

El Paso County Hospital District
d/b/a University Medical Center of El Paso
A Component Unit of El Paso County
Independent Accountants' Report and Financial Statements
September 30, 2011 and 2010

El Paso County Hospital District
d/b/a University Medical Center of El Paso
A Component Unit of El Paso County
September 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Managers
El Paso County Hospital District
d/b/a University Medical Center of El Paso
El Paso, Texas

We have audited the accompanying balance sheets of El Paso County Hospital District d/b/a University Medical Center of El Paso, a component unit of El Paso County, Texas, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital District'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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above, present fairly, in all material respects, the financial position of El Paso County Hospital District d/b/a University Medical Center of El Paso as of September 30, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular*, we have also issued our report dated December 16, 2011, on our consideration of the Hospital District's internal control over financial reporting and our tests of its compliance with certain provisions of Texas laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The accompanying management's discussion and analysis and pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 2011 audit was conducted for the purpose of forming an opinion on the Hospital District's basic financial statements taken as a whole. The accompanying other supplementary information as listed in the table of contents is presented for purposes of additional analysis of the Hospital District's basic financial statements rather than to present the financial position and its changes in financial position of the individual entities, and is not a required part of the basic financial statements. The combining information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to those basic financial statements taken as a whole.

BKD, LLP

December 16, 2011

El Paso County Hospital District
d/b/a University Medical Center of El Paso
A Component Unit of El Paso County
Management's Discussion and Analysis
Years Ended September 30, 2011 and 2010

Introduction

This section of the El Paso County Hospital District's (the "Hospital District") annual financial report presents management's discussion and analysis of the Hospital District's financial activities for the fiscal years ended September 30, 2011 and 2010. It should be read in conjunction with the financial statements in this report.

Financial Highlights

- In 2011, the Hospital District's bond rating was affirmed by Fitch Ratings with a 'AA' rating and a Stable outlook. In 2009, Standard & Poor's affirmed the bond rating at 'AA-' with a Stable outlook.
- The Hospital District's property tax rate was \$0.182124 in 2011. Except for the voter-approved tax increase for the Children's Hospital which commenced in 2009, the property tax rate has decreased annually since 2006.
- El Paso First HealthPlans, Inc. experienced a 12.5% growth in membership during the year.
- In 2011, the Hospital District invested an additional \$114.2 million in its infrastructure. Items included the grand opening of the new Trauma and Emergency Department areas and additional operating rooms in May 2011, the installation of the Computerized Physician Order Entry (CPOE) clinical system in August 2011, and grand opening of the Women's Center in October 2011 and the continued construction of the Children's Hospital.
- Total assets increased \$13.6 million (2.4%) between 2010 and 2011 and total assets increased \$3.7 million (.6%) between 2009 and 2010.
- Net assets increased \$3.8 million (1.6%) between 2010 and 2011 and net assets increased \$5.8 million (2.4%) between 2009 and 2010. Both years' increase in net assets was due to the income reported for the year.
- Operating revenues increased \$29.4 million or 9.4% between 2010 and 2011 primarily from an increase in premium revenue of \$9.3 million, an increase in Disproportionate Share revenue (DSH)/Upper Payment Limit (UPL) Program revenue of \$2.2 million, an increase in net patient service revenue of \$12.3 million and an increase of 43.2% or \$5.6 million in Other Revenue attributable to increased Foundation contributions and pharmaceutical in kind revenue.

Operating revenues increased \$26.9 million or 9.4% between 2009 and 2010 primarily from an increase in premium revenue of \$15.8 million, an increase in DSH/UPL Program revenue of \$5.6 million and an increase in net patient service revenue of \$4.7 million.

- Operating expenses increased \$17.7 million or 5.0% between 2010 and 2011 primarily from an increase in medical claims expense of \$3.2 million, an increase in salaries and employee benefits expense of \$9.6 million, an increase of supplies and other expenses of \$3.7 million,

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and increase in depreciation of \$1.7 million offset by a decrease in purchased services and professional fee expenses of \$.6 million.

Operating expenses increased \$19.0 million or 5.7% between 2009 and 2010 primarily from an increase in medical claims expense of \$13.4 million, an increase in salaries and employee benefits expense of \$7.9 million, an increase of supplies and other expenses of \$4.5 million, offset by a decrease in professional fee expenses of \$10.9 million.

- Nonoperating revenues decreased \$13.6 million or 30.5% between 2010 and 2011 primarily from an increase in intergovernmental transfer expense of \$13.9 million.

Nonoperating revenues decreased \$13.3 million or 22.9% between 2009 and 2010 primarily from an increase in intergovernmental transfer expense of \$12.0 million.

Overview of the Financial Statements

This annual report consists of four components: the Independent Accountants' Report, the Management's Discussion and Analysis (this section), the Financial Statements and Supplementary Information.

The Financial Statements of the Hospital District report the financial position of the Hospital District and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital District's activities.

The Balance Sheets include all of the Hospital District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital District creditors (liabilities) for both the current and prior year. They also provide the basis for evaluating the capital structure of the Hospital District and assessing the liquidity and financial flexibility of the Hospital District.

All revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the performance of the Hospital District's operations over the past two years and can be used to determine whether the Hospital District has been able to recover all of its costs through its patient service revenue, ad valorem taxes and other revenue sources.

The primary purpose of the Statements of Cash Flows is to provide information about the Hospital District's cash from operating, investing and financing activities. The cash flow statements outline where the cash comes from, what the cash is used for and the change in the cash balance during the reporting period.

The annual report also includes Notes to the Financial Statements that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the Financial Statements.

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Following the Notes to the Financial Statements is a section containing Supplementary Information that further explains and supports the information reported in the Financial Statements. This section includes schedules outlining Funding Progress, Trend Information, Actuarial Valuation for the Hospital District's Pension Plan, as well as the Combining Schedule of Balance Sheet information and Combining Schedule of Revenues, Expenses and Changes in Net Assets for 2011.

Financial Analysis of the Hospital District

The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets report information about the Hospital District's activities. These statements report the net assets of the Hospital District and changes in them. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the Hospital District. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor), taxable property values and tax rates and new or changed government legislation.

Net Assets

A summary of the Hospital District's Balance Sheets are presented in the following table:

Condensed Balance Sheets
(In millions)

| | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 |
|--|-----------------------------|-----------------------------|-----------------------------|
| Current and other assets | \$ 201.8 | \$ 284.6 | \$ 384.2 |
| Capital assets, net | 386.7 | 290.4 | 187.1 |
| Total assets | <u>588.5</u> | <u>575.0</u> | <u>571.3</u> |
| Long-term debt, including current maturities | 258.5 | 263.5 | 268.2 |
| Other liabilities | 79.3 | 64.6 | 62.0 |
| Total liabilities | <u>337.8</u> | <u>328.1</u> | <u>330.2</u> |
| Invested in capital assets - net of related debt | 139.1 | 92.0 | 89.2 |
| Restricted | 28.9 | 76.1 | 39.7 |
| Unrestricted | 82.7 | 78.8 | 112.2 |
| Total net assets | <u>\$ 250.7</u> | <u>\$ 246.9</u> | <u>\$ 241.1</u> |

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Total assets increased \$13.6 million or 2.4% between 2010 and 2011.

- Current and other assets decreased \$82.5 million or 29.3% primarily as a result of bond funding being expended on construction projects.
- Capital assets increased \$96.3 million or 33.2% primarily due to the Master Facility Expansion and the Children's Hospital construction projects.
- Total liabilities increased \$9.7 million or 3.0% primarily due to the timing of UPL and medical claims payments.

Total assets increased \$3.7 million or 0.6% between 2009 and 2010.

- Current and other assets decreased \$99.6 million or 25.9% primarily as a result of bond funding being expended on construction projects.
- Capital assets increased \$103.3 million or 55.2% primarily due to the Master Facility Expansion and the Children's Hospital construction projects.
- Total liabilities decreased \$2.1 million or 0.6% primarily from the principal payments on the various bond issues.

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Summary of Revenues, Expenses and Changes in Net Assets

The following table presents a summary of the Hospital District's revenues and expenses for each of the fiscal years ended September 30, 2011, 2010 and 2009:

**Condensed Statements of Revenues, Expenses and
Changes in Net Assets
(In millions)**

| | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Operating Revenue | | | |
| Net patient service revenue | \$ 148.3 | \$ 136.0 | \$ 131.3 |
| Premium revenue | 118.3 | 109.0 | 93.2 |
| Disproportionate share revenue | 56.8 | 54.6 | 49.0 |
| Other revenue | 19.5 | 13.9 | 13.0 |
| | <u>342.9</u> | <u>313.5</u> | <u>286.5</u> |
| Operating Expense | | | |
| Maintenance and operation expenses | 256.8 | 243.9 | 240.0 |
| Medical claims expense | 95.2 | 92.0 | 78.5 |
| Depreciation and amortization expense | 18.2 | 16.6 | 15.0 |
| | <u>370.2</u> | <u>352.5</u> | <u>333.5</u> |
| Operating Loss | (27.3) | (39.0) | (47.0) |
| Nonoperating Revenues, Net | <u>31.1</u> | <u>44.8</u> | <u>58.0</u> |
| Increase in Net Assets | 3.8 | 5.8 | 11.0 |
| Net Assets, Beginning of Year | <u>246.9</u> | <u>241.1</u> | <u>230.1</u> |
| Net Assets, End of Year | <u><u>\$ 250.7</u></u> | <u><u>\$ 246.9</u></u> | <u><u>\$ 241.1</u></u> |

Note: Certain reclassifications have been made to 2009 amounts to conform to the 2010 and 2011 financial statement presentation. The reclassifications had no effect on the Hospital District's changes in net assets.

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Operating revenues increased \$29.4 million or 9.4% between 2011 and 2010.

- Premium revenue increased \$9.3 million or 8.5% primarily due to health plan increased membership.
- Disproportionate Share/Upper Payment Limit revenue increased \$2.2 million or 3.9% primarily due to higher federal funding levels.
- Net patient service revenue increased \$12.3 million or 9.1% due to increased inpatient and outpatient volumes and improved cash collections.
- Uncompensated care increased to \$312.8 million in 2011 (\$193.1 million in charity care - a 5.2% increase from 2010 and \$119.7 million in bad debt expense - a 8.0% increase from 2010) from \$294.4 million in 2010 (\$183.5 million in charity care and \$110.8 million in bad debt expense) - an overall increase of 6.3%.

Operating revenues increased \$26.9 million or 9.4% between 2010 and 2009.

- Premium revenue increased \$15.8 million or 17% primarily due to health plan increased membership.
- Disproportionate Share/Upper Payment Limit revenue increased \$5.6 million or 11.4% primarily due to higher federal funding levels.
- Net patient service revenue increased \$4.7 million or 3.6% due to increased inpatient and outpatient volumes and improved cash collections.
- Uncompensated care increased to \$297 million in 2010 (\$187 million in charity care - a 31.2% increase from 2009 and \$110 million in bad debt expense - a 1.8% increase from 2009) from \$250 million in 2009 (\$142 million in charity care and \$108 million in bad debt expense) - an overall increase of 18.5%.

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The following table presents the relative percentages of gross charges billed for patient services by payer for the fiscal years ended September 30, 2011, 2010 and 2009:

| Payer | Years Ended September 30 | | | | |
|------------|--------------------------|------|--------|------|--------|
| | 2011 | 2010 | Change | 2009 | Change |
| Medicare | 17% | 17% | -% | 16% | 1% |
| Medicaid | 22% | 22% | -% | 23% | (1)% |
| Commercial | 5% | 5% | -% | 6% | (1)% |
| Charity | 24% | 25% | (1)% | 23% | 2% |
| Self-Pay | 22% | 21% | 1% | 21% | -% |
| HMO/PPO | 5% | 5% | -% | 5% | 1% |
| Other | 5% | 5% | -% | 6% | (1)% |
| | 100% | 100% | | 100% | |

Operating expenses increased \$17.7 million or 5.0% between 2011 and 2010.

