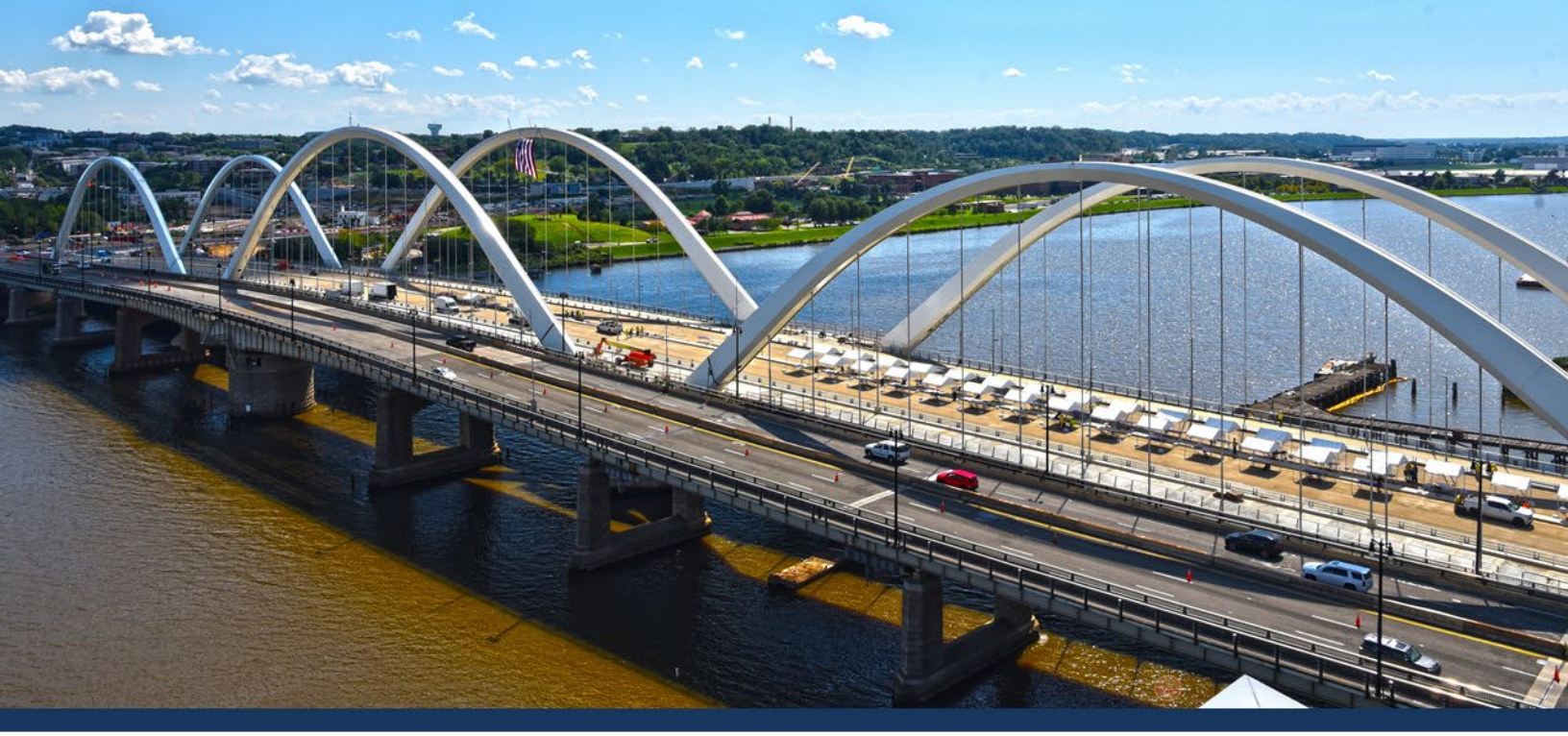
DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 22-1-09HW

January 2022

NOT-FOR-PROFIT HOSPITAL CORPORATION
UNITED MEDICAL CENTER

Financial Statements (With Independent Auditor's Report)
For Fiscal Years Ended September 30, 2021 and 2020



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

Mission

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

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

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

Core Values

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

January 31, 2022

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

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Not-for-Profit Hospital Corporation United Medical Financial Statements (With Independent Auditor's Report) for the Fiscal Years Ended September 30, 2021, and 2020* (OIG No. 22-1-09HW). McConnell Jones, LLP (MJ) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2021.

On January 3, 2022, MJ issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. MJ identified no material weaknesses in internal control over financial reporting.

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

Sincerely,

Daniel W. Lucas
Inspector General

DWL/wms

Enclosure

cc: See Distribution List

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

Financial Statements
(With Independent Auditor's Report)

September 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Mayor, Members of the Council of the Government of the District of Columbia,
the Board of Directors of Not-For-Profit Hospital Corporation and
Inspector General of the Government of the District of Columbia
Washington, D.C

Report on the Financial Statements

We have audited the accompanying financial statements of Not-For-Profit Hospital Corporation, commonly known as United Medical Center (the Medical Center), a blended component unit of Government of the District of Columbia as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

McConnell Jones

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, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 3, 2022, 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 solely 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 effectiveness of the Medical Center's 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.

McConnell & Jones

Washington, D.C.
January 3, 2022

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

Management's Discussion and Analysis
September 30, 2021 and 2020

Overview of the Financial Statements

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 2021, and 2020, with 2019 included for comparative purposes. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, including the accompanying notes to the basic financial statements, which begin on page 16. All amounts are reported in whole dollars unless otherwise stated.

Management's discussion and analysis (MD&A) is intended to serve as an introduction to the Medical Center's basic financial statements. The Medical Center's financial statements consist of three statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

1. ***Statements of Net Position***

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

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

   The Statement of Revenues, Expenses and Changes in Net Position presents changes to the Medical Center's net position during the most recent period. This statement measures the success of the Medical Center's operations during the years ending September 30, 2021 and 2020, and can be used to assess profitability and credit worthiness. Activities are reported as either operating or non-operating. Operating revenues are generally earned by providing goods or services to various customers, patients and related parties. Operating expenses are incurred to acquire or procure the goods and services to carry out the Medical Center's mission. Non-operating revenues and expenses result from activities other than providing goods and services related to patient care. All changes in net position are reported as soon as the underlying events giving rise to the change occurred, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will result in cash flows only in future fiscal periods (e.g., uncollected patient receivables and earned but unused vacation leave). The utilization of capital assets is reflected in the Statement of Revenues, Expenses and Changes in Net Position as depreciation and amortization expense, which depreciates or amortizes the cost of a long-lived asset over its expected useful life.

3. Statements of Cash Flows

The final required statement is the Statement of Cash Flows. The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, and capital and related financing activities. The Statements of Cash Flows describes the sources of cash, for what the cash was used, and the change in cash balance during the reporting period. The Statement of Cash Flows aids in the assessment of the Medical Center's ability to generate future net cash flows and to meet obligations and commitments as they come due. The primary source of operating cash flows was service revenues received from patients and their public and private insurance providers. Uses of these cash sources include payments as wages and fringe benefits to employees and payments to suppliers and contractors for goods and services procured by the Medical Center.

4. Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a complete understanding of the data provided in the basic financial statements.

