

STATE OF ILLINOIS
SIU PHYSICIANS & SURGEONS, INC.
d/b/a SIU HEALTHCARE



FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

June 30, 2012
(With Comparative Totals for 2011)

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STATE OF ILLINOIS
SIU PHYSICIANS & SURGEONS, INC.
d/b/a SIU HEALTHCARE

AGENCY OFFICIALS

June 30, 2012

Chief Executive Officer	Dr. Hyung Tai Kim
Chief Financial Officer	Ms. Wendy Cox-Largent
Assistant Provost, Financial Affairs	Ms. Connie Hess

Agency offices are located at:

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Springfield, IL 62794



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Independent Auditors' Report

Board of Directors
SIU Physicians & Surgeons, Inc.
d/b/a SIU HealthCare

We have audited the accompanying basic financial statements of SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare (SIUHC), a component unit of Southern Illinois University, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of SIUHC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the SIUHC's 2011 financial statements, in our report dated October 14, 2011, we expressed an unqualified opinion on those financial statements.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 SIUHC as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of SIUHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Kerber, Eck + Braeckel LLP

Springfield, Illinois
October 22, 2012

**SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2012**

Introduction

The discussion and analysis of the financial statements of SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare, ("SIUHC") provide an overview of the financial activities for the year ended June 30, 2012. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis.

SIUHC is reported as a component unit of Southern Illinois University ("the University"). As such, its financial information is also included in the financial activities of the University. Therefore, SIUHC must comply with accounting principles generally accepted in the United States of America ("GAAP") that are applicable to the University, including those pronouncements promulgated by the Governmental Accounting Standards Board ("GASB").

History and Background

SIUHC, incorporated in 1997 as a 501(c)(3) tax-exempt organization, is the faculty practice plan for Southern Illinois University School of Medicine ("School of Medicine"). SIUHC operates as a multi-specialty physician group which both aids in the training of medical students and residents and provides clinical services. The School of Medicine bills and collects the fees for the professional services performed by the physicians. The revenues received by SIUHC are used to support research and educational activities of the School of Medicine, pay for clinical operating costs, and compensate its physician members.

Basic Financial Statements

The annual report consists of three basic financial statements: The Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These statements provide information on SIUHC as a whole and present a long-term view of its finances. These statements include all assets and liabilities using the accrual basis of accounting. That is, revenues and assets are recognized when services are provided; expenses and liabilities are recognized when goods or services are received, regardless of when cash is received or paid. Each of these statements will be discussed.

Statement of Net Assets

The Statement of Net Assets reports what is owned (assets) and what is owed (liabilities) by SIUHC. The net asset amount, the difference between what is owned and owed, is one way to measure the financial position of SIUHC and over time, the increase or decrease in net assets may indicate if that financial position is improving or not.

Net assets for SIUHC are divided into three major categories, Invested in Capital Assets, Unrestricted Designated (which is a footnote designation) and Unrestricted Undesignated. The first category, Invested in Capital Assets, represents SIUHC equity in property, plant and equipment, and is net of related debt and accumulated depreciation. The second category, Unrestricted Designated, represents balances internally designated to be used in support of academic development activities of the clinical departments. The third category, Unrestricted Undesignated, represents balances from operational activities that have not been restricted by parties external to SIUHC and are available for general use.

Net Asset Summary				
	For the year ended	June 30, 2012	June 30, 2011	Net Change
Assets				
	Current Assets	\$ 43,966,568	\$ 43,339,889	\$ 626,679
	Noncurrent Assets	2,054,635	1,228,541	826,094
	Capital Assets, net	<u>828,150</u>	<u>1,027,790</u>	<u>(199,640)</u>
Total Assets		46,849,353	45,596,220	1,253,133
Liabilities				
	Current Liabilities	<u>10,000,125</u>	<u>9,760,834</u>	<u>239,291</u>
Total Liabilities		10,000,125	9,760,834	239,291
Net Assets				
	Invested in capital assets, net of debt	828,150	1,027,790	(199,640)
	Unrestricted, Designated	5,881,238	5,413,004	468,234
	Unrestricted, Undesignated	<u>30,139,840</u>	<u>29,394,592</u>	<u>745,248</u>
Total Net Assets		<u>\$ 36,849,228</u>	<u>\$ 35,835,386</u>	<u>\$ 1,013,842</u>