- Medical claims expense increased \$3.2 million or 3.5% primarily due to increased health plan membership and increased NICU related claims.
- Salaries and employee benefits expense increased \$9.6 million or 7.8% due to increased volumes, compensation for systems development on computer physician order entry and increased staffing in preparation for new hospital opening in 2012.
- Supplies and other expenses increased \$3.7 million or 4.7% primarily due to increase in pharmaceutical received in kind and increases in volumes for surgery and cardiology.
- Physician fees expenses decreased \$.5 million or 7.7% as a result of additional physician contracts that were transferred to and became part of the Private UPL program. A corresponding increase in the Intergovernmental transfer expense is discussed in the nonoperating section below.
- Depreciation expense increased by \$1.7 million or 10% due to opening of West Expansion in November 2010.
- Purchased services expense decreased by \$.7 million or 0.2% as a result of a decrease in referrals to outside medical care providers.

Operating expenses increased \$19.0 million or 5.7% between 2010 and 2009.

- Medical claims expense increased \$13.5 million or 17.2% primarily due to increased health plan membership and increased NICU and H1N1- related claims.

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- Salaries and employee benefits expense increased \$7.9 million or 6.9% due to annual compensation increases for associates, a full year impact of changes to compensation plans to reflect market adjustments to retain and recruit associates and an overall increase in benefit costs most notable in the health and medical expenses.
- Supplies and other expenses increased \$4.5 million or 6.2% primarily in oncology, cardiology and blood products.
- Physician fees expenses decreased \$11 million or 63.3% as a result of additional physician contracts that were transferred to and became part of the Private UPL program. A corresponding increase in the Intergovernmental transfer expense is discussed in the nonoperating section below.

Nonoperating activity decreased \$13.6 million or 30.5% between 2011 and 2010.

- Intergovernmental transfer expense increased \$13.8 million or 63.1% due to additional physician contracts that became part of the Private UPL program requiring additional funding. The program is designed to bring additional federal funding to the community to serve indigent patients.

Nonoperating activity decreased \$13.3 million or 22.9% between 2010 and 2009.

- Intergovernmental transfer expense increased \$12.0 million or 119.7% due to additional physician contracts that became part of the Private UPL program requiring additional funding. The program is designed to bring additional federal funding to the community to serve indigent patients.

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Capital Assets

The following table presents a summary of the Hospital District's capital assets as of September 30, 2011, 2010 and 2009:

| Capital Assets | | | | |
|--|--------------------|--------------------|----------------|--------------------|
| (In millions) | | | | |
| | Fiscal Year | Fiscal Year | Dollar | Fiscal Year |
| | 2011 | 2010 | Change | 2009 |
| Land and land improvements | \$ 10.1 | \$ 10.1 | \$ - | \$ 7.0 |
| Building and leasehold improvements | 163.6 | 128.7 | 34.9 | 127.2 |
| Equipment | 180.8 | 163.0 | 17.8 | 159.7 |
| | <u>354.5</u> | <u>301.8</u> | <u>52.7</u> | <u>293.9</u> |
| Construction in progress | 245.3 | 183.8 | 61.5 | 75.5 |
| Accumulated depreciation | <u>(213.1)</u> | <u>(195.2)</u> | <u>(17.9)</u> | <u>(182.4)</u> |
| Property, plant and equipment, net of accumulated depreciation | <u>\$ 386.7</u> | <u>\$ 290.4</u> | <u>\$ 96.3</u> | <u>\$ 187.0</u> |

The Hospital District's significant construction projects include:

- \$154 million Master Facility Expansion Project – Construction began in November 2008 with an anticipated completion date in June 2012. This project is to be paid from the 2005 bond issue proceeds of \$113 million and the remaining \$41 million from Hospital District cash reserves.
- \$16.5 million Infrastructure Improvement Projects – There are various individual projects on which construction began in 2008 and completion is expected in mid-2012. This project is to be paid from Hospital District cash reserves.
- \$122 million Children's Hospital – Construction began in February 2009 with an anticipated completion date of January 2012. This project is to be paid from the 2008 bond issue proceeds.

Capital Assets increased \$96.3 million or 33.2% between 2011 and 2010. The Hospital District invested \$114.2 million of which \$103 million was for the Master Facility Expansion, Infrastructure and Children's Hospital construction projects and the remaining was for the Ysleta Clinic renovation project, continued development on the Electronic Health Record system and annual routine capital purchases. The ratio of capital expenditures to depreciation expense is 627% in 2011.

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Capital Assets increased \$103.4 million or 55.3% between 2010 and 2009. The Hospital District invested \$116.2 million of which \$108 million was for the Master Facility Expansion, Infrastructure and Children's Hospital construction projects and the remaining was for the Ysleta Clinic renovation project, continued development on the Electronic Health Record system and annual routine capital purchases. The ratio of capital expenditures to depreciation expense is 701% in 2010.

Long-term Debt

Long-term debt consists of the following:

- Series 2009, \$25.8 million Refunding Bonds
- Series 2008A, \$120.1 million General Obligation Bonds
- Series 2005, \$120 million Combination Tax and Revenue Bonds

Long-term debt, including current maturities, at September 30, 2011, totaled \$259 million and decreased 2% from 2010 primarily due to scheduled principal payments. Long-term debt represents 76.5% of the total liabilities at September 30, 2011.

Long-term debt, including current maturities, at September 30, 2010, totaled \$264 million and decreased 2% from 2009 primarily due to scheduled principal payments. Long-term debt represents 80% of the total liabilities at September 30, 2010. In 2010, the Series 2009 \$25.8 million Refunding Bonds were issued to refund the Series 2002 and Series 1998 bond issues.

More detailed information about the Hospital District's long-term debt is presented in the notes to the basic financial statements.

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Economic Factors and Key Challenges

The Hospital District's board and senior management considered many factors while forecasting its fiscal year 2012 budget. One of the most significant concerns taken into consideration while planning the budget is the status of the economy, which takes into account market forces and environmental factors, such as:

- ***Medicaid Program.*** The Texas Health and Human Services Commission (HHSC) submitted a Section 1115, *Demonstration Waiver to the Centers for Medicare & Medicaid Services*, which was approved by CMS on December 12, 2011. The waiver includes plans for statewide expansion of Medicaid managed care, creation of Regional Healthcare Partnerships, and transition to quality-based payment systems for managed care and hospitals. The waiver also includes plans to divert savings generated by the proposed changes into a pool to cover uncompensated care costs for hospitals and other providers. The waiver has yet to be formally approved by CMS. Estimating the impact upon Medicaid reimbursement is not possible at this date. We are working with our reimbursement experts to assess the impact to our campus.
- ***Medicaid DSH Program.*** HHSC has developed a new workgroup to review payments made under the Medicaid Disproportionate Share Program. The workgroup has been tasked to review the current Medicaid DSH program and provide recommendations on improvements to the program.
- ***Health Plan and New State Managed Care Organization ("MCO") Contract.*** Beginning March 1, 2012, HHSC will have new contracts with MCO's. There are many different changes, some unknown at this time, as to its operational impact. One of the material change is that El Paso First will now be providing Pharmacy administrative services and enhanced Disease Management services to its membership beginning March 1, 2012. The estimated cost to provide these additional services is \$1.4 million for the seven month period ending September 30, 2012. HHSC has yet to provide any updates to the Premium Capitation PMPM revenue amounts related to these changes.
- ***Federal Deficit Reduction.*** With the congressional deficit-reduction committee's recent failure to agree on at least \$1.2 trillion in spending cuts over the next decade, the automatic cuts, or sequestration, are split between defense and domestic programs, with cuts in Medicare provider payments capped at 2% annually. While Congress will likely revisit ways to reduce the federal deficit before 2013, various proposals submitted by the committee could be approved, leading to an additional \$400 billion to \$600 billion in Medicare and Medicaid reductions during the next 10 years. The automatic Medicare cuts, reductions in payments to doctors, hospitals and other healthcare providers, would hit hospitals harder than any other health industry. Providers will spend the next year re-examining services offered and how services are delivered, with an eye to reducing administrative costs.
- ***Affordable Care Act.*** The Affordable Care Act dramatically alters the United States health care system and is intended to decrease the number of uninsured Americans and reduce overall health care costs. The Affordable Care Act attempts to achieve these goals by, among other things,

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requiring most Americans to obtain health insurance, expanding Medicare and Medicaid eligibility, reducing Medicare and Medicaid payments, including DSH payments to providers, expanding the Medicare program's use of value-based purchasing programs, tying hospital payments to the satisfaction of certain quality criteria, and bundling payments to hospitals and other providers. The Affordable Care Act also contains a number of measures that are intended to reduce fraud and abuse in the Medicare and Medicaid programs. Because a majority of the measures contained in the Affordable Care Act do not take effect until 2013, it is difficult to predict the impact the Affordable Care Act will have on our facilities.

- ***Value-Based Purchasing.*** There is a trend in the health care industry toward value-based purchasing of health care services. Medicare and Medicaid require hospitals to report certain quality data to receive full reimbursement updates. The Affordable Care Act reduces inpatient hospital payments for all discharges by 1% beginning 2013 and increasing by 0.25% each fiscal year up to 2% in 2017 and subsequent years. Medicare will pool the amount collected from these reductions to fund payments to reward hospitals that meet or exceed certain quality performance standards.
- ***Children's Hospital Partnership.*** Our partnership with the Children's Hospital continues to grow and evolve. For 2012, our budget includes a \$5.8 million expense to cover the Children's Hospital operating needs. These expenses are projected to cover the Children's Hospital pre-opening expenses. The Hospital will be opening February 2012. It is expected that this amount will be recovered at a future date.
- ***New Service Lines.*** In 2012, we are expecting to grow our revenue stream by enhancing or growing new services lines. The areas with growth include the surgery, cardiology, medical and ICU.

Contacting the Hospital District's Financial Manager

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital District's finances and to demonstrate the Hospital District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the El Paso County Hospital District, Fiscal Services Office, 4815 Alameda Avenue, El Paso, Texas 79905.

Report of Management's Responsibility

The management of the Hospital District is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and the Financial Accounting Standards Board and include amounts based on judgments and estimates made by management. Management also prepares the other information included in the report and is responsible for its accuracy and consistency with the financial statements.

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The 2011 and 2010 financial statements have been audited by the independent accounting firm of **BKD, LLP**, who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the board of managers. The board of managers, through its Finance Committee (the "Committee"), provides oversight to the financial reporting process. Integral to this process is the Committee's review and discussion with management of the monthly financial statements and the external auditors for the annual financial statements.

The Hospital District maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded and that assets are properly safeguarded, and also to provide reasonable assurance to our management and the board of managers regarding the reliability of our financial statements. The internal control system includes:

- A documented organizational structure and division of responsibility.
- Established policies and procedures that are regularly communicated and that demand highly ethical conduct from all employees.

The Hospital District's Compliance Department monitors the operation of the internal control system and reports findings and recommendations to management and the board of managers as appropriate. Corrective actions are taken to address control deficiencies and other opportunities for improvement as they are identified.