Fiscal Year 2021 Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2021 and 2020, by $79.3 million and $89.9 million, respectively.
- The Medical Center's change in net position was ($9.6) million and ($3.0) million for the years ended September 30, 2021 and 2020, respectively. The negative change in net position was primarily due to a $5.2 million decrease in grant revenue.
- The Medical Center's operating loss includes $14.8 million and $13.2 million depreciation expense for the years ended September 30, 2021 and 2020, respectively.
- The Medical Center's operating loss increased by $614 thousand primarily due to lower patient activity.
- The Medical Center received $42.8 million and $34.7 million of grants and subsidies from the District of Columbia (the District) in fiscal years 2021 and 2020, respectively. In addition to the above subsidies and grants there were also federal grants of $4.1 million in 2021 and $23.1 million in 2020.
    - During fiscal year 2021, a District grant of $40.0 million was for continued operating support, and a subsidy of $2.8 million was for capital related costs.
    - During fiscal year 2020, a District grant of $25.8 million was for continued operating support, and a subsidy of $8.9 million was for capital related costs.
- The Medical Center's total liabilities decreased from $55.9 million to $47.1 million during fiscal year 2021.
- The Medical Center's net working capital (current assets minus current liabilities) increased from $28.0 million to $37.4 million during fiscal year 2021.

Fiscal Year 2020 Financial Highlights

- The Medical Center's total assets exceed its liabilities as of September 30, 2020 and 2019, by $88.9 million and $91.9 million, respectively.
- The Medical Center's change in net position was ($3.0) million and ($2.6) million for the years ended September 30, 2020 and 2019, respectively. The negative change in net position was primarily due to a 7% increase in operating expenses due to unbudgeted Coronavirus (COVID-19) expenses.
- The Medical Center's operating loss includes $13.2 million and $11.4 million of depreciation expense for the years ended September 30, 2020 and 2019, respectively.
- The Medical Center's operating loss decreased by $12.8 million primarily due to District subsidies.
- The Medical Center received $34.7 million and $37.4 million grants and subsidies from the District of Columbia (the District) in fiscal years 2020 and 2019, respectively.
    - During fiscal year 2020, a District grant of $25.8 million was for continued operating support, and a subsidy of $8.9 million was for capital related costs.
    - During fiscal year 2019, a District grant and subsidies of $35.4 million were for continued operating support, and $2 million was for capital related costs.
- The Medical Center's total liabilities increased from $30.3 million to $55.9 million during fiscal year 2020, mainly due to accrued salaries and deferred liabilities for COVID-19 payments.

The Medical Center's net working capital (current assets minus current liabilities) decreased from $31.8 million to $28.0 million during fiscal year 2020.

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, 2021, 2020, and 2019:

Condensed Statements of Net Position

	2021	2020	2019
Assets:			
Current assets	**$ 64,080,835**	$ 75,130,678	$ 53,903,856
Non-current assets:			
Capital assets, net	**62,295,931**	69,722,079	68,253,650
Total non-current assets	**62,295,931**	69,722,079	68,253,650
Total assets	**126,376,766**	**144,852,757**	122,157,506
Liabilities:			
Current liabilities	**26,644,080**	47,094,247	22,128,617
Non-current liabilities	**20,454,624**	8,848,383	8,128,775
Total liabilities	**47,098,704**	55,942,630	30,257,392
Net Position:			
Net investment in capital assets	**62,295,931**	69,722,079	68,253,650
Restricted for capital projects	**10,489,609**	17,012,140	14,035,736
Unrestricted	**6,492,522**	2,175,908	9,610,728
Total net position	**$ 79,278,062**	$ 88,910,127	$ 91,900,114

2021 - The net position, over a period of time, can serve as a useful indicator of an organization's financial position. As of September 30, 2021 and 2020, the Medical Center's assets exceeded liabilities by $79.3 million and $88.9 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2021 and 2020, capital assets represent 49.4% and 48.1% of total assets, respectively. Capital assets include land, land improvements, buildings and improvements, equipment, software, equipment under capital lease obligations, and construction in progress. Net capital assets decreased by $7.4 million during the fiscal year 2021. The Medical Center's annual depreciation and amortization was $14.8 million in fiscal year 2021, an increase of $1.6 million from the previous year. The Medical Center uses these capital assets to provide medical care to citizens of the District Wards 7 and 8 and the adjoining Prince Georges County, Maryland.

The next largest portion of the Medical Center's assets is current assets, which is mostly comprised of cash and net patient receivables. As of September 30, 2021 and 2020, current assets represented 50.7% and 51.9%, respectively of total assets. Total current assets decreased by $11.0 million. The decrease was mainly due to $9.8 million of unused fiscal year 2020 DC COVID-19 stimulus remitted to DC Government in fiscal year 2021.

Current liabilities represent 56.6% and 84.2 % of the Medical Center's total liabilities as of September 30, 2021 and 2020, respectively. Current liabilities decreased by $20.5 million or 43% as of September 30, 2021 compared to the balance as of September 30, 2020. The change in current liabilities was primarily due to a decrease in deferred revenue from COVID stimulus and payments to vendors.

The following table reflects the change in net position for the years ended September 30, 2021 and 2020:

Changes in Net Position

Balance as of September 30, 2019	$ 91,900,114
Decrease in net position	(2,989,987)
Balance as of September 30, 2020	88,910,127
Decrease in net position	(9,632,065)
Balance as of September 30, 2021	**$ 79,278,062**

2020 - The net position, over a period of time, can serve as a useful indicator of an organization's financial position. As of September 30, 2020 and 2019, the Medical Center's assets exceeded liabilities by $88.9 million and $91.9 million, respectively.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. As of September 30, 2020 and 2019, capital assets represent 48.1% and 55.9% of total assets, respectively. Capital assets include land, land improvements, buildings and improvements, equipment, software, equipment under capital lease obligations, and construction in progress. Net capital assets increased by $1.5 million during the fiscal year 2020. The Medical Center's annual depreciation and amortization was $13.2 million in fiscal year 2020, an increase of $1.7 million from the previous year.

The next largest portion of the Medical Center's assets is current assets, which is mostly comprised of cash and net patient receivables. As of September 30, 2020 and 2019, current assets represented 51.9% and 44.1%, respectively of total assets. Total current assets increased by $21.2 million. The increase was mainly due to the $21.5 million increase in the Medical Center's cash.

Current liabilities represent 84.2% and 73.1 % of the Medical Center's total liabilities as of September 30, 2020 and 2019, respectively. Current liabilities increased by $25.0 million or 113% as of September 30, 2020 compared to the balance as of September 30, 2019. The change in current liabilities was primarily due to deferred revenue from stimulus payments.