Current assets are largely comprised of realizable accounts receivables from patients (\$ 17,459,986) and from the Illinois Department of Healthcare and Family Services (\$2,400,000). As of June 30, 2012 the gross patient accounts receivable balance was \$ 57,550,793 and the comparable amount from the prior fiscal year was \$ 55,804,430, an increase of 3.1%. Accounts receivable has increased based on an increase in revenue generating activities. Additionally, accounts receivable from commercial and managed care plans for state employees has increased over the past year as the State of Illinois has slowed payments to their vendors. Medicaid receipts increased during FY 2012 and there has been a steady increase in the number of patients with Medicaid.

A measure of collection effort efficiency is a computation known as the Days Charges Outstanding. This calculation is made by dividing the gross outstanding accounts receivable by the average daily charges for the period. The Days Charges Outstanding for all combined payers has increased slightly at June 30, 2012 to 59 days compared to 56 days at June 30, 2011.

Comparative gross accounts receivable by payer are as follows:

Gross Patient Accounts Receivable by Payer Class					
	As of	June 30, 2012		June 30, 2011	
Guarantor		\$ 12,065,231	20.9%	\$ 11,535,578	20.7%
Medicare		9,990,451	17.3%	9,318,522	16.7%
Medicaid		12,639,138	21.9%	11,677,750	20.9%
Indemnity and Work. Comp		6,073,201	10.5%	7,010,980	12.6%
Managed Care Plans		16,975,720	29.4%	16,312,018	29.1%
Unidentified remittances		<u>(192,948)</u>		<u>(50,418)</u>	
Total Accounts Receivable, Prior to Uncollectible		<u>\$ 57,550,793</u>		<u>\$ 55,804,430</u>	
Net Change		<u>\$ 1,746,363</u>	3.1%		

Current Liabilities increased by \$239,291, or 2.5% from FY11 to FY12. This increase consists primarily of the increased accounts payable to vendors.

Statement of Revenues, Expenses and Changes in Net Assets

The change in total net assets as presented in the Statement of Net Assets is impacted by activity as reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement presents the operating, as well as the non-operating results of SIUHC. Excess revenues over expenses result in increases in net assets; when expenses exceed revenues a decrease in net assets results.

The Statement is segregated by operating and non-operating activities. Operating revenues are those received for services provided in the normal course of business by SIUHC. These primarily relate to patient care. Operating expenses are those expenses paid to acquire goods or services that are needed to provide patient care services.

Revenue, Expenses and Changes in Net Assets				
	For the year ended	June 30, 2012	June 30, 2011	Net Change
Operating Revenues				
Net patient service revenues		\$92,750,929	\$103,376,149	\$(10,625,220)
Other operating revenue		<u>3,381,253</u>	<u>2,613,225</u>	<u>768,028</u>
Total Operating Revenues		<u>96,132,182</u>	<u>105,989,374</u>	<u>(9,857,192)</u>
Operating Expenses		<u>95,348,080</u>	<u>89,841,164</u>	<u>5,506,916</u>
Operating Income		784,102	16,148,210	(15,364,108)
Non-Operating Revenue		<u>229,740</u>	<u>148,121</u>	<u>81,619</u>
Increase in Net Assets		1,013,842	16,296,331	(15,282,489)
Net Assets Beginning of Year		<u>35,835,386</u>	<u>19,539,055</u>	<u>16,296,331</u>
Net Assets End of Year		<u>\$ 36,849,228</u>	<u>\$ 35,835,386</u>	<u>\$ 1,013,842</u>

