospital to address the challenges of our delivery of healthcare consistent with today's environment. While it is widely anticipated that Huron will provide the expertise to successfully complete this transformation, it should be noted that there will be a period during which the hospital may continue to need District assistance as new strategies are developed and operational performance improvement plans are put in place.

Thank you Chairman Alexander and distinguished council members for your time. As always, I am at your service and will take any questions that you might have.

Not-for-Profit Hospital Corporation
FY 2013 Oversight Hearing

FYE 2012 Audit for Not-for-Profit Hospital
(commonly known as United Medical Center)

Michael Davis - CFO, NFPHC

March 14, 2013

Condensed Schedule of Revenue and Expenses

Dollars in (000s)	Fiscal Year ended September 30			Variance	
	2012	2011	2010 [4]	2012-2011	2011-2010
Net Patient Service Revenue	$ 86,274	$ 77,802	$ 14,207	10.9%	447.6%
Operating Expenses	(101,906)	(89,186)	(19,044)	14.3%	368.3%
Direct Patient Care Income (Loss)	(15,632)	(11,384)	(4,837)	37.3%	135.4%
Disproportionate Share Revenue (DSH) [1]	4,197	14,895	4,152	-71.8%	258.7%
Income (Loss) assoc. with Patient Care	(11,435)	3,511	(685)	-425.7%	-612.6%
Other revenue [2]	3,267	4,941	3,203	-33.9%	54.3%
Total Operating Income (Loss)	(8,168)	8,452	2,518	-196.6%	235.7%
Other Non Operating Income (Exp)	(5,854)	(5,960)	(1,126)	-1.8%	429.3%
District Subsidy [3]	13,700	-	-	NA	NA
Net Income (Loss)	$ (322)	$ 2,492	$ 1,392	-112.9%	79.0%

Notes:

(1) FY 2012 reflects $3 million reserve for overpayment of FY 2011 that may be due in FY 2014

(2) FY 2010 includes $3.million related to Healthy DC Dedicated Tax. FY 2012 includes $1.9 million related to CNMC Pedicatric Grant provided by District Funds.

(3) District Subsidy recorded in FY 2012 reflects $7.7 million cash received in FY 2012 and $6.0 million cash received in FY 2010.

(4) FY 2010 reflects short period July 10 - September 30.

Condensed Balance Sheet

Dollars in (000s)	Fiscal Year ended September 30			Variance	
	2012	2011	2010	2012-2011	2011-2010
Assets:					
Current assets [1]	$ 19,000	$ 15,771	$ 40,056	20.5%	-60.6%
Noncurrent assets:					
Capital assets	57,185	61,624	61,470	-7.2%	0.3%
Other assets	606	689	327	-12.0%	110.7%
Total noncurrent assets	57,791	62,313	61,797	-7.3%	0.8%
Total assets	76,791	78,084	101,853	-1.7%	-23.3%
Liabilities:					
Current liabilities [2][3]	17,547	24,755	43,756	-29.1%	-43.4%
Noncurrent liabilities [4][5]	7,554	1,317	8,576	473.6%	-84.6%
Total liabilities	25,101	26,072	52,332	-3.7%	-50.2%
Total Net Assets	$ 51,690	$ 52,012	$ 49,521	-0.6%	5.0%

Notes:

(1) Cash included in FY 2010 - 2012 is $27.3 million, $1.5 million and $3.3 respectively. Includes restricted cash of $19.6 million, $901 thousand and $1.7 million respectively.

(2) FY 2012 includes a reclass A/P from current to noncurrent $2.9 million related to pre foreclosure liabilities assumed.

(3) FY 2011 and 2010 include $6 million and $20 million due to District of Columbia

(4) FY 2010 includes $6 million due to District of Columbia

(5) FY 2012 includes $3 million reserve for overpayment DSH funds received in FY 2011.

Condensed Statement of Cash Flows

Dollars in (000s)	Fiscal Year ended September 30			Variance	
	2012	2011	2010	2012-2011	2011-2010
Net cash provided (used) in operating activities [1]	$ **(4,453)**	$ (541)	$ 1,787	723.1%	-130.3%
Net cash provided (used) in investing activities	**(160)**	(274)	94	-41.6%	-391.5%
Net cash provided (used) noncapital financing activities [2]	**7,645**	(20,496)	25,878	-137.3%	-179.2%
Net cash used in capital and related financing activities [3]	**(1,221)**	(4,478)	(443)	-72.7%	910.8%
Net increase (decrease) in cash and cash equivalents	**1,811**	(25,789)	27,316	-107.0%	-194.4%
Cash and cash equivalents (Beg.)	**1,527**	27,316	-	-94.4%	NA
Cash and cash equivalents (End)	**3,338**	1,527	27,316	118.6%	NA

Notes:

