

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



FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

June 30, 2013  
(With Comparative Totals for 2012)

## CONTENTS

	Page
AGENCY OFFICIALS	3
INDEPENDENT AUDITORS' REPORT	4
MANAGEMENT DISCUSSION AND ANALYSIS	6
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	11
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	12
STATEMENT OF CASH FLOWS	13
NOTES TO FINANCIAL STATEMENTS	14
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	22

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

AGENCY OFFICIALS

June 30, 2013

Chief Executive Officer	Dr. Jerry Kruse
Chief Financial Officer and Chief Operating Officer	Mr. Nelson Weichold
Assistant Provost, Financial Affairs	Ms. Connie Hess

Agency offices are located at:

320 East Carpenter Street  
Springfield, IL 62794



Kerber, Eck & Braeckel LLP

CPAs and  
Management Consultants  
1000 Myers Building  
1 West Old State Capitol Plaza  
Springfield, IL 62701-1268  
ph 217.789.0960  
fax 217.789.2822  
www.kebcpa.com

## Independent Auditors' Report

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

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise SIUHC's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SIUHC as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited the SIUHC's 2012 financial statements, and our report dated October 22, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 - 10 be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiring of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, 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* in considering SIUHC's internal control over financial reporting and compliance.

*Kerber, Eck + Braeckel LLP*

Springfield, Illinois  
October 28, 2013

**SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare  
Management's Discussion and Analysis  
Fiscal Year Ending June 30, 2013**

**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, 2013. Management has prepared the financial statements and the related footnote disclosure 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 Position; the Statement of Revenues, Expenses and Changes in Net Position; 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 Position***

The Statement of Net Position reports what is owned (assets) and what is owed (liabilities) by SIUHC. The net position 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 position may indicate if that financial position is improving or not.

Net position of SIUHC is 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's 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.

<b>Net Position Summary</b>				
<b>For the year ended</b>		<b>June 30, 2013</b>	<b>June 30, 2012</b>	<b>Net Change</b>
<b>Assets</b>				
	Current Assets	\$ 45,104,066	\$ 43,966,568	\$ 1,137,498
	Noncurrent Assets	5,365,029	2,054,635	3,310,394
	Capital Assets, net	<u>723,581</u>	<u>828,150</u>	<u>(104,569)</u>
<b>Total Assets</b>		<b>51,192,676</b>	<b>46,849,353</b>	<b>4,343,323</b>
<b>Liabilities</b>				
	Current Liabilities	<u>9,506,227</u>	<u>10,000,125</u>	<u>(493,898)</u>
<b>Total Liabilities</b>		<b>9,506,227</b>	<b>10,000,125</b>	<b>(493,898)</b>
<b>Net Position</b>				
	Invested in capital assets, net of debt	723,581	828,150	(104,569)
	Unrestricted, Designated	6,229,177	5,881,238	347,939
	Unrestricted, Undesignated	<u>34,733,691</u>	<u>30,139,840</u>	<u>4,593,851</u>
<b>Total Net Position</b>		<b><u>\$ 41,686,449</u></b>	<b><u>\$ 36,849,228</u></b>	<b><u>\$ 4,837,221</u></b>

Current assets are largely comprised of realizable accounts receivables from patients (\$ 16,100,426) and from the Illinois Department of Healthcare and Family Services (\$4,200,000). As of June 30, 2013 the gross patient accounts receivable balance was \$ 51,398,942 and the comparable amount from the prior fiscal year was \$ 57,550,793, a decrease of 10.7%. Accounts receivable has decreased based on a decrease in revenue generating activities. Also, Effective October 1, 2012, Family Community Medicine – Springfield was designated as a Federally Qualified Health Center. All accounts receivable activity from October 1, 2012 forward would not be reported under SIU HealthCare, Inc. Gross accounts receivable at June 30, 2013 would be higher by \$1,176,395 if this change had not occurred. The implementation of the new GE patient billing system resulted in an automated and more timely process in managing outstanding accounts, including transitioning outstanding accounts from accounts receivable to an external collection agency.

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. Although the days charges outstanding for all combined payors has remained the same as prior year at 59, non State of Illinois plans decreased from 50 days at June 30, 2012 to 46 days at June 30, 2013.