Net patient service revenues reflect estimated collectible charges for professional services. There was a 2.5% increase in gross charges booked in FY12 largely due to recruitment of new clinical faculty and annual fee increases made during the year. SIUHC currently operates in a market with a moderate level of managed care penetration. In terms of overall charges, the payer mix of managed care remained consistent in FY12. All managed care activity is on a discounted fee-for-service basis as SIUHC currently has no capitated managed care contracts. The most significant dollar increases and percentage increases by Payer Class were in Medicare. However, the individual mix by Payer has remained relatively unchanged from the prior fiscal year. Comparative charges by payer class are:

Total Charges by Payer Class				
	For the year ended	June 30, 2012		June 30, 2011
Guarantor		\$ 29,193,841	8.5%	\$ 26,497,501
Medicare		115,380,914	33.7%	109,864,852
Medicaid		72,522,697	21.2%	71,699,177
Indemnity		12,108,260	3.5%	14,127,908
Managed Care Plans		111,054,338	32.4%	108,824,783
Workers Compensation		<u>2,410,636</u>	0.7%	<u>3,287,006</u>
Total Charges		<u>\$ 342,670,686</u>		<u>\$ 334,301,227</u>
Net Change		<u>\$ 8,369,459</u>	2.5%	

Expenses increased 6.1% over the FY11 level. The primary components of operating expenses are direct SIUHC overhead, university overhead, academic development, and member compensation (i.e. salaries and payroll tax expenses). University overhead expenses comprise 44.2% of total costs and increased over the two fiscal years by 10.1%. These overhead costs are for those expenses incurred by the School of Medicine in direct support of the clinical services being provided by the members. These operating costs are for support staff, supplies, rent and ongoing malpractice costs for the members and clinical faculty and are reimbursed by SIUHC to the School of Medicine via an overhead charge. A significant component of the increase from FY 11 to FY 12 is the purchasing of a practice management system by the School of Medicine on behalf of the Practice Plan and increased salary expense for medical support staff. Increased departmental spending in support of the School of Medicine contributed to a 10.8% increase of academic development expense when compared to FY11. Member salaries and related payroll taxes increased by 1.5% due to an expanded number of members. Member compensation, to pay member health care providers for services provided via patient care activities, comprises 33.9% of operating expenses. These members are also faculty of the University and are compensated separately by the University for their academic responsibilities.

Statement of Cash Flows

The Statement of Cash Flows provides relevant information about the cash receipts and cash payments during the year. It helps users assess the ability to generate future net cash flows, the ability to meet financial obligations as they come due, and the need for external financing.

For SIUHC the statement is divided into five parts. The first shows net cash used by the operating activities of SIUHC. The second reflects cash flows from non-capital financing activities and the third reflects cash flows from capital financing activities. The fourth category reflects cash flows from investing activities. Finally, a reconciliation of net cash from operating activities to operating income as reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

Cash Flows	For the year ended	June 30, 2012	June 30, 2011	Net Change
Cash Provided (Used) by:				
Operating activities		\$ 8,426,488	\$ 1,709,503	\$ 6,716,985
Non-capital financing activities		47,167	(106,715)	153,882
Capital financing activities		(106,794)	(97,688)	(9,106)
Investing activities		<u>(724,292)</u>	<u>(318,845)</u>	<u>(405,447)</u>
Net Change		7,642,569	1,186,255	6,456,314
Cash and cash equivalents, Beginning of Year		<u>4,107,515</u>	<u>2,921,260</u>	<u>1,186,255</u>
Cash and cash equivalents, End of Year		<u>\$11,750,084</u>	<u>\$ 4,107,515</u>	<u>\$ 7,642,569</u>

The year-end cash balance has increased from FY11 to FY12 by \$ 7,642,569. This increase in cash is primarily due to the payment by the Illinois Department of Healthcare and Family Services for services provided June 2011 through December 2012. Additionally, the University collects and holds cash collections on behalf of SIUHC until a distribution determination is made. At June 30, 2012, the agency account balance was \$ 12.4 million. However, there is an offsetting amount of approximately \$ 5 million due the University.

