

SIERRA HEALTH SERVICES INC  
Form 11-K  
June 27, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 11-K

(Mark One)

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ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-8865

A. Full title of the plan and the address of the plan, if different from that of  
the issuer named below:

SIERRA HEALTH AUTOMATIC RETIREMENT PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of  
its principal executive office:

SIERRA HEALTH SERVICES, INC.  
2724 NORTH TENAYA WAY  
LAS VEGAS, NEVADA 89128

SIERRA HEALTH AUTOMATIC RETIREMENT PLAN

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Supplemental Schedule as of December 30, 2002:  
Form 5500, Schedule H, Line 4i - Schedule of Assets (Held at End of Year).... 8

Other schedules required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 are omitted because of the absence of conditions under which they are required.

(b) Exhibit 23 Independent Auditors' Consent

Exhibit 99 Certification pursuant to 18 U.S.C. as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002

**INDEPENDENT AUDITORS' REPORT**

To the Trustees and Participants of  
Sierra Health Automatic Retirement Plan

We have audited the accompanying statements of net assets available for benefits of Sierra Health Automatic Retirement Plan (the "Plan") as of December 30, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan'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. 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, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan at December 30, 2002 and 2001, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary

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information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2002 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2002 financial statements taken as a whole.

/s/ DELOITTE & TOUCHE LLP

Las Vegas, Nevada  
May 22, 2003

**SIERRA HEALTH AUTOMATIC RETIREMENT PLAN**

**Statements of Net Assets Available for Benefits at  
December 30, 2002 and 2001**

	<b>2002</b>
	----
<b>ASSETS</b>	
-----	
CASH AND CASH EQUIVALENTS.....	\$ -
	-----
INVESTMENTS AT FAIR VALUE:	
Mutual Funds.....	51,370,416
Common/Collective Trust Funds.....	10,976,994
Company Stock.....	4,635,981
Participant Loans.....	1,397,626
Limited Partnerships.....	-
	-----
Total Investments.....	68,381,017
	-----
RECEIVABLES:	
Employer Contributions.....	442,678
Employee Contributions.....	225,119
Other Receivables.....	-
	-----
Total Receivables.....	667,797
	-----
<b>NET ASSETS AVAILABLE FOR BENEFITS.....</b>	<b>\$69,048,814</b>
	=====

See Accompanying Notes to Financial Statements

**SIERRA HEALTH AUTOMATIC RETIREMENT PLAN**

**Statements of Changes in Net Assets Available for Benefits  
For the Years Ended December 30, 2002 and 2001**

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	2002
	----
<b>ADDITIONS:</b>	
Investment Income / (Loss):	
Interest and Dividends.....	\$ 908,943
Net Decrease in Fair Value.....	(9,260,091)
	-----
Net Additions.....	(8,351,148)
	-----
Contributions:	
Employer.....	4,943,908
Participants.....	7,358,545
Rollovers.....	404,887
Other.....	-
	-----
Total Contributions.....	12,707,340
	-----
<b>NET ADDITIONS.....</b>	<b>4,356,192</b>
	-----
<b>DEDUCTIONS:</b>	
Benefits Paid to Participants.....	(5,828,329)
Plan Expenses.....	(8,775)
Other Deductions.....	(41,225)
	-----
Total Deductions.....	(5,878,329)
	-----
<b>NET DECREASE.....</b>	<b>(1,522,137)</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS:</b>	
<b>BEGINNING OF YEAR.....</b>	<b>70,570,951</b>
	-----
<b>END OF YEAR.....</b>	<b>\$69,048,814</b>
	=====

See Accompanying Notes to Financial Statements

**SIERRA HEALTH AUTOMATIC RETIREMENT PLAN**

**Notes to Financial Statements**

NOTE 1. PLAN DESCRIPTION

General Description - The Sierra Health Automatic Retirement Plan (the "Plan") is a qualified, defined contribution profit sharing/401(k) plan sponsored, managed and administered by Sierra Health Services, Inc. (the "Company"). Prudential Financial serves as trustee of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). A brief description of certain Plan provisions, as amended, follows. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

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Contributions - For 2002, participants may contribute up to 15% of their annual compensation. The Company makes matching contributions of 100% of a participant's contribution up to a maximum of 3% of the participant's annual compensation. Participant contributions above 3% but not exceeding 9% are matched 50% by the Company. The maximum Company contribution is 6% of a participant's annual compensation. Participant and employer contributions are subject to Internal Revenue Service ("IRS") limits. Company matches are invested, based on participant selections, into the common trust funds. In accordance with the Economic Growth and Tax Relief Reconciliation Act of 2001, employees age 50 and older are permitted to make additional "catch up" contributions not to exceed \$1,000. The "catch up" contributions are not matched by the employer.