The following table reflects the change in net position for the years ended September 30, 2021 and 2020:

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

	2021	2020	2019
Revenues:			
Operating revenues:			
Net patient service revenue	**$ 67,949,493**	**$ 74,862,287**	$ 80,155,923
Disproportionate share revenues	**15,954,293**	**9,755,008**	14,294,933
Other operating revenues	**53,669,774**	**63,591,171**	30,624,204
Total operating revenues	**137,573,560**	**148,208,466**	125,075,060
Nonoperating revenues (expenses):			
Subsidy from District of Columbia	**2,829,099**	**8,857,036**	22,049,421
Total nonoperating revenues	**2,829,099**	**8,857,036**	22,049,421
Total revenues	**140,402,659**	**157,065,502**	147,124,481
Expenses:			
Operating expenses:			
Salaries and benefits	**63,889,334**	**71,545,792**	71,373,855
Supplies	**14,261,039**	**17,270,823**	13,604,157
Depreciation and amortization	**14,771,375**	**13,155,749**	11,448,837
Other expense	**57,112,976**	**58,083,125**	53,310,521
Total operating expenses	**150,034,724**	**160,055,489**	149,737,370
Change in net position	**(9,632,065)**	**(2,989,987)**	(2,612,889)
Net position, beginning of period	**88,910,127**	**91,900,114**	94,513,003
Net position, end of period	**$ 79,278,062**	**$ 88,910,127**	$ 91,900,114

2021 – The Medical Center's total operating revenues were $137.6 million and $148.2 million for the years ended September 30, 2021 and 2020. Revenues from patient care services represent 49.4% and 50.5% of total operating revenues, respectively. The Medical Center receives approximately 84.6% of its patient service revenue from governmental payors (primarily Medicare and Medicaid) and the remainder from various other nongovernmental payors.

Net patient service revenue, net of provision for bad debt, decreased 9.2% in fiscal year 2021 compared to the prior fiscal year due to decreases in patient care activities.

The Medical Center's total costs were $150.0 million and $160.0 million for the years ended September 30, 2021 and 2020, a decrease of $10.0 million. The decrease was primarily due to a decrease of supplies and labor costs since the COVID-19 surge of fiscal year 2020.

2020 – The Medical Center's total operating revenues were $148.2 million and $125.1 million for the years ended September 30, 2020 and 2019. Revenues from patient care services represent 50.5% and 64.1% of total operating revenues, respectively. The Medical Center receives approximately 76.5% of its patient service revenue from governmental payors (primarily Medicare and Medicaid) and the remainder from various other nongovernmental payors.

Net patient service revenue, net of provision for bad debt, decreased 6.6% in fiscal year 2020 compared to the prior fiscal year due to corresponding decreases in patient care activities.

The Medical Center's total costs were $160.1 million and $149.7 million for the years ended September 30, 2020 and 2019, an increase of $10.3 million. The increase was primarily due to the supplies and labor costs incurred in preparation for the anticipated COVID-19 surge.

Capital and Debt Administration

Capital Assets

The Medical Center's capital assets as of September 30, 2021, 2020 and 2019 amount to $62.3 million, $69.7 million and $68.3 million (net of accumulated depreciation and amortization), respectively. This investment in capital assets includes land, land improvements, buildings and improvements, equipment, software, equipment under capital lease obligations, and construction in progress. The following table summarizes the Medical Center's capital assets net of accumulated depreciation and amortization as of September 30, 2021, 2020, and 2019, respectively:

	2021	2020	2019
Asset Category:			
Land	**$ 8,100,000**	8,100,000	$ 8,100,000
Construction in progress	**1,931,199**	1,577,339	840,142
Land improvements, net	**252,606**	275,787	298,968
Buildings and improvements, net	**41,387,378**	45,083,218	45,743,923
Equipment, net	**7,517,703**	10,829,222	10,220,160
Software, net	**3,107,045**	3,856,513	3,050,457
Capital assets, net	**$ 62,295,931**	$ 69,722,079	$ 68,253,650

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

Long-term Liabilities

As of September 30, 2021, 2020 and 2019, the Medical Center had total long-term liabilities outstanding of $20.5 million, $8.8 million, and $8.1 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:

	2021	2020	2019
Estimated third party settlements	**18,762,191**	7,219,040	6,011,826
Other liabilities	**1,692,433**	1,629,343	2,116,949
Total noncurrent liabilities	**$ 20,454,624**	$ 8,848,383	$ 8,128,775

Economic Factors

- ***COVID-19 Pandemic –*** On March 11, 2020 Mayor Bowser of the District of Columbia (the District) declared public health emergency due to the COVID-19 pandemic. As a part of this declaration of public health emergency the Medical Center began coordinating with other agencies regarding preparation to meet the surge requirements mandated by the District. On March 27, 2020 The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and the CARES Act provides funding to providers during this time of pandemic. The Surgeon General, on March 17, 2020, advised a halt to all hospital elective procedures to ensure resources are available to treat patients with coronavirus (COVID-19). In addition to halting all hospital elective procedures, the District of Columbia Department of Health (DC Health) recommended that all elective medical procedures, non-urgent hospital and outpatient visits, and non- urgent dental procedures be postponed to preserve health care capacity as the community mitigation strategies worked to flatten the epidemic curve. The Medical Center adhered to every regulation imposed by Federal or the District. The Medical Center experienced the impact of COVID-19 most of FY20 and into FY21 as the surge continued. The Medical Center will continue to monitor the impact of the ongoing COVID-19 pandemic. The Medical Center has required that all staff receive the COVID-19 vaccination, unless an approved exemption is received.

- ***Health Resources & Services Administration (HRSA) Provider Relief Fund (PRF) distribution Phase 3 and 4-*** In FY20 the Medical Center received $27.2M in stimulus from the first phases of the distribution. HRSA has also made available $20 billion and $25 billion in Phase 3 and Phase 4 respectively and the distribution portals were opened in FY21. The Medical Center has applied for both phase 3 and phase 4 distributions, but have not received any notification of qualification for additional stimulus payments at this time.

- ***HRSA PRF Reporting –*** HRSA required all providers that received stimulus payments to report information through the Provider Relief Funding Reporting Portal. The information reported in the portal was for payments received April 10, 2020 to June 30, 2020 with a deadline to use the funds by June 30, 2021 and reporting deadline of September 30, 2021. This deadline was later extended to November 30, 2021. The Medical Center had to report for a total of $18.6M dollars of payments received and all payments received were used and the reporting was completed prior to November 30, 2021. There are 3 more reporting periods as follows: Period 2 for payments received July 1, 2020 to December 21, 2020, Period 3 for payments received January 1, 2021 to

June 30, 2021, Period 4 for payments received July 1, 2021 to December 21, 2021. The Medical Center will report for payments received in period 2 for the total of $8.5M with the reporting deadline being March 31, 2022.

- ***HRSA COVID-19 Coverage Assistance Fund-*** The Health Resources and Services Administration's (HRSA) COVID-19 Coverage Assistance Fund (CAF) will cover the costs of administering COVID-19 vaccines to patients whose health insurance does not cover vaccine administration fees, or does but typically has patient cost-sharing. While patients cannot be billed directly for COVID-19 vaccine fees, costs to health care providers on the front lines for administering COVID-19 vaccines to underinsured patients will now be fully covered through CAF, subject to available funding. The Medical Center has applied and has been approved for the CAF as of November 24, 2021.

- ***Fiscal Management Board***- In 2020 a legislation to cap District Subsidy for the Medical Center went into effect which require that if an operating subsidy in excess of the current $15M statutory limit the legal authority of the Corporation's Board of Directors has expired and a Fiscal Management Board would govern the Corporation. In May 2021 an additional subsidy of $25M was needed and the Fiscal Management Board was put into place. The board now consists of The Chief Financial Officer of the District of Columbia, or designee, who serves as the chair; The Deputy Mayor of Health and Human Services, or designee; A citizen member of ward 7 or 8; A citizen member appointed by Mayor who has experience serving as the City Administrator of the District of Columbia; An individual with expertise in hospital management or finance appointed by the Mayor; and One representative from each of the two unions maintaining the largest collective bargaining units.

