

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
RFP No. 2013-22
Auditing Services

December 24, 2013

ADDENDUM NO. 1

QUESTIONS / ANSWERS

Q.1 Will you be sending along prior year audited financial statements (i.e. prior year financials, tax returns, etc.)?

A.1 Please see attached FY2012 and FY2011 Financial Reports.

Q.2 For the most recent audit, can you provide the dates the auditors were on site for fieldwork (including any preliminary fieldwork) and the number of auditors on site for each week? Please comment if these dates and numbers are reflective of what you would expect for future years.

A.2 June – 2nd – 3rd week (Inventory Observation)
July – 1st - 2nd week (2ppl)
July – 3rd week (3ppl)
September – 3rd week (2ppl)
October – 1st week (2ppl)
October – 2nd week (4ppl)
November – 1st – 2nd week (4ppl)

Q.3 Describe any recent management, finance, or accounting changes that have recently occurred. What is the size and structure of the finance/accounting and billing departments?

A.3 Finance/Accounting department currently has 7 individuals and the billing department has 103 individuals which include: Business Office, Patient Accounting, Revenue Cycle Services, Cash Posting and Customer Service. The Controller position is currently vacant and in the recruitment process.

Q.4 Please briefly describe your year-end closing process and timing.

A.4 The fiscal year ends June 30th. The close process follows a year end close calendar which provides guidelines for the responsibilities related to the year-end close process and tentative deadlines. Accounts are reconciled, significant calculations and estimates are done, reviewed and posted, including those relating to actuarial estimates for year end. Audited financials must be presented to the Board and submitted to the State by November 30th.

Q.5 Could you provide an IT system architecture map (i.e., map of the information systems/applications supporting UMC and other related entities) or summary of significant systems supporting transaction processing and reporting?

A.5 Information is unavailable at this time, but will be available if selected as audit firm.

Q.6 Please describe the typical timing of IT systems testing in the audit approach and the areas of focus?

A.6 Information is unavailable at this time, but will be available if selected as audit firm.

Q.7 Please describe any recent or planned IT system or other internal control process changes.

A.7 Currently the Hospital has been undergoing a Health Information System conversion from AS400 to McKesson.

Q.8 Is the transition to a new firm a concern within your organization? If so, what are the specific concerns?

A.8 Yes, re-training of our systems, organization and company processes. Understanding of hospital/health care industry and the amount of time required of staff for this re-training.

- Q.9 If UMC chooses to transition to a new firm, what are the more important expectations you would have of the new firm?**
A.9 Fast learning curve, consideration of staff's time, smooth transition, and hospital/health care experience.
- Q.10 What are the most important qualities you believe an external accounting firm must have to best serve your auditing needs?**
A.10 Consideration of staffs time, Hospital/Health Care experience and best practices knowledge.
- Q.11 Please provide a copy of any management letter comments or recommendations and the status of remediation of these items.**
A.11 See attached FY2012 required management letter.
- Q.12 Any there any significant new transactions, changes or issues that would impact the audit in the future? Are there any new debt issues or refunding planned?**
A.12 Bond Refunding in September 2013.
- Q.13 Please discuss the process and resources utilized including outside resources such as actuarial skills to develop actuarial-based estimates at UMC, if applicable. If you utilize an outside actuary, who is utilized?**
A.13 Actuaries are used in the estimation of Malpractice Liability reserves, OPEB (Other Post Employee Benefits), and Workers Compensation reserves. (See question 14 for list)
- Q.14 Does UMC use any specialists to assist with any other valuation issues or other complex items? If yes, please list the specialists used and services provided.**
A.14 Taylor-Walker & Associates used for Professional Liability reserves & Workers Compensation reserves; Segal Consulting used for OPEB Actuarial valuation (this is done in conjunction with Clark County)
- Q.15 Have there been audit adjustments in prior audit years? If so, what were they?**
A.15 Yes there have been audit adjustments. See question 25 for answer.
- Q.16 Are there any disputes with your current firm (regarding accounting treatments, etc.)?**
A.16 None.
- Q.17 Any new significant federal or state grants required to be considered under the provisions of OMB Circular A-133?**
A.17 None.
- Q.18 Who prepares your cost reporting estimates? Internal or external? What level of experience does your employee/outside vendor have in this area?**
A.18 This is done internally and they have over 10 years of experience.
- Q.19 What stage are you at with the implementation of electronic medical records? What accounting policy do you use to recognize the grants?**
A.19 The front and back end systems (Admitting and Patient Accounting) went live in February 2013. Portions of Nursing clinicals went live in late February 2013. Physician Order Entry went live in September 2013. Clinic records have been postponed for now. Grants are on a cash basis.
- Q.20 What has been your experience over the last few years with RACs/ MACs? What has been the level of take backs? How much in the way of appeals and success rates?**
A.20 We have ongoing RAC/MAC audits for prior years, and have a reserve set up for these estimated take backs.
- Q.21 Do you use an outside actuary to estimate your GL/PL and workers comp reserves? If so who?**
A.21 Yes. See question 14 for answer.
- Q.22 How large is your accounting department?**
A.22 The actual accounting department currently has 7 individuals.

Q.23 Do you have an internal control function?

A.23 Yes.

Q.24 Do you have any other actuarial liabilities that require auditing such as self-insured medical / healthcare? If so who prepares this analysis?

A.24 See question 14 for answer to all actuarial related questions.

Q.25 What level of audit adjustment did you have over the last two years?

A.25 2012 – Significant audit adjustment and waived immaterial adjustments
2013 – Waived immaterial adjustments

Q.26 Have you had any material weaknesses or significant deficiencies?

A.26 Yes, see question 25.

Q.27 Is the incumbent being asked to bid? If not why?

A.27 Yes.

Q.28 Timing of the audit. Does the incumbent do interim? If so, how many staff for how many days? Same for final, how many staff and how many days?

A.28 Yes, see answer to question 2.

Q.29 How do you estimate your revenue / contractual and bad debt allowances? Please briefly describe. Is the methodology automated? How accurate have your estimates been in the past?

A.29 Estimations for allowances related to revenue are calculated based on payor mix and historical collection percentages. The process is currently not fully automated and requires some compilation to arrive at the estimated allowances and have been pretty accurate.

Q.30 Do you have any capitated arrangements? If so who performs the IBNR analysis and how accurate have you been in the past?

A.30 Yes, we do have a few capitated arrangements.

Q.31 Do you have any JVs with for profit entities?

A.31 None.

Q.32 What is your strategic plan go forward with the impact of Obamacare under consideration?

A.32 There is a lot of uncertainty in the industry as a whole as to the impact on the Hospital when it goes into effect in January 2014.

The RFP due date of **Tuesday, January 14, 2014 at 2:00:00 P.M.** remains the same. Should you have any questions, please contact me at (702) 383-2423 or via email at Kristine.sy@umcsn.com.

Issued by:

Kristine Sy
Sr. Management Analyst - Contracts
UMC

**BASIC FINANCIAL STATEMENTS
AND
SINGLE AUDIT INFORMATION**

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

YEARS ENDED JUNE 30, 2012 AND 2011

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

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P B T K

PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Trustees
University Medical Center of Southern Nevada
Las Vegas, Nevada

We have audited the basic financial statements of the University Medical Center of Southern Nevada (the Hospital), a component unit of Clark County, Nevada, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the Hospital's management. 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, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 12 and the schedule of funding progress, and other postemployment benefit plans on pages 58 through 59 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's financial statements. The individual fund information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Hospital's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the other supplementary information, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Deiney Book Taylor & Kern
December 4, 2012

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

Management's Discussion and Analysis

This section of the annual financial report of the University Medical Center of Southern Nevada (the Hospital) presents background information and our analysis of the Hospital's financial performance during the fiscal years ended June 30, 2012, and 2011, which management believes is relevant for an understanding of our financial condition and results of operations. This discussion should be read in conjunction with the basic financial statements and the related notes included in this report. This discussion and analysis is designed to focus on current activities, resulting change, and currently known facts. The financial statements, notes thereto, and this discussion and analysis are the responsibility of the Hospital's management.

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities.

The Hospital's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States as promulgated by the GASB. The Hospital is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and are depreciated (except land and construction in progress) over their estimated useful lives. See the *Notes to Financial Statements* for a summary of the Hospital's significant accounting policies.

Following this discussion and analysis are the basic financial statements of the Hospital together with the notes, which are essential to a complete understanding of the data. The Hospital's basic financial statements designed to provide readers with a broad overview of the Hospital's finances.

The *Balance Sheets* present information on all of the Hospital's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of the Hospital's financial position; however, other nonfinancial factors such as change in economic conditions, population growth, including uninsured and underinsured patients, and new or changed government legislation should also be considered.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the Hospital's net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future periods.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Hospital's cash accounts are presented in this statement. A reconciliation is provided at the bottom of the *Statement of Cash Flows* to assist in the understanding of the difference between cash flows from operating activities and operating income or loss.

The Hospital is the public health care facility for Clark County, Nevada (the County). The Board of County Commissioners is, ex officio, the Board of Hospital Trustees, per Chapter 450 of the Nevada Revised Statutes. The seven-member Board of Commissioners is elected from geographic districts on a partisan basis for staggered four-year terms. Commissioners elect a chairperson who serves as the Commission's presiding officer.

In accordance with GASB Statement No. 14, *The Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's financial statements are included, as a blended component unit, in the County's Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Jessica Colvin, Comptroller, 500 South Grand Parkway, Las Vegas, Nevada 89155.

Financial and Operating Highlights for Fiscal 2012

- Overall activity at the Hospital as measured by patient days adjusted for outpatient services gross revenue increased by 0.4% from prior year levels.
 - Hospital patient days decreased 2.4% from the prior year.
 - Outpatient visits decreased 5.1% from the prior year.
- The Hospital continued to experience a loss from operations, \$18.9 million; however, total net assets improved by \$11.5 million.
 - The Upper Payment Limit (UPL) revenues increased \$71.8 million from the prior year to \$112.3 million.
 - Total operating revenues increased by 18.3% to \$555.4 million.
 - Operating expenses including other postemployment benefits (OPEB) increased by 1.8% to \$574.3 million as compared to the prior year.
- Total employee full-time equivalents (FTEs) increased by 30, or 0.9%, from fiscal 2011.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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- The Hospital invested \$20.0 million in the following capital acquisitions, inclusive of \$13.8 million for Phase I of the implementation of an integrated health information system:
 - IV medication safety system
 - Remodel of surgical rooms and cardiac cath lab
 - Facilities improvements

Financial and Operating Highlights for Fiscal 2011

- Overall activity at the Hospital as measured by patient days adjusted for outpatient services declined by 0.9% from prior year levels.
 - Hospital patient days decreased 2.4% from the prior year.
 - Outpatient visits increased 0.8% from the prior year.
- The Hospital continued to experience a loss from operations, \$94.5 million, contributing to a deterioration of total net assets by \$25.8 million.
 - The Upper Payment Limit (UPL) revenues increased \$12.9 million from the prior year to \$40.5 million.
 - Total operating revenues decreased by 4.2% to \$469.6 million.
 - Operating expenses including other postemployment benefits (OPEB) decreased by 1.9% to \$564.1 million as compared to the prior year.
- Total employee full-time equivalents (FTEs) decreased by 133, or 3.7%, from fiscal 2010.
- The Hospital invested \$6.4 million in the following moveable equipment acquisitions:
 - Endoscopy equipment
 - Cardiac cath lab equipment
 - Sterile processing equipment
 - Intellivue patient monitoring system

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

Financial Analysis of the Hospital for June 30, 2012 and 2011

In fiscal 2012, net assets increased \$11.4 million to \$69.4 million, from \$58.0 million in fiscal 2011, primarily due to the operating loss offset by contributions from the County and recognition of revenue related to the UPL program. In fiscal 2011, net assets decreased \$25.8 million to \$58.0 million, down from \$83.8 million in fiscal 2010, primarily due to the operating loss offset by contributions from the County. A summary of the Hospital's balance sheets as of June 30, 2012, 2011 and 2010 is presented in Table 1 below:

Table 1
Condensed Balance Sheets
(In Thousands)

	2012	2011	2010
Current assets	\$ 158,461	\$ 151,199	\$ 153,054
Restricted and other assets	39,123	21,090	26,863
Capital assets	169,975	153,575	157,054
Total assets	<u>\$ 367,559</u>	<u>\$ 325,864</u>	<u>\$ 336,971</u>
Current liabilities	\$ 113,462	\$ 100,739	\$ 102,386
Long-term debt outstanding (a)	70,131	75,805	81,224
Other liabilities (b)	114,519	91,343	69,579
Total liabilities	<u>298,112</u>	<u>267,887</u>	<u>253,189</u>
Invested in capital assets, net of related debt	109,287	75,365	76,130
Restricted	9,180	11,532	9,906
Unrestricted	(49,020)	(28,920)	(2,255)
Total net assets	<u>69,447</u>	<u>57,977</u>	<u>83,781</u>
Total liabilities and net assets	<u>\$ 367,559</u>	<u>\$ 325,864</u>	<u>\$ 336,970</u>

(a) Long-term debt excludes current portions of \$5,730, \$5,475, and \$5,800 respectively, included in current liabilities.