El Paso County Hospital District
d/b/a University Medical Center of El Paso

/s/ James N. Valenti

James N. Valenti
President and CEO

/s/ Michael L. Nuñez

Michael L. Nuñez, CHFP, CPA
Chief Financial Officer

El Paso County Hospital District
d/b/a University Medical Center of El Paso
A Component Unit of El Paso County
Balance Sheets
September 30, 2011 and 2010
(In thousands)

| Assets | 2011 | 2010 |
|---|-------------|-------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 108,517 | \$ 39,035 |
| Short-term investments | 6 | 16,520 |
| Current portion of cash and investments held for self-funded insurance reserves | 1,992 | 2,076 |
| Patient accounts receivable, net of allowance for uncollectible accounts of \$39,521 in 2011 and \$33,865 in 2010 | 11,296 | 8,827 |
| Appropriation receivable for delinquent property taxes, net of allowance of \$3,836 in 2011 and \$3,703 in 2010 | 1,587 | 1,521 |
| Disproportionate share funds receivable | 7,824 | 10,377 |
| Supplies | 5,840 | 5,503 |
| Prepaid expenses and other | 8,975 | 6,465 |
| | <hr/> | <hr/> |
| Total current assets | 146,037 | 90,324 |
| Noncurrent Cash and Investments | | |
| Held by trustee for debt service | 1,436 | 1,442 |
| Held by trustee for self-funded insurance | 3,824 | 3,687 |
| Held by trustee for project construction | 30,825 | 134,851 |
| Held for Foundation | 2,003 | 918 |
| Restricted for medical claims | 700 | 700 |
| | <hr/> | <hr/> |
| | 38,788 | 141,598 |
| Less amount required to meet current obligations | 1,992 | 2,076 |
| | <hr/> | <hr/> |
| | 36,796 | 139,522 |
| Other long-term investments | 16,002 | 51,449 |
| | <hr/> | <hr/> |
| | 52,798 | 190,971 |
| Capital Assets, Net | <hr/> | <hr/> |
| | 386,715 | 290,417 |
| Other Assets | <hr/> | <hr/> |
| | 2,982 | 3,246 |
| | <hr/> | <hr/> |
| Total assets | \$ 588,532 | \$ 574,958 |
| | <hr/> <hr/> | <hr/> <hr/> |

Liabilities and Net Assets

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 75,370 | \$ 60,375 |
| Current maturities of long-term debt | 5,006 | 4,991 |
| Estimated self-insurance costs, current portion | <u>1,992</u> | <u>2,076</u> |
| Total current liabilities | 82,368 | 67,442 |
| | | |
| Estimated Self-insurance Costs | 1,093 | 1,436 |
| | | |
| Long-term Debt | 253,524 | 258,530 |
| | | |
| Other Long-term Liabilities | <u>821</u> | <u>657</u> |
| | | |
| Total liabilities | <u>337,806</u> | <u>328,065</u> |
| | | |
| Net Assets | | |
| Invested in capital assets - net of related debt | 139,129 | 92,017 |
| Restricted | 28,895 | 76,076 |
| Unrestricted | <u>82,702</u> | <u>78,800</u> |
| Total net assets | <u>250,726</u> | <u>246,893</u> |
| | | |
| Total liabilities and net assets | <u>\$ 588,532</u> | <u>\$ 574,958</u> |

El Paso County Hospital District
d/b/a University Medical Center of El Paso
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010
(In thousands)

| | 2011 | 2010 |
|--|-------------------|-------------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$119,741, 2010 - \$110,836 | \$ 148,329 | \$ 135,985 |
| Premium revenue | 118,253 | 109,003 |
| Upper Payment Limit/Disproportionate share program revenue | 56,778 | 54,628 |
| Other revenue | 19,531 | 13,915 |
| Total operating revenues | 342,891 | 313,531 |
| Operating Expenses | | |
| Salaries and employee benefits | 132,686 | 123,042 |
| Medical claims expense | 95,226 | 92,005 |
| Purchased services | 36,238 | 36,309 |
| Professional fees | 5,877 | 6,366 |
| Supplies and other | 81,881 | 78,184 |
| Depreciation and amortization | 18,249 | 16,588 |
| Total operating expenses | 370,157 | 352,494 |
| Operating Loss | (27,266) | (38,963) |
| Nonoperating Revenues (Expenses) | | |
| Investment return | 625 | 1,251 |
| Interest expense | (1,502) | (534) |
| County appropriation - property taxes | 65,857 | 64,617 |
| Intergovernmental transfer | (35,839) | (21,969) |
| Tobacco settlement | 1,255 | 1,127 |
| Miscellaneous | 1,456 | 771 |
| Contributions to others | (753) | (518) |
| Total nonoperating revenues | 31,099 | 44,745 |
| Increase in Net Assets | 3,833 | 5,782 |
| Net Assets, Beginning of Year | 246,893 | 241,111 |
| Net Assets, End of Year | \$ 250,726 | \$ 246,893 |

El Paso County Hospital District
d/b/a University Medical Center of El Paso
Statements of Cash Flows
Years Ended September 30, 2011 and 2010
(In thousands)

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|------------------|
| Operating Activities | | |
| Receipts from and on behalf of patients and members | \$ 264,831 | \$ 247,139 |
| Payments to suppliers and contractors | (207,361) | (200,516) |
| Payments to employees | (129,296) | (121,778) |
| Cash received from DSH/UPL | <u>59,331</u> | <u>53,769</u> |
| Net cash used in operating activities | <u>(12,495)</u> | <u>(21,386)</u> |
| Noncapital Financing Activities | | |
| County appropriations supporting operations | 52,998 | 51,750 |
| Cash received from tobacco settlement | 1,389 | 1,127 |
| Cash paid for contributions to others | (29,214) | (26,706) |
| Other cash received (paid) | <u>(5,766)</u> | <u>2,755</u> |
| Net cash provided by noncapital financing activities | <u>30,939</u> | <u>28,926</u> |
| Capital and Related Financing Activities | | |
| Proceeds from issuance of bonds payable | - | 20,805 |
| Principal paid on bonds payable | (4,820) | (25,760) |
| Interest paid on bonds payable | (12,488) | (12,193) |
| County appropriations to acquire or retire debt for acquisitions of capital assets | 11,330 | 11,752 |
| Purchase of capital assets | <u>(101,912)</u> | <u>(102,097)</u> |
| Net cash used in capital and related financing activities | <u>(107,890)</u> | <u>(107,493)</u> |
| Investing Activities | | |
| Interest on investments | 3,416 | 4,126 |
| Purchase of investments | (59,661) | (204,452) |
| Proceeds from disposition of investments | <u>215,541</u> | <u>224,794</u> |
| Net cash provided by activities | <u>159,296</u> | <u>24,468</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 69,850 | (75,485) |
| Cash and Cash Equivalents, Beginning of Year | <u>54,102</u> | <u>129,587</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 123,952</u> | <u>\$ 54,102</u> |

(Continued)

El Paso County Hospital District
d/b/a University Medical Center of El Paso
Statements of Cash Flows (Continued)
Years Ended September 30, 2011 and 2010
(In thousands)

| | 2011 | 2010 |
|--|-------------|-------------|
| Reconciliation of Cash and Cash Equivalents to the Balance Sheets | | |
| Cash and cash equivalents in current assets | \$ 108,517 | \$ 39,035 |
| Cash and cash equivalents in current portion of cash and investments held for self-funded insurance reserves | 1,992 | 2,076 |
| Cash and cash equivalents in noncurrent cash and investments | 13,443 | 12,991 |
| Total cash and cash equivalents | \$ 123,952 | \$ 54,102 |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | |
| Operating loss | \$ (27,266) | \$ (38,963) |
| Depreciation and amortization | 18,249 | 16,588 |
| Accrued self-insurance costs | (428) | 417 |
| Provision for uncollectible accounts | 119,741 | 110,836 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | (121,913) | (108,236) |
| Accounts payable and accrued expenses | 1,941 | 3,225 |
| Other assets and liabilities | (2,819) | (5,253) |
| Net cash used in operating activities | \$ (12,495) | \$ (21,386) |

El Paso County Hospital District
d/b/a University Medical Center of El Paso
A Component Unit of El Paso County
Notes to Financial Statements
September 30, 2011 and 2010
(Tables in thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The El Paso County Hospital District d/b/a University Medical Center of El Paso (the "Hospital District") is a component unit of El Paso County, Texas (the "County"). The Commissioner's Court (the "Court") of the County appoints the Hospital District's governing body (the "Board") and approves the Hospital District's budget, tax rate and issuance of bonded debt. The Hospital District is charged with the legal responsibility to provide medical and hospital care to all County residents regardless of their ability to pay based upon Board approved eligibility guidelines.

The Hospital District is the sole corporate member of El Paso First Health Plans, Inc. (the "Health Plan"), University Medical Center Foundation of El Paso (the "Foundation"), Thomason Cares, Inc. ("Thomason Cares") and TexHealth El Paso County Multi Share Plan ("TexHealth"). The Health Plan and Thomason Cares were incorporated as Texas not-for-profit corporations and have been certified under the Medical Practices Act of Texas as Section 501(a) not-for-profit health organizations. The Foundation and the TexHealth are Section 501(c)(3) corporations and were created for the exclusive benefit of the Hospital District. The Thomason Health Facilities Development Corporation (the "Corporation"), a nonstock, not-for-profit corporation, was created by the Hospital District pursuant to the Health Facilities Development Corporation Act for the purpose of acquiring health-related equipment for the Hospital District. The Corporation is inactive.

Thomason Cares operates as a physician group practice of primary care physicians. It employs physicians for the Hospital District's outpatient clinics and pediatric unit of the hospital. The Health Plan is licensed as a health maintenance organization by the Texas Department of Insurance ("TDI") and serves as third-party administrator for the Hospital District's medical claims.

Basis of Accounting and Presentation

The financial statements of the Hospital District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county or state appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available. The Hospital District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board

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("GASB"). Pursuant to GASB Statement No. 20, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB") that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2011 and 2010, cash equivalents consisted primarily of money market funds, overnight repurchase agreements and certificates of deposit.

Authorized Investments

The Board of the Hospital District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act (Section 2256, Texas Government Code). Under the Public Funds Investment Act, the Hospital District is authorized to make investments in (1) obligations of the United States or its agencies, (2) direct obligations of the state of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit and (5) other instruments and obligations authorized by statute.

For the fiscal years ended September 30, 2011 and 2010, management of the Hospital District believes that it has complied with the provisions of the Public Funds Investment Act and the Hospital District's investment policies.

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County Appropriations – Property Taxes

The Hospital District received approximately 16.1% in 2011 and 17.1% in 2010 of its financial support from county appropriations funded by property taxes. These funds were used as follows:

| | 2011 | 2010 |
|---|-------------|-------------|
| Percentage used to support operations | 82.8% | 81.8% |
| Percentage used for debt service on bonds | 17.2% | 18.2% |
| Total | 100.0% | 100.0% |

Property taxes are levied January 1 and become due October 1 each year based on the value of all real and personal property located in the County. Assessed taxes become delinquent February 1. The tax rate is set at a level to meet the Hospital District’s budgeted debt service and operating needs. Debt service needs include both interest expense and scheduled principal reductions of general obligation bonds and obligations for which property tax revenues have been pledged.

County appropriations funded by property taxes are recorded in the fiscal period the appropriations are received. Appropriations receivable for delinquent property taxes are recorded, net of provisions for uncollectible amounts, collection expenses and appraisal fees. Subsequent adjustments to the tax rolls made by the County Assessor are included in revenues in the period such adjustments are made.

Premium Revenue

Premium revenue represents premiums collected through the Texas Department of Health and Human Services (“HHSC”), Children’s Health Insurance Program (“CHIP”) and the State of Texas Access Reform Medicaid programs (“STAR”). Premiums are due monthly and are recognized as revenue during the period in which El Paso First is obligated to provide services to members.

Intergovernmental Transfer

The Hospital District has entered into an affiliation agreement with an area hospital to improve the level of health care provided to the County indigent population by participating in one of the state’s Medicaid supplemental payment programs for privately owned safety-net hospitals. The Hospital District provides funding for the nonfederal share of the Medicaid Supplemental Payment Program (“Private” UPL program). This amount approximated \$35.8 million in 2011 and \$21.9 million in 2010.

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Tobacco Settlement Revenue

Tobacco settlement revenues are the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. The Hospital District received approximately \$1.2 million in 2011 and \$1.1 million in 2010, associated with the settlement. The funding from the tobacco industry is to offset indigent health care costs of local governments.

Risk Management

The Hospital District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice, worker's compensation and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital District is self-insured for a portion of its exposure to risk of loss from medical malpractice, worker's compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice, worker's compensation and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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Reserves for Incurred But Not Reported Medical Claims

Management estimates and provides reserves for incurred but not reported physician and hospital services rendered to enrolled members during the period. These reserves represent management's best estimate of the ultimate net cost of all reported and unreported claims incurred during the reporting period. The estimate is based on actuarial projections of the historical development of claims incurred but not reported and case-basis estimates of claims reported prior to the end of the reporting period.

The estimate of the unpaid claims liability is based on the best data available to management; however, because of the limited history, the estimates are subject to a significant degree of inherent variability. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Although management believes the estimate of the unpaid liability is reasonable, it is possible that actual incurred claims expense will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of the claims may vary significantly from the estimate included in the accompanying financial statements.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

During the years ended September 30, 2011 and 2010, the Hospital District capitalized interest expense of \$10.5 million and \$12.8 million, respectively.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are included in other assets and are being amortized over the term of the respective debt using a method that approximates the effective interest method.

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Compensated Absences

Hospital District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expenses and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Extended sick leave benefits are recognized when time off occurs and no liability is accrued for such benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

Net Assets

Net assets of the Hospital District are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to the Hospital District, including amounts deposited with trustees as required by bond indentures. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

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Income Taxes

As an essential government function of the County, the Hospital District is generally exempt from federal income taxes under Section 115 of the Internal Revenue Code. However, the Hospital District is subject to federal income tax on any unrelated business taxable income.