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

  Effective January 1, 2021, hospitals were required to meet further requirements of posting a comprehensive machine-readable file with all items and services and display a list of 300 shoppable services of which 70 were provided by CMS and 270 are the choice of the hospital in a consumer-friendly format. If this deadline is not achieved CMS will impose a $300 a day penalty. The Medical Center completed this requirement and all files were listed on the website by the effective date.

  A letter was received in October 2021 from the District of Columbia Office of the Attorney General regarding the compliance of the CMS requirement. The Medical Center responded that we were in compliance of meeting all requirements. An update to the information posted for the price transparency requirement is in on track to be completed prior to January 1, 2022.

- ***The Patient Protection and Affordable Care Act of 2010*** – The uncertainty of the Affordable Care Act (ACA) will continue to have a profound economic impact on the nation's healthcare system and on the Medical Center in particular. Among the numerous provisions of the Act, those with the greatest effect on the Medical Center include the Medicaid population expansion and the individual mandate, both of which enlarged the Medical Center's insured population and concomitantly shrink its uninsured population; and the decrease of associated Medicare disproportionate share hospital (DSH) payments. However, it is uncertain how future congressional actions may impact the ACA. Other legislation that may impact the Medical Center include Medicare prospective payment system rate changes; and the resurgence in Medicare and Medicaid programs use of Recovery Audit Collectors (RAC) to recover allegedly improper payments.

- ***The American Recovery and Reinvestment Act of 2009*** – The American Recovery and Reinvestment Act of 2009 (ARRA) mandated a reduction to the applicable percentage of increase to the Inpatient Prospective Payment System payment rate for eligible hospitals that are not meaningful Electronic Health Record (EHR) users. The hospital successfully demonstrated meaningful use of Certified EHR Technology during calendar year 2018 to 2020 and is on track to meet the measures for 2021.

- ***Medicare Sequestration*** – On April 1, 2013, a provision of the Budget Control Act of 2011 requiring mandatory across-the-board reductions in Federal spending commenced (commonly referred to as sequestration). The provision included a 2% reduction to Medicare payments made to healthcare providers, including payments made under the meaningful use incentive program. The payment reduction is effective until 2023, however it is not possible to determine how future congressional actions to reduce the federal deficit will impact the Medical Center's revenues.

  Due to the COVID-19 Pandemic the 2% reduction to Medicare payments was halted. The Coronavirus Aid, Relief, and Economic Security (CARES) Act suspended the sequestration payment adjustment from May 1 through December 31, 2020. The Consolidated Appropriations Act, 2021, extended the suspension period to March 31, 2021. An Act to Prevent Across-the-Board Direct Spending Cuts, and for Other Purposes, signed into law on April 14, 2021, extends the suspension period to December 31, 2021.

- ***Pay for Performance*** – The Affordable Care Act mandated programs that affect reimbursement through evaluation of the quality of care and cost of care provided to patients at the federal level; however, there are an increasing number of programs arising from state, including the District Medicaid and private interests. These programs provide incentives (and/or penalties) for reporting performance data and those that provide incentives (and/or penalties) based on benchmarking performance data against other providers regionally and nationally. The pay for performance programs will continue into the future and the Medical Center is aggressively monitoring and enhancing its quality performance programs in an effort to maintain incentive dollars.

- ***Certain Significant Risks and Uncertainties*** – Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. There is a reasonable possibility that estimates could change by material amounts. Management periodically reviews recorded amounts receivable from or payable to third-party payors and may adjust these balances as new information becomes available. In addition, revenue received under certain third-party agreements is subject to audit. Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenue in the year that the adjustment becomes known.

- ***District of Columbia Universal Paid Leave*** – The D.C. Council gave final approval in December 2017, to a plan that will provide private-sector workers paid family and medical leave benefits. The bill, which passed by a veto-proof margin of 9 to 4, guarantees eight weeks of paid time off to new parents, six weeks to workers caring for ailing family members and two weeks of personal sick time. To pay for it, the District will levy a new 0.62 percent payroll tax on employers small and large to generate $250 million annually, which will be distributed by a new arm of the city government. Under the plan approved by the council, the city would reimburse employees for 90 percent of their first $900 in weekly pay and 50 percent of their remaining weekly pay, with a cap of $1,000 per week. New legislation was introduced in June 2018*, Universal Paid Leave Pay Structure Amendment Act of 2018*, to amend certain provisions of the existing plan.

  Effective July 1, 2019, the District began collecting taxes from employers for the Universal Paid Leave program. The Medical Center is in compliance.

  Effective July 1, 2020, the District began administering the previously mentioned paid family leave benefits of eight weeks to bond with a new child, six weeks to care for a family member with a serious health condition, and two weeks to care for your own serious health condition.

- ***District of Columbia Minimum Wage Increase*** – The "Fair Shot Minimum Wage Amendment Act of 2017" signed into law on June 27, 2018 after unanimous passage by the D.C. Council. Under the new law, the minimum wage will progressively increase to $15.00 per hour on July 1, 2020, then increasing each successive year starting in 2021 in proportion to the increase in the Consumer Price Index (CPI). Beginning July 1, 2020, the minimum wage in the District of Columbia increased from $14.00 per hour to $15.00 per hour for all workers, regardless of size of employer. The Medical Center has adjusted the wages of all eligible employees to reflect this mandate.

  Effective July 1, 2021, the minimum wage in the District of Columbia increased from $15.00 per hour to $15.20 per hour for all workers, regardless of size of employer. The Medical Center has adjusted the wages of all eligible employees to reflect this mandate and will continue to follow any new regulations concerning this matter.

- ***Medicaid Disproportionate Share Revenues*** – The Medicaid program pays the Medical Center Disproportionate Share (DSH) payments for servicing certain low income patients. The Medical Center received $23.8 million in DSH payments in fiscal year 2021. This amount does include $3,876,054 received due to a CMS waiver which allowed an additional FY16 distribution. The Medical Center continues to receive DSH payments and expects to receive those payments for the foreseeable future based on new regulations.

- ***Disproportionate Share Hospital (DSH) Payment Increase-*** In the third quarter of the FY21 the DSH payments increased to $7,491,481 per quarter. This is an increase from the previous $2,079,494 per quarter received previously. These increases are based on the DSH tools submitted every year.

- ***Joint Commission –*** The Joint Commission is an accreditation body that performs surveys on a triannual basis. The Medical Center entered into their survey window for re-accreditation in fiscal year 2020. The re-accreditation survey began on November 10, 2020, pushed in to fiscal year 2021 due to COVID-19, and continued until November 13, 2020. The Medical Center received positive feedback from the surveyors with minimal findings to address and received re-accreditation effective November 14, 2020. The next Joint Commission survey will be in 2023.
- ***Department of Health-*** The annual Department of Health survey occurred in 2021, but subsequent to September 30, 2021.

- ***Skilled Nursing Facility*** – In October 2020, the Medical Center Board approved the Skilled Nursing Facility's closure for the safety of the residents due to the severity of the COVID-19 pandemic. The residents received placement at other facilities. As of February 21, 2021 the Skilled Nursing Facility was closed and the FY21 final cost report was filed on July 19th, 2021.