(b) Other liabilities include the long-term portion of due to related party and self-insured liabilities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

Summary of Revenues, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's revenues and expenses for the years ended June 30, 2012, 2011, and 2010.

Table 2
Condensed Statements of Revenues, Expenses, and
Changes in Net Assets
(In Thousands)

	2012	2011	2010
Net patient revenues	\$ 524,260	\$ 438,343	\$ 461,079
Other operating revenues	31,175	31,247	29,036
Total operating revenues	555,435	469,590	490,115
Operating expenses	562,300	551,274	561,809
Depreciation and amortization	11,987	12,829	13,318
Total operating expenses	574,287	564,103	575,127
Operating loss	(18,852)	(94,513)	(85,012)
Nonoperating revenues, net	30,322	68,708	67,352
Change in net assets	11,470	(25,805)	(17,660)
Total net assets, beginning of year	57,977	83,782	101,442
Total net assets, end of year	\$ 69,447	\$ 57,977	\$ 83,782

During fiscal 2012, 2011 and 2010, the Hospital derived approximately 94.8%, 87.3%, and 87.9% respectively, of its total revenues from operating revenues. Operating revenues include, among other items, revenues from the Medicare and Medicaid programs, the Clark County Social Services program, patients or their third-party carriers that pay for their care in the Hospital's facilities, and grant revenues.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

Table 3 presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2012, 2011 and 2010.

Table 3
Payer Mix by Percentage

	2012	2011	2010
Medicare	19 %	19 %	19 %
Medicaid, Clark County, self-pay	57	57	53
Commercial, HMO, PPO	18	20	22
Other	6	4	6
Total patient revenue	100 %	100 %	100 %

During fiscal 2012, 2011 and 2010, the Hospital derived less than 1% of its total revenues from interest income on its capital acquisition, debt service and malpractice funds. The Hospital's cash is deposited with the County Treasurer and funds in the custody of the County Treasurer are invested as a pool. Other non-operating revenues in fiscal 2012 and 2011 include \$32.5 million and \$71.2 million, respectively, in contributions from the County used primarily to defray operating, capital and debt service costs.

Fiscal 2012 Activity

In fiscal 2012, overall activity at the Hospital as measured by patient days adjusted for outpatient services increased by 0.4% to 201,838 compared to 200,966 in fiscal 2011. This increase was due primarily to a decrease in patient days and patient visits, offset by an increase to gross amounts charged for services.

In fiscal 2012, the Hospital had patient days and discharges of 132,294 and 24,590, respectively. This is a decrease of 2.4% and 5.2%, respectively, as compared to fiscal 2011. The decrease in patient days is due to a decrease in patient admissions from 25,520 to 24,366. Outpatient and emergency visits were 539,358, or 5.1%, below 2011 levels of 568,198. The decrease in outpatient volume occurred primarily due to increased emergency registrations (0.8%) offset by a decrease in Primary Care and Quick Care registrations (6.1%), and other outpatient services (8.2%).

In fiscal 2012, net patient revenue increased compared to fiscal 2011 by \$85.9 million due primarily to recognition and receipt of additional revenue from the UPL program, to lower volumes and decreases in Medicare and Medicaid reimbursement rates, offset by charge rate increases since July 2011.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Excluded from net patient revenue are charges foregone for uncompensated and charity care patient services. Based on established rates, gross charges of \$441.7 million were foregone during fiscal 2012, a 21.0% increase over fiscal 2011. The Hospital's level of uncompensated and charity care continues to reflect the Hospital's status as a safety net facility in the County.

In fiscal 2012, total operating expenses including OPEB increased by \$10.2 million, or 1.8%. The increase in operating expenses was due to increases in employee compensation and benefits including OPEB, professional fees, purchased services, and professional and general liability expenses, offset by decreases in supplies and depreciation expenses.

In fiscal 2012, employee compensation and benefits including OPEB increased \$4.6 million, or 1.3%, due primarily to an increase in the OPEB provision, as well as an increase in the number of paid FTEs and ongoing market rate increases throughout the clinical staff. The number of paid FTEs increased by 0.9% from 3,487 in fiscal 2011 to 3,517 in fiscal 2012. No cost of living increases were given in fiscal 2012.

Professional fees for contracted physician services to provide coverage for emergency services, trauma services, and for indigent patients increased \$2.6 million, or 7.5%, in fiscal 2012. This increase is primarily as a result of a scheduled contract increases.

In fiscal 2012, the cost of supplies decreased by \$2.7 million, or 2.6%, due to a decrease in patient volume and continued cost containment efforts.

Purchased services expense increased by \$6.1 million, or 10.3%, in fiscal 2012 due primarily to consulting services received for operational improvements and increases in medical and IT services.

Other expenses increased \$0.4 million, or 1.7%, in fiscal 2012 due primarily to increases in the of self-funded professional liability insurance.

Non-operating revenue consists of rental income, interest income, and contributions from the County. The County contributed \$32.5 million to the Hospital in fiscal 2012 to defray operating, capital and debt service costs.

Net assets increased \$11.5 million to \$69.4 million in fiscal 2012 primarily due to increases in operating revenue offset by, increases in operating costs and expenses, and a decrease in contributions from the County.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

Fiscal 2011 Activity

In fiscal 2011, overall activity at the Hospital as measured by patient days adjusted for outpatient services decreased by 0.9% to 200,966 compared to 202,797 in fiscal 2010. This decrease was due primarily to a decrease in patient days, offset by a slight increase in outpatient visits.

In fiscal 2011, the Hospital had patient days and discharges of 135,572 and 25,940, respectively. This is a decrease of 2.4% and 1.9%, respectively, as compared to fiscal 2010. The decrease in patient days is due to a decrease in patient admissions from 26,115 to 25,520. Outpatient and emergency visits were 568,198, or 0.8%, above 2010 levels of 563,417. The increase in outpatient volume occurred primarily due to increased emergency registrations (2.0%) and Primary Care and Quick Care registrations (3.0%), offset by a decrease in other outpatient services (5.3%).

In fiscal 2011, net patient revenue decreased compared to fiscal 2010 by \$22.7 million due to lower volumes and decreases in Medicare and Medicaid reimbursement rates, offset by charge rate increases since July 2010.

Excluded from net patient revenue are charges foregone for uncompensated and charity care patient services. Based on established rates, gross charges of \$364.9 million were foregone during fiscal 2011, a 3.4% increase over fiscal 2010. The Hospital's level of uncompensated and charity care continues to reflect the Hospital's status as a safety net facility in the County.

In fiscal 2011, total operating expenses including OPEB decreased by \$11.0 million, or 1.9%. The decrease in operating expenses was due to decreases in employee compensation and benefits (excluding OPEB), professional fees, supplies, and professional and general liability expenses, offset by increases in purchased services expenses and the provision for OPEB.

In fiscal 2011, employee compensation and benefits including OPEB increased \$2.2 million, or 0.7%, due primarily to an increase in the OPEB provision, offset by decreases in the number of paid FTEs. The number of paid FTEs decreased by 3.7% from 3,620 in fiscal 2010 to 3,487 in fiscal 2011. No cost of living increases were given in fiscal 2011.

Professional fees for contracted physician services to provide coverage for emergency services, trauma services, and for indigent patients decreased \$3.3 million, or 8.8%, in fiscal 2011. This decrease is primarily as a result of lower contract rates.

In fiscal 2011, the cost of supplies decreased by \$8.1 million, or 7.3%, due to a decrease in patient volume and continued cost containment efforts.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

Purchased services expenses increased by \$1.9 million, or 3.4%, in fiscal 2011 due primarily to increases in medical services and consulting expenses, offset by a decrease in legal expenses, management services expenses, and software support fees.

Other expenses decreased \$3.3 million, or 12.6%, in fiscal 2011 due primarily to decreases in the cost of self-funded professional liability insurance and other insurance.

Non-operating revenue consists of rental income, interest income, and contributions from the County. The County contributed \$71.2 million to the Hospital in fiscal 2011 to defray operating, capital and debt service costs.

Net assets decreased \$25.8 million to \$58.0 million in fiscal 2011 primarily due to decreases in operating revenue offset by, decreases in operating costs and expenses, and an increase in contributions from the County.

Capital Assets

During fiscal 2012 and 2011, the Hospital invested \$20.0 million and \$3.6 million, respectively, in a broad range of capital assets. Gross capital assets increased in fiscal 2012 primarily due to the acquisition of patient safety equipment and critical facilities improvements, while a significant investment has been made to Phase I of the implementation of an integrated health information system, which is expected to be completed in fiscal 2013. Gross capital assets increased in fiscal 2011 primarily due to the acquisition of equipment, and buildings and building improvements.

The Hospital's fiscal 2013 capital budget includes up to \$18.0 million for capital projects, of which \$15.5 million is for Phase I of the implementation of an integrated health information system. The remaining capital budget of \$2.5 million is for critical patient-related equipment replacement items.

The Hospital is subject to several contracts and commitments relating to construction projects and services. These commitments are not expected to significantly affect the availability of fund resources for future use.

Long-Term Debt

At June 30, 2012 and 2011, the Hospital had \$75.9 million and \$81.3 million, respectively, in long-term debt, including the current portion thereof. This represented a decrease of \$5.4 million and \$5.7 million, respectively, from the outstanding balances at June 30, 2011, and June 30, 2010. Total outstanding debt represents 26.0% and 30.3% of the Hospital's total liabilities as of June 30, 2012 and 2011, respectively.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011

Economic Factors

The most recent unemployment statistics, as of August 2012, indicated that the unemployment rate for the Las Vegas, Nevada metropolitan area was 12.3%, which was a decrease from 14.3% a year ago. The unemployment rate for the State of Nevada and the United States was 11.9% and 7.8%, respectively.

Inflationary trends in the County are comparable to the United States national indices.

All of these factors affected the fiscal 2012 operating and financial performance. The focus of management in the near term is to develop a multi-year plan that will emphasize revenue generation, cost control, fiscal discipline, capital requirements, and financing in support of net asset stability and a focus on the core services provided to patients.

Contacting the Hospital's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, University Medical Center of Southern Nevada, 1800 West Charleston Blvd., Las Vegas, Nevada 89102.