Future Outlook

Overall, management remains cautiously optimistic about the short and long term viability of SIUHC, the outlook of the health care sector of the economy and SIUHC's ability to adapt to the changing marketplace. There has been and continues to be a focused effort on expanding clinical programs and faculty in targeted areas of growth. There are ongoing efforts to monitor opportunities and participate in the Federal Government initiatives including e-prescribing, meaningful use and quality incentives (PQRI). Utilizing information technology for clinical and financial systems to improve patient care and financial performance continues to be a priority for SIUHC.

A new practice management system was implemented on July 1, 2012 with the expectation that the improved technology will assist in revenue cycle management, data reporting and use of technology. There were workflow standardizations as part of the implementation, also designed to improve the revenue cycle.

Management is aware of two potential issues that could have a negative impact on fiscal performance in the coming year. The State of Illinois no longer has an incentive to pay Medicaid claims within thirty days and does from time to time slow the payment cycle to better manage its budget. Payments from Medicaid slowed during the first two months of fiscal year 2012 and are inconsistent from month to month. The State of Illinois has also delayed payment for their own employee's health insurance and worker's compensation claims which has caused an increase in the accounts receivable for the indemnity, managed care and worker's compensation accounts receivable balances.

The second area of concern is continued monitoring of the financial performance of each clinical department within the practice. The practice has experienced tremendous growth over the past several years and has been investing in infrastructure (clinical space, information technology) as well as clinical operations but revenue increases have been outpaced by increased expenses. The Finance Committee of the Board of Directors and Management have started an initiative that will monitor each department and division performance to assure spending levels are appropriate in relation to revenue growth. There is also a contingency plan to assure the operating budgets are achieved.

STATE OF ILLINOIS
SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare
STATEMENT OF NET ASSETS
June 30, 2012
(With comparative totals for June 30, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	\$ 11,284,970	\$ 3,567,406
Deposits with SIU (Note 8)	12,404,583	11,103,176
Accounts receivable (Note 4)		
Patient, net of allowances and uncollectibles of		
\$40,090,807 for 2012 and \$38,382,811 for 2011	17,459,986	17,421,619
Illinois Department of Healthcare and Family Services	2,400,000	11,191,935
Accrued interest receivable	26,490	8,586
Other receivables	390,539	47,167
Total current assets	43,966,568	43,339,889
Noncurrent assets		
Cash and cash equivalents (Note 3)	465,114	540,109
Investments (Note 3)	1,555,174	619,046
Other receivables	34,347	69,386
Capital assets, net of accumulated depreciation (Note 5)	828,150	1,027,790
Total noncurrent assets	2,882,785	2,256,331
Total assets	46,849,353	45,596,220
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities-SIU (Note 8)	4,987,129	4,931,130
Accounts payable-other	1,050,766	777,092
Employee salaries payable	3,204,651	3,187,342
Retirement contributions payable	206,137	298,520
Withholding taxes payable	451,906	452,995
Employer taxes payable	93,683	107,269
Other liabilities	5,853	6,486
Total liabilities	10,000,125	9,760,834
NET ASSETS		
Invested in capital assets, net of related debt	828,150	1,027,790
Net assets, unrestricted	36,021,078	34,807,596
Total net assets	\$ 36,849,228	\$ 35,835,386

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

STATE OF ILLINOIS
SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
Year ended June 30, 2012