(1) FY2012, 2011, 2010 includes DSH payments received of $7.9 million, $14.9 million and $4.2 million respectively

(2) FY 2012 included $7.7 million received from DC, FY 2011 included $20 million payment to DC, FY 2010 included $26 million received from DC

(3) FY 2010 includes $535 contribution received from DC

Encounters

SERVICE LINES

INPATIENT	2010	2011	2012	Growth 2010-2011	Growth 2011-2012	CAGR
Admissions						
Medical/Surgical	3,736	3,179	3,147	-14.9%	-1.0%	-8.2%
Psychiatry	771	924	1,096	19.8%	18.6%	19.2%
ICU	354	353	372	-0.3%	5.4%	2.5%
Nursery	402	510	558	26.9%	9.4%	17.8%
OB/GYN	459	566	582	23.3%	2.8%	12.6%
SNF	-	185	107	NA	-42.2%	NA
Total	5,722	5,717	5,862	-0.1%	2.5%	1.2%

OUTPATIENT	2010	2011	2012	Growth 2010-2011	Growth 2011-2012	CAGR
Visits						
Observation Visits	910	1,497	1,958	64.5%	30.8%	46.7%
ER	42,128	46,042	50,552	9.3%	9.8%	9.5%
Radiology	6,696	7,046	8,943	5.2%	26.9%	15.6%
Clinics	7,146	10,200	13,137	42.7%	28.8%	35.6%
Laboratory	2,932	3,308	3,311	12.8%	0.1%	6.3%
Same Day Surgery	1,367	1,354	1,222	-1.0%	-9.7%	-5.5%
Total	61,179	69,447	79,123	13.5%	13.9%	13.7%
TOTAL ENCOUNTERS	**66,901**	**75,164**	**84,985**	**12.4%**	**13.1%**	**12.7%**

Note: Excludes visits associated with Children's National Medical Center ER

Payor Mix

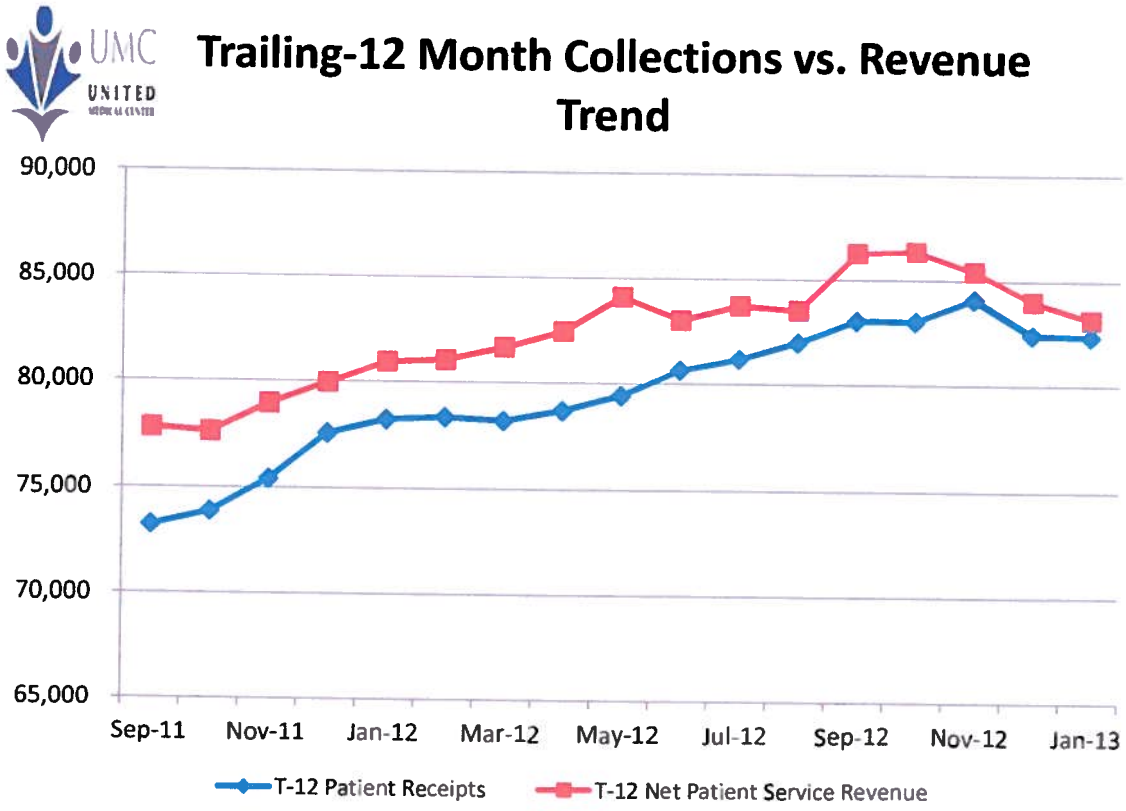
	% OF TOTAL		
	2010	2011	2012
INPATIENT			
Admissions			
Medicare	29.5%	28.4%	30.1%
Medicaid (incl Managed)	55.9%	60.0%	57.2%
Commercial	11.8%	9.6%	9.9%
Self Pay	2.8%	1.9%	2.8%
Total	100.0%	100.0%	100.0%
ER VISITS			
Medicare	11.5%	12.6%	12.9%
Medicaid (incl Managed)	58.7%	59.0%	59.0%
Commercial	12.9%	12.8%	13.5%
Self Pay	16.9%	15.6%	14.6%
Total	100.0%	100.0%	100.0%