Comparative gross accounts receivable by payor are as follows:

<b>Gross Accounts Receivable by Payor Class</b>				
	<b>As of</b>	<b>June 30, 2013</b>		<b>June 30, 2012</b>
<b>Guarantor</b>		\$ 8,152,866	15.8%	\$ 12,065,231
<b>Medicare</b>		7,773,553	15.0%	9,990,451
<b>Medicaid</b>		10,233,485	19.8%	12,639,138
<b>Indemnity and Work. Comp</b>		2,524,767	4.9%	6,073,201
<b>Managed Care Plans</b>		22,977,286	44.5%	16,975,720
<b>Unidentified remittances</b>		<u>(263,015)</u>		<u>(192,948)</u>
<b>Total Accounts Receivable, Prior to Uncollectible</b>		<b><u>\$ 51,398,942</u></b>		<b><u>\$ 57,550,793</u></b>
<b>Net Change</b>		<b><u>\$ (6,151,851)</u></b>	<b>(10.7%)</b>	

Noncurrent assets increased by \$3,205,825 due largely to the shift of cash to investments. Current liabilities decreased by \$493,898, or 4.9% from FY12 to FY13. This decrease consists primarily of decreased accounts payable to SIU and to vendors, offset slightly by increased payroll liabilities.

**Statement of Revenues, Expenses and Changes in Net Position**

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

<b>Revenue, Expenses and Changes in Net Position</b>				
	<b>For the year ended</b>	<b>June 30, 2013</b>	<b>June 30, 2012</b>	<b>Net Change</b>
<b>Operating Revenues</b>				
Net patient service revenues		\$88,505,023	\$92,750,929	\$ (4,245,906)
Other operating revenue		<u>8,723,546</u>	<u>3,381,253</u>	<u>5,342,293</u>
<b>Total Operating Revenues</b>		<u>97,228,569</u>	<u>96,132,182</u>	<u>1,096,387</u>
<b>Operating Expenses</b>		<u>92,555,490</u>	<u>95,348,080</u>	<u>(2,792,590)</u>
<b>Operating Income</b>		4,673,079	784,102	3,888,977
<b>Non-Operating Revenue</b>		<u>164,142</u>	<u>229,740</u>	<u>(65,598)</u>
<b>Increase in Net Position</b>		4,837,221	1,013,842	3,823,379
Net Position Beginning of Year		<u>36,849,228</u>	<u>35,835,386</u>	<u>1,013,842</u>
Net Position End of Year		<u>\$ 41,686,449</u>	<u>\$ 36,849,228</u>	<u>\$ 4,837,221</u>

Net patient service revenues reflect estimated collectible charges for professional services. There was a \$26.8 million, or 7.8%, decrease in gross charges recorded in FY13. Of this \$26.8 million, approximately 32.1% is the result of non-operational, accounting changes: the designation of Family Community Medicine-Springfield as a Federally Qualified Health Center negatively impacted charges by approximately \$5.1M and the elimination in the new GE billing system of \$3.5M of recording gross charges for non fee-for-service professional contracts. SIUHC currently operates in a market with a moderate level of managed care penetration. In terms of overall charges, the managed care payor mix experienced a small increase over prior year. All managed care activity is on a discounted fee-for-service basis as SIUHC currently has no capitated managed care contracts. The individual mix by payor has remained relatively unchanged from the prior fiscal year. Comparative charges by payor class are:

<b>Total Charges by Payor Class</b>					
	<b>For the year ended</b>	<b>June 30, 2013</b>		<b>June 30, 2012</b>	
<b>Guarantor</b>		\$ 27,784,581	8.8%	\$ 29,193,841	8.5%
<b>Medicare</b>		109,051,760	34.5%	115,380,914	33.7%
<b>Medicaid</b>		63,801,079	20.2%	72,522,697	21.2%
<b>Indemnity</b>		5,274,412	1.7%	12,108,260	3.5%
<b>Managed Care Plans</b>		107,880,165	34.2%	111,054,338	32.4%
<b>Workers Compensation</b>		<u>2,036,683</u>	0.6%	<u>2,410,636</u>	0.7%
<b>Total Charges</b>		<u>\$ 315,828,680</u>		<u>\$ 342,670,686</u>	
<b>Net Change</b>		<u>\$ (26,842,006)</u>	(7.8%)		