Thomason Cares, the Foundation and the Health Plan are incorporated as not-for-profit corporations in the state of Texas.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. The reclassifications had no effect on the change in net assets or financial position.

Note 2: Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The Hospital District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and audits thereof by the Medicare fiscal intermediary. The Hospital District's Medicare cost reports have been audited by the Medicare administrative contractor through September 30, 2006.

Medicaid – Non-Managed. Inpatient services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge similar to those of the Medicare inpatient program. Medicaid outpatient beneficiaries are reimbursed primarily under a cost reimbursement methodology. For outpatients, the Hospital District is reimbursed at a preliminary rate, with the final settlement determined after submission of annual cost reports by the Hospital District and audits thereof by the Medicaid fiscal intermediary. The Hospital District's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2006.

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Revenue from the Medicare program accounted for approximately 16.7% in 2011 and 16.7% in 2010 of the Hospital District's total gross patient revenues. Revenue from the Medicaid program accounted for approximately 22.5% in 2011 and 22.5% in 2010 of the Hospital District's total gross patient revenues. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Uncompensated Care

In support of its mission, the Hospital District voluntarily provides care to patients at less than its established charges for patients that meet the Hospital District's charity care criteria. Because the Hospital District does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. Charges excluded from revenue under the Hospital District's charity care policy were \$193.1 million in 2011 and \$183.5 million in 2010. Additional uncompensated care in the form of uncollectible patient account receivables totaled \$119.7 million in 2011 and \$110.8 million in 2010. In total, the Hospital District provided uncompensated care of \$312.8 million and \$294.4 million in 2011 and 2010, respectively.

Note 4: Funds for the Indigent Medical Care

The DSH has been established by the state of Texas to access additional federal matching funds for selected hospitals that provide services to low income and uninsured patients. The Hospital District received approximately \$56.7 million in 2011 and \$54.6 million in 2010. According to the DSH guidelines, the Hospital District may use the funds for the benefit of the indigent in either the immediate or future periods.

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Note 5: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Texas; bonds of any city, county, school district or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At September 30, 2011, a portion of the Hospital District's cash balances were held in noninterest-bearing accounts and were therefore fully secured under FDIC coverage. At September 30, 2011 and 2010, respectively, the Hospital District had recorded deposits of \$45.6 million and \$19.6 million that were exposed to custodial credit risk as uninsured and collateralized with securities held by a custodial bank that is an agent of the Hospital District.

Investments

At September 30, 2011 and 2010, the Hospital District had all of its investments in U.S. Treasury and agency obligations with the following maturities:

| | 2011 | 2010 |
|----------------------------|-------------|-------------|
| One year or less | \$ 6 | \$ 16,520 |
| Between one and five years | 39,355 | 177,980 |
| | \$ 39,361 | \$ 194,500 |

El Paso County Hospital District
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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Carrying value | | |
| Deposits | \$ 123,952 | \$ 54,102 |
| Investments | 39,361 | 194,500 |
| | <u>\$ 163,313</u> | <u>\$ 248,602</u> |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | \$ 108,517 | \$ 39,035 |
| Short-term investments | 6 | 16,520 |
| Cash and investments - current self-insurance | 1,992 | 2,076 |
| Noncurrent cash and investments | 52,798 | 190,971 |
| | <u>\$ 163,313</u> | <u>\$ 248,602</u> |

Investment Return

Investment return for the years ended September 30, 2011 and 2010, consisted of:

| | <u>2011</u> | <u>2010</u> |
|---|---------------|-----------------|
| Interest income | \$ 1,304 | \$ 2,066 |
| Net decrease in fair value of investments | (679) | (815) |
| | <u>\$ 625</u> | <u>\$ 1,251</u> |

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Note 6: Patient Accounts Receivable

The Hospital District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2011 and 2010, consisted of:

| | <u>2011</u> | <u>2010</u> |
|---|------------------|-----------------|
| Medicare | \$ 3,637 | \$ 2,711 |
| Medicaid | 1,820 | 1,763 |
| Other third-party payers | 15,260 | 14,084 |
| Patients | <u>30,100</u> | <u>24,134</u> |
| | 50,817 | 42,692 |
| Less allowance for uncollectible accounts | <u>39,521</u> | <u>33,865</u> |
| | <u>\$ 11,296</u> | <u>\$ 8,827</u> |

Note 7: Investment in the Health Plan

The Hospital District's net contributions to the Health Plan result in a net investment of \$12.8 million at September 30, 2011 and 2010. The Hospital District contributions to the Health Plan were made to meet working capital needs and fund statutory cash reserve requirements.

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Note 8: Capital Assets

Capital assets, accumulated depreciation and related activity as of and for the years ended September 30, are as follows:

| | Estimated Useful In Years | 2009 | Additions | Transfer/ Disposals/ Retirements | 2010 | Additions | Transfer/ Disposals/ Retirements | 2011 |
|---|---------------------------|------------|------------|----------------------------------|------------|------------|----------------------------------|------------|
| Land and improvements | - | \$ 6,998 | \$ 3,057 | \$ - | \$ 10,055 | \$ 73 | \$ - | \$ 10,128 |
| Buildings and improvements | 8-40 | 127,248 | 1,470 | - | 128,718 | 34,934 | (9) | 163,643 |
| Movable and fixed equipment | 3-15 | 159,709 | 6,109 | (2,810) | 163,008 | 18,335 | (603) | 180,740 |
| | | 293,955 | 10,636 | (2,810) | 301,781 | 53,342 | (612) | 354,511 |
| Less accumulated depreciation and amortization | | (182,428) | (16,588) | 3,785 | (195,231) | (18,249) | 339 | (213,141) |
| | | 111,527 | (5,952) | 975 | 106,550 | 35,093 | (273) | 141,370 |
| Construction in progress including capitalized interest | | 75,548 | 111,724 | (3,405) | 183,867 | 107,199 | (45,721) | 245,345 |
| Property, plant and equipment - net | | \$ 187,075 | \$ 105,772 | \$ (2,430) | \$ 290,417 | \$ 142,292 | \$ (45,994) | \$ 386,715 |

Depreciation and amortization expense totaled \$18.2 million in 2011 and \$16.6 million in 2010.

Construction in Progress

Master Plan Implementation Project – Construction began in November 2008 with an anticipated completion date in June 2012. This project is expected to cost \$154 million and is to be paid from the \$113 million in proceeds from the 2005 bond issue (see Note 11) and the remaining \$41 million will be paid from Hospital District reserves.

Infrastructure Improvement Projects – There are various individual construction projects estimated to cost \$16.5 million, to be paid from Hospital District reserves and completed by mid-2012.

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Children’s Hospital – Construction began in February 2009 with an anticipated completion date in January 2012. This project is expected to cost \$122 million and is to be paid mainly from the proceeds from the 2008 bond issue (see Note 11).

At September 30, 2011, the Hospital District had commitments approximating \$48 million related to these and other construction projects.

Note 9: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2011 and 2010, consisted of:

| | 2011 | 2010 |
|---|-------------|-------------|
| Payable to suppliers and contractors | \$ 37,362 | \$ 27,572 |
| Payable to employees (including payroll taxes and benefits) | 13,416 | 12,687 |
| Medical claims payable | 16,011 | 12,857 |
| Estimated third-party payer settlements | 2,117 | 1,392 |
| Other | 6,464 | 5,867 |
| | \$ 75,370 | \$ 60,375 |

Note 10: Medical Malpractice, Employee Health and Workers’ Compensation Claims

The Hospital District is self-insured for claims under the Texas Workers’ Compensation Act (the “Act”). At September 30, 2011, the Hospital District had accrued approximately \$807 million, which in the opinion of management, is sufficient to cover all claims arising under the Act through September 30, 2011. The accrual is based on an independent actuarial determination obtained by management for all claims arising in the self-insured period.

The Hospital District is self-insured for malpractice claims against the Hospital District. At September 30, 2011, the Hospital District had accrued approximately \$884,000 that in the opinion of management, is sufficient to cover all asserted and unasserted claims incurred through September 30, 2011. The accrual is based on an independent actuarial determination obtained by management for all claims arising in the self-insured period. The estimate is based on a maximum liability, under Texas statute, of \$100,000 for each person, \$300,000 for each single occurrence for

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bodily injury or death and \$100,000 for each single occurrence for injury to or destruction of property. Because of these limits on its liability, the Hospital District does not hold commercial stop-loss coverage for malpractice claims.

Eligible employees of the Hospital District are covered under a self-insured health plan, which is administered by a third party. The Hospital District accrues a liability for all claims that are estimated to have been incurred prior to year-end under the plan. At September 30, 2011, an accrual, based on an independent actuarial determination, of approximately \$1.39 million was recorded for all estimated claims incurred.

At September 30, 2011 and 2010, the Hospital District's assets designated for self-insured obligations were \$3.7 million and \$3.6 million, respectively. Changes in the Hospital District's aggregate claims liability in fiscal years 2011 and 2010 are as follows:

| | Beginning of Fiscal Year Liability | Current- Year Expenses | Claim Payments | Balance at Fiscal Year-End |
|------------------------------|---|---------------------------------------|---------------------------|---|
| Employee health claims | | | | |
| 2010 | \$ 1,003 | \$ 8,387 | \$ (8,064) | \$ 1,326 |
| 2011 | \$ 1,326 | \$ 8,649 | \$ (8,581) | \$ 1,394 |
| Workers' compensation claims | | | | |
| 2010 | \$ 1,146 | \$ 434 | \$ (491) | \$ 1,089 |
| 2011 | \$ 1,089 | \$ 73 | \$ (355) | \$ 807 |
| Professional liability | | | | |
| 2010 | \$ 946 | \$ 189 | \$ (38) | \$ 1,097 |
| 2011 | \$ 1,097 | \$ (22) | \$ (191) | \$ 884 |

The Hospital District has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the Hospital District's self-insurance reserves and will not materially affect the financial position of the Hospital District or the results of its operations and changes in its net assets.

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Note 11: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital District for the years ended September 30, 2011 and 2010:

| | 2011 | | | | |
|---------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Bonds payable | \$ 260,905 | \$ - | \$ 4,820 | \$ 256,085 | \$ 4,835 |
| Plus | | | | | |
| Bond premium and discount | <u>2,616</u> | <u>-</u> | <u>171</u> | <u>2,445</u> | <u>171</u> |
| Total long-term debt | <u>\$ 263,521</u> | <u>\$ -</u> | <u>\$ 4,991</u> | <u>\$ 258,530</u> | <u>\$ 5,006</u> |
| | | | | | |
| | 2010 | | | | |
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Bonds payable | \$ 266,251 | \$ 20,805 | \$ 26,151 | \$ 260,905 | \$ 4,820 |
| Plus | | | | | |
| Bond premium and discount | <u>1,984</u> | <u>745</u> | <u>113</u> | <u>2,616</u> | <u>171</u> |
| Total long-term debt | <u>\$ 268,235</u> | <u>\$ 21,550</u> | <u>\$ 26,264</u> | <u>\$ 263,521</u> | <u>\$ 4,991</u> |

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Bonds Payable

In June 1998, the Hospital District issued Series 1998 General Obligation Refunding Bonds. Proceeds from this issue were used to refund all of the Hospital District's Series 1988A General Obligation Refunding Bonds in order to lower the overall annual debt service requirements of the Hospital District. The Series 1998 Premium Capital Appreciation Bonds are not subject to redemption prior to maturity. The Series 1998 Current Interest Bonds, at the option of the Hospital District, provide for early redemption in whole or in part on August 15, 2008, or any date thereafter until their 2012 maturity, at the par value thereof plus accrued interest to the date of redemption.

The orders that authorized the issuance of the Series 1998 bonds declare that the County must levy a continuing direct tax on taxable property within the County for each year these bonds are outstanding. Tax revenues, levied within the limits prescribed by law, must be sufficient, with allowances made for delinquencies and collection costs, to pay the debt service requirements of the Series 1998 refunding bonds. Tax revenues must also provide for payment of maintenance and operating expenses after payment of principal and interest on the Series 1998 bonds and pay any subsequent subordinate lien revenue bonds that may be issued with priority over maintenance and operating expenses.