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Balance Sheets

	June 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,606,070	\$ 12,742,477
Assets limited as to use, current portion	10,816,907	4,883,529
Patient receivables, net of allowance for uncollectible accounts of \$317,597,250 and \$225,045,257	118,065,950	92,069,631
Other receivables, net	1,508,762	26,287,080
Inventories	12,646,678	13,544,922
Prepaid expenses and other	1,816,581	1,671,469
Total current assets	158,460,948	151,199,108
Assets limited as to use, net of current portion:		
Contributor or grantor restricted:		
Cash and cash equivalents	5,437,855	6,425,726
Grants receivable	1,144,574	893,242
Internally designated cash and cash equivalents	32,546,781	13,887,745
Securities lending	10,324,700	4,237,629
	49,453,910	25,444,342
Less amount required to meet current obligations	(10,816,907)	(4,883,529)
Total assets limited as to use, net of current portion	38,637,003	20,560,813
Other assets:		
Land	10,218,247	10,218,247
Depreciable property and equipment, net	136,709,507	141,639,223
Construction in progress	23,047,463	1,717,519
Deposits	163,287	163,287
Deferred bond and debt issue costs, net of accumulated amortization of \$1,185,777 and \$1,142,740	322,694	365,730
Total assets	\$ 367,559,149	\$ 325,863,927

(Continued)

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Balance Sheets (continued)

	June 30	
	2012	2011
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 43,856,999	\$ 30,602,002
Accrued compensation and benefits	34,915,086	41,786,747
Other accrued expenses	1,413,538	1,491,175
Current portion of long-term debt	5,730,000	5,475,000
Current portion of due to related party	14,385,806	14,491,260
Current portion of self-insurance liability	2,574,222	2,467,683
Securities lending	10,586,483	4,425,047
Total current liabilities	<u>113,462,134</u>	<u>100,738,914</u>
Accrued benefits, net of current portion	78,826,233	55,604,956
Long-term debt, net of current portion	70,130,589	75,804,716
Due to related party, net of current portion	28,758,723	28,758,723
Self-insurance liability, net of current portion	6,934,659	6,979,724
Total liabilities	<u>298,112,338</u>	<u>267,887,033</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	<u>109,286,502</u>	<u>75,365,189</u>
Restricted net assets:		
Hospital and administrative programs	4,316,984	4,114,398
Donations, various programs	3,959,452	6,508,976
Research programs	524,873	520,859
Educational programs	378,735	388,150
	<u>9,180,044</u>	<u>11,532,383</u>
Unrestricted net assets	<u>(49,019,735)</u>	<u>(28,920,678)</u>
Total net assets	69,446,811	57,976,894
Total liabilities and net assets	<u>\$ 367,559,149</u>	<u>\$ 325,863,927</u>

See accompanying notes.

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Statements of Revenues, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2012	2011
Operating revenues:		
Net patient revenues (net of provisions for bad debts of \$49,894,132 and \$55,781,143)	\$ 524,259,902	\$ 438,342,856
Other operating revenues	31,175,461	31,246,838
Total operating revenues	555,435,363	469,589,694
Operating expenses:		
Nursing and other professional services	401,092,269	399,008,585
Administrative and fiscal services	83,807,839	77,852,658
General services	52,908,217	50,122,033
Depreciation and amortization	11,987,132	12,828,924
	549,795,457	539,812,200
Income (loss) from operations before provision for postemployment benefits other than pensions (OPEB)	5,639,906	(70,222,506)
Provision for OPEB (net of implicit subsidies of \$1,296,043 and \$1,487,947)	24,491,570	24,290,244
Loss from operations	(18,851,664)	(94,512,750)
Nonoperating revenues (expenses):		
Contributions from Clark County	32,500,000	71,183,933
Interest income	708,277	419,970
Rental income	945,147	1,012,688
Interest expense	(3,815,043)	(4,078,198)
Other nonoperating revenues (expenses)	(16,800)	169,613
Total nonoperating revenues (expenses)	30,321,581	68,708,006
Change in net assets	11,469,917	(25,804,744)
Net assets, beginning of year	57,976,894	83,781,638
Net assets, end of year	\$ 69,446,811	\$ 57,976,894

See accompanying notes.

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Statements of Cash Flows

	Years Ended June 30	
	2012	2011
Cash flows from operating activities		
Cash received from patients and third-party payers	\$ 498,263,583	\$ 449,677,784
Cash payments to suppliers for goods and services	(194,820,451)	(233,629,708)
Cash payments to employees for services and benefits	(319,287,384)	(308,342,536)
Other operating receipts	30,924,129	31,653,060
Net cash provided by (used in) operating activities	15,079,877	(60,641,400)
Cash flows from noncapital financing activities		
Contributions from Clark County	32,500,000	64,600,338
Cash flows from capital and related financing activities		
Purchase of property and equipment, net	(21,484,068)	(3,646,822)
(Loss) gain on disposal or sale of property and equipment	(16,800)	13,710
Principal paid on long-term debt	(5,475,001)	(5,800,067)
Interest paid on long-term debt	(3,797,039)	(4,055,689)
Other	945,147	1,012,688
Net cash used in capital and related financing activities	(29,827,761)	(12,476,180)
Cash flows from investing activities		
Interest received	782,642	379,776
Increase (decrease) in cash and cash equivalents	18,534,758	(8,137,466)
Cash and cash equivalents, beginning of year	33,055,948	41,193,414
Cash and cash equivalents, end of year	\$ 51,590,706	\$ 33,055,948
Unrestricted cash and cash equivalents	\$ 13,606,070	\$ 12,742,477
Contributor or grantor restricted cash and cash equivalents	5,437,855	6,425,726
Internally designated cash and cash equivalents	32,546,781	13,887,745
Total cash and cash equivalents	\$ 51,590,706	\$ 33,055,948

(Continued)

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Statements of Cash Flows (continued)

	Years Ended June 30	
	2012	2011
Reconciliation of loss from operations to net cash provided by (used in) operating activities		
Loss from operations	\$ (18,851,664)	\$ (94,512,750)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,987,132	12,828,924
Provision for uncollectible accounts	49,894,132	55,781,143
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient receivables	(75,890,451)	(44,446,214)
Inventories	898,244	(767,912)
Prepaid expenses and other current assets	24,381,874	(516,474)
Increase (decrease) in:		
Other noncurrent assets	0	(26,152)
Accounts payable and accrued expenses	22,704,590	14,201,048
Self-insured liability	61,474	(2,046,365)
Due to related party	(105,454)	(1,136,648)
Net cash provided by (used in) operating activities	\$ 15,079,877	\$ (60,641,400)

See accompanying notes.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

Overview of the Financial Statements

This annual report consists of financial statements prepared in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities.

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

University Medical Center of Southern Nevada (the Hospital), the public health care facility for Clark County, Nevada (the County), is a blended component unit of the County, and is reflected as an enterprise fund of the County. The Hospital is organized and operated by The Board of County Commissioners, ex officio, the Board of Hospital Trustees, per Chapter 450 of the Nevada Revised Statutes. The seven-member commission is elected from geographic districts on a partisan basis for staggered four-year terms. Commissioners elect a chairperson who serves as the Commission's presiding officer. As the Hospital is a component unit of the County, it is exempt from income tax and, accordingly, no provision for income taxes is required.

In accordance with GASB Statement No. 14, *The Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's financial statements are included, as a blended component unit, in the County's Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained from Jessica Colvin, Comptroller, 500 South Grand Parkway, Las Vegas, Nevada 89155.

Summary of Significant Accounting Policies

The financial statements of the Hospital are prepared under accounting principles generally accepted in the United States applicable to state and local governmental entities on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. Substantially all revenues and expenses are subject to accrual.

As permitted under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital generally follows, to the extent that they do not conflict or contradict GASB guidance, Financial Accounting Standards Board (FASB) statements and interpretations, now referred to as the FASB Standards Codification, and has elected not to be bound to follow any issued after November 30, 1989.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

The Hospital is accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Hospital's operations are included in the *Balance Sheets*. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

Cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at date of purchase, excluding amounts held under trust agreements. The Hospital's restricted and unrestricted cash is deposited with the County Treasurer (the Treasurer) in a fund similar to an external investment pool that is reported at fair value. Because the amounts deposited with the Treasurer are sufficiently liquid to permit withdrawals in the form of cash at any time without prior notice or penalty, they are deemed to be cash equivalents. GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires the County to adjust the carrying amount of its investment portfolio to reflect the change in fair or market values. Interest revenue is increased or decreased in relation to this adjustment of unrealized gain or loss. Net interest income reflects this positive or negative market value adjustment.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market, generally determined on the first-in, first-out method.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

Restricted Assets

Restricted assets are cash and cash equivalents and investments whose use is limited by legal or other requirements. Restricted cash and cash equivalents represent monies received from donors or grantors to be used for specific purposes, as well as the Hospital's proportionate share of collateral assets held under securities lending transactions and those whose purpose was limited by the contributor and/or grantor. The Hospital has elected to use restricted assets before unrestricted assets when an expense is incurred for a purpose for which both resources are available.

Securities Lending Transactions

The Hospital and other County agencies are required to record their allocated shares of collateral assets and liabilities under securities lending transactions in the stand-alone financial statements of the Hospital and other County agencies as the County made certain investment transactions covered under GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. This pronouncement requires that, when a government invests cash received as collateral for the transfer of existing investments to a broker-dealer or other entity, an asset be recognized for the subsequent investment and a corresponding liability be recognized for the obligation to return the cash to the broker-dealer or other entity. In addition, when an investment pool, such as the pool in which the Hospital and other County agencies participate with the County, enters into these types of transactions, the amounts must be allocated to the individual funds of the pool. The County engages in such transactions with the pooled funds. Accordingly the Hospital reports its proportionate shares of collateral assets held and liabilities under secured lending transactions in the financial statements of the Hospital in restricted assets and securities lending liabilities, respectively.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

Capital Assets

Capital assets are stated at historical cost or, if donated, at estimated fair value at the date of the gift. Capital assets are defined by the Hospital as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation and amortization of assets are recorded in amounts sufficient to amortize the cost of the related assets over their estimated useful lives using the straight-line method. The following are the most commonly used estimated useful lives:

Buildings	10-40 years
Building improvements	5-20 years
Equipment	3-20 years
Land improvements	15 years
Furniture and fixtures	5 years

Expenditures that substantially increase the useful lives or functionality of existing assets are capitalized. Routine maintenance, repairs, and minor improvements are expensed as incurred. The cost of property retired and related accumulated depreciation is removed from the accounts, and any gain or loss recognized in nonoperating revenues (expenses).

Deferred Bond and Debt Issue Costs

Deferred financing costs represent debt issuance expenditures on long-term debt obligations and are amortized over the period the bonds are outstanding using a method that approximates the effective interest method. The amortization for deferred bond financing costs was \$43,037 in fiscal 2012 and fiscal 2011. Amortization expense related to bond discounts was \$55,874 in fiscal 2012 and fiscal 2011. These amounts are included in interest expense in the *Statement of Revenues, Expenses, and Changes in Net Assets*.

Cost of Borrowing

Interest costs incurred on debt during the construction or acquisition of assets are capitalized as a component of the cost of acquiring those assets. No capitalized interest was recorded in fiscal 2012 and 2011.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

Compensated Absences

It is the Hospital's policy to permit employees to accumulate earned, but unused vacation and sick leave benefits. Such benefits were accrued when incurred as a current liability in both fiscal 2012 and 2011.

Self-Insured Liability

The self-insured liability represents the provision for estimated self-insured professional liability claims, general liability claims, and workers' compensation claims. The provision includes estimates of the ultimate costs for both reported claims and claims incurred but not reported based on the recommendations of an independent actuary.

Net Assets

GASB Statement No. 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted: This component of net assets results from restrictions placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted: This component of net assets consists of all net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Statements of Revenues, Expenses, and Changes in Net Assets

All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the *Statements of Revenues, Expenses, and Changes in Net Assets*. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities, non-exchange transactions, or investment income.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

Net Patient Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts

Net patient revenue is reported at the estimated realizable amount from patients, third-party payers, and others for services provided excluding the provision for bad debts and includes estimated retroactive adjustments under reimbursement agreements with third-party payers. Revenue under certain third-party payer agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

As part of the Hospital's mission to serve the community, the Hospital provides care to patients even though they may lack adequate insurance or may participate in programs that do not pay established rates. Uncompensated care is defined as write-offs on patient accounts without insurance payment. Charity care is a subset of uncompensated care representing those patients that are approved by the hospital for a discount under its charity policy guidelines. Throughout the admission, billing, and collection processes, certain patients are identified by the Hospital as indigent or qualifying for charity care. The Hospital provides care to these patients without charge or at amounts less than its established rates or actual costs. The Hospital maintains records to identify and monitor the ability of patients to pay for services rendered. These records are utilized to determine the amount of estimated charges foregone for services and supplies furnished for uncompensated and charity care, the estimated costs of these services and supplies, and equivalent service statistics. Charges foregone based upon established rates for services for charity care provided by the Hospital, and for educational and selected community service programs, totaling \$441,673,669 and \$362,960,766, which represents 22.4% and 18.7% of gross charges in fiscal 2012 and fiscal 2011, respectively, are not reported as revenue as the Hospital does not pursue collection of these amounts. Partial payments to which the Hospital is entitled from public assistance and other programs on behalf of patients who meet the charity care policy of the Hospital are reported as net patient revenue.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

The Hospital has agreements with third-party payers that provide for payment at amounts different from established charge rates. A summary of the basis of payment by major third-party payers follows:

- Medicare and Medicaid: The Hospital renders services to patients under contractual arrangements with the U.S. Federal Medicare and the State of Nevada (State) Medicaid programs. Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries and Medicare capital costs are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. As an academic medical center, medical education payments in addition to disproportionate share entitlements are received from Medicare and Medicaid. Medicare utilizes a prospective payment system for inpatient rehabilitation services and psychiatric services.