(With comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Operating revenues		
Net patient service revenue	\$ 92,750,929	\$ 103,376,149
Other operating revenues	3,381,253	2,613,225
Total operating revenues	<u>96,132,182</u>	<u>105,989,374</u>
Operating expenses		
Salaries	30,694,827	30,279,289
Payroll taxes	1,608,372	1,534,289
General and administrative	835,263	689,610
Insurance	397,796	373,982
Professional services	1,549,579	1,902,618
Medical transcription	527,105	596,181
Software license fees	901,093	909,309
Clinical supplies	2,159,720	2,029,713
Equipment	389,524	114,361
Depreciation (Note 5)	306,434	311,473
Pharmaceutical	4,923,208	4,789,606
University overhead (Note 8)	42,183,041	38,300,063
Academic development (Note 8)	8,872,118	8,010,670
Total operating expenses	<u>95,348,080</u>	<u>89,841,164</u>
Operating income	<u>784,102</u>	<u>16,148,210</u>
Nonoperating revenues		
Investment income (Note 3)	229,740	148,121
Net nonoperating revenues	<u>229,740</u>	<u>148,121</u>
Increase in net assets	<u>1,013,842</u>	<u>16,296,331</u>
Net assets, beginning of year	<u>35,835,386</u>	<u>19,539,055</u>
Net assets, end of year	<u>\$ 36,849,228</u>	<u>\$ 35,835,386</u>

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

STATE OF ILLINOIS
SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare
STATEMENT OF CASH FLOWS
Year ended June 30, 2012
(With comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash receipts from patient services	\$ 100,203,090	\$ 86,406,456
Payments to employees	(32,393,581)	(31,530,120)
Payments for goods and services	(11,409,614)	(11,593,363)
Payments to University	(50,999,160)	(44,186,695)
Other cash receipts	<u>3,025,753</u>	<u>2,613,225</u>
Net cash provided by operating activities	<u>8,426,488</u>	<u>1,709,503</u>
Cash flows from noncapital financing activities		
Distribution for new loans	-	(129,838)
Proceeds from loan repayments	<u>47,167</u>	<u>23,123</u>
Net cash provided by (used in) noncapital financing activities	<u>47,167</u>	<u>(106,715)</u>
Cash flows from capital financing activities		
Purchase of capital assets	<u>(106,794)</u>	<u>(97,688)</u>
Net cash used in capital financing activities	<u>(106,794)</u>	<u>(97,688)</u>
Cash flows from investing activities		
Purchases of investments	(1,052,777)	(627,122)
Proceeds from sales of investments and maturities	121,786	155,005
Reinvested interest income	<u>206,699</u>	<u>153,272</u>
Net cash used in investing activities	<u>(724,292)</u>	<u>(318,845)</u>
Net increase in cash and cash equivalents	7,642,569	1,186,255
Cash and cash equivalents at beginning of year	<u>4,107,515</u>	<u>2,921,260</u>
Cash and cash equivalents at end of year	<u>\$ 11,750,084</u>	<u>\$ 4,107,515</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 784,102	\$ 16,148,210
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	306,434	311,473
Changes in assets and liabilities		
Deposits with SIU	(1,301,407)	(2,869,620)
Receivables (net)	8,398,068	(14,100,074)
Accounts payable and accrued liabilities-SIU	55,999	2,124,038
Accounts payable-other	<u>183,292</u>	<u>95,476</u>
Net cash provided by operating activities	<u>\$ 8,426,488</u>	<u>\$ 1,709,503</u>

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

State of Illinois
SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare ("SIUHC") have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the significant accounting policies.

Financial Reporting Entity: SIUHC is organized exclusively for charitable, educational and scientific purposes and to benefit and support the teaching, research and service missions of Southern Illinois University School of Medicine ("School of Medicine").

Due to the significance of the financial relationship with Southern Illinois University ("University"), in accordance with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, SIUHC is included as a component unit of the University for financial reporting purposes. The financial activities included in these financial statements are reported in a separate column in the University's financial statements to emphasize that SIUHC is an Illinois not-for-profit organization legally separate from the University.

These financial statements include all financial activities over which SIUHC exercises direct responsibility.