In August 2002, the Hospital District issued Series 2002 Public Property Finance Contractual Obligations. Proceeds from the sale of the Contractual Obligations were used to purchase certain capital assets and to pay for related costs of issuance.

The Series 2002 Public Property Finance Contractual Obligations, at the option of the Hospital District, provide for early redemption on Obligations having stated maturities on and after August 15, 2008, in whole or in part, on August 15, 2007, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

The Series 2002 Public Property Finance Contractual Obligations constitute direct obligations of the Hospital District, payable from the levy and collection of an ad valorem tax levied for the benefit of the Hospital District by the Court, within the limits prescribed by law, on all taxable property located within the Hospital District and any revenues or funds available to the Hospital District for its public purpose.

In October 2009, the Hospital District refunded the Series 2002 Public Property Finance Contractual Obligations; and the Series 1998 General Obligation Refunding Bonds; with \$25.8 million Refunding Bonds, Series 2009 bond issue. The 2002 Public Property Finance Contractual Obligations redemption requirement was \$18 million and the Series 1998 General Obligation Refunding Bonds redemption requirement was \$8.4 million at the time of the closing. The original maturity schedule of the 2002 Public Property Finance Contractual Obligations and the Series 1998 General Obligation Refunding Bonds from 2010 to 2018 were maintained with a stated interest rate ranging from 2.0% to 3.5%. The Series 2009 are not subject to redemption prior to maturity. The Series 2009 bonds are direct obligations of the Hospital District and are payable from an ad valorem tax.

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In December 2005, the Hospital District issued \$120 million in Combination Tax and Revenue Bonds. Proceeds of the bonds will finance the construction and equipping of operating and emergency departments, replacement facility for inpatient surgery, the addition of private patient rooms and the establishment of a heart program at the hospital facility, as well as the establishment of additional outpatient services and expansion of the infusion center (see Note 8).

The Series 2005 Combination Tax and Revenue Bonds, at the option of the Hospital District, provide for early redemption on Obligations having stated maturities on and after September 30, 2013, in whole or in part, on August 15, 2007, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

The Series 2005 Combination Tax and Revenue Bonds constitute direct obligations of the Hospital District, payable from the levy and collection of an ad valorem tax levied for the benefit of the Hospital District by the Court, within the limits prescribed by law, on all taxable property located within the Hospital District and any revenues or funds available to the Hospital District for its public purpose.

In May 2008, the Hospital District issued \$120.1 million in Series 2008A General Obligation Bonds. Proceeds of the bonds will finance the construction and equipping of a Children's Hospital as part of the Hospital District's hospital system (see Note 8).

The Series 2008A General Obligation Bonds, at the option of the Hospital District, provide for early redemption on Obligations having stated maturities on and after August 15, 2019, in whole or in part, on August 15, 2018, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

The Series 2008A General Obligation Bonds constitute direct obligations of the Hospital District, payable from the levy and collection of an ad valorem tax levied for the benefit of the Hospital District by the Court, within the limits prescribed by law, on all taxable property located within the Hospital District and any revenues or funds available to the Hospital District for its public purpose.

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The debt service requirements of the various bond issues as of September 30, 2011, are as follows:

| Year Ending September 30, | Total to be Paid | Principal | Interest |
|--------------------------------------|-----------------------------|-------------------|-------------------|
| 2012 | \$ 17,208 | \$ 4,835 | \$ 12,373 |
| 2013 | 17,277 | 5,040 | 12,237 |
| 2014 | 17,273 | 5,230 | 12,043 |
| 2015 | 17,273 | 5,440 | 11,833 |
| 2015 | 17,271 | 5,690 | 11,581 |
| 2016-2020 | 86,801 | 32,955 | 53,846 |
| 2021-2025 | 87,076 | 42,150 | 44,926 |
| 2026-2030 | 87,080 | 53,730 | 33,350 |
| 2031-2035 | 87,080 | 68,555 | 18,525 |
| 2036-2038 | 34,831 | 32,460 | 2,371 |
| | <u>\$ 469,170</u> | <u>\$ 256,085</u> | <u>\$ 213,085</u> |

Note 12: Restricted Net Assets

At September 30, 2011 and 2010, restricted expendable net assets were available for the following purposes:

| | 2011 | 2010 |
|--|------------------|------------------|
| Debt service | \$ 24,298 | \$ 74,307 |
| Medical claims | 700 | 700 |
| Foundation | 3,897 | 1,069 |
| Total restricted expendable net assets | <u>\$ 28,895</u> | <u>\$ 76,076</u> |

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Note 13: Pension Plan

Plan Description – The Hospital District provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The board of trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system, consisting of 618 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a Comprehensive Annual Financial Report (“CAFR”) on a calendar-year basis.

The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The Plan provisions are adopted by the governing body of the employer within the options available in the Texas state statutes governing TCDRS (“TCDRS Act”). Members can retire at age 60 and above with eight or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the Plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee’s contributions to the Plan, with interest and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy – The Hospital District has elected the annually determined contribution rate plan provisions of the TCDRS Act. The Plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 5.94% for the months of the accounting year in 2011 and 6.07% for the months of the accounting year in 2010.

The contribution rate payable by the employee members for calendar years 2011 and 2010 is 5%, as adopted by the governing body of the Hospital District. The employee contribution rate and the employer contribution rate may be changed by the governing body of the Hospital District within the options available in the TCDRS Act.

Annual Pension Cost and Net Pension Obligation – For the Hospital District’s fiscal years ended September 30, 2011 and 2010, the annual pension cost of the TCDRS plan was approximately \$6.3 million and \$5.8 million, respectively, with the actual employee contributions approximating pension costs.

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The annual required contributions were actuarially determined as a percentage of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, parameters based on the actuarial valuations as of December 31, 2010 and 2009, the basis for determining the contribution rates for calendar years 2011 and 2010. The December 31, 2010, actuarial valuation is the most recent valuation.

Funding Status and Funding Progress – The following is funded status information as of December 31, 2010, the most recent actuarial valuation date.

| Valuation Date (1) | Actuarial Value of Assets ("AVA") (2) | Actuarial Accrued Liability ("AAL") (3) | Unfunded Actuarial Accrued Liability ("UAAL") (3) (2) (4) | Funded Ratio (2) (3) (5) | Annual Covered Payroll (6) | UAAL as Percentage of Covered Payroll (4) (6) (7) |
|-----------------------|---|---|---|-----------------------------------|-------------------------------------|--|
| December 31, 2010 | \$ 170,165 | \$ 199,592 | \$ 29,427 | 85.3% | \$ 102,323 | 28.8% |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 14: Medical School Affiliation

The Hospital District is the teaching hospital for the Texas Tech University Health Sciences Center (the "Center") in El Paso, Texas. The Hospital District annually contracts with the Center for services provided by faculty and resident/trainee physicians. Professional fees expense associated with this program totaled \$850,000 in 2011 and \$1.4 million in 2010. Accrued expenses in the accompanying balance sheets include fees payable to the Center of approximately \$298,000 at September 30, 2011, and \$110,000 at September 30, 2010.

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Note 15: Contingencies

In the normal course of business, the Hospital District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital District's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 16: Subsequent Events

The Hospital District evaluates the impact of subsequent events, 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 or disclosure in the notes to the financial statements. The Hospital District evaluated events occurring subsequent to September 30, 2011 through December 16, 2011, the date on which the accompanying financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure.

Supplementary Information – 2011

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Schedule of Funding Progress for Pension Plan
September 30, 2011
“Unaudited”

| Valuation Date (1) | Actuarial Value of Assets ("AVA") (2) | Actuarial Accrued Liability ("AAL") (3) | Unfunded Actuarial Accrued Liability ("UAAL") (3) (2) (4) | Funded Ratio (2) (3) (5) | Annual Covered Payroll (6) | UAAL as Percentage of Covered Payroll (4) (6) (7) |
|-----------------------|---|---|---|-----------------------------------|-------------------------------------|--|
| December 31, 2009 | \$ 135,373 | \$ 160,914 | \$ 25,541 | 84.1% | \$ 86,169 | 29.6% |
| December 31, 2010 | \$ 154,759 | \$ 181,445 | \$ 26,686 | 85.3% | \$ 99,436 | 26.8% |
| December 31, 2011 | \$ 170,165 | \$ 199,592 | \$ 29,427 | 85.3% | \$ 102,323 | 28.8% |

Note 1: Dollar amounts in thousands.

Note 2: All required supplementary information has been prepared in accordance with GASB Statement Nos. 25, *Financial Reporting for Defined Benefit Pension Plans* and Note Disclosures for Defined Contribution Plans and 27, *Accounting for Pensions by State and Local Governmental Employers*.

El Paso County Hospital District
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Schedule of Trend Information for Pension Plan
September 30, 2011
“Unaudited”

| Accounting Year Ended | Annual Pension Cost (“APC”) | Percentage of APC Contributed | Net Pension Obligation |
|----------------------------------|--|--|-----------------------------------|
| September 30, 2009 | \$ 5,043 | 100% | \$ - |
| September 30, 2010 | \$ 5,782 | 100% | \$ - |
| September 30, 2011 | \$ 6,302 | 100% | \$ - |

El Paso County Hospital District
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Schedule of Actuarial Valuation Information
September 30, 2011
“Unaudited”

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the actuarial valuation dates is as follows:

| Valuation Date | December 31, 2011 | | |
|---|--|--|--|
| | 2009 | 2010 | 2011 |
| Actuarial cost method | Entry Age | Entry Age | Entry Age |
| Amortization method | Level percentage of payroll, closed | Level percentage of payroll, closed | Level percentage of payroll, closed |
| Actuarial period | 20 years | 20 years | 20 years |
| Asset valuation method | SAF: 10-yr smoothed value ESF: Fund value | SAF: 10-yr smoothed value ESF: Fund value | SAF: 10-yr smoothed value ESF: Fund value |
| Actuarial assumptions | | | |
| Inflation | 3.50% | 3.50% | 3.50% |
| Investment rate of return ¹ | 8.00% | 8.00% | 8.00% |
| Projected salary increases ¹ | 5.40% | 5.40% | 5.40% |
| Cost-of-living adjustments | 0.00% | 0.00% | 0.00% |

¹Includes inflation at the stated rate.

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Combining Schedule of Balance Sheet Information
September 30, 2011
(In thousands)

| Assets | Medical Center | El Paso First | Thomason Cares | Foundation |
|---|---------------------------|--------------------------|---------------------------|-------------------|
| Current Assets | | | | |
| Cash and cash equivalents | \$ 79,218 | \$ 29,299 | \$ - | \$ - |
| Short-term investments | 6 | - | - | - |
| Current portion of cash and investments held for self-funded insurance reserves | 1,992 | - | - | - |
| Patient accounts receivable, net of allowance for uncollectible accounts - \$39,521 | 11,296 | - | - | - |
| Delinquent property taxes, net of allowance - \$3,836 | 1,587 | - | - | - |
| Disproportionate share funds receivable | 7,824 | - | - | - |
| Supplies | 5,812 | - | - | 28 |
| Prepaid expenses and other | 4,423 | 2,610 | - | 1,942 |
| Total current assets | <u>112,158</u> | <u>31,909</u> | <u>-</u> | <u>1,970</u> |
| Due From | | | | |
| Hospital District | - | 168 | 214 | - |
| El Paso First | 675 | - | - | - |
| Foundation | 1,016 | - | - | - |
| Noncurrent Cash and Investments | | | | |
| Held by trustee for debt service | 1,436 | - | - | - |
| Held by trustee for self-funded insurance | 3,824 | - | - | - |
| Held by trustee for project construction | 30,825 | - | - | - |
| Held by Foundation | - | - | - | 2,003 |
| Restricted for medical claims | - | 700 | - | - |
| | 36,085 | 700 | - | 2,003 |
| Less amount required to meet current obligations | <u>1,992</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | 34,093 | 700 | - | 2,003 |
| Investment in El Paso First | 12,825 | - | - | - |
| Other long-term investments | 1,002 | 15,000 | - | - |
| | <u>47,920</u> | <u>15,700</u> | <u>-</u> | <u>2,003</u> |
| Capital Assets, Net | <u>383,283</u> | <u>2,267</u> | <u>-</u> | <u>1,165</u> |
| Other Assets | <u>2,982</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 548,034</u> | <u>\$ 50,044</u> | <u>\$ 214</u> | <u>\$ 5,138</u> |

| <u>Eliminations</u> | <u>Combined</u> |
|---------------------|-------------------|
| \$ - | \$ 108,517 |
| - | 6 |
| - | 1,992 |
| - | 11,296 |
| - | 1,587 |
| - | 7,824 |
| - | 5,840 |
| - | 8,975 |
| <u>-</u> | <u>146,037</u> |
| (382) | - |
| (675) | - |
| (1,016) | - |
| - | 1,436 |
| - | 3,824 |
| - | 30,825 |
| - | 2,003 |
| - | 700 |
| <u>-</u> | <u>38,788</u> |
| - | 1,992 |
| - | 36,796 |
| (12,825) | - |
| - | 16,002 |
| <u>(12,825)</u> | <u>52,798</u> |
| <u>-</u> | <u>386,715</u> |
| - | 2,982 |
| <u>\$ (14,898)</u> | <u>\$ 588,532</u> |