Vesting - Participants are immediately vested in their voluntary contributions and earnings thereon. Participants are also immediately vested in the Company contribution made on their behalf up to 4% of the participant's annual compensation. The remaining Company contribution vests based on years of service--one-third per year of service--and is fully vested after three years of service with the Company. If a participant becomes permanently disabled, their account is 100% vested without regard to years of service.

Eligibility - All employees of the Company not covered by a collective bargaining agreement become participants in the Plan after they have completed one year of service and are age twenty-one or older. The Plan defines a year of service as one in which the employee works at least 1,000 hours.

Participant Accounts - Each participant's account is credited with the participant's contribution, the Company's matching contribution and allocations of Plan earnings.

Payment of Benefits - Upon termination of employment, participants may elect to receive a lump-sum payment of their vested account balance, one of several annuity payment options or may transfer their vested account balance to a tax-deferred account.

Termination of Plan - Although the Company has not indicated any intention to terminate the Plan, or contributions thereto, it may do so at any time. Upon termination or partial termination, each participant's account will become 100% vested.

Income Taxes - In November 1995, the Plan received its latest determination letter from the IRS stating that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code ("IRC") and thus exempt from income taxes. The Plan has been amended since receiving the determination letter. However, the Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. No provision for income taxes has been included in the financial statements.

Administrative Expenses - Administrative expenses of the Plan are paid by either the Plan or the Plan's sponsor, as provided in the Plan Document. Total Plan expenses for 2002 and 2001 were \$51,905 and \$48,811, respectively, of which, \$43,130 and \$42,500 were paid by the Plan's sponsor, respectively.

Investment in Company Stock - Investments in Company common stock are limited to 30 percent of employee elected deferrals and unlimited on employer match amounts.

Forfeitures - Forfeited accrued benefits may be used to pay expenses incurred in the basic administration of the Plan or to reduce employer contributions. In 2001, the Company used forfeitures in the amount of \$90,590 to reduce employer contributions. In 2002, the Company did not use any forfeitures to reduce

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employer contributions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Plan's financial statements are prepared using the accrual method of accounting and conform to the American Institute of Certified Public Accountants' accounting and auditing guide, Audits of Employee Benefit Plans. Accordingly, income is recorded in the period earned, expenses in the period incurred and the purchase and sale of investments as of the trade date.

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 net assets available for benefits and changes therein. Actual results could differ from those estimates. The Plan utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits.

Investments - Investments are stated at approximate fair market value. The fair market value of equity and fixed income securities is determined principally from quoted market prices. The fair market value of common trust funds is based on the Plan's allocable interest in the fair market value of securities in those funds. The fair value of Company stock is dictated by the daily value from the New York Stock Exchange. The fair market value of the investment in limited partnerships is based on third-party appraisals. Participant loans are valued at cost plus accrued interest, which approximates fair value. Unrealized gains and losses are recorded in the period in which they occur. All assets are held by trustees of the Plan. The Company match is made in cash and is invested based upon employee selections.

Reclassifications - Certain reclassifications have been made to the 2001 financial statements in order to conform to the 2002 presentation.

NOTE 3. INVESTMENTS

Increase / (decrease) in the fair value of the Plan's investments by type of investment is as follows:

	<b>2002</b>
	----
Mutual Funds.....	\$ (11,183,095)
Common/Collective Trust Funds.....	487,506
Common Stock.....	1,425,606
Limited Partnerships.....	9,892*
	-----
Net Decrease.....	\$ (9,260,091)
	=====

\* Non-participant directed.