- ***Union Negotiations-*** The Medical Center has three unions: District of Columbia Nursing Association (DCNA), United Federation of Special Police and Security Officers (UFSPO), and 1199 SEIU. All collective bargaining agreements were up for renewal in FY21. District of Columbia Nursing Association (DCNA) and United Federation of Special Police and Security Officers (UFSPO) were renewed successfully prior to September 30, 2021 and 1199 SEIU was also successfully renewed subsequent to September 20, 2021. The related retro payments were made for DCNA and UFSPO and 1199 retro payments will be made when approval is received from the Council.

- ***Permanent Closure of United Medical Center –*** The District of Columbia has plans to build a new hospital for Wards 7 and 8, and based on preliminary discussions from the District, United Medical Center will cease to operate on December 31, 2024. By December 31, 2024, the United Medical Center shall cease admitting new patients, cease patient operations, and the Corporation shall dissolve. All of its assets (including cash, accounts receivable, reserve funds, real or personal property, and contract and other rights), positions, personnel, and records, and the unexpended balances of appropriations, allocations, and other funds available or to be made available to it, shall revert to the District. The Office of the Chief Financial Officer shall ensure that the Fiscal Year 2025 year-end audit for the Not-for-Profit Hospital Corporation is executed properly.

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

Management's Discussion and Analysis
September 30, 2021 and 2020

Requests for Information

This financial report is designed to provide a general overview of the Medical Center's financial activities and to demonstrate the Medical Center's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

The Office of the Chief Financial Officer
Not-for-Profit Hospital Corporation
United Medical Center
1310 Southern Avenue, S.E.
Washington, DC 20032
(202) 574-6993

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

Statements of Net Position
September 30, 2021 and 2020

ASSETS	2021	2020
Current assets:		
Cash	**$ 46,040,791**	53,401,936
Patient receivables, net of allowances for estimated uncollectibles	**9,185,809**	14,651,297
Inventories	**6,044,847**	6,023,594
Prepaid expenses and other assets	**2,809,388**	1,053,851
Total current assets	**64,080,835**	75,130,678
Capital assets, net	**62,295,931**	69,722,079
Total assets	**126,376,766**	144,852,757
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	**14,581,947**	18,773,451
Accrued salaries and benefits	**7,762,242**	11,837,726
Other liabilities	**4,299,891**	16,483,070
Total current liabilities	**26,644,080**	47,094,247
Estimated settlements due to third party payors, net of current portion	**18,762,191**	7,219,040
Other long-term liabilities	**1,692,433**	1,629,343
Total noncurrent liabilities	**20,454,624**	8,848,383
Total liabilities	**47,098,704**	55,942,630
Net position:		
Net investment in capital assets	**62,295,931**	69,722,079
Restricted for:		
Expendable		
Capital projects	**10,489,609**	17,012,140
Unrestricted	**6,492,522**	2,175,908
Total net position	**$ 79,278,062**	$ 88,910,127

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

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Patient service revenue, net of contractual allowance and other adjustments	**$ 82,558,942**	$ 89,687,243
Provision for bad debts	**(14,609,449)**	(14,824,956)
Net patient service revenue, less provision for bad debts	**67,949,493**	74,862,287
Disproportionate share revenues	**15,954,293**	9,755,008
Grant revenues	**443,710**	855,860
District Grants	**40,000,000**	25,822,415
Federal Grants	**4,100,000**	23,056,284
Other operating revenues	**9,126,064**	13,856,612
Total operating revenues	**137,573,560**	148,208,466
Operating expenses:		
Salaries and wages	**50,834,799**	55,996,871
Employee benefits	**13,054,536**	15,548,921
Contract labor	**4,717,105**	4,181,479
Supplies	**14,261,039**	17,270,823
Professional fees	**20,911,064**	19,902,630
Purchased services	**18,866,150**	20,441,753
Depreciation and amortization	**14,771,375**	13,155,749
Utilities	**3,613,307**	3,493,578
Insurance	**4,877,041**	3,460,339
Rent and leases	**301,156**	399,372
Repairs and maintenance	**3,485,398**	4,045,279
Other expenses	**341,754**	2,158,694
Total operating expenses	**150,034,724**	160,055,489
Operating loss	**(12,461,164)**	(11,847,023)
Change in net position before District Capital Subsidy	**(12,461,164)**	(11,847,023)
District subsidy- capital	**2,829,099**	8,857,036
Changes in net position	**(9,632,065)**	(2,989,987)
Net position, beginning of year	**88,910,127**	91,900,114
Net position, end of year	**$ 79,278,062**	$ 88,910,127

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

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

Statements of Cash Flows
For the Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from and on behalf of patients	**$ 84,958,133**	$ 79,712,996
Payments to employees and fringe benefits	**(67,964,819)**	(57,526,784)
Payments to suppliers and contractors	**(89,462,398)**	(68,296,289)
Other receipts and payments, net	**69,624,067**	73,346,179
Net cash from operating activities	**(2,845,017)**	27,236,102
Cash flows from capital and related financing activities:		
Cash received in contribution from the District of Columbia	**2,829,099**	8,857,036
Purchase of capital assets	**(7,345,227)**	(14,624,178)
Net cash used in capital and related financing activities	**(4,516,128)**	(5,767,142)
Net (decrease) in cash	**(7,361,145)**	21,468,960
Cash, beginning of year	**53,401,936**	31,932,976
Cash, end of year	**$ 46,040,791**	$ 53,401,936

	2021	2020
Reconciliation of operating loss to net cash (used in), provided by, operating activities:		
Operating loss	**$ (12,461,164)**	$ (11,847,023)
Adjustments to reconcile operating loss to net cash (used in), provided by, operating activities:		
Depreciation and amortization	**14,771,375**	13,155,749
Provision for bad debts	**14,609,449**	14,824,956
Effect of changes in noncash operating assets and liabilities:		
Patient receivables, net	**(9,143,961)**	(11,181,461)
Inventories	**(21,253)**	(4,750,772)
Prepaid expenses and other assets	**(1,755,537)**	1,349,415
Estimated settlements due to third party payors	**11,543,151**	6,644,084
Accounts payable and accrued expenses	**(4,191,504)**	3,249,503
Accrued salaries and benefits	**(4,075,484)**	1,207,214
Other liabilities	**(12,120,089)**	14,584,437
Net cash (used in), provided by, operating activities	**$ (2,845,017)**	$ 27,236,102

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

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

Notes to Financial Statements
September 30, 2021 and 2020

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 210-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, 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. The District of Columbia has plans to build a new hospital for Wards 7 and 8, and based on preliminary discussions from the District, United Medical Center will cease to operate on December 31, 2024. By December 31, 2024, the United Medical Center shall cease admitting new patients, cease patient operations, and the Corporation shall dissolve. All of its assets (including cash, accounts receivable, reserve funds, real or personal property, and contract and other rights), positions, personnel, and records, and the unexpended balances of appropriations, allocations, and other funds available or to be made available to it, shall revert to the District. The Office of the Chief Financial Officer shall ensure that the Fiscal Year 2025 year-end audit for the Not-for-Profit Hospital Corporation is executed properly.