Medicare outpatient claims are reimbursed under the Ambulatory Payment Classification based prospective payment system. The payments are based on patient assessment data classifying patients into one of the Medicare Ambulatory Payment Classifications. Inpatient rehabilitation and psychiatric services are reimbursed at a prospectively determined per diem rate. Certain outpatient services related to Medicare beneficiaries and capital costs for Medicaid beneficiaries are reimbursed based on a cost-based methodology subject to certain limitations. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare and Medicaid fiscal intermediaries.

The Hospital's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission, and therefore, the revenues received are subject to an independent review and retroactive adjustment. Differences between the estimated amounts accrued at interim and final settlements are reported in the *Statement of Revenues, Expenses, and Changes in Net Assets* in the year of settlement. Medicare cost reports have been finalized through fiscal year 2010. Provisions for estimated retroactive adjustments for cost report years that have not been finalized have been provided, where applicable. The Hospital recorded favorable adjustments of approximately \$2,807,147 and \$1,666,000 in fiscal 2012 and 2011, respectively, due to prior year retroactive adjustments to amounts previously estimated and changes in estimates.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental program participation, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as repayment of patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs unknown or unasserted at this time. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Management believes that the Hospital is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations, and that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

- **Upper payment limit:** On September 22, 2002, the amendment to the State Medicaid program to allow for supplemental Medicaid payments as provided under federal regulations, referred to as the Upper Payment Limit program (UPL), was approved by the Center for Medicare and Medicaid Services (CMS). Effective January 1, 2003, the amendment revised the State's plan to provide access to supplemental Medicaid payments up to 100% of the Medicare upper payment limits for inpatient hospital services rendered by public hospitals in the State to State Medicaid consumers. The State fiscal 2012 budget also included an expansion of the UPL program to outpatient services. These funds are distributed prospectively on a quarterly basis. Funding for the UPL program is generated through intergovernmental transfers and matching funds from the federal government. The gross amount recorded in net patient service revenue for UPL by the Hospital was \$112,305,231 and \$40,499,851 in fiscal 2012 and 2011, respectively.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

- **Disproportionate share:** As a public health care provider, the Hospital renders services to residents of the County and others regardless of ability to pay. The Hospital is classified as a disproportionate share provider by the Medicare and Medicaid programs due to the volume of low-income patients it serves. Accordingly, the Hospital receives additional payments from these programs as a result of this status totaling \$75,302,099 and \$80,805,810 in fiscal 2012 and 2011, respectively, which are included in net patient revenue. Funding for the disproportionate share program is generated through intergovernmental transfers and matching funds from the federal government. The Hospital also provides major trauma services to the region, and the ability to continue these levels of service and programs is contingent upon the continuation of various funding sources.

- **CMS Recovery Audit Contractor Program:** Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006, which authorized the expansion of the RAC program to all 50 states by 2010. In fiscal 2011, the RAC program review began at the Hospital. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from the review.

- **Other payers:** The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively-determined rates-per-discharge, discounts from established charges, and prospectively-determined per diem rates.

The approximate percentage of gross patient revenues by major payer group for the years ended June 30 follows:

	2012	2011
Medicare	19 %	19 %
Medicaid, Clark County, and self-pay	57	57
Commercial, HMO, PPO	18	20
Other	6	4
Total	100 %	100 %

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

The provision for bad debts is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payer category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Extensive efforts are made to collect all amounts owed to the Hospital. Several avenues are pursued including direct collections efforts, assistance in finding pay sources, and assistance in compliance with the County's uninsured discount program. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Hospital follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Hospital. These accounts are then followed up by collection agencies.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer arrangements. Significant concentrations of accounts receivable at June 30, 2012 and 2011, include:

	2012	2011
Medicare	3 %	5 %
Medicaid, Clark County, and self-pay	76	74
Commercial, HMO, PPO	14	12
Other	7	9
Total	100 %	100 %

Grants and Contributions

The Hospital receives financial assistance from federal agencies, the State, and the County, in the form of grants, as well as contributions from individuals and private organizations. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes and are reported as other operating revenues.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

Other such audits could be undertaken by federal and state granting agencies and result in the disallowance of claims and expenditures; however, in the opinion of management, any such disallowed claims or expenditures will not have a material effect on the overall financial position of the Hospital.

Concentrations of Credit and Economic Risks and Uncertainties

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of cash and cash equivalents, patient accounts receivable, and investments.

The Hospital's cash and cash equivalents on deposit with financial institutions, including cash and cash equivalents in the custody of the Treasurer or a fiscal agent, are often in excess of federally insured limits, and the risk of losses related to such concentrations may be increasing as a result of continuing economic conditions including, but not limited to, weakness in the commercial and investment banking systems. The extent of a future loss, if any, to be sustained as a result of uninsured deposits in the event of a future failure of a financial institution; however, is not subject to estimation at this time.

Concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of the Hospital's patients and payers. Patient accounts receivable consist of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. One payer source, self-pay, comprises approximately 30% and 32% of gross patient accounts receivable at June 30, 2012 and 2011, respectively. Excluding governmental programs, no other payer source represents more than 10% of the Hospital's patient accounts receivable. The Hospital maintains an allowance for losses based on the expected collectability of patient accounts receivable.

Because the Hospital operates in the health care industry exclusively in southern Nevada, realization of its receivables, inventories and its future operations could be affected by adverse economic conditions in the area. In addition, the Hospital receives the majority of its products from a limited number of suppliers and any reduction or interruption of such sources could adversely affect future operations.

The majority of the hospital's employees are covered by collective bargaining agreements entered into with the Service Employee International Union (SEIU) and the International Union of Operating Engineers (IUOE). The SEIU contract expired June 30, 2011, and the updated contract was ratified on February 21, 2012, with an expiration date of June 30, 2013. The IUOE contract expired June 30, 2012, but will remain in effect until modified.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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

The United States is experiencing a widespread recession characterized by a decline in general economic activity, including local casino gaming volume and other tourism, together with a reduction in general credit availability and weakness in the commercial and investment banking systems, and is engaged in war, all of which are likely to continue to have far-reaching effects on economic activity in the country for an indeterminate period of time. The long-term impact of these factors on the southern Nevada economy and the Hospital's future operations cannot be predicted at this time but may be substantial.

Reclassifications

Certain minor reclassifications of fiscal 2011 amounts have been made to conform to the fiscal 2012 presentation.

Subsequent Events

The Hospital evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended June 30, 2012, the Hospital evaluated subsequent events through December 14, 2012, representing the date on which the accompanying audited financial statements were issued. During this period, there were no material subsequent events that required recognition or disclosure in the accompanying financial statements.

2. Changes in Accounting Principles and Recent Accounting Pronouncements

The GASB has issued the following statement that has been recently implemented by the Hospital:

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. There was no material impact to the financial statements as a result of the implementation of Statement No. 64.

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NOTES TO FINANCIAL STATEMENTS
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2. Changes in Accounting Principles and Recent Accounting Pronouncements (continued)

The GASB has recently issued the following statements, which the Hospital is assessing the impact of the implementation, if any, on its financial statements:

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements provides guidance for reporting service concession arrangements (SCA)*. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Hospital is required to implement the provisions of this Statement for the fiscal year ending June 30, 2013.

Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The Hospital is required to implement the provisions of this Statement for the fiscal year ending June 30, 2013.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*, was established to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in certain FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Hospital is required to implement this Statement for the fiscal year ending June 30, 2013.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance by standardizing the presentation of deferred outflows of resources and deferred inflows of resources. The Hospital is required to implement this Statement for the fiscal year ending June 30, 2013.

Statement No. 65, *Items Previously Listed as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as

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NOTES TO FINANCIAL STATEMENTS
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2. Changes in Accounting Principles and Recent Accounting Pronouncements (continued)

assets and liabilities. The Hospital is required to implement this Statement for the fiscal year ending June 30, 2014.

Statement No. 66, *Technical Corrections – 2012: An Amendment of GASB Statements 10 and 62*, improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Hospital is required to implement this Statement for the fiscal year ending June 30, 2014.

Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement 25*, revises existing standards of financial reporting for most pension plans. The Hospital is required to implement this Statement for the fiscal year ending June 30, 2014.

Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Hospital is required to implement this Statement for the fiscal year ending June 30, 2014.

3. Cash, Cash Equivalents, and Investments

Substantially all cash (including cash equivalents) and investments of the Hospital are under control of the Treasurer and are included in the Treasurer’s investment pool. The Hospital’s cash and investments generally are reported at fair value, as discussed in note 1. As of June 30, 2012 and 2011, these amounts were as follows:

	2012	2011
Clark County investment pool	\$ 51,570,497	\$ 33,032,438
Cash on hand	20,210	23,510
Collateral on loaned securities	10,324,700	4,237,629
Total cash and investments	<u>\$ 61,915,407</u>	<u>\$ 37,293,577</u>

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NOTES TO FINANCIAL STATEMENTS
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3. Cash, Cash Equivalents, and Investments (continued)

The Treasurer invests monies held both by individual funds and through a pooling of monies. The pooled monies, referred to as the investment pool, are invested as a whole and not as a combination of monies from each fund belonging to the pool. In this manner, the Treasurer is able to invest the monies at a higher interest rate for a longer period of time. Interest is apportioned monthly to each fund in the pool based on the average daily cash balance of the fund for the month.

According to Statutes, County monies must be deposited with federally insured banks, credit unions, or savings and loan associations within the County. The Treasurer is authorized to use demand accounts, time accounts, and certificates of deposit. Statutes do not specifically require collateral for demand deposits, but do specify that collateral for time deposits may be of the same type as those described for permissible investments. Permissible investments are similar to allowable County investments described below, except that statutes permit a longer term and include securities issued by municipalities within Nevada. The County's deposits are fully covered by federal depository insurance or collateral held by the County's agent in the County's name. The County has written custodial agreements with the various financial institutions' trust banks for demand deposits and certificates of deposit. These custodial agreements pledge securities totaling 102% of the deposits with each financial institution. The County has a written agreement with the State Treasurer for monitoring the collateral maintained by the County's depository institutions.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

3. Cash, Cash Equivalents, and Investments (continued)

Due to the nature of the investment pool, it is not possible to separately identify any specific investment as being that of the Hospital. Instead, the Hospital owns a proportionate share of each investment, based on the Hospital's participation percentage in the investment pool. As of June 30, 2012 and 2011, \$51,570,497 and \$33,032,438, respectively, of Hospital investments in the investment pool were as follows:

Investment Type	2012		2011	
	Allocation	Duration in Years	Allocation	Duration in Years
U.S. Agencies	71.08%	2.19	62.56%	1.96
U.S. Treasury Obligations	13.89%	1.73	21.93%	1.49
Corporate Notes	4.02%	2.26	4.85%	2.04
Certificates of Deposit	2.95%	0.32	0.00%	-
Repurchased Agreements	2.51%	0.03	0.00%	-
Commercial Paper Discounts	2.17%	0.21	5.98%	0.09
Asset-Backed Securities	1.91%	3.21	1.79%	3.41
State of Nevada Pool	0.27%	-	1.56%	-
Collateralized Mortgage Obligations	1.06%	7.18	1.09%	6.92
Money Market Funds	0.14%	-	0.24%	-
	<u>100.00%</u>		<u>100.00%</u>	
Average Portfolio Duration		<u>1.95</u>		<u>1.67</u>

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's investment policy applies a prudent-person rule, which is: "In investing the County's monies, there shall be exercised the judgment and care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

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NOTES TO FINANCIAL STATEMENTS
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3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2012 and 2011, the County's investments were rated by Standard and Poor's and Moody's Investors Service, respectively, as follows:

	<u>2012</u>	<u>2011</u>
U.S. Treasury Obligations	AAA/Aaa	AAA/Aaa
Bonds of U.S. Agencies	AAA/Aaa	AAA/Aaa
Discount Notes of U.S. Agencies	A-1/P-1	A-1/P-1
Money Market Funds	AAA/Aaa	AAA/Aaa
Commercial Paper Discounts	A-1/P-1	A-1/P-1
Negotiable Certificates of Deposit	A-1/P-1	A-1/P-1
Collateralized Mortgage Obligations	AAA/Aaa	AAA/Aaa
Collateralized Investment Agreements	(1)	(1)
Asset-Backed Securities	AAA/Aaa	AAA/Aaa
Corporate Notes	(2)	(2)

(1) Issued by insurance companies rated AA/Aa2, or its equivalent, or higher, or issued by entities rated A/A2, or its equivalent, or higher

(2) Issued by corporations organized and operating in the United States, which have a rating of A, or its equivalent, or higher.