Expenses decreased 2.9% over the FY12 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 43.4% of total costs and decreased over the prior fiscal year by 4.9%. 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 decrease from FY12 to FY13 was the FY12 purchase of a practice management system by the School of Medicine on behalf of the Practice Plan. Decreased departmental spending in support of the School of Medicine contributed to a 5.7% decrease of academic development expense when compared to FY12. Member salaries and related payroll taxes decreased by 3% due to a decrease in the 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, the statement includes a reconciliation of net cash from operating activities to operating income as reflected on the Statement of Revenues, Expenses and Changes in Net Position.

<b>Cash Flows</b>				
	<b>For the year ended</b>	<b>June 30, 2013</b>	<b>June 30, 2012</b>	<b>Net Change</b>
<b>Cash Provided (Used) by:</b>				
Operating activities		\$ 1,491,509	\$ 8,426,488	\$ (6,934,979)
Non-capital financing activities		35,039	47,167	(12,128)
Capital financing activities		(179,756)	(106,794)	(72,962)
Investing activities		<u>(3,762,326)</u>	<u>(724,292)</u>	<u>(3,038,034)</u>
<b>Net Change</b>		<u>(2,415,534)</u>	<u>7,642,569</u>	<u>(10,058,103)</u>
<b>Cash and cash equivalents, Beginning of Year</b>		<u>11,750,084</u>	<u>4,107,515</u>	<u>7,642,569</u>
<b>Cash and cash equivalents, End of Year</b>		<u>\$ 9,334,550</u>	<u>\$11,750,084</u>	<u>\$ (2,415,534)</u>

The year-end cash balance has decreased from FY12 to FY13 by \$ 2,415,534 despite the balance sheet net position improvement of \$4.8 million. This \$7.2 million difference between net position and cash is due to transfers to investments of \$4.2 million, an increase in Deposits with SIU of \$1.9 million and an increase in receivables of approximately \$1.1 million. At June 30, 2013, the agency account balance with SIU was \$ 14.3 million, an increase of \$1.9 million over the June 30, 2012 balance. There is an offsetting amount of approximately \$ 4.3 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. Over the last six months, a new Chief Executive Officer, Chief Operating/Financial Officer, and Medical Chief Information Officer have joined the SIUHC management team. In conjunction with the clinical leadership in each department, management will be focused on improving financial performance to reinvest proceeds into the patient care experience, administrative support infrastructure, and physical facilities. In addition, 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 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. Management will continue to monitor existing payment delays from the State of Illinois on Medicaid patients and on State of Illinois employees; further payment delays could result in additional cash flow delays on these patient populations.

**SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare**  
**Statement of Net Position**  
**June 30, 2013**  
**(with comparative totals for 2012)**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 9,214,540	\$ 11,284,970
Investments	177,209	-
Deposits with SIU	14,320,192	12,404,583
Accounts receivable		
Patient	16,100,426	17,459,986
IDHFS	4,200,000	2,400,000
Accrued interest receivable	85,903	26,490
Other receivables	1,005,796	390,539
	<u>45,104,066</u>	<u>43,966,568</u>
<b>Total current assets</b>		
<b>Noncurrent Assets</b>		
Cash and cash equivalents	120,010	465,114
Long-term investments	5,245,019	1,555,174
Other receivables	-	34,347
Capital assets, net of accumulated depreciation	723,581	828,150
	<u>6,088,610</u>	<u>2,882,785</u>
<b>Total noncurrent assets</b>		
	<u>\$ 51,192,676</u>	<u>\$ 46,849,353</u>
<b>Total assets</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities-SIU	\$ 4,262,066	\$ 4,987,129
Accounts payable-other	967,935	1,050,766
Employee salaries payable	3,422,416	3,204,651
Retirement contributions payable	241,489	206,137
Withholding taxes payable	505,592	451,906
Employer taxes payable	103,301	93,683
Retirement loan payable	3,428	5,853
	<u>9,506,227</u>	<u>10,000,125</u>
<b>Total liabilities</b>		
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	723,581	828,150
Net position, unrestricted	40,962,868	36,021,078
	<u>41,686,449</u>	<u>36,849,228</u>
<b>Total net position</b>		