For financial reporting purposes, the Medical Center is reported as a blended component unit of the District. Consistent with the authoritative guidance of the Governmental Accounting Standards Board (GASB), the Medical Center is a legally separate entity, and the District appoints a voting majority of the Medical Center's board. The Medical Center also depends on financial resources flowing from, or associated with, the District, a related entity and the District is able to impose its will on the Medical Center. Funds flowing from the District to the Medical Center are subject to changes to the District's laws and appropriations.

In October 2020, the Medical Center Board approved the Skilled Nursing Facility's closure for the safety of the residents due to the severity of the COVID-19 pandemic. The residents received placement at other facilities. As of February 21, 2021 the Skilled Nursing Facility was closed and the FY21 final Medicare cost report was filed on July 19th, 2021.

In May 2020, the 120-bed Skilled Nursing Facility (SNF) officially ceased operation but did not officially close until February 21, 2021. Net revenues from resident services and operating expenses of the SNF were fully recognized in 2020 and are not included in the financial statements of the Medical Center in 2021.

A review of the criteria for reporting discontinued operations under Accounting Standards Codification (ASC) 205-20, Presentation of Financial Statements – Discontinued Operations guided the decision that the disposal by other than sale of the Skilled Nursing Facility did not meet the reporting criteria of a strategic shift on the entity's operations and financial results but would require disclosure for a disposal that did not qualify for reporting as a discontinued operation.

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

The GASB establishes standards for external financial reporting for all state and local government entities. These standards require a statement of net position, a statement of revenues, expenses and change in net position and a statement of cash flows. They also require the classification of net position into three components—net investment in capital assets; amounts that are restricted; and amounts that are unrestricted. These classifications are defined as follows:

(a) Reporting Entity (continued)

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.

- Restricted – This component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets may be restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted assets are either expendable or nonexpendable. Nonexpendable assets are those that are required to be retained in perpetuity. It is the policy of the Medical Center to use restricted resources first, followed by unrestricted, when expenses are incurred for purposes for which any of these resources are available. Therefore, the Medical Center considers restricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted net position is available.

- Unrestricted – This component is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The accounting policies and practices of the Medical Center conform to accounting principles generally accepted in the United States of America (US GAAP) applicable to an enterprise fund of a government medical center. The financial statement presentation and significant accounting policies adopted by the Medical Center conform to the general practice within the healthcare industry, as published by the American Institute of Certified Public Accountants in its audit and accounting guide, *Health Care Entities.*

1. Description of Reporting Entity and Summary of Significant Accounting Policies (CONTINUED)

(b) Enterprise Fund Accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus.

(c) Use of Estimates

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

(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. The Medical Center held no investments in cash equivalents on September 30, 2021 and September 30, 2020.

(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 is 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, 2021 and 2020 was approximately $82.1 million and $60.5 million, respectively.

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

(f) Revenue Recognition (Continued)

The Medical Center receives subsidies from the District to support general operations and for capital asset acquisitions. This non-operating revenue is recorded when capital contributions are made by the District, which is recorded as non-operating revenues in the accompanying statements of revenues, expenses, and changes in net position. The Medical Center also receives funding to defray the costs of management related operating expenses, and the funding of emergency department physicians and hospitalists. These amounts are recognized as revenues when related expenses are incurred and are recorded in District grants revenues in the accompanying statements of revenues, expenses, and changes in net position.

Amounts received under grants and the District outpatient access are recognized as revenue when the related expenses are incurred or when the requirements are met.

(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 recognized approximately $16.0 million and $9.8 million in Medicaid DSH revenues for the years ended September 30, 2021 and 2020, respectively.

(h) Fair Market Value of Financial Instruments

The carrying amounts of the Medical Center's financial instruments that include cash equivalents, patient receivables, and accounts payable, as reported in the accompanying statements of net position, approximate their fair market value.

(i) Capital Assets

The Medical Center defines capital assets as classes of assets with an initial aggregate cost of more than $5,000 and estimated useful lives in excess of one year. Land, land improvements, buildings and improvements, equipment, 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.

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

(i) Capital Assets (Continued)

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

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

(j) Estimated Malpractice Costs

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

(k) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge and does not pursue collection of amounts determined to qualify as charity care. These amounts are not reported as revenue. The Medical Center maintains records to identify and monitor the level of charity care provided. The criteria used for charity service considers family income, net worth, and other eligibility criteria at time of application. The Medical Center provided approximately $426 thousand and $508 thousand of charity care during the years ended September 30, 2021 and 2020, respectively, based on the cost to charge ratio.

(l) Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues generally result from transactions associated with providing health care services - the Medical Center's principal activity. Operating expenses are incurred to provide healthcare services, financing and administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

(m) Meaningful Use Incentives

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals when they adopt, implement or upgrade certified Electronic Health Record (EHR) technology and become "meaningful users," as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety, and effectiveness of care. Incentive payments are paid out over varying transitional schedules depending on the type of incentive (Medicare and Medicaid) and recipient (hospital or eligible provider). Eligible hospitals can attest for both Medicare and Medicaid incentives. For Medicare incentives, eligible hospitals receive payments over four years. For Medicaid incentives, eligible hospitals receive payments based on the relevant State adopted payment structure. Revenue recognition occurs when certain clinical measurements have been attested to. These amounts are included as a component of grant revenue in the accompanying statements of revenues, expenses, and changes in net position.

(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. There have been no significant reductions in insurance coverage in FY 2021 or FY2020 from the coverage in FY 2020 or FY 2019. Additionally, the amount of settlements in FY2021, FY2020, and FY2019, did not exceed the insurance coverage in each of these fiscal years

(o) Net Patient Service Revenues

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. The Medical Center's inpatient services, outpatient services, and physician services are recognized when the services are rendered based on billable charges.

The Medical Center's policy is to write-off patient receivables when they are identified as uncollectible. Patient accounts receivable is reduced by an allowance for uncollectible accounts to reserve for accounts, which are expected to become uncollectible in future years. In evaluating the collectability of accounts receivable, the Medical Center utilizes a methodology that considers payor experience by age category.

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

(o) Net Patient Service Revenues (Continued)

A summary discussion of the payment agreements with major third-party payors is as follows:

Medicare

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

Medicaid

The Medical Center is paid by Medicaid based on All Patient Refined Diagnosis-Related Group (APR-DRG) at a predetermined specified rate for each discharge, subject to a weight or acuity factor, based on patient's diagnosis. Outpatient services are reimbursed based on Enhanced Ambulatory Payment Groups (EAPGs). EAPGs group together procedure and medical visits that share similar clinical characteristics, resource utilization patterns and cost so that the payment is based on the relative intensity of the entire visit.

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.

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

(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) New Pronouncements

GASB issued GASB Statement No. 84, *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2019. The Medical Center implemented GASB Statement No. 84 in FY 2021. However, the implementation of this Statement had no material impact on the Medical Center's fiscal year 2021 financial statements.