On August 5, 2011, the credit rating on all investments in U.S. agency obligations was lowered from AAA to AA+ by Standard and Poor's. The County investments in U.S. Treasury obligations carry no measurable credit risk because they are backed by the U.S. federal government. The Hospital's money market mutual fund investments are made only with those funds rated as AAA or its equivalent by a nationally recognized rating service and invested only in securities issued by the U.S. federal government, U.S. agencies, or in repurchase agreements fully collateralized by such securities. The State Investment Pool does not have a credit rating.

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NOTES TO FINANCIAL STATEMENTS
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3. Cash, Cash Equivalents, and Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County's investment policy limits the amount that may be invested in obligations of any one issuer, except direct obligations of the U.S. government or federal agencies, to be no more than 5% of the County investment pool. At June 30, 2012 and 2011, the following investments exceeded 5% of the investment pool:

	2012		2011
Federal Home Loan Mortgage Corporation (FHLMC)	26.50	%	18.23
Federal National Mortgage Association (FNMA)	20.82		18.78
Federal Farm Credit Bank (FFCB)	12.44		9.22
U.S. Treasury obligations	11.82		21.93
Federal Home Loan Banks (FHLB)	10.48		17.31
Money Market Funds*	5.98		0.04

*These can only be invested with Treasury Agencies or Repurchased Agreements backed by US Treasuries which are excluded from the calculation of the 5% threshold.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average duration of its investment portfolio to less than 2.5 years. Duration is a measure of the present value of a fixed income's cash flows and is used to estimate the sensitivity of a security's price to interest rate changes. Accordingly, the County's investment policy limits investment portfolio maturities for certain investment instruments as follows: U.S. Treasury and U.S. agencies to less than ten years; bankers' acceptances to 180 days; commercial paper to 270 days; certificates of deposit to one year; corporate notes and bonds to five years; and repurchase agreements to 90 days.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

3. Cash, Cash Equivalents, and Investments (continued)

Interest Rate Sensitivity

At June 30, 2012 and 2011, the County invested in the following types of securities that have a higher sensitivity to interest rates, which represented 29% and 23%, respectively, of total investment securities.

- Callable securities are directly affected by the movement of interest rates. Callable securities allow the issuer to redeem or call a security before maturity, generally on coupon dates.
- Step-up/step-down securities have fixed rate coupons for a specific time interval that will step-up or step-down a predetermined number of basis points at scheduled coupon or other reset dates. These securities are callable one time or on their coupon dates.
- Fix-to-floating rate notes have fixed rate coupons for a specified period of time, then a variable rate coupon for the remaining life of the security. The variable rate is generally based on the three-month LIBOR plus 125 basis points. In some cases, interest rate caps are reset higher annually. These securities are callable, generally on their coupon dates.
- CPI floaters have variable rate coupons based on the Consumer Price Index Year-Over-Year index plus 114 basis points. This rate resets and pays a coupon monthly.
- Range notes have fixed rate coupons based on the three-month LIBOR staying within a range for a time period, generally one year. If the three-month LIBOR is within the predetermined range for a specified time period, the coupon rate is reset at a higher rate at periodic intervals. If the three-month LIBOR is out of the predetermined range, then coupon rate is reset to a floor rate of 1%. These securities are also callable on their coupon dates.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

3. Cash, Cash Equivalents, and Investments (continued)

Securities Lending Transactions

Nevada Revised Statute (NRS) 355.178 authorizes the County to participate in securities lending transactions, where the County's securities are loaned to broker/dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The County's securities lending agent administers the securities lending program and receives cash or other securities equal to at least 102% of the fair value of the loaned securities plus accrued interest as collateral for securities of the type on loan at year end. The collateral for the loans is maintained at 102%, and the value of the securities borrowed is determined on a daily basis.

At June 30, 2012 and 2011, the County had no credit exposure to borrowers because the amount the County held as collateral exceeded the amounts the borrowers owed to the County. The contract with the securities lending agent requires it to indemnify the County for all losses relating to securities lending transactions.

The County does not have the ability to pledge or sell collateral securities without a borrower default. There were no borrower defaults during the period nor were there any prior period losses to recover.

Statutes place no restrictions on the amount of securities that can be loaned. Either the County or the borrower can terminate all open securities loans on demand. Cash collateral is invested in accordance with the investment guidelines stated in NRS 355.170. The County's securities lending guidelines required that the aggregate reinvestment of the cash collateral may not be mismatched to the aggregate securities loaned by more than fifteen business days. In regard to this calculation, the final maturity or interest rate reset date is utilized. Such amounts are included in loaned securities in investments and liabilities.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

3. Cash, Cash Equivalents, and Investments (continued)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the County's securities lending policy, the \$10,324,700 and \$4,237,629 of Hospital collateral on loaned securities at June 30, 2012 and 2011, respectively, was held by the counterparty that was acting as the County's agent in securities lending transactions, and consisted of U.S. corporate obligations and asset-backed securities, which the Hospital has recorded as restricted investments related to securities lending transactions. The Hospital has recorded a corresponding securities lending liability of \$10,586,483 and \$4,425,047 as of June 30, 2012 and 2011, respectively. These investments are categorized at June 30, 2012 and 2011, as follows:

<u>Investments Loaned</u>	Percentage of Investment Type to Total Pool	
	2012	2011
U.S. Treasury Obligations	100.00 %	70.51 %
U.S. Agencies	-	29.49
	<u>100.00 %</u>	<u>100.00 %</u>
	Percentage of Investment Type to Total Collateral Held	
<u>Investment Type of Collateral Held</u>	2012	2011
Repurchased Securities	50.88 %	- %
Corporate Notes	27.70	20.65
Certificates of Deposit	10.40	7.16
Commercial Paper	9.62	31.93
Asset Receivable	0.75	-
U.S. Agencies	0.65	-
Money Market Mutual Funds	-	40.26
	<u>100.00 %</u>	<u>100.00 %</u>

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4. Other Receivables, Net

The Hospital has agreements with third-party payers that provide for payment of amounts different from established rates. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. See Note 1, *Net Patient Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts* for additional information. A summary of other receivables, net at June 30, follows:

	2012	2011
Third-party settlements	\$ 486,617	\$ 17,929,144
Other	1,022,145	8,357,936
	<u>\$ 1,508,762</u>	<u>\$ 26,287,080</u>

5. Internally Designated Assets

The Hospital's internally designated assets consist of the following as of June 30:

	2012	2011
Self-insurance funds	\$ 891,760	\$ 865,153
Debt service funds	10,632,314	9,952,676
Capital acquisition funds	21,022,707	3,069,916
	<u>\$ 32,546,781</u>	<u>\$ 13,887,745</u>

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

6. Capital Assets

Capital asset additions, retirements, and balances for the fiscal years ended June 30, 2012 and 2011, were as follows:

<u>2012</u>	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Nondepreciable capital assets:				
Land	\$ 10,218,247	\$ -	\$ -	\$ 10,218,247
Construction in progress	1,717,519	22,983,658	(1,653,714)	23,047,463
Total nondepreciable capital assets	<u>11,935,766</u>	<u>22,983,658</u>	<u>(1,653,714)</u>	<u>33,265,710</u>
Depreciable capital assets:				
Land improvements	4,685,610	-	-	4,685,610
Buildings and building improvements	194,014,027	75,427	1,614,691	195,704,145
Equipment	93,186,122	5,331,641	(2,976)	98,514,787
Furnitures and fixtures	1,420,354	13,433	-	1,433,787
Total depreciable capital assets	<u>293,306,113</u>	<u>5,420,501</u>	<u>1,611,715</u>	<u>300,338,329</u>
Less accumulated depreciation and amortization:				
Land improvements	(1,897,813)	(161,057)	-	(2,058,870)
Buildings and building improvements	(71,326,059)	(4,940,540)	-	(76,266,599)
Equipment	(77,498,880)	(6,644,393)	25,200	(84,118,073)
Furnitures and fixtures	(944,138)	(241,142)	-	(1,185,280)
	<u>(151,666,890)</u>	<u>(11,987,132)</u>	<u>25,200</u>	<u>(163,628,822)</u>
Total depreciable capital assets, net	141,639,223	(6,566,631)	1,636,915	136,709,507
Total capital assets, net	<u>\$153,574,989</u>	<u>\$ 16,417,027</u>	<u>\$ (16,799)</u>	<u>\$169,975,217</u>

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NOTES TO FINANCIAL STATEMENTS
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6. Capital Assets (continued)

<u>2011</u>	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Nondepreciable capital assets:				
Land	\$ 10,218,247	\$ -	\$ -	\$ 10,218,247
Construction in progress	658,093	1,573,414	(513,988)	1,717,519
Total nondepreciable capital assets	10,876,340	1,573,414	(513,988)	11,935,766
Depreciable capital assets:				
Land improvements	4,672,058	13,552	-	4,685,610
Buildings and building improvements	192,356,920	1,214,100	443,007	194,014,027
Equipment	86,790,227	6,372,715	23,180	93,186,122
Furnitures and fixtures	1,292,746	127,608	-	1,420,354
Total depreciable capital assets	285,111,951	7,727,975	466,187	293,306,113
Less accumulated depreciation and amortization:				
Land improvements	(1,737,321)	(160,492)	-	(1,897,813)
Buildings and building improvements	(66,481,820)	(4,844,239)	-	(71,326,059)
Equipment	(70,028,744)	(7,569,015)	98,879	(77,498,880)
Furnitures and fixtures	(685,430)	(255,178)	(3,530)	(944,138)
	(138,933,315)	(12,828,924)	95,349	(151,666,890)
Total depreciable capital assets, net	146,178,636	(5,100,949)	561,536	141,639,223
Total capital assets, net	\$157,054,976	\$ (3,527,535)	\$ 47,548	\$153,574,989

Capitalized interest is part of the cost of buildings and building improvements and construction in progress. No capitalized interest was recorded for fiscal 2012 and 2011.

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NOTES TO FINANCIAL STATEMENTS
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7. Long-term Debt

The Hospital's long-term debt consists of the following as of June 30:

	2012				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Clark County, Nevada General Improvement and Refunding Bonds, Series 2003	\$ 9,500,000	\$ -	\$ (445,000)	\$ 9,055,000	\$ 470,000
Clark County, Nevada General Obligation Hospital Refunding Bonds , Series	47,440,000	-	(4,300,000)	43,140,000	4,505,000
Clark County, Nevada General Obligation Hospital Refunding Bonds , Series	18,055,000	-	(65,000)	17,990,000	70,000
Clark County, Nevada General Obligation Medium-Term Hospital Refunding Bonds, Series 2009	6,950,000	-	(665,000)	6,285,000	685,000
	81,945,000	-	(5,475,000)	76,470,000	5,730,000
Unamortized premium and loss on refunding, net	(665,284)	-	55,873	(609,411)	-
Long-term debt	\$81,279,716	\$ -	\$ (5,419,127)	\$75,860,589	\$ 5,730,000

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NOTES TO FINANCIAL STATEMENTS
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7. Long-term Debt (continued)

	2011				
	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Due Within One Year
Clark County, Nevada General Obligation Hospital Bonds, Series 2000	\$ 3,995,000	\$ -	\$ (3,995,000)	\$ -	\$ -
Clark County, Nevada General Improvement and Refunding Bonds, Series 2003	9,935,000	-	(435,000)	9,500,000	445,000
Clark County, Nevada General Obligation Hospital Refunding Bonds , Series	47,590,000	-	(150,000)	47,440,000	4,300,000
Clark County, Nevada General Obligation Hospital Refunding Bonds , Series	18,065,000	-	(10,000)	18,055,000	65,000
Clark County, Nevada General Obligation Medium-Term Hospital Refunding Bonds, Series 2009	6,950,000	-	-	6,950,000	665,000
Clark County, Nevada General Obligation Medium-Term Note	1,210,067	-	(1,210,067)	-	-
Unamortized premium and loss on refunding, net	87,745,067 (721,158)	-	(5,800,067) 55,874	81,945,000 (665,284)	5,475,000 -
Long-term debt	<u>\$87,023,909</u>	<u>\$ -</u>	<u>\$ (5,744,193)</u>	<u>\$81,279,716</u>	<u>\$ 5,475,000</u>

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7. Long-term Debt (continued)

On March 1, 2000, Clark County, Nevada issued \$56,825,000 in General Obligation (Limited Tax) Hospital Bonds (the 2000 Bonds) with interest rates of 5.0% to 5.75%, which are collateralized with pledged gross revenues. The proceeds of the bonds were used to fund various master plan projects, as well as to finance the Northeast Tower construction and to pay costs of the issuance of the 2000 Bonds. On July 28, 2005, \$47,875,000 of the principal amount was refunded by the 2005 bonds leaving \$8,750,000 as the outstanding principal balance. Principal and interest on the 2000 Bonds is due semiannually on March 1st and September 1st. The 2000 Bonds matured in fiscal 2011.