Basis of Presentation: SIUHC is a special-purpose government entity engaged only in business-type activities, which are financed in whole or in part by fees charged to external parties. Accordingly, the overall activity of SIUHC is reported through the government-wide statement of net assets, statement of revenue, expenses and changes in net assets and statement of cash flows.

Operating revenues, such as receipts for services, result from exchange transactions associated with the principal activity of SIUHC. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

Operating expenses are those expenses paid to acquire goods or services that are needed to provide patient care services. Non-operating expenses are primarily limited to investment activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Accounting: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flow takes place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. SIUHC has the option of following subsequent private-sector guidance, subject to this same limitation. SIUHC has elected not to follow subsequent private-sector guidance as it relates to its operations.

Cash and Cash Equivalents: By policy, SIUHC treats all deposits in financial institutions and short-term investments with original maturities of 90 days or less as cash and cash equivalents.

Patient Accounts Receivable and Net Patient Service Revenue: SIUHC has agreements with certain third-party payors, including Medicare and Medicaid, that provide for payments at amounts different from established rates. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The allowance for doubtful accounts represents the expected losses to be realized upon ultimate collection of patient accounts receivable, which are not subject to third-party payor agreements. Allowance estimates are based on historical experience and other relevant factors. Accounts determined to be uncollectible are charged to operations in the year in which they are determined to be uncollectible.

The following is a breakdown of gross patient service revenues, by payor, for the year ended June 30, 2012:

Government programs	
Medicare	34 %
Medicaid	21
Managed Care & Commercial Ins	36
Self-pay and other	<u>9</u>
	<u>100 %</u>

Capital Assets: Capital assets are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets that exceed \$ 5,000 are capitalized and depreciated using the straight-line method. Estimated useful lives of capital assets are as follows:

Scientific/medical equipment	7 years
Office equipment	7 years
Office furniture	7 years
EDP equipment	5 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Assets: In the accompanying financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. There is currently no related debt associated with capital assets.

Restricted – Consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is SIUHC's policy to use restricted resources first, then unrestricted resources when they are needed. SIUHC currently has no restricted net assets.

Unrestricted – Consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." The Board of Directors has designated a portion of unrestricted assets totaling \$ 5,881,238 to use for academic development purposes.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Information: The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the SIUHC financial statements for the year ended June 30, 2011, from which the summarized financial information was derived.

NOTE 2 – TAX STATUS

The U.S. Treasury Department issued a determination letter, dated June 9, 1997, indicating SIUHC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 3 – CASH AND INVESTMENTS

Investment Policy: It is the policy of SIUHC to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands. The SIUHC Investment Policy authorizes SIUHC to invest in securities of the U.S. Government or its agencies; interest bearing savings accounts, municipal or corporate bonds, certificates of deposit, interest bearing time deposits, and other direct obligations; and money market mutual funds provided they comply with the previous restriction.

NOTE 3 – CASH AND INVESTMENTS – (Continued)

The three basic objectives of SIUHC's investment policy are safety of invested funds; maintenance of sufficient liquidity to meet cash flow needs; and attainment of the maximum investment returns possible consistent with the first two objectives. SIUHC insures the safety of its invested funds by limiting credit and interest rate risks. SIUHC's portfolio is structured to ensure that securities mature at the same time as cash is needed to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets. The investment returns on the SIUHC portfolio is a priority after the safety and liquidity objectives have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Deposits with SIU: SIUHC deposits most of its cash receipts in the University's pooled cash investment accounts. The University, acting as agent for SIUHC, makes all distributions as directed. Pooled cash and investments, which consist principally of cash and certificates of deposit, are stated at cost which approximates fair value. SIUHC's pooled cash and investments are not classified with investments since specific investment securities of the pooled fund maintained by the University are not purchased on behalf of, and/or separately allocated to, the participants of the fund. Interest on pooled cash and investments allocated from the University was \$ 92,776.