Key Ratios

Key Ratios		Fiscal Year ended September 30 2012	2011	2010	Industry
Profitability					
Total Margin	Revenue in excess of expenses / Total Revenues	-0.3%	2.6%	6.5%	5.8%
Operating Margin (excludes subsidies)	Net operating income / Total operating Revenue	-13.3%	4.5%	-4.8%	6.7%
Liquidity					
Current Ratio	Current Assets / Current Liabilties	1.1	0.6	0.9	2.0
Days Cash on Hand	Current Cash / (Operating expenses/365)	10.8	5.2	110.3	125.0
Days Cash on Hand (Excluding District Subsidy)	Current Cash - District Reserve / (Operating expenses/365)	5.9	2.6	34.0	125.0
Days in Net Accounts Receivable	Net Accounts Receivable / (Net patient revenue)/365	56.8	55.7	42.9	45.0
Average Payment Period	Current Liabilities / Opearting Expenses/365	62.9	101.3	193.0	45.0
Collections % Net Patient Service Revenue	Patient Service Collections / Net Patient Service Revenue	96.2%	94.1%	83.0%	100.0%

Collection Trends – Trailing 12 months

DATE	T-12 Patient Receipts	T-12 Net Patient Service Revenue	Receipts % Revenue
Sep-11	73,230	77,803	94.1%
Oct-11	73,870	77,621	95.2%
Nov-11	75,412	78,930	95.5%
Dec-11	77,560	79,938	97.0%
Jan-12	78,220	80,932	96.6%
Feb-12	78,336	81,040	96.7%
Mar-12	78,188	81,648	95.8%
Apr-12	78,688	82,430	95.5%
May-12	79,402	84,101	94.4%
Jun-12	80,633	83,013	97.1%
Jul-12	81,168	83,720	97.0%
Aug-12	81,971	83,514	98.2%
Sep-12	83,038	86,276	96.2%
Oct-12	83,027	86,366	96.1%
Nov-12	84,088	85,451	98.4%
Dec-12	82,392	84,006	98.1%
Jan-13	82,332	83,136	99.0%



Financial Highlights
FYE 2012

- UMC's revenue was under expenses by $322.4 thousand.
- Net patient service revenue - $8.5 million (10.9%) increase from FY 2011.
- Disproportionate share revenue (DSH) - $10.7 million decrease as a result of :
  - $7.7 million reduction in DSH revenues in the current year due revised methodology by DCHF.
  - $3.0 million increase in estimated liability related to potential payback of 2011 DSH funds where monies received exceeded hospital OBRA (Federal Statutory) limit.
- Operating expenses – Overall increase of $12.7 million increase is primarily due to growth in: Salaries, Wages and Employee Benefits ($4.4M), Supplies ($2.6M), Insurance ($1.8M), and Contract Labor and Purchased Services ($3.2M combined).
- Patient Service Loss was $15.6 million. Three years consecutive losses recorded in patient services.
- Nonoperation revenues, Subsidy from District of Columbia – UMC received $7.7 million cash subsidy from the District in the current fiscal year.
- Nonoperation revenues, Intra-agency allocation – UMC received a $6 million intra-agency allocation from the District of, which was previously recorded in the prior year as Due to the District.

Financial Highlights
FYE 2012

- Medical Center's total assets exceeded its liabilities by $51.7 million (0.6% decrease compared to FYE 2011).
- Medical Center's net working capital (current assets minus current liabilities) excluding amount due to the District (FYE 2011) increased by $4.4 million to $1.5 million compared to FYE 2011.
- Medical Center's total liabilities decreased by $971 thousand or 3.7% compared to FYE 2011.
- Accounts Payable and Other LT liabilities - $2.9 million of pre-foreclosure invoices was reclassified from Accounts Payable (current liabilities) to long-term liabilities in FY 2012.
- Estimated third-party settlements, net of current portion - $3.6 million increase is a result of $3 million reserve recorded based on an estimated overpayment of DSH funds that were received in FY 2011, which are estimated to exceed the OBRA limit of $11.9 million. This excess may be due to DC Medicaid in FY 2014.