On November 1, 2003, Clark County, Nevada issued \$36,765,000 in General Obligation (Limited Tax) Hospital Improvement and Refunding (Multiple Series) Bonds (the 2003 Bonds) with interest rates of 2.25% to 5.0%, which are collateralized with pledged gross revenues. The proceeds of the bonds were used to finance the Northeast Tower, to advance refund \$11,400,000 Hospital Bonds, and to pay costs of the issuance of the 2003 Bonds. On May 1, 2007, \$17,205,000 aggregate principal was refunded by the 2007 Bonds leaving \$14,090,000 as the outstanding principal balance. Principal and interest for the 2003 Bonds is due semiannually on March 1st and September 1st. The 2003 Bonds mature in fiscal 2024.

On July 28, 2005, Clark County, Nevada issued \$48,390,000 in General Obligation (Limited Tax) Hospital Refunding Bonds (the 2005 Bonds) with interest rates of 4.0% to 5.0%, which are collateralized with pledged gross revenues. The proceeds of the bonds were used to: (i) refund \$47,875,000 aggregate principal amount of the County's General Obligation (Limited Tax) Hospital Bonds, Series 2000; and (ii) pay the costs of issuing the 2005 Bonds. As a result, the previously outstanding refunded bonds are considered to be defeased and the liabilities for those bonds have been extinguished with the exception of \$8,750,000 left outstanding. The aggregate difference in debt service between the refunded debt and the refunding debt was \$3,867,842. The economic gain on the transaction was \$2,883,595. The 2005 Bonds were sold at a premium of \$4,338,966. In addition, the issuance of the 2005 Bonds resulted in a loss on defeasance of \$4,738,038. Both the loss on defeasance and the premium are being amortized over the life of the new bonds. Principal and interest for the 2005 Bonds is due semiannually on March 1st and September 1st. The 2005 Bonds mature in fiscal 2020.

On May 1, 2007, Clark County, Nevada issued \$18,095,000 in General Obligation (Limited Tax) Hospital Refunding Bonds (the 2007 Bonds) with an interest rate of 4.19%, which are collateralized with pledged gross revenues. The proceeds of the bonds were used to: (i) refund \$17,205,000 aggregate principal amount of the County's General Obligation (Limited Tax) Hospital Bonds, Series 2003; and (ii) pay the cost of issuing the 2007 Bonds. As a result, the previously outstanding refunded bonds are considered to be defeased and the liabilities for those bonds have been extinguished with the exception of \$13,925,229 left outstanding. The aggregate difference in debt service between the refunded debt and the refunding debt was \$892,899. The

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7. Long-term Debt (continued)

economic gain on the transaction was \$688,931. The issuance of the 2007 Bonds resulted in a deferred loss of \$726,024, which will be amortized over the life of the new bonds. Principal and interest for the 2007 Bonds are due semiannually on March 1st and September 1st. The 2007 Bonds mature in fiscal 2024.

On March 10, 2009, Clark County, Nevada issued \$6,950,000 in General Obligation (Limited Tax) Medium-Term Bonds (the 2009 Bonds) with an interest rate of 3.00%, which are collateralized with pledged gross revenues. The proceeds of the bonds were used to: (i) refund \$6,990,000 aggregate principal amount of the County's General Obligation (Limited Tax) Medium-Term, Series 2007 bonds; and (ii) pay the cost of issuing the 2009 Bonds. As a result, the previously outstanding refunded bonds are considered to be defeased and the liabilities for those bonds have been extinguished. The aggregate difference in debt service between the refunded debt and the refunding debt was \$322,255. The economic gain on the transaction was \$301,798. The 2009 Bonds were sold at a premium of \$137,371. In addition, the issuance of the 2009 Bonds resulted in a deferred loss of \$45,733. Both the loss on defeasance and the premium are being amortized over the life of the new bonds. Principal and interest for the 2009 Bonds are due semiannually on May 1st and November 1st. The 2009 Bonds mature in fiscal 2018.

On May 20, 2004, Clark County, Nevada issued an \$8,079,363 General Obligation (Limited Tax) Medium-Term Note (the LaSalle Note) with an interest rate of 4.56%. The LaSalle Note is collateralized with equipment. Principal and interest were due monthly on the 20th. The LaSalle Note matured in fiscal 2011.

The Hospital's general obligation bond ordinances contain the usual and customary covenants associated with such bonds. Management believes it is in compliance with all such covenants.

The Tax Reform Act of 1986 imposes an arbitrage rebate requirement with respect to bonds issued by the County. Under this act, an amount may be required to be rebated to the United States Treasury, so that all interest on the bonds qualifies for exclusion from gross income for federal income tax purposes. The Hospital is current on all required arbitrage payments. As of June 30, 2012 and 2011, there is no estimated potential arbitrage liability.

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7. Long-term Debt (continued)

Scheduled principal and interest payments required to maturity on long-term debt at June 30, 2012, were as follows:

	Principal	Interest	Total
2013	\$ 5,730,000	\$ 3,531,908	\$ 9,261,908
2014	5,995,000	3,265,064	9,260,064
2015	6,220,000	2,988,734	9,208,734
2016	6,510,000	2,700,087	9,210,087
2017	6,815,000	2,395,780	9,210,780
2018-2022	31,920,000	7,013,620	38,933,620
2023-2024	13,820,000	597,378	14,417,378
	<u>77,010,000</u>	<u>\$ 22,492,571</u>	<u>\$ 99,502,571</u>
Unamortized premium	(2,352,632)		
Unamortized loss on refunding	2,962,043		
Total long-term debt, net	<u>\$ 77,619,411</u>		

8. Other Long-term Liabilities

Leases

The Hospital has operating leases primarily consisting of real property leases for off-campus outpatient clinic and business office facilities as well as medical and office equipment used in Hospital operations. Certain property leases contain initial and renewal terms providing for predetermined inflation factors for fixed rents. In addition, several property leases require the Hospital to pay other occupancy costs such as common area maintenance and utilities.

Total rent expense under all leases was \$9,838,944 and \$9,799,279 in fiscal 2012 and 2011, respectively. Subject to the following paragraph, minimum rental commitments under operating leases extending beyond June 30, 2012, were as follows:

2013	\$ 7,895,667
2014	5,055,340
2015	3,351,864
2016	2,183,569
2017	2,164,212
2018-2020	1,343,851
Total	<u>\$ 21,994,503</u>

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8. Other Long-term Liabilities (continued)

In the Hospital's lease agreements, there is a "fiscal fund out clause." Under the "fiscal fund out clause," the respective agreement shall terminate and the Hospital's obligations under it shall be extinguished at the end of any of the Hospital's fiscal years in which the Hospital's governing body fails to appropriate monies for the ensuing fiscal year sufficient for the payment of all amounts which could then become due under the agreement. The Hospital agrees that the "fiscal fund out clause" shall not be utilized as a subterfuge or in a discriminatory fashion as it relates to lease agreements. In the event this section is invoked, the lease agreements will expire on June 30 of the then current fiscal year. Termination under this section shall not relieve the Hospital of its obligations incurred through June 30 of the fiscal year for which monies were appropriated.

Liability Insurance

The Hospital is exposed to various risks of loss related to theft of, damage to and destruction of assets, errors and omissions, injuries to employees and patients, and natural disasters. These risks are covered by the Hospital's self-insured professional and general liability insurance policy, commercial insurance purchased from independent third parties, and the County's worker's compensation program. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

On January 20, 1987, the Board approved self-insured professional and general liability and workers' compensation insurance programs. In lieu of maintaining insurance coverage, the Board created the professional and general liability fund and the workers' compensation fund. The Hospital has accrued an undiscounted liability for estimated future settlements and claims losses for professional liability, general liability, and workers' compensation using its best estimate of these losses in accordance with actuarially determined amounts. Included in internally designated restricted assets, the Hospital has funded \$891,760 and \$865,153 at June 30, 2012 and 2011, of the accrued liability of \$6,919,881 and \$9,447,407, respectively. In the opinion of management, there are no claims or lawsuits asserted or unasserted that would not be adequately covered by insurance and/or the professional and general liability accrual.

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8. Other Long-term Liabilities (continued)

A summary of changes in the self-insurance liability during fiscal 2012 and 2011 were as follows:

2012

	Beginning Balance	Claims Incurred/ Changes in Estimates	Claims Paid	Ending Balance	Due Within One Year
Professional liability	\$ 7,029,407	\$ 1,667,733	\$ (1,777,259)	\$ 6,919,881	\$ 1,397,222
Workers' compensation	2,418,000	1,247,190	(1,076,190)	2,589,000	2,995,923
	<u>\$ 9,447,407</u>	<u>\$ 2,914,923</u>	<u>\$ (2,853,449)</u>	<u>\$ 9,508,881</u>	<u>\$ 4,393,145</u>

2011

	Beginning Balance	Claims Incurred/ Changes in Estimates	Claims Paid	Ending Balance	Due Within One Year
Professional liability	\$ 9,075,772	\$ 1,289,886	\$ (3,336,251)	\$ 7,029,407	\$ 1,461,683
Workers' compensation	2,418,000	-	-	2,418,000	1,006,000
	<u>\$11,493,772</u>	<u>\$ 1,289,886</u>	<u>\$ (3,336,251)</u>	<u>\$ 9,447,407</u>	<u>\$ 2,467,683</u>

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9. Related Party Transactions

The Hospital receives payments from the County under a contractual arrangement to provide care for qualifying indigent and emergency care. For the years ended June 30, 2012 and 2011, the Hospital received \$50,744,854 and \$52,183,183, respectively, for such care. Amounts received for qualifying indigent and emergency care are included in net patient revenues in the fiscal year the services are rendered.

The County charges for legal and financial services provided to the Hospital. The Hospital recorded costs of \$1,519,151 and \$1,157,024 for these services during fiscal 2012 and 2011, respectively. At June 30, 2012 and 2011, non-interest bearing amounts due to the County for such services were \$28,758,723. At June 30, 2012 and 2011, the County agreed not to demand payment for these services prior to July 1, 2011 and 2010, respectively, and accordingly, these amounts owed to the County have been classified as a long-term liability in the accompanying balance sheets.

The Hospital is billed by the County for its portion of self-insurance premiums for health, dental, and vision insurance. Since the Hospital is affiliated with the County, this liability is reported in the due to related party line on the balance sheet.