Cash and Investments: Cash and cash equivalents of SIUHC include bank accounts and investments with original maturities of ninety days or less at the time of purchase, primarily Certificates of Deposit and money market funds.

Investments are reported at fair value. The fair value is determined to be the amount, usually quoted market prices, at which financial instruments could be exchanged in a current transaction between willing partners.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2012 are reflected below.

Interest earnings	\$ 224,603
Realized gain on investments	1,019
Unrealized gain on investments	<u>4,118</u>
Net investment income	<u>\$ 229,740</u>

Credit Risk: Credit risk is the risk of loss due to the failure of the security issuer or backer to meet promised interest or principal payments on required dates. Credit risk is mitigated by limiting investments to those instruments of less than one year maturity and pre-qualifying the financial institutions with which SIUHC will do business.

NOTE 3 – CASH AND INVESTMENTS – (Continued)

Concentration of Credit Risk: The SIUHC investment policy states that the portfolio should consist of a mix of various types of securities, issues and maturities.

Custodial Credit Risk Related to Deposits: Custodial credit risk is the risk that, in the event of a bank failure, SIUHC's deposits might not be recovered. SIUHC minimized custodial credit risk through its investment policy. At June 30, 2012, SIUHC maintained \$ 12,263,208 in bank deposits, of which \$ 11,443,861 was uninsured and uncollateralized.

Interest Rate Risk: Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. Interest rate risk is mitigated by maintaining significant balances in cash equivalent and other short maturity investments and by establishing an asset allocation policy that is consistent with the expected cash flows of SIUHC. Bank of Springfield manages the SIUHC portfolio. Interest rate risk is disclosed below using the segmented time distribution method. As of June 30, 2012, SIUHC had the following cash and investment balances:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-15</u>	<u>16-20</u>
Government Bonds	\$ 32,126	\$ -	\$ -	\$ -	\$ -	\$32,126
Corporate Bonds	500,490	-	500,490	-	-	-
Municipal Bonds	<u>1,022,558</u>	-	<u>782,162</u>	<u>240,396</u>	-	-
Subtotal	1,555,174	-	<u>1,282,652</u>	<u>240,396</u>	-	<u>32,126</u>
Cash and cash equivalents	<u>11,750,084</u>					
Total cash and investments	<u>\$13,305,258</u>					

This disclosure provides time horizons of investment maturities. It is not a classification of investments as current or noncurrent as presented in the Statement of Net Assets.

NOTE 4 – ACCOUNTS RECEIVABLE

Following is a summary of patients' accounts receivable at June 30, 2012 by type of payor:

Government programs	
Medicare	\$ 9,990,451
Medicaid	12,639,138
Commercial insurance	23,048,921
Self-pay and other	<u>11,872,283</u>
	57,550,793
Less	
Allowance for assignment losses	32,791,976
Allowance for doubtful accounts	<u>7,298,831</u>
Net patients' accounts receivable	<u>\$ 17,459,986</u>

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Equipment	\$ 2,905,413	\$ 106,794	\$ 11,500	\$ 3,000,707
Office furniture	<u>13,777</u>	<u>-</u>	<u>-</u>	<u>13,777</u>
	<u>2,919,190</u>	<u>106,794</u>	<u>11,500</u>	<u>3,014,484</u>
Less accumulated depreciation for				
Equipment	1,877,623	306,434	11,500	2,172,557
Office furniture	<u>13,777</u>	<u>-</u>	<u>-</u>	<u>13,777</u>
	<u>1,891,400</u>	<u>306,434</u>	<u>11,500</u>	<u>2,186,334</u>
Capital assets, net	<u>\$ 1,027,790</u>	<u>\$ (199,640)</u>	<u>\$ -</u>	<u>\$ 828,150</u>

NOTE 6 – CHARITY CARE

SIUHC has a policy to provide charitable medical care to individuals unable to pay for such services. During the year ended June 30, 2012, \$ 5,963,601 was foregone for charitable medical care and supplies furnished.