Investments equal to 5% or more of the Plan's total net assets available for benefits at December 30, 2002 and 2001 were:

**2002**  
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Van Kampen Equity Income Fund.....	\$15,124,233
Prudential Stable Value Fund.....	10,976,997
Prudential Jennison Growth Fund.....	8,644,339
PIMCO Total Return Fund.....	6,587,703
Davis NY Venture Fund.....	5,097,584
Sierra Health Services Inc., Common Stock.....	4,635,981
Prudential Jennison Equity Opportunity .....	4,144,288
Dreyfus Midcap Value Fund.....	**

\*\* Balance does not represent 5% or more of net assets available for benefit at the respective date.

NOTE 4. PAYMENT OF BENEFITS

Benefits are recorded when paid.

NOTE 5. PARTICIPANT LOANS RECEIVABLE

Participants may borrow from their fund accounts up to a maximum of \$50,000 or 50% of their vested account balance, whichever is less. Participant loans receivable are collateralized by vested account balances and are repaid through payroll deductions over a term not exceeding 5 years. The term may be extended if the proceeds are used for the purchase of a primary residence. The loans bear interest at 1% over the prime commercial rate on the first day of the month in which the loan is issued.

NOTE 6. EMPLOYER DIRECTED INVESTMENTS

Information about the net assets and the significant components of the changes in net assets relating to the employer directed investments is as follows as of December 30, 2002 and 2001:

	<b>2002</b>
	----
Net Assets:	
Limited Partnerships.....	\$ -
Other Receivables.....	-
	-----
Total Net Assets.....	\$ -
	=====
Changes in Net Assets:	
Net Increase.....	\$ 9,892
Transfers to Participant Directed Investments.....	(347,992)
	-----
Net Decrease.....	(338,100)
Net Assets:	
Employer Directed, Beginning of Year.....	338,100
	-----
Employer Directed, End of Year.....	\$ -
	=====

The Plan Sponsor was granted an exemption by the United States Department of Labor, Pension and Welfare Benefits Administration, from the prohibited transaction rules of ERISA and, was allowed to purchase from the Plan the

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limited partnership units held in the Employer Directed Investment Program at their fair market value. This purchase in the amount of \$250,092, was completed in March of 2002.

**NOTE 7. RELATED PARTY TRANSACTION**

Certain Plan investments are shares of mutual funds managed by Prudential, the Plan's trustee, therefore these transactions qualify as party-in-interest transactions.

**SIERRA HEALTH AUTOMATIC RETIREMENT PLAN**

**From 5500, Schedule H, Line 4i - Schedule of Assets (Held at End of Year)  
December 30, 2002**

<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
	<b>Identity of Issue, Borrower,</b>	<b>Description of Investment Incl</b>
	<b>Maturity Date, Rate of Interest,</b>	<b>Collateral, Par, or Maturity</b>
		<b>Lessor, or Smiliar Party</b>
	<b>INVESTMENT FUNDS</b>	
	Davis NY Venture Fund.....	Mutual Fund
	Dreyfus Midcap Value Fund.....	Mutual Fund
	EuroPacific Growth Fund.....	Mutual Fund
	Franklin Balance Sheet Investment Fund.....	Mutual Fund
	Franklin US Government Securities.....	Mutual Fund
	John Hancock Small Cap Growth Fund.....	Mutual Fund
	PIMCO Total Return Fund.....	Mutual Fund
*	Prudential Jennison Equity Opportunity.....	Mutual Fund
*	Prudential Jennison Growth Fund .....	Mutual Fund
*	Prudential Short-Term Corporate Bond Fund.....	Mutual Fund
*	Prudential Stable Value Fund.....	Common/Collective Trust
*	Prudential Stock Index Fund.....	Mutual Fund
	Van Kampen Equity Income .....	Mutual Fund
*	Sierra Health Services, Inc., Common Stock.....	Company Stock
	<b>PARTICIPANT LOANS</b>	
	Participant Loans.....	

\* Party-in-interest

**SIGNATURES**

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Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

SIERRA HEALTH AUTOMATIC RETIREMENT PLAN  
(Name of Plan)

Date: June 27, 2003

/s/ PAUL H. PALMER

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Paul H. Palmer  
Senior Vice President of Finance,  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)