A summary of changes in related party liability balances during fiscal 2012 and 2011 follows:

<u>2012</u>	Beginning Balance	Additions	Reductions	Ending Balance
Current liabilities				
Clark County Worker's Compensation	\$ 4,578,287	\$ 1,818,928	\$ (1,200,000)	\$ 5,197,215
Clark County Automotive	11,430	121,482	(114,749)	18,163
Clark County Enterprise	14,182	40,265	(42,425)	12,022
Clark County Treasurer	-	106,787	(106,787)	-
Clark County Overhead	-	3,013,944	(3,013,944)	-
Clark County Self -Funded	9,887,361	22,976,711	(24,087,145)	8,776,927
	<u>14,491,260</u>	<u>28,078,117</u>	<u>(28,565,050)</u>	<u>14,004,327</u>
Long-term liabilities				
Clark County Legal and Financial Service	28,758,723	-	-	28,758,723
	<u>\$ 43,249,983</u>	<u>\$ 28,078,117</u>	<u>\$(28,565,050)</u>	<u>\$ 42,763,050</u>

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9. Related Party Transactions (continued)

<u>2011</u>	Beginning Balance	Additions	Reductions	Ending Balance
Current liabilities				
Clark County Worker's Compensation	\$ 4,469,613	\$ 1,308,674	\$ (1,200,000)	\$ 4,578,287
Clark County Automotive	8,648	110,826	(108,044)	11,430
Clark County Enterprise	-	14,182	-	14,182
Clark County Treasurer	362	125,348	(125,710)	-
Clark County Overhead	-	3,299,957	(3,299,957)	-
Clark County Self -Funded	11,149,285	22,603,894	(23,865,818)	9,887,361
	<u>15,627,908</u>	<u>27,462,881</u>	<u>(28,599,529)</u>	<u>14,491,260</u>
Long-term liabilities				
Clark County Legal and Financial Service	28,758,723	-	-	28,758,723
	<u>\$ 44,386,631</u>	<u>\$ 27,462,881</u>	<u>\$(28,599,529)</u>	<u>\$ 43,249,983</u>

10. Employee Benefits Plans

Retirement Plan

Substantially all of the Hospital's employees are participants in a retirement plan (the Plan) that is part of the Public Employees' Retirement System (PERS) for public employees in the State. The Plan was established on July 1, 1948, by the Legislature and is governed by the Public Employees' Retirement Board whose seven members are appointed by the Governor. All public employees who meet certain eligibility requirements may participate in the Plan. The Plan is a cost sharing, multiple-employer, defined benefit plan of PERS.

The Hospital does not exercise any control over the Plan and NRS 286.110 states, "Respective participating public employers are not liable for any obligation of the system." Benefits, as required by State Statute, are determined by the number of years of credited service at the time of retirement and the participants' highest average compensation in any 36 consecutive months. Benefit payments to which participants may be entitled under the Plan include pension benefits, disability benefits, and death benefits.

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10. Employee Benefit Plans (continued)

Monthly benefit allowances for regular participants are computed at 2.67% (2.5% prior to July 1, 2001) of average compensation (average of 36 consecutive months of highest compensation) for each credited year of service prior to retirement up to a maximum of 90% of the average compensation for employees entering the system prior to July 1, 1985, and 75% for those entering after that date. The Plan offers several alternatives to the unmodified service retirement benefit which, in general, allows the retired employee to accept a reduced service retirement benefit payable monthly during the employee's life and various optional monthly payments to a named beneficiary after the employee's death. Regular members are eligible for retirement benefits at age 65 with 5 years of service, at age 60 with 10 years of service or at any age with 30 years of service.

NRS 286.410 establishes the required contribution rates and provides for yearly increases until such time as the actuarially determined unfunded liability of the Plan is reduced to zero. The Hospital is obligated to contribute all amounts due under the Plan. The contribution rate, based on covered payroll, was 23.75%, 21.5%, and 21.5% for the years ended June 30, 2012, 2011, and 2010, respectively.

The Hospital's contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, were \$47,380,204, \$45,161,959, and \$45,929,693, respectively, and were equal to the required contributions for each fiscal year. At June 30, 2012, 2011, and 2010, accrued expenses include \$7,202,897, \$6,131,944, and \$6,630,728, respectively, due to PERS.

An annual report containing financial statements and required information for the Plan may be obtained by writing to PERS, 693 West Nye Lane, Carson City, Nevada 89703-1599 or by calling (775) 687-4200.

Deferred Compensation Plan

The Hospital offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Hospital does not exercise any control over the assets of the deferred compensation plan. The deferred compensation plan, available to all Hospital employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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10. Employee Benefit Plans (continued)

Other Postemployment Benefits (OPEB)

In accordance with Statutes, retirees of the Hospital may continue insurance through the Clark County Retiree Health program (County Plan), an agent multiple-employer defined benefit plan, if enrolled as an active employee at the time of retirement. Within the County Plan, retirees may choose between the Clark County Self-Funded Group Medical and Dental Benefits Plan (Self-Funded Plan) and Health Plan of Nevada (HPN), a fully-insured, health maintenance organization (HMO) plan.

Some employees are enrolled in the State's program of insurance. This program, the Public Employee Benefit Program (PEBP), is an agent multiple-employer, defined benefit plan.

Each plan provides medical, dental and vision benefits to eligible active and retired employees and beneficiaries. Except for the PEBP, benefit provisions are established and amended through negotiations between the Hospital and the employee unions. PEBP benefit provisions are established by the State Legislature.

The Self-Funded Plan is not administered as a qualifying trust or equivalent arrangement and is included in the County CAFR as an internal service fund (the Self-Funded Group Insurance Fund), as required by Statutes.

The PEBP issues a publicly available financial report that includes financial statements and required supplementary information. The Self-Funded Plan and PEBP reports may be obtained by writing or calling the plans at the following addresses or numbers:

Clark County, Nevada
PO Box 551210
500 S. Grand Central Parkway
Las Vegas, NV 89155-1210
(702) 455-3269

Public Employee Benefit Plan
901 South Stewart Street
Suite 1001
Carson City, Nevada 89701
(800) 326-5496

Funding Policy and Annual OPEB Cost

For the Self-Funded Plan and HPN programs, contribution requirements of plan members and the Hospital are established and may be amended through negotiations between the Board and the employee unions.

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10. Employee Benefit Plans (continued)

The Hospital is required to pay the PEBP an explicit subsidy, based on years of service, for retirees who are enrolled in this plan. In 2012, retirees were eligible for a \$105 per month subsidy after five years of service with a Nevada state or local government entity. The maximum subsidy of \$575 per month is earned after 20 years of combined service with any eligible entity. The subsidy is set by the State Legislature.

The annual OPEB cost for each plan is calculated based on the annual required contribution to the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Hospital's annual OPEB cost for the current year and related information for each plan are as follows:

Contribution Rates	Self-Funded		Total
	Plan/HPN	PEBP	
	Actuarially determined, premium sharing determined by union contracts	Set by State Legislature	
Annual required contribution (ARC)	\$24,166,122	\$ 2,603,962	\$26,770,084
Interest on net OPEB obligations	2,076,787	199,411	2,276,198
Adjustment to ARC	(3,178,204)	(112,615)	(3,290,819)
Annual OPEB cost	23,064,705	2,690,758	25,755,463
Contributions made	(1,238,143)	(1,296,043)	(2,534,186)
Increase in net OPEB obligation	21,826,562	1,394,715	23,221,277
Net OPEB obligation, beginning of year	55,644,924	1,260,032	56,904,956
Net OPEB obligation, end of year	\$77,471,486	\$ 2,654,747	\$80,126,233

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10. Employee Benefit Plans (continued)

The Hospital's annual OPEB cost, the percentage of annual cost contributed to the plan and the net OPEB obligation for 2012, 2011 and 2010, were as follows:

Plan	Year Ended	Annual OPEB Cost	Percent of OPEB Cost Contributed	Net OPEB Obligation
Self-Funded Plan/HPN	6/30/2010	\$14,637,967	7.8%	\$33,699,371
Self-Funded Plan/HPN	6/30/2011	23,295,601	6.5%	55,469,239
Self-Funded Plan/HPN	6/30/2012	23,064,704	6.6%	77,471,485
PEBP	6/30/2010	1,609,491	101.9%	403,288
PEBP	6/30/2011	2,520,376	59.0%	1,435,717
PEBP	6/30/2012	2,690,759	55.3%	2,654,748
Total	6/30/2010	16,247,458	17.1%	34,102,659
Total	6/30/2011	25,815,977	10.8%	56,904,956
Total	6/30/2012	25,755,463	11.7%	80,126,233

Funded Status and Funding Progress

The funded status of the plans as of the most recent actuarial valuation date, July 1, 2010, was as follows:

	Self-Funded Plan/HPN	PEBP*	Total
Actuarial accrued liability (a)	\$ 199,788,734	\$ 45,027,796	\$ 244,816,530
Actuarial value of plan assets (b)	-	-	-
Unfunded actuarial accrued liability/(funding excess) (a) - (b)	\$ 199,788,734	45,027,796	\$ 244,816,530
Funded ratio (b)/(a)	0.0%	0.0%	0.0%
Covered payroll (c)	\$ 209,559,016	N/A	\$ 209,559,016
Unfunded actuarial accrued liability/(funding excess) as a percentage of covered payroll (a) - (b)/(c)	95.3%	N/A	116.8%

*PEBP is a closed plan; therefore, there are no current employees covered by PEBP.

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10. Employee Benefit Plans (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations. The schedule of funding progress, presented as required supplementary information, provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plans (the plans as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Hospital and the plan members at this point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are as follows:

	<u>Self-Funded Plan/HPN and PEBP</u>
Actuarial valuation date	July 1, 2010
Actuarial cost method	Entry age normal
Amortization method	30 years, open, level dollar amount
Remaining amortization period	30 years remaining as of July 1, 2010
Asset valuation method	N/A, no assets in trust
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increases	N/A; unfunded actuarial accrued liabilities amortized as a level dollar amount
Healthcare inflation rate	10.0% initial; 5% ultimate

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10. Employee Benefit Plans (continued)

Internal Service Fund Assets

The County utilizes the Other Postemployment Benefit Reserve internal service fund to allocate OPEB costs to each participating fund based on employee count. Each fund incurs a charge for services from the Other Postemployment Benefit Reserve fund for their portion of the annual OPEB cost. As of June 30, 2012, the Other Postemployment Benefit Reserve fund has \$3,704,659 in cash, investments, and interest receivable held on behalf of the Hospital that the County intends to use for future OPEB costs for the net OPEB obligations of the Hospital. These assets cannot be included in the plan assets in the OPEB funding schedules because they are not held in trust.

Contributions and Reserves

Premium rates for the Self-Funded Plan and HPN programs are established through the previously mentioned union agreements. The Hospital pays approximately 85% of premiums for active employee coverage, an average of \$7,508 per active employee for the year ended June 30, 2012. Retirees in the Self-Funded Plan and HPN programs receive no direct subsidy from the Hospital and pay the entire cost of their premium. Active and retiree loss experience is combined to create a single, blended premium for each level of coverage (member only, member plus spouse, member plus children, or family), as required by State Statute. This combining of loss experience creates an implicit subsidy to the retirees who would otherwise pay higher premiums if their loss experience were rated separately. Premiums for retirees in the PEBP plan are from \$0 to \$1,716, depending on the level of coverage and subsidy earned.

11. Commitments and Contingencies

On November 15, 2011, the Board awarded a contract for an integrated healthcare information system to McKesson Technologies, Inc. The Board authorized approximately \$34.2 million for ongoing fees, including software, hardware, implementation and ongoing maintenance, for the initial phase that consists of systems for clinical documentation, revenue cycle, materials management, pharmacy (inpatient and outpatient), emergency department, and physician practice. Future phases may include replacement of other hospital systems and it is anticipated that the return on investment of the initial phase will be able to fund future phase implementations. As of June 30, 2012, the Hospital had contractual commitments for the initial phase of approximately \$17.3 million.

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11. Commitments and Contingencies (continued)

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the ordinary course of business. The Hospital does not accrue for estimated future legal and defense costs, if any, to be incurred in connection with outstanding or threatened litigation and other disputed matters, but rather records such as period costs when services are rendered.

In 2008, a lawsuit was filed against the Hospital seeking compensatory damages up to \$17 million for lost wages, loss of employment opportunities, reputational harm and emotional distress. The plaintiff also seeks recovery of all attorney fees and costs expended in this litigation and through trial which is likely between \$2 and \$3 million. The Hospital intends to continue defending the case vigorously. Legal counsel indicated that there is a 65% to 75% probability (reasonable possibility) that the Hospital could incur a loss in connection with this case in the event of an adverse verdict. Additionally, legal counsel advised the Hospital that the plaintiff's counsel has already tried a very similar case and obtained a verdict of multi-million dollars. However, the amount of the loss in connection with such verdict cannot be estimated at this time.