NOTE 7 – RETIREMENT PLAN

SIUHC employees may elect to participate in the SIUHC Retirement Plan (the "Plan"), a defined contribution plan. Participants may contribute up to 25% (but not less than 10%) of taxable compensation through a one-time irrevocable election. If the participant makes no election, an assumption is made that 15% will be contributed each pay period.

Quorum Consulting Services (the "Trustee") maintains an investment portfolio for the Plan contributions with Merrill Lynch, Bank of America. Contributions are deposited into the participants' accounts, and they may direct the investments among a collection of mutual funds selected by the Plan Administrator. Investment earnings are allocated to the participants' accounts based on the investment return of the mutual fund(s). The combined participants' investment portfolio at June 30, 2012, was valued at \$ 42,151,200.

SIUHC acts as the Plan Administrator, and all contributions are from the organization. During the year ended June 30, 2012, SIUHC contributed \$ 4,272,951 to the Plan on behalf of SIUHC employees.

NOTE 8 – RELATED PARTY

SIUHC entered into a master contract with the Board of Trustees of SIU, which specifies the relationship between the two organizations in accordance with the Legislative Audit Commission's University Guidelines, as amended in 1997. The contract states, among other provisions, that the University shall employ members of SIUHC as full-time faculty of the School of Medicine for the performance of duties related to its teaching, research and service missions and that SIUHC shall provide separate and concurrent employment to members of SIUHC for the performance of duties related to patient care and service to the community. The University, in return, supports SIUHC by continuing operation of outpatient clinics, maintenance of records and accounting systems, billing and collection services, custody and handling of funds, procurement of goods and services and other related activities as agreed upon by both parties. Funds collected by the University and not yet remitted to SIUHC, totaling \$ 12,404,583 are classified as deposits with SIU in the accompanying statements of net assets.

The University receives a portion of SIUHC's professional income for providing support services in accordance with the master agreement. For the year ended June 30, 2012, the University earned \$ 42,183,041 for services provided to SIUHC, of which \$ 4,987,129 is included in the amount due to SIU.

The University also receives from SIUHC, after providing for support services, funds for Academic Development that are to be used for medical, educational, and research development for the School of Medicine. For the year ended June 30, 2012, SIUHC contributed to the University \$ 8,872,118 for such Academic Development services. In September of 2005, the SIUHC Board of Directors approved the Academic Development funds previously contributed to the SIU Foundation be retained and designated the funds to be used for the purposes stated previously.

NOTE 9 – PROFESSIONAL LIABILITY

All professional liability is assumed by the University and coverage is included as part of the University's overall self-insurance program. The medical professional liability assessment for the self-insurance fund increased from \$ 5,135,264 in the year ended June 30, 2011 to \$ 5,923,915 in the year ended June 30, 2012. The increase in expense from 2011 to 2012 is related to the increasing costs for the addition of new physicians, specifically sub-specialists, during the period.

NOTE 10 – LINE OF CREDIT

SIUHC has a \$ 3,500,000 line of credit with Bank of Springfield, all of which was unused at June 30, 2012. Advances on the line of credit are payable on November 1, 2012 with no prepayment penalty and carry an interest rate equal to the prime rate as posted by *The Wall Street Journal* with a floor rate of 3.5%. The line of credit is secured by a security interest in accounts receivable.



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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
SIU Physicians & Surgeons, Inc.
d/b/a SIU HealthCare

We have audited the basic financial statements of SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare (SIUHC) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012. 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.

Internal Control Over Financial Reporting

Management of SIUHC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the SIUHC's internal control over financial reporting as a basis for designing our audit 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 SIUHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SIUHC'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting 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 SIUHC'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 *Government Auditing Standards*.

This report is intended solely for the information and use of the SIUHC Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Keiber, Eck + Braechel LLP

Springfield, Illinois
October 22, 2012