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Combining Schedule of Balance Sheet Information (Continued)
September 30, 2011
(In thousands)

| Liabilities and Net Assets | Medical Center | El Paso First | Thomason Cares | Foundation |
|--|---------------------------|--------------------------|---------------------------|-------------------|
| Current Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 56,088 | \$ 18,843 | \$ 214 | \$ 225 |
| Current maturities of long-term debt | 5,006 | - | - | - |
| Estimated self-insurance costs - current | 1,992 | - | - | - |
| | <u>63,086</u> | <u>18,843</u> | <u>214</u> | <u>225</u> |
| Due To | | | | |
| Hospital District | - | 675 | - | 1,016 |
| El Paso First | 168 | - | - | - |
| Thomason Cares | 214 | - | - | - |
| Estimated Self-Insurance Costs | 1,093 | - | - | - |
| Long-term Debt | 253,524 | - | - | - |
| Other Long-term Liabilities | 821 | - | - | - |
| Total liabilities | <u>318,906</u> | <u>19,518</u> | <u>214</u> | <u>1,241</u> |
| Net Assets | | | | |
| Invested in capital assets - net of related debt | 139,129 | 2,267 | - | - |
| Restricted | 24,298 | 700 | - | 3,897 |
| Unrestricted | 65,701 | 27,559 | - | - |
| Total net assets | <u>229,128</u> | <u>30,526</u> | <u>-</u> | <u>3,897</u> |
| Total liabilities and net assets | <u>\$ 548,034</u> | <u>\$ 50,044</u> | <u>\$ 214</u> | <u>\$ 5,138</u> |

| Eliminations | Combined |
|---------------------|-------------------|
| \$ - | \$ 75,370 |
| - | 5,006 |
| - | 1,992 |
| - | 82,368 |
| (1,691) | - |
| (168) | - |
| (214) | - |
| - | 1,093 |
| - | 253,524 |
| - | 821 |
| <u>(2,073)</u> | <u>337,806</u> |
| (2,267) | 139,129 |
| - | 28,895 |
| <u>(10,558)</u> | <u>82,702</u> |
| <u>(12,825)</u> | <u>250,726</u> |
| <u>\$ (14,898)</u> | <u>\$ 588,532</u> |

El Paso County Hospital District
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Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2011
(In thousands)

| | Medical Center | El Paso First | Thomason Cares | Foundation |
|---|---------------------------|--------------------------|---------------------------|-------------------|
| Operating Revenues | | | | |
| Net patient service revenue, net of provision - 2011-\$119,741 | \$ 148,329 | \$ - | \$ - | \$ - |
| Premium revenue | - | 118,253 | - | - |
| Disproportionate share revenue | 56,778 | - | - | - |
| Other revenue | 23,221 | 1,148 | 4,884 | 4,248 |
| Total operating revenues | <u>228,328</u> | <u>119,401</u> | <u>4,884</u> | <u>4,248</u> |
| Operating Expenses | | | | |
| Salaries and employee benefits | 132,705 | - | 4,884 | - |
| Medical claims expense | - | 95,226 | - | - |
| Purchased services | 31,786 | 11,348 | - | 939 |
| Professional fees | 5,877 | - | - | - |
| Supplies and other | 78,819 | 3,975 | - | 215 |
| Depreciation and amortization | 17,594 | 655 | - | - |
| Total operating expenses | <u>266,781</u> | <u>111,204</u> | <u>4,884</u> | <u>1,154</u> |
| Operating Income (Loss) | <u>(38,453)</u> | <u>8,197</u> | <u>-</u> | <u>3,094</u> |
| Nonoperating Revenues (Expenses) | | | | |
| Investment return | 447 | 178 | - | - |
| Interest expense | (1,502) | - | - | - |
| County appropriation - property taxes | 65,857 | - | - | - |
| Intergovernmental transfer | (35,839) | - | - | - |
| Tobacco settlement | 1,255 | - | - | - |
| Miscellaneous - other | 1,445 | - | - | 13 |
| Contributions to others | (580) | - | - | (279) |
| Total nonoperating revenues (expenses) | <u>\$ 31,083</u> | <u>\$ 178</u> | <u>\$ -</u> | <u>\$ (266)</u> |

| Eliminations | Combined |
|---------------------|------------------|
| \$ - | \$ 148,329 |
| - | 118,253 |
| - | 56,778 |
| <u>(13,970)</u> | <u>19,531</u> |
| <u>(13,970)</u> | <u>342,891</u> |
| (4,903) | 132,686 |
| - | 95,226 |
| (7,835) | 36,238 |
| - | 5,877 |
| (1,128) | 81,881 |
| <u>-</u> | <u>18,249</u> |
| <u>(13,866)</u> | <u>370,157</u> |
| <u>(104)</u> | <u>(27,266)</u> |
| - | 625 |
| - | (1,502) |
| - | 65,857 |
| - | (35,839) |
| - | 1,255 |
| (2) | 1,456 |
| <u>106</u> | <u>(753)</u> |
| <u>\$ 104</u> | <u>\$ 31,099</u> |

El Paso County Hospital District
d/b/a University Medical Center of El Paso
A Component Unit of El Paso County
Combining Schedule of Revenues, Expenses and Changes in Net Assets
(Continued)
Year Ended September 30, 2011
(In thousands)

| | Medical Center | El Paso First | Thomason Cares | Foundation |
|--|---------------------------|--------------------------|---------------------------|------------------------|
| Increase (Decrease) in Net Assets | \$ (7,370) | \$ 8,375 | \$ - | \$ 2,828 |
| Net Assets, Beginning of Year | <u>236,498</u> | <u>22,151</u> | <u>-</u> | <u>1,069</u> |
| Net Assets, End of Year | <u><u>\$ 229,128</u></u> | <u><u>\$ 30,526</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 3,897</u></u> |

| <u>Eliminations</u> | <u>Combined</u> |
|---------------------|-------------------|
| \$ - | \$ 3,833 |
| <u>(12,825)</u> | <u>246,893</u> |
| <u>\$ (12,825)</u> | <u>\$ 250,726</u> |

**El Paso County Hospital District
d/b/a University Medical Center of El Paso**

Report to the Board of Managers and Management

For the Year Ended September 30, 2011

**El Paso County Hospital District
d/b/a University Medical Center of El Paso
Report to the Board of Managers and Management
For the Year Ended September 30, 2011**

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El Paso County Hospital District
d/b/a University Medical Center of El Paso
Report to the Board of Managers and Management
For the Year Ended September 30, 2011

Financial Operating Matters

We have prepared a comparison of the Statements of Operations for University Medical Center of El Paso (the "Medical Center") for the years ended September 30, 2011, 2010 and 2009. Following the Statements of Operations is a statistical comparison of the results of the Medical Center.

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|-----------------------------------|---------------------------|---------------------------|---------------------------|
| | (in thousands) | | |
| Gross patient service revenues | \$ 738,671 | \$ 712,637 | \$ 620,029 |
| Less free services and allowances | <u>590,342</u> | <u>576,652</u> | <u>488,724</u> |
| Net patient service revenue | 148,329 | 135,985 | 131,305 |
| Disproportionate share revenue | 56,778 | 54,628 | 48,964 |
| Other revenue | <u>23,221</u> | <u>19,291</u> | <u>13,109</u> |
| Total operating revenues | <u>228,328</u> | <u>209,904</u> | <u>193,378</u> |
| Operating expenses | | | |
| Salaries and wages | 110,676 | 101,894 | 96,627 |
| Employee benefits | <u>22,029</u> | <u>21,165</u> | <u>18,478</u> |
| Employee compensation | 132,705 | 123,059 | 115,105 |
| Purchased services | 31,787 | 33,123 | 31,422 |
| Professional fees | 5,877 | 6,366 | 17,326 |
| Supplies and other | 78,819 | 75,498 | 65,970 |
| Depreciation and amortization | <u>17,594</u> | <u>15,985</u> | <u>14,173</u> |
| Total operating expense | <u>266,782</u> | <u>254,031</u> | <u>243,996</u> |
| Operating loss | <u><u>\$ (38,454)</u></u> | <u><u>\$ (44,127)</u></u> | <u><u>\$ (50,618)</u></u> |

Percentage of Total Operating Revenues

| 2011 | 2010 | 2009 |
|----------------------|----------------------|----------------------|
| 323.5% | 339.5% | 320.6% |
| <u>258.5%</u> | <u>274.7%</u> | <u>252.7%</u> |
| 65.0% | 64.8% | 67.9% |
| 24.9% | 26.0% | 25.3% |
| <u>10.1%</u> | <u>9.2%</u> | <u>6.8%</u> |
| <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| 48.5% | 48.5% | 50.0% |
| <u>9.6%</u> | <u>10.1%</u> | <u>9.6%</u> |
| 58.1% | 58.6% | 59.6% |
| 13.9% | 15.8% | 16.2% |
| 2.6% | 3.0% | 9.0% |
| 34.5% | 36.0% | 34.1% |
| <u>7.7%</u> | <u>7.6%</u> | <u>7.3%</u> |
| <u>116.8%</u> | <u>121.0%</u> | <u>126.2%</u> |
| <u><u>-16.8%</u></u> | <u><u>-21.0%</u></u> | <u><u>-26.2%</u></u> |

**El Paso County Hospital District
d/b/a University Medical Center of El Paso
Report to the Board of Managers and Management
For the Year Ended September 30, 2011**

Financial Overview

The following is an overview of the results of the Medical Center in financial ratio form compared to Thomson Reuters' high performing hospitals, major teaching hospitals, regional and state averages as reported by *The Comparative Performance of U.S. Hospitals: The Source Book - 2010*. The financial ratios are classified into four categories: profitability, revenues and expenses, liquidity and capital structure. While the latest figures reported in *The Comparative Performance of U.S. Hospitals: The Source Book - 2010* are from 2009, they should prove to be a useful guide in evaluating the Medical Center's current year operations.

Ratios exclude transfers from and to El Paso First, Thomason Cares and the University Medical Center Foundation as well as the operations of El Paso First, Thomason Cares and the University Medical Center Foundation.