Patient Protection and Affordable Care Reconciliation Act

On March 23, 2010, the most sweeping health care legislation since the advent of Medicare was signed into law. The law promises to expand insurance coverage to an additional 32 million Americans, reduce the growth of Medicare expenditures, dramatically reform insurance markets, and continue the trend toward value-based payment. The Reconciliation Act amends various provisions of the Patient Protection and Affordable Care Reconciliation Act and adds some new provisions that were not included originally. Uncertainty exists as to the ultimate impact of the legislation on the health care delivery system. Potential impacts of health care reform include uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation, and significant required investments in health care information technology.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll [(b- a)/c]
Self- Funded	6/30/2006	\$ -	\$ 77,742,610	\$77,742,610	0.0%	\$242,795,912	32.0%
	7/1/2008	-	126,689,453	126,689,453	0.0%	210,113,935	60.3%
	7/1/2010	-	199,788,734	199,788,734	0.0%	209,559,016	95.3%
PEBP*	6/30/2006	-	18,531,536	18,531,536	0.0%	242,795,912	7.6%
	7/1/2008	-	29,172,098	29,172,098	0.0%	N/A	N/A
	7/1/2010	-	45,027,796	45,027,796	0.0%	N/A	N/A
Total	6/30/2006	-	96,274,146	96,274,146	0.0%	242,795,912	39.7%
	7/1/2008	-	155,861,551	155,861,551	0.0%	210,113,935	74.2%
	7/1/2010	-	244,816,530	244,816,530	0.0%	209,559,016	116.8%

* PEBP is a closed plan; and therefore, there are no current employees covered by the PEBP.

UNIVERSITY MEDICAL CENTER OF SOUTHERN NEVADA
(A COMPONENT UNIT OF CLARK COUNTY, NEVADA)

OTHER POSTEMPLOYMENT BENEFITS
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Presentation

For the year ended June 30, 2012, no significant events occurred that would have affected and therefore, would have changed, the benefit provision, size, or composition of those covered by the other postemployment benefit plans, or the actuarial methods and assumptions used in the actuarial valuation reports dated June 30, 2006, July 1, 2008, and July 1, 2010.

The actuarially determined accrued liability and unfunded accrued liability involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The estimates are subject to continual revision.

P B T K

PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

**INDEPENDENT AUDITORS' 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***

Board of Trustees
University Medical Center of Southern Nevada
Las Vegas, Nevada

We have audited the basic financial statements of the University Medical Center of Southern Nevada (the Hospital) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting. Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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 Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph, and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 12-1 through 12-4 that we consider to be significant deficiencies in internal control over financial reporting. 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.

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

We noted certain matters that we reported to management of the Hospital in a separate letter dated December 14, 2012.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Hospital's management, members of the Board of Trustees, others within the Hospital and federal awarding agencies and pass through entities. However, this report is a matter of public record, and its distribution is not limited.

Preray Bowen Taylor #kam

December 4, 2012

P B T K

PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Board of Trustees
University Medical Center of Southern Nevada
Las Vegas, Nevada

Compliance. We have audited the compliance of the University Medical Center of Southern Nevada (the Hospital) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The Hospital's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance. Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

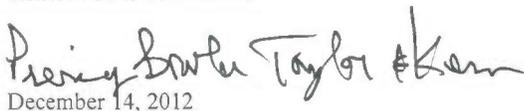
A *deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies,

significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards. We have audited the basic financial statements of the Hospital as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Hospital's management, members of the Board of Trustees, others within the Hospital and federal awarding agencies and pass through entities. However, this report is a matter of public record, and its distribution is not limited.


December 14, 2012

University Medical Center of Southern Nevada

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2012

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity/ Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
HIV Emergency Relief Project Grants	93.914	Clark County Health District/ 2H89HA06900-05	\$ 844,829
HIV Care Formula Grants	93.917*	State of Nevada Department of Human Resources/ 2 X07HA00001-21-00	3,848,038
HIV Care Formula Grants	93.917*	State of Nevada Department of Human Resources/ 2 X07HA00001-22-00	1,642,804
			<u>5,490,842</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00166-17-01	801,021
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00166-18-00	62,877
			<u>863,899</u>
Total U.S. Department of Health and Human Services			<u>7,199,570</u>

* A major program.

University Medical Center of Southern Nevada

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2012

Note 1. Reporting Entity

University Medical Center of Southern Nevada (the Hospital) a blended component unit (enterprise fund) of, owned and operated by, Clark County, Nevada (the County). The reporting entity is defined in Note 1 to the financial statements. The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Hospital.

Note 2. Basis of Presentation

The schedule includes all expended federal financial assistance received directly from federal agencies or passed through other government agencies and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

University Medical Center of Southern Nevada

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2012

Section I - Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

CFDA Number:	93.917
Name of Federal Program or Cluster:	U.S. Department of Health and Human Services, HIV Formula Care Grants
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

University Medical Center of Southern Nevada

Schedule of Findings and Questioned Costs (Continued)

For the Fiscal Year Ended June 30, 2012

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*:

12-1

Criteria: Posting of transactions, including adjustments, to patient accounts receivable should be restricted to appropriately trained and supervised personnel, with review and approval thereof by an appropriately authorized person independent of the transaction processing function, and any significant adjustments determined through this review process or otherwise should be posted to the books of account.

Condition: With regard to individual patient accounts, we recognize the complexities inherent in a process involving thousands of postings each month. We also recognize that some control and operational improvements have occurred; however, our audit procedures identified clerical errors to accounts that resulted in over credited accounts (*i.e.*, overpayment or over adjusted).

Effect: Reasonable assurance that inappropriate patient transactions and balances, including adjustments, will be prevented or detected timely cannot be readily attained, which could result in undetected financial statement misstatements and possible economic loss to the Hospital.

Cause: Management of the Hospital failed to adopt and monitor compliance with policies and procedures designed to provide reasonable assurance of appropriate posting of transactions, including adjustments, to patient accounts.

Recommendation: Management of the Hospital should adopt and monitor compliance with policies and procedures designed to address these issues.

Management's response: Management of the Hospital has informed us that it will review, update, and adopt such policies and procedures in conjunction with the implementation of an integrated healthcare information system, including systems for revenue cycle. Additionally, Management of the Hospital will monitor compliance with such policies and procedures.

University Medical Center of Southern Nevada

Schedule of Findings and Questioned Costs (Continued)

For the Fiscal Year Ended June 30, 2012

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*:

12-2

Criteria:	Contracts and lease agreements should be properly executed in accordance with the Hospital's procurement policy and recorded in the proper period.
Condition:	An instance was found wherein we identified one lease executed in 2011 that was omitted from the prior year's lease schedule. The lease met the capital lease requirements; however, was incorrectly determined to be an operating lease due to the use of an incorrect useful life. In addition, management could not support their calculation of the FMV of the equipment.
Effect:	Reasonable assurance cannot be readily attained that the recorded expenditures are in accordance with the intent of the contract or lease.
Cause:	Management at the Hospital failed to appropriately monitor the expenditures for compliance with the contract or lease terms.
Recommendation:	In light of this instance, we recommend that all leases be reviewed by authorized Finance Department personnel and approval of their classification be documented prior to implementation.
Management's response:	Management of the Hospital has informed us that processes were put into place during fiscal year 2011 that provide for documented review of all material contracts and leases, including amendments and changes to the contract and lease terms, by Finance prior to execution of the agreement.

University Medical Center of Southern Nevada

Schedule of Findings and Questioned Costs (Continued)

For the Fiscal Year Ended June 30, 2012

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*:

12-3

Criteria:	Management should review the monthly general ledger reconciliations timely.
Condition:	Two instances were found where schedules provided to us had errors in the calculation of the reported balances.
Effect:	Reasonable assurance that general ledger reconciliations are complete and accurate cannot be attained.
Cause:	Management at the Hospital failed to appropriately review the general ledger reconciliations.
Recommendation:	Account reconciliations should be reviewed at least monthly in order to identify and correct misstatements.
Management's response:	Management of the Hospital acknowledges that documented reviews of general ledger account reconciliations did not occur timely in fiscal year 2011; however, Management asserts that other procedures were in place throughout the fiscal year to detect material misstatements to the financial statements, including but not limited to, departmental and summary financial statements variance analysis to budgeted and historical balances and trend analysis of revenues and expenses. Management of the Hospital has informed us that processes have been updated in fiscal year 2012 to include documented management review of general ledger account reconciliations on a more timely basis.

University Medical Center of Southern Nevada

Schedule of Findings and Questioned Costs (Continued)

For the Fiscal Year Ended June 30, 2012

12-4

Criteria:	Expenses incurred during the audited fiscal period should be included in the accounts payable accrual.
Condition:	We identified a few instances in which charges related to major projects and professional fees were not accrued in the period in which the services were rendered.
Effect:	Reasonable assurance cannot be readily attained that costs in connection with major projects and certain professional fees reported for the year and related asset and liability accounts at year end are not misstated.
Cause:	A decision was made by management to record the expenses related to major projects on a cash basis. Additionally, it is the Hospital's current policy to not accrue, any invoices for professional fees received after the eighth day of the following month.
Recommendation:	We recommend management amend its current policy and establish a process to assure that such charges are accrued in the proper period of services rendered so that expenses reported for the year and related asset and liability accounts at year end are not misstated.
Management's response:	Management of the Hospital has informed us that they will review and amend the current policies to assure that expenses incurred from major projects and professional fees are accrued in the period in which the services were rendered.

University Medical Center of Southern Nevada

Schedule of Findings and Questioned Costs (Continued)

For the Fiscal Year Ended June 30, 2012

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

None reported

University Medical Center of Southern Nevada

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2011

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*:

11-1

Criteria:	Posting of transactions, including adjustments, to patient accounts receivable should be restricted to appropriately trained and supervised personnel, with review and approval thereof by an appropriately authorized person independent of the transaction processing function, and any significant adjustments determined through this review process or otherwise should be posted to the books of account.
Condition/context:	With regard to individual patient accounts, we recognize the complexities inherent in a process involving thousands of postings each month. We also recognize that some control and operational improvements have occurred; however, our audit procedures indentified clerical errors to accounts that resulted in over-debited and over-credited accounts and accounts with unapplied payments. In addition, some of the errors are related to miscoding of insurance carriers to the patient accounts.
Effect:	Reasonable assurance that inappropriate patient transactions and balances, including adjustments, will be prevented or detected timely cannot be readily attained, which could result in undetected financial statement misstatements and possible economic loss to the Hospital.
Cause:	Management of the Hospital failed to adopt and monitor compliance with policies and procedures designed to provide reasonable assurance of appropriate posting of transactions, including adjustments, to patient accounts.
Current status:	Uncorrected, see current year finding number 12-1.

University Medical Center of Southern Nevada

Summary Schedule of Prior Audit Findings (continued)

For the Year Ended June 30, 2011

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* (continued):

11-2

Criteria:	Contracts and lease agreements should be properly executed in accordance with the Hospital's procurement policy and recorded in the proper period.
Condition/context:	An instance was found wherein it was asserted that a contract had been orally amended to include additional payments for services, but there was no documented evidence of agreement by the counterparty to the change to the contract. In addition, we identified two leases executed in 2010 that were omitted from the prior year's lease schedule. One of the leases met the capital lease requirements; however, since the second lease did not indicate what portion of the monthly payment applied to equipment, it could not be determined if it met the capital lease requirements, and since classification of the leases was not material to the financial statements, they were both treated as operating leases.
Effect:	Reasonable assurance cannot be readily attained that the recorded expenditures are in accordance with the intent of the contract or lease.
Cause:	Management at the Hospital failed to appropriately monitor the expenditures for compliance with the contract or lease terms.
Current status:	Uncorrected, see current year finding number 12-2.

University Medical Center of Southern Nevada

Summary Schedule of Prior Audit Findings (continued)

For the Year Ended June 30, 2011

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* (continued):

11-3

Criteria:	Management should review the monthly general ledger reconciliations timely.
Condition/context:	Many of the 4th quarter monthly general ledger reconciliation's had not been reviewed as of September 2011.
Effect:	Reasonable assurance that general ledger reconciliations are complete and accurate cannot be attained.
Cause:	Management at the Hospital failed to appropriately review the general ledger reconciliations.
Current status:	Uncorrected, see current year finding number 12-3.

University Medical Center of Southern Nevada

Summary Schedule of Prior Audit Findings (continued)

For the Year Ended June 30, 2011

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

None reported.