GASB issued GASB Statement No. 87, Leases, with an initial effective for reporting periods beginning after December 15, 2019. GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, postponed the effective dates of Statement 87 to fiscal years beginning after June 15, 2021, and all reporting periods thereafter. GASB also issued GASB Statement No. 91, Conduit Debt Obligations, effective for reporting periods beginning after December 15, 2021; GASB Statement No. 92, Omnibus 2020, with certain requirements effective upon issuance of the Statement and other requirements were effective for fiscal years beginning after June 15, 2021; GASB Statement No. 93, Replacement of Interbank Offered Rates, with certain requirements effective for reporting periods ending after December 31, 2021 and other requirements were effective for fiscal years beginning after June 15, 2021; GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, effective for fiscal years beginning after June 15, 2022; GASB Statement No. 96, Subscription-Based Information Technology Arrangements, effective for fiscal years beginning after June 15, 2022; and GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, effective for fiscal years and reporting periods beginning after June 15, 2021. GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, postponed the effective dates of Statement No. 91 to reporting periods beginning after December 15, 2021; and certain requirements of Statements No. 92 and 93 to fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The Medical Center has not completed the process of evaluating the impact that will result from adopting these GASB statements, but does not expect these GASB statements would have a material effect on the financial statements. The Medical Center will be adopting these GASB statements, as applicable, by their effective dates.

2. CASH AND CASH EQUIVALENTS

The Medical Center's cash is held in various bank accounts. These accounts were established and approved by the Office of the Chief Financial Officer (OCFO), Office of Finance and Treasury (OFT) for the District. As of September 30, 2021 and 2020, total cash and cash equivalents held was $46.1 million and $53.4 million, respectively, of which $10.5 million and $17.2 million, respectively, was set aside for capital expenditures from the District capital subsidy.

The Medical Center maintains cash and cash equivalents balances and securities at several financial institutions. The cash balance at each financial institution is insured under the Federal Deposit Insurance Corporation (FDIC) up to $250 thousand and securities are insured up to $500 thousand under Securities Investor Protection Corporation (SIPC). At times, the balances on deposit and securities will exceed the balance insured by the FDIC and SIPC. The total deposits held are collateralized at 102%. The Medical Center has a sweep investment account that is a repurchase sweep investment and is in accordance with the District Financial Institutions and Deposit Act of 1997 and the investment policy. The District's investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, banker's acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. As of September 30, 2021 and 2020, there were no deposits exposed to custodial credit risk.

3. ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Medical Center as of September 30, 2021 and 2020, consisted of these amounts:

	2021	2020
Patient Accounts Receivable:		
Receivable from patients and their insuance carriers	**$ 13,657,892**	**$ 13,118,367**
Receivable from Medicare	**2,751,254**	**1,764,254**
Receivable from Medicaid	**4,852,096**	**3,037,887**
Total patient accounts receivable	**21,261,242**	**17,920,508**
Less allowance for uncollectible amounts	**12,075,433**	**3,269,211**
Patient accounts receivable, net	**$ 9,185,809**	**$ 14,651,297**

	2021	2020
Accounts Payable and Accrued Expenses:		
Payable to employees	**$ 7,868,830**	**$ 10,094,767**
Payable to suppliers	**14,581,947**	**18,773,451**
Payable to payroll taxing authorities and others	**(106,588)**	**1,742,959**
Total accounts payable and accrued expenses	**$ 22,344,189**	**$ 30,611,177**

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset additions, and balances for the year ended September 30, 2021, were as follows:

Asset Class	September 30, 2020	Additions	Transfers	September 30, 2021
Non-depreciable:				
Land	$ 8,100,000	$ -	$ -	$ 8,100,000
Construction in progress	1,577,339	353,860	-	1,931,199
Total Non-depreciable	9,677,339	353,860	-	10,031,199
Depreciable and amortizable:				
Land improvements	1,205,674	-	-	1,205,674
Buildings and improvements	82,301,717	3,953,624	-	86,255,341
Equipment	45,588,538	1,641,892	-	47,230,430
Equipment under capital lease obligations	1,567,602	-	-	1,567,602
Software	14,258,589	1,395,851	-	15,654,440
Total depreciable and amortizable	144,922,120	6,991,367	-	151,913,487
Less: accumulated depreciation and amortization for:				
Land improvements	(929,887)	(23,181)	-	(953,068)
Buildings and improvements	(37,218,499)	(7,649,465)	-	(44,867,964)
Equipment	(34,759,316)	(4,953,410)	-	(39,712,726)
Equipment under capital lease obligations	(1,567,602)	-	-	(1,567,602)
Software	(10,402,076)	(2,145,319)	-	(12,547,395)
Total accumulated depreciation and amortization	(84,877,380)	(14,771,375)	-	(99,648,755)
Capital assets, net	$ 69,722,079	$ (7,426,148)	$ -	$ 62,295,931

Capital asset additions, and balances for the year ended September 30, 2020, were as follows:

Asset Class	September 30, 2019	Additions	Transfers	September 30, 2020
Non-depreciable:				
Land	$ 8,100,000	$ -	$ -	$ 8,100,000
Construction in progress	840,142	737,197	-	1,577,339
Total Non-depreciable	8,940,142	737,197	-	9,677,339
Depreciable and amortizable:				
Land improvements	1,205,674	-	-	1,205,674
Buildings and improvements	76,395,058	5,906,659	-	82,301,717
Equipment	40,116,015	5,472,523	-	45,588,538
Equipment under capital lease obligations	1,567,602	-	-	1,567,602
Software	11,750,790	2,507,799	-	14,258,589
Total depreciable and amortizable	131,035,139	13,886,981	-	144,922,120
Less: accumulated depreciation and amortization for:				
Land improvements	(906,706)	(23,181)	-	(929,887)
Buildings and improvements	(30,651,135)	(6,567,364)	-	(37,218,499)
Equipment	(29,895,855)	(4,863,461)	-	(34,759,316)
Equipment under capital lease obligations	(1,567,602)	-	-	(1,567,602)
Software	(8,700,333)	(1,701,743)	-	(10,402,076)
Total accumulated depreciation and amortization	(71,721,631)	(13,155,749)	-	(84,877,380)
Capital assets, net	$ 68,253,650	$ 1,468,429	$ -	$ 69,722,079

5. LONG-TERM LIABILITIES

A schedule of the Medical Center's long-term liabilities as of September 30, 2021 and 2020, were as follows:

	2020	Additions	Reductions	2021	Amounts due in one year
Estimated third party settlements	**$ 7,219,040**	**$ 11,543,151**	**$ -**	**$ 18,762,191**	**$ -**
Other liabilities	**1,629,343**	**218,505**	**(155,415)**	**1,692,433**	**-**
Total noncurrent liabilities	**$ 8,848,383**	**$ 11,761,656**	**$ (155,415)**	**$ 20,454,624**	**$ -**

	2019	Additions	Reductions	2020	Amounts due in one year
Estimated third party settlements	$ 6,011,826	$ 1,516,293	$ (309,079)	$ 7,219,040	**$ -**
Other liabilities	2,116,949	-	(487,606)	1,629,343	-
Total noncurrent liabilities	$ 8,128,775	$ 1,516,293	$ (796,685)	$ 8,848,383	**$ -**

6. THIRD PARTY SETTLEMENTS

The Medical Center is reimbursed for serving a disproportionate share of low income patients, reimbursable Medicare bad debt, a high percentage of End-Stage Rental Disease (ESRD) beneficiaries, and certain other items at a tentative rate with final settlement determined after the Medical Center's submission of annual reports and audits thereof by State and Federal agencies and through their contractors. Cost Reports for the Medicare program have been final settled for all years through 2016. Medicaid DSH is settled for 2017. 2018-2020 Medicaid DSH remain unsettled and are subject to final audit. Results of cost report and DSH audit settlements, as well as the Medical Center's estimates for settlements, of all fiscal years through 2021 are reflected in the accompanying financial statements.