Profitability: Strong operating results are necessary to provide the resources for growth and stability in the future. Decreased reimbursement from Medicare and Medicaid, the continued emergence and pressures from preferred provider and health maintenance organizations and ever increasing capital costs have financially strained many hospitals.

| University Medical Center | | | Median | | | |
|---------------------------|------|------|-----------------|--------------------------|----------|-------|
| | | | High Performing | Major Teaching Hospitals | Regional | Texas |
| 2011 | 2010 | 2009 | | | | |

Operating profit margin is the measure of a hospital's profitability with respect to its patient care services and operations. Desired position - Above median.

| | | | | | | |
|--------|--------|--------|------|-----|-----|-----|
| (16.8) | (21.0) | (26.2) | 12.5 | 4.1 | 3.7 | 4.9 |
|--------|--------|--------|------|-----|-----|-----|

Total profit margin is the measure of the overall profitability of a hospital and includes contributions, grants, investment income and other revenue and expense not related to patient care. Desired position - Above median.

| | | | | | | |
|-------|-----|-----|------|-----|-----|-----|
| (3.2) | 0.1 | 3.7 | 12.0 | 3.0 | 3.0 | 4.1 |
|-------|-----|-----|------|-----|-----|-----|

Return on assets is another measure of the overall profitability of a hospital as it compares the amount of net income generated in comparison to assets as it controls. Desired position - Above median.

| | | | | | | |
|-------|-----|-----|------|-----|-----|-----|
| (1.3) | 0.0 | 1.3 | 14.1 | 3.1 | 3.1 | 4.9 |
|-------|-----|-----|------|-----|-----|-----|

El Paso County Hospital District
d/b/a University Medical Center of El Paso
Report to the Board of Managers and Management
For the Year Ended September 30, 2011

Revenues and Expenses: Measures of revenues and expenses often illuminate the underlying causes of favorable or unfavorable financial performance.

| | University Medical Center | | | Median | | | |
|--|---------------------------|----------|----------|--------------------|--------------------------------|----------|----------|
| | 2011 | 2010 | 2009 | High Performing | Major Teaching Hospitals | Regional | Texas |
| Deductions from gross patient revenue measures the percentage of gross patient revenue from all health care operations that is discounted to third-party payers, bad debts and charity care. Desired position - Below median. | 79.9 | 80.9 | 78.8 | 65.2 | 63.8 | 66.2 | 68.9 |
| Revenue per adjusted discharge is the measure of operating revenue that a medical center collects per equivalent inpatient stay and thus is an indicator of a hospital's ability to generate revenues from patient care operations. Desired position - Above median. | \$ 8,147 | \$ 7,617 | \$ 6,899 | \$ 9,986 | \$ 15,249 | \$ 8,192 | \$ 8,726 |
| Expense per adjusted discharge is the measure of the Medical Center's cost of delivering care per equivalent inpatient stay. Desired position - Below median. | \$ 9,520 | \$ 9,218 | \$ 8,705 | \$ 8,399 | \$ 14,740 | \$ 7,780 | \$ 7,955 |
| Full-time equivalent per adjusted average daily census is the measure of the staffing level of the Medical Center. Desired position - Below median. | 5.8 | 5.5 | 5.4 | 4.8 | 6.3 | 4.7 | 4.6 |

**El Paso County Hospital District
d/b/a University Medical Center of El Paso
Report to the Board of Managers and Management
For the Year Ended September 30, 2011**

Liquidity: These ratios measure the ability of the Medical Center's ability to meet its current operating costs and short-term liabilities. Working capital and cash flow are also measured by these ratios.

| | University Medical Center | | | Median | | | |
|--|---------------------------|------|------|-----------------|--------------------------|----------|-------|
| | 2011 | 2010 | 2009 | High Performing | Major Teaching Hospitals | Regional | Texas |

Days cash on hand is the measure of cash and available investments on hand to meet daily expenses.

| | | | | | | |
|-------|-------|-------|-----|-----|-----|-----|
| 117.5 | 113.0 | 174.3 | N/A | N/A | N/A | N/A |
|-------|-------|-------|-----|-----|-----|-----|

Current ratio is a measure of liquidity. It is the proportion of current liabilities. Desired position - Above median.

| | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|
| 1.8 | 1.3 | 2.4 | 2.5 | 1.9 | 2.5 | 2.6 |
|-----|-----|-----|-----|-----|-----|-----|

Days in patient accounts receivable is the average time (in days) that receivables are outstanding. It is computed by dividing net patient accounts receivable by net patient revenue per day. Desired position - Below median.

| | | | | | | |
|------|------|------|------|------|------|------|
| 27.8 | 23.7 | 31.7 | 47.7 | 48.6 | 50.0 | 48.9 |
|------|------|------|------|------|------|------|

Average payment period is the measure of average time to meet current liabilities by operating expenses per day (less depreciation). Desired position - Below median.

| | | | | | | |
|------|------|------|------|------|------|------|
| 92.4 | 79.4 | 83.6 | 39.5 | 61.1 | 41.2 | 39.2 |
|------|------|------|------|------|------|------|

**El Paso County Hospital District
d/b/a University Medical Center of El Paso
Report to the Board of Managers and Management
For the Year Ended September 30, 2011**

Capital Structure: Capital structure ratios include comparisons of the Medical Center's long-term debt to equity, assets and operating results. These ratios are often used in determining your ability to increase your amount of debt financing.

| University Medical Center | | | Median | | | |
|---------------------------|------|------|-----------------|--------------------------|----------|-------|
| | | | High Performing | Major Teaching Hospitals | Regional | Texas |
| 2011 | 2010 | 2009 | | | | |

Capital costs as a percentage of operating expenses measures the relative amount of fixed costs. Desired position - Below median.

| | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|
| 7.2 | 6.5 | 6.1 | 6.7 | 5.6 | 7.0 | 7.7 |
|-----|-----|-----|-----|-----|-----|-----|

Average age of plant measures the average accounting age of the Medical Center's property and equipment. It is computed by dividing depreciation expense into accumulated depreciation. Desired position - Below median.

| | | | | | | |
|------|------|------|-----|------|-----|-----|
| 11.8 | 11.9 | 12.5 | 9.4 | 11.0 | 8.4 | 8.4 |
|------|------|------|-----|------|-----|-----|

Long-term debt to total assets measures the Medical Center's degree of financial leverage. It is computed by dividing long-term debt by a medical center's total assets. Desired position - Below median.

| | | | | | | |
|------|------|------|------|------|------|------|
| 47.2 | 48.0 | 48.4 | 13.0 | 33.0 | 20.0 | 15.0 |
|------|------|------|------|------|------|------|

Board of Managers and Management
El Paso County Hospital District
d/b/a University Medical Center of El Paso
El Paso, Texas

As part of our audit of the financial statements of El Paso County Hospital District d/b/a University Medical Center of El Paso (the “Hospital District”) as of and for the year ended September 30, 2011, we wish to communicate the following to you.

Audit Scope and Results

Auditor’s Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*.

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and compliance with the state of Texas circular. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Hospital District’s significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

We had no discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for Uncollectible Accounts – Patient accounts receivable are reduced to net expected collections. Estimated uncollectible accounts for patients unwilling to pay are based on historical experience.
- Third-Party Payer Settlements – Patient accounts receivable and patient service revenue are reduced to net expected reimbursement. Expected settlements for open cost reporting years reflect management's estimate of such amounts after allowing for possible audit adjustments by the fiscal intermediary.
- Estimated Professional, Employee Health, Worker's Compensation and Medical Liability Costs – Annual estimated provisions are accrued for the self-insured portions of the Hospital District professional, employee health and worker's compensation claims and Health Plan's medical claims. These accruals include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue recognition
- Valuation of net patient receivables

Audit Adjustments

During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates our proposals and records those adjustments, which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve an area in which

adjustments in the future could be material. An adjustment was proposed and recorded related to the valuation of patient accounts receivable. Adjustments were proposed and not recorded due to immateriality for:

- Prior period patient revenue cut-off for 2010 revenue recorded in 2011
- Current period patient revenue cut-off for 2011 revenue recorded in 2012
- Valuation of patient accounts receivable

Attached to the end of this document as Attachment 1 is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Hospital District's Accounting Principles

During the course of the audit, we made the following observations regarding the Hospital District's application of accounting principles:

- No matters are reportable

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

- No matters are reportable

Consultation with Other Accountants

During our audit we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- No matters are reportable

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- No such issues were discussed in connection with our retention as auditors

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- No such issues were discussed during the audit process

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Texas single audit reports
- Management representation letter

A copy of the management representation letter, that was signed and delivered to us by management as part of this audit engagement is attached to the end of this document as Attachment 2.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Hospital District as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the Hospital District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital District's internal control.

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

A deficiency 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 of the Hospital District's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be deficiencies.

Valuation of Patient Accounts Receivable

The monthly estimation of contractual allowances (deductions from revenue) is a complex process. Making these estimates accurately requires a valid computational approach. During the audit, an adjustment was proposed and recorded to adjust the allowance for patient accounts receivable. This adjustment increased operating income by approximately \$5.9 million.

Contractual allowances should be estimated from both an income statement approach and a balance sheet approach. Using both approaches and comparing the results is an effective way to test the accuracy of these estimates. To determine that the formulas and estimates used are still appropriate, management should compare to the recorded reserve for reasonableness. This procedure would enhance the accuracy of your monthly financial statements.

Management has been using the monthly estimation process for several years and is currently reviewing the process and revise as necessary.

Patient Revenue Cut-Off

Management should monitor period end revenue recognition to ensure that revenue is properly recorded. Immaterial amounts of patient revenue cut-off occurred at the beginning and end of the year ended September 30, 2011.

Other Industry Matters

Governmental Hospitals Unsure About New Filing Requirements

While the new reporting requirements under Internal Revenue Code Section 501(r) affect Section 501(c)(3) hospitals, governmental hospitals are unsure whether Section 501(r) applies to them. Many governmental hospitals have dual-exempt status under Section 501(c)(3) and Section 501(r) indicates that all hospitals with Section 501(c)(3) status are required to comply with the new reporting requirements. In IRS Notice 2010-39, the IRS asked for written comments regarding the new reporting requirements.

Section 501(r) requires charitable hospitals to:

- Conduct a community health needs assessment once every three years
- Establish a financial assistance policy and an emergency medical care policy
- Limit the amount charged for emergency or other medically necessary care provided to individuals eligible for assistance under the organization's financial assistance policy
- Make reasonable efforts to determine whether an individual is eligible for assistance under the organization's financial assistance policy
- Provide the following information to the IRS each tax year:
 - Description of the organization's actions to address needs identified in its community health needs assessment
 - Audited financial statements

Hopefully, the IRS will address the Section 501(r) reporting requirements as they relate to governmental hospitals with dual-exempt status under Section 501(c)(3). In the interim, governmental hospitals should find out if they have received a Section 501(c)(3) determination letter from the IRS. Many governmental hospitals may have received an exemption to access certain employee benefit plans. Others may issue bonds as a Section 501(c)(3) issuer as opposed to a governmental issuer. In many cases, dual status was requested years ago, and current members of the District's management team may not be aware of the additional Section 501(c)(3) exemption.

* * * * *

This letter is intended solely for the information and use of the Board of Managers and Management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 16, 2011

**University Medical Center of El Paso
ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

| | Before | Misstatements | Misstatements | Misstatements | % Change |
|-------------------------|-----------|---------------|---------------|---------------|----------|
| Current Assets | 146,037 | 8,583 | 154,620 | | 5.88% |
| Non-Current Assets | 442,495 | | 442,495 | | |
| Current Liabilities | (82,368) | | (82,368) | | |
| Non-Current Liabilities | (255,438) | | (255,438) | | |
| Current Ratio | 1.773 | | 1.877 | | 5.87% |

| | | | | | |
|---------------------------------------|-----------|---------|-----------|--|--------|
| Total Assets | 588,532 | 8,583 | 597,115 | | 1.46% |
| Invest in Capital Assets, net of Debt | (139,129) | | (139,129) | | |
| Restricted Net Assets | (28,895) | | (28,895) | | |
| Unrestricted Net Assets | (82,702) | (8,583) | (91,285) | | 10.38% |
| Total Net Assets | (250,726) | (8,583) | (259,309) | | 3.42% |

| | | | | | |
|----------------------------------|-----------|---------|-----------|--|---------|
| Operating Revenues | (342,891) | (8,329) | (351,220) | | 2.43% |
| Operating Expenses | 370,157 | | 370,157 | | |
| Nonoperating Revenues (Expenses) | (31,099) | | (31,099) | | |
| Change in Net Assets | (3,833) | (8,329) | (12,162) | | 217.30% |

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. The Hospital District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.
2. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

We confirm, to the best of our knowledge and belief, the following:

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We are providing this letter in connection with your audits of our consolidated financial statements and your audit of our compliance with requirements applicable to each of our major state award programs as of and for the year ended September 30, 2011 and 2010. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

BKD, LLP
Certified Public Accountants
One Metropolitan Square
211 North Broadway, Suite 600
St. Louis, Missouri 63102

December 16, 2011



3. We have made available to you:
- (a) All financial records and related data.
 - (b) All minutes of the Board of Managers' meetings held through the date of this letter.
 - (c) All significant contracts and grants.
 - (d) All peer review organizations, fiscal intermediary and third-party payer reports and information.
4. We have informed you of all current risks of a material amount that are not adequately prevented or detected by company procedures with respect to:
- (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets or liabilities.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.
7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any known or suspected:
- (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

- (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital District received in communications from employees, customers, regulators, suppliers or others.
10. Except as reflected in the financial statements, there are no:
- (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date requiring adjustment or disclosure in the financial statements.
 - (e) Related party transactions, balances, arrangements, or guarantees. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the organization may deal if the organization can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the organization.
 - (f) Agreements to purchase assets previously sold.
 - (g) Violations of law, regulations or requirements of regulatory agencies for which losses should be accrued or matters disclosed in the financial statements.

11. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital District's participation in the Medicare or other governmental health care programs.
12. Adequate provisions and allowances have been accrued for any material losses from:
- (a) Uncollectible receivables.
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
 - (c) Purchase commitments in excess of normal requirements or above prevailing market prices.
13. Except as disclosed in the financial statements, the Hospital District has:
- (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
14. With respect to the Hospital District's possible exposure to past or future medical malpractice assertions:
- (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer.

15. With respect to the Hospital District's possible exposure to future health claims for the self-insured health plan:
- (c) We have disclosed to you all incidents known to us that could affect the health plan.
 - (d) All known claims have been reported to the third party administrator and actuary.
16. With regard to deposit and investment activities:
- (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of collateral pledges.
17. With respect to any nonattest services you have provided us during the year:
- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
18. We believe the assumptions used in the valuation of patient accounts receivable are reasonable and appropriate.

19. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
20. The Hospital District and affiliated organizations are exempt from income tax under various sections of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
21. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
22. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
23. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
24. We have a process to track the status of audit findings and recommendations.
25. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

27. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

28. With regard to state awards programs:

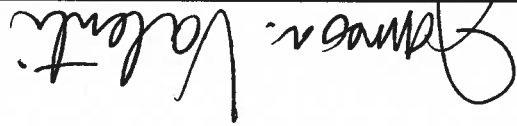
- (a) We have identified in the schedule of expenditures of state awards all assistance provided (either directly or passed through other entities) by state agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.
- (b) We have identified the types of compliance requirements described in the *State of Texas Single Audit Circular* regarding activities allowed or unallowed; allowable costs/cost principles; cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement and suspension and debarment; program income; real property acquisition and relocation assistance; reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations.
- (c) We are responsible to understand and comply with the requirements of laws, regulations, contracts and grants applicable to each of our state awards programs and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. Except for any instances of noncompliance we have disclosed to you, we believe the Hospital District has complied with all applicable compliance requirements.

- (d) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our state awards programs in compliance with requirements of laws, regulations, contracts and grants applicable to those programs.
- (e) We have made available to you all contracts and grant agreements, including any amendments, and any other correspondence or documentation relevant to each of our state awards programs and to our compliance with applicable requirements of those programs.
- (f) The information presented in state awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.
29. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis has been prepared and is presented in conformity with the applicable GASB pronouncements. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. There has been no change from the preceding period in the methods of measurement and presentation.
30. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
31. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory

32. With regard to cost reports filed with Medicare, Medicaid or other third parties:
- (a) All required reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
33. El Paso First's aggregate reserves, account values, and related financial statement items are based on appropriate actuarial assumptions, are prepared in accordance with the accounting practices prescribed or permitted by the Texas Department of Insurance, are fairly stated in accordance with sound actuarial principles applied on a consistent basis, and include provision for all actuarial reserves and related financial statement items that should be established. In addition, management has appropriately utilized an actuarial specialist in the determination of the amounts recorded which require actuarial certification, or which represent actuarially determined liabilities.

34. There have been no transactions requiring submission to, and approval from, the Texas Department of Insurance that have not been so submitted and approved.
35. El Paso First is in compliance with the statutory operating requirements of the Texas Department of Insurance and those other jurisdictions where it is presently writing business. El Paso First is not presently operating under any formal or informal restraints of the insurance department of any jurisdiction in which it is licensed.

James N. Valenti
President & CEO
El Paso County Hospital District



Michael L. Nunez, CHFP, CPA
Chief Financial Officer
El Paso County Hospital District



**El Paso County Hospital District
d/b/a University Medical Center of El Paso**

Texas Single Audit Reports

Year Ended September 30, 2011

**El Paso County Hospital District
d/b/a University Medical Center of El Paso
Texas Single Audit Reports
Year Ended September 30, 2011**

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El Paso County Hospital District
d/b/a University Medical Center of El Paso
Schedule of Expenditures of State of Texas Awards
Year Ended September 30, 2011

| Cluster/Program | State Agency | Grant or Identifying Number | Amount |
|---|---|------------------------------------|----------------------------|
| Poison Control Centers | Commission on State Emergency Communications | N/A | \$ 1,090,071 |
| Texas Nurse Family Partnership Program | Health and Human Service Commission - TNFP | 529-10-0070 | 335,963 |
| Hospital Based Nursing Education Partnership Program | Texas Department of Health and Human Services | 02318 | 332,923 |
| Community Coalitions Prevention (CCP) | Texas Department of State Health Services | 2011-035807-001 2012-038850-001 | 123,653 |
| Three Share Grant Program | Texas Department of Insurance/ Texas Department of Health and Human Services | 454-08-9022/ 529-08-0020-00002 | 181,942 |
| Outreach, Screening, Assessment and Referral Program (OSAR) | Texas Department of State Health Services | 2011-036571-001 2012-039549-001 | 186,575 |
| Rural Border Initiative (RBI) | Texas Department of State Health Services | 2011-035983-001 2012-038965-001 | 102,683 |
| Rural County Occupant Protection Program | Texas Department of Transportation | 2011-Thomason-G-1YG-0063 | <u>73,601</u> |
| | | | <u><u>\$ 2,427,411</u></u> |

Notes to Schedule

1. This schedule includes the state awards activity of University Medical Center of El Paso and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.
2. No state expenditures were provided to subrecipients.

**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards and the State of Texas Single Audit Circular**

Board of Managers
El Paso County Hospital District
d/b/a University Medical Center of El Paso
El Paso, Texas

We have audited the financial statements of El Paso County Hospital District d/b/a University Medical Center of El Paso (the "Hospital District"), a component unit of El Paso County, Texas, as of and for the year ended September 30, 2011, and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital District'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 District's financial statements will not be prevented or detected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital District's 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 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 the *State of Texas Single Audit Circular*.

We noted certain matters that we reported to the Hospital District's management in a separate letter dated December 16, 2011.

This report is intended solely for the information and use of the Board of Managers, management and others within the Hospital District and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 16, 2011

Independent Accountants' 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 the *State of Texas Single Audit Circular*

Board of Managers
El Paso County Hospital District
d/b/a University Medical Center of El Paso
El Paso, Texas

Compliance

We have audited the compliance of El Paso County Hospital District d/b/a University Medical Center of El Paso (the "Hospital District") with the types of compliance requirements described in the *State of Texas Single Audit Circular* that could have a direct and material effect on each of its major state programs for the year ended September 30, 2011. The Hospital District's major state programs are identified in the summary of auditor's 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 state programs is the responsibility of the Hospital District's management. Our responsibility is to express an opinion on the compliance of the Hospital District based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Texas Single Audit Circular*. Those standards and the *State of Texas Single Audit Circular* 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 state program occurred. An audit includes examining, on a test basis, evidence about the Hospital District'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 District's compliance with those requirements.

In our opinion, the Hospital District complied, in all material respects, with compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2011.

Internal Control Over Compliance

The management of the Hospital District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Hospital District's internal control over compliance with the requirements that could have a direct and material effect on a major

state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the *State of Texas Single Audit Circular*, 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 District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 state 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 state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 State Awards

We have audited the financial statements of the Hospital District as of and for the year ended September 30, 2011, and have issued our report thereon dated December 16, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Hospital District's basic financial statements. The accompanying schedule of expenditures of state of Texas awards is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Managers, management and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 16, 2011

**El Paso County Hospital District
d/b/a University Medical Center of El Paso
Schedule of Findings and Questioned Costs
Year Ended September 30, 2011**

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was (were):
(Check each description that applies)
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major state awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major state awards was (were):
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by the State of Texas Audit Circular? Yes No

7. The Hospital District's major programs were:

Programs

State Programs:

Texas Nurse Family Partnership Program
Hospital Based Nursing Education Partnership

9. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the *State of Texas Audit Circular* was \$300,000.

10. The Hospital District qualified as a low-risk auditee as that term is defined in the *State of Texas Audit Circular*? Yes No

El Paso County Hospital District
d/b/a University Medical Center of El Paso
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2011

Findings Required to be Reported by *Government Auditing Standards*

| Reference Number | Finding | Questioned Costs |
|-----------------------------|----------------|-----------------------------|
|-----------------------------|----------------|-----------------------------|

No matters are reportable.

El Paso County Hospital District
d/b/a University Medical Center of El Paso
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2011

Findings Required to be Reported by the *State of Texas Audit Circular*

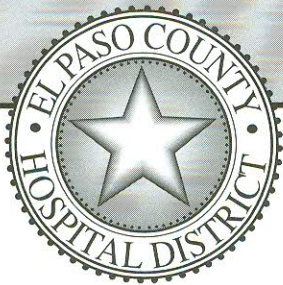
| Reference Number | Finding | Questioned Costs |
|-----------------------------|----------------|-----------------------------|
|-----------------------------|----------------|-----------------------------|

No matters are reportable.

**El Paso County Hospital District
d/b/a University Medical Center of El Paso
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2011**

| Reference Number | Finding | Questioned Costs |
|-----------------------------|----------------|-----------------------------|
|-----------------------------|----------------|-----------------------------|

No matters are reportable.



4815 Alameda
El Paso, TX 79905

(915) 521-7860
Fax (915) 521-7299

December 20, 2011

Judge Veronica Escobar
County Commissioners
El Paso County Courthouse
500 E. San Antonio, Room 301
El Paso, TX 79901

Dear Judge Escobar and County Commissioners:

The El Paso County Hospital District respectfully requests that the El Paso Commissioners' Court consider the following for approval on the regularly scheduled Commissioners' Court meeting to be held on Monday, January 9, 2012 at 9:30 a.m. in Suite 303 of the Commissioners' Court.

1. Approve the El Paso County Hospital District d/b/a University Medical Center of El Paso Audited Financial Statements for the Fiscal Year ended September 30, 2011.

Thank you for your continued support of the El Paso County Hospital District and the El Paso Community.

Sincerely,

A handwritten signature in black ink that reads "James N. Valenti". The signature is written in a cursive style with a large, stylized initial "J".

James N. Valenti,
President and Chief Executive Officer

XC: The Honorable Ana Perez, El Paso County Commissioner – Pct. 1
The Honorable Sergio Lewis, El Paso County Commissioner-Pct 2
The Honorable Guillermo Gandara, El Paso County Commissioner-Pct 3
The Honorable Daniel R. Haggerty, El Paso County Commissioner- Pct 4
El Paso County Hospital District Board of Managers
Mr. Michael Nuñez, Chief Financial Officer, UMC of El Paso
Mr. Edward Sosa, Chief Legal Officer, UMC of El Paso



COMMISSIONERS COURT COMMUNICATION

AGENDA DATE : _____ 1/9/12 _____

CONSENT OR REGULAR: _____ Regular _____

CONTRACT REFERENCE NO
(IF APPLICABLE): _____

SUBJECT:

El Paso County Hospital District FY 2011 Audited Financial Statements

BACKGROUND/DISCUSSION OF TOPIC: To include statutory requirement, operational impact, or performance goal.

FY 2011 Audited Financial Statements for approval by Commissioners' Court. The audit has been attached to the item as well as a cover letter. Presenting the item will be the hospital's President and CEO, James N. Valenti and Mr. Fred Helfrich, Partner with BKD (auditing firm). Also, present for the item will be Mr. Michael Nuñez, CFO of the Hospital District.

FISCAL IMPACT:

n/a

PRIOR COMMISSIONERS COURT ACTION (IF ANY):

RECOMMENDATION:

COUNTY ATTORNEY APPROVAL

The attached document has been given legal review by the El Paso County Attorney's Office on behalf of the County of El Paso, its officers, and employees. Said legal review should not be relied upon by any person or entity other than the County of El Paso, its officers, and employees.

COUNTY ATTORNEY:

LEGAL REVIEW:

LEGAL REVIEW NOTES (If Applicable):

DATE:

SUBMITTED BY:

James N. Valenti. President and CEO. El Paso County Hospital District