7. MEDICAL MALPRACTICE CLAIMS

The Medical Center is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Medical Center and are currently in various stages of litigation. Additional claims may be asserted against the Medical Center arising from services provided to patients through September 30, 2021. The Medical Center purchases professional and general liability insurance to cover medical malpractice claims. The liability recorded as of September 30, 2021 and 2020, within the line item other long term liabilities in the statements of net position, represents estimated costs associated with litigating and settling claims.

8. COMPENSATED ABSENCES

The Medical Center's accumulated leave policy allows employees to accumulate unused leave at various limits depending on employee's classification and years of service. Effective January 1, 2015 the accrual rate changed for non-union employees to a basic maximum of 352 hours. The United Federation of Special Police and Security Officers (UFSPSO) and the 1199 Service Employees International Union (SEIU) unions remains the same at the original rate of 352 hours. Effective January 13, 2021, District of Columbia Nursing Association (DCNA) accepted new accrual rate to a maximum of 480 hours.

Prior to January 1, 2015 non-union employees were generally allowed to accrue accumulated leave up to a maximum of 480 hours. Employees who had unused hours over 352 effective January 1, 2015, were grandfathered. These employees had a two-year window to utilize the hours over 352 or receive $0.50 on

8. COMPENSATED ABSENCES (continued)

the dollar cash out. Unused hours at the end of the second year will be forfeited. Most employees used up excess vacation prior. All employees opted to take excess vacation prior to implementation of payout.

The accrued accumulated leave balance is payable to employees in those cases where (1) employee did not take scheduled time off to meet operational needs, and the employee's request is approved by the Vice President and Chief Executive Officer, or (2) upon qualified separation of employment.

The Medical Center's accumulated leave policy allows regular full-time and part-time employees paid leave benefits. The Medical Center records accumulated leave as an expense and related liability as the benefit accrues to employees based on salary rates and accumulated leave hours. The policy of the Medical Center is to permit employees to accumulate earned but unused paid time off benefits. There is no liability for unpaid disability reserve leave as the amounts do not vest and are not payable upon termination of the employee. All vacation pay is accrued when earned.

As of September 30, 2021 and 2020, $2.6 million and $3.2 million, respectively, was recorded as accrued vacation, within the line item accrued salaries and benefits in the statements of net position.

9. RETIREMENT PLANS

During the current fiscal year, the Medical Center administered two types of retirement plans available to its employees.

(a) Defined Contribution Plan

The Medical Center maintains a defined contribution plan in accordance with Internal Revenue Code (IRC) Section 401(a) covering substantially all employees. It provides matching contributions up to 3% of employees' compensation by the Medical Center for the fiscal years ended September 30, 2021 and 2020. 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, 2021 and 2020, the Medical Center's contributions to the 401(a) defined contribution plan were $542 thousand and $594 thousand, respectively. Forfeitures may be used first to reduce the Medical Center's contribution, and then to pay any expenses payable to the plan.

The forfeited contributions as of September 30, 2021 and 2020, were $18 thousand and $14 thousand, respectively. The Medical Center contracts with MissionSquare (formerly ICMA-RC), as its third-party administrator for this plan.

(b) Deferred Compensation Plan

The Medical Center offers its employees a deferred compensation plan in accordance with IRC Section 457(b), which allows employees in calendar years 2021 and 2020 to defer up to $19.5 thousand of compensation for regular contributions, an additional $6.5 thousand catchup contributions for employees who are fifty (50) years and older for a total of $26.0 thousand and an additional $19.5 thousand pre-retirement contributions for employees who are within five (5) years of retirement for a total of $39.0 thousand 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 MissionSquare.

10. COMMITMENTS AND NONCANCELABLE OPERATING LEASES

The Medical Center is committed under various non-cancelable operating leases, all of which are related to equipment and software leases. There are no future minimum lease payments under operating leases as of September 30, 2021.

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 covering additional costs of providing services to certain at-risk populations of the District.

The following is a summary of related party transactions included in the accompanying financial statements as of September 30, 2021 and 2020:

	2021	2020
Patient receivables, net		
Accounts receivable due from DC Medicaid	$ 4,776,836	$ 4,743,909
Patient service revenues		
Net patient revenue - DC Medicaid	40,676,710	24,622,465
DSH revenues - the District Medicaid	15,954,293	10,755,008
Grant Revenues		
Other revenue - DC Medicaid Meaningful Use Grant	-	-
District Grants		
Funding for union retro accrual	-	-
Funding for mangement related expenses	6,456,900	7,098,812
Funding for ED physicians and hospitalists	8,815,524	8,814,300
The District outpatient access payments	-	2,523,070
Direct subsidy - operating	25,000,000	-
Direct subsidy - capital	2,829,099	8,857,036
Purchased services		
Provider fees	(267,649)	(402,793)

12. CONCENTRATIONS OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of who are local residents and insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30, 2021 and 2020 were as follows:

	2021	2020
Medicare	**18%**	**26%**
Medicaid	**5%**	**13%**
HMO Medicare/Medicaid	**32%**	**20%**
HMO/PPO	**12%**	**9%**
Commercial/Other	**8%**	**7%**
Self Pay	**25%**	**25%**
Total	**100%**	100%

13. COMMITMENTS AND CONTINGENCIES

Litigation Matters

The Medical Center is named as a party in legal proceedings and investigations that occur in the normal course of the Medical Center's operations. Although the ultimate outcome of the legal proceedings and investigations is unknown, the Medical Center is vigorously defending its position in each case. However, the Medical Center recorded litigation liability arising from both the ordinary course of business and claims alleging malpractice amounting to $1,692,433 and 1,629,343, as of September 30, 2021 and 2020, respectively and have reflected these amounts in the long term liabilities in the statements of net position.

Collective Bargaining Agreements

The Medical Center has three unions: District of Columbia Nursing Association (DCNA), United Federation of Special Police and Security Officers (UFSPO), and 1199 SEIU. All collective bargaining agreements were up for renewal in FY21. District of Columbia Nursing Association (DCNA) and United Federation of Special Police and Security Officers (UFSPO) were renewed successfully prior to September 30, 2021 and 1199 SEIU was also successfully renewed subsequent to September 20, 2021. The related retro payments were made for DCNA and UFSPO and 1199 retro payments will be made when approval is received from the Council.

14. SUBSEQUENT EVENTS

The Medical Center has evaluated subsequent events from the statement of net position date through January 3, 2022, the date these financial statements were available for issue, noting no additional events that affect the financial statements as of September 30, 2021 or require additional disclosure

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

INDEPENDENT AUDITOR'S REPORT

To the Mayor, Members of the Council of the Government of the District of Columbia,
the Board of Directors of Not-For-Profit Hospital Corporation and
Inspector General of the Government of the District of Columbia
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Not-For-Profit Hospital Corporation, commonly known as United Medical Center (the Medical Center), blended component unit of the Government of the District of Columbia, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated January 3, 2022.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control

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that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell & Jones

Washington, D.C.
January 3, 2022

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(202) 724-TIPS (8477) and (800) 521-1639

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