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

**SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**

For the year ended June 30, 2013  
(with comparative totals for the year ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Operating revenues		
Net patient service revenue	\$ 88,505,023	\$ 92,750,929
Other operating revenues	<u>8,723,546</u>	<u>3,381,253</u>
Total operating revenues	<u>97,228,569</u>	<u>96,132,182</u>
Operating expenses		
Salaries	29,786,648	30,694,827
Payroll taxes	1,547,830	1,608,372
General and administrative	966,587	835,263
Insurance	447,249	397,796
Professional services	1,909,256	1,549,579
Medical transcription	472,539	527,105
Software license fees	848,807	901,093
Clinical supplies	2,190,789	2,159,720
Equipment	318,879	389,524
Depreciation	284,325	306,434
Pharmaceutical	5,286,156	4,923,208
University overhead	40,130,585	42,183,041
Academic development	<u>8,365,840</u>	<u>8,872,118</u>
Total operating expenses	<u>92,555,490</u>	<u>95,348,080</u>
Operating income	<u>4,673,079</u>	<u>784,102</u>
Nonoperating revenues		
Investment Income	<u>164,142</u>	<u>229,740</u>
Net nonoperating revenues	<u>164,142</u>	<u>229,740</u>
Increase in net position	4,837,221	1,013,842
Net position, beginning of year	<u>36,849,228</u>	<u>35,835,386</u>
Net position, end of year	<u>\$ 41,686,449</u>	<u>\$ 36,849,228</u>

---

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

**SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare**  
**Statement of Cash Flows**  
**For the year ended June 30, 2013**  
**(with comparative totals for the year ended June 30, 2012)**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Cash receipts from patient services	\$ 86,148,974	\$ 100,203,090
Payments to employees	(31,020,482)	(32,393,581)
Payments for goods and services	(12,523,093)	(11,409,614)
Payments to University	(49,221,488)	(50,999,160)
Other cash receipts	8,107,598	3,025,753
	<u>1,491,509</u>	<u>8,426,488</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities		
Proceeds from loan repayments	35,039	47,167
	<u>35,039</u>	<u>47,167</u>
Net cash provided by noncapital financing activities		
Cash flows from capital financing activities		
Purchase of capital assets	(179,756)	(106,794)
	<u>(179,756)</u>	<u>(106,794)</u>
Net cash used in capital financing activities		
Cash flows from investing activities		
Operating income	(4,256,340)	(1,052,777)
Proceeds from sales of investments and maturities	236,325	121,786
Reinvested interest income	257,689	206,699
	<u>(3,762,326)</u>	<u>(724,292)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	(2,415,534)	7,642,569
Cash and cash equivalents at beginning of year	11,750,084	4,107,515
Cash and cash equivalents at end of year	<u>\$ 9,334,550</u>	<u>\$ 11,750,084</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,673,079	\$ 784,102
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	284,325	306,434
Changes in assets and liabilities		
Deposits with SIU	(1,915,609)	(1,301,407)
Receivables (net)	(1,056,388)	8,398,068
Accounts payable and accrued liabilities - SIU	(725,063)	55,999
Accounts payable - other	231,165	183,292
	<u>1,491,509</u>	<u>8,426,488</u>
Net cash provided by operating activities		

---

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, 2013**

**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 GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, 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 position, statement of revenue, expenses and changes in net position 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 ninety 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, 2013:

Government programs	
Medicare	35 %
Medicaid	20
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 Position: 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 position 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 position.

*Unrestricted* – Consists of net position 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 \$ 6,229,177 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, 2012, from which the summarized financial information was derived.

## **NOTE 2 – ADOPTION OF NEW ACCOUNTING PRINCIPLES**

For 2013, SIUHC adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 61 modified certain requirements for inclusion of component units in the financial reporting entity. Adoption of GASB Statement No. 61 had no effect on the SIUHC financial statements. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. Incorporating GASB Statement No. 63 in SIUHC's 2013 financial statements had no effect on beginning net position.



### **NOTE 3 – 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 4 – 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.

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 \$ 150,811.

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.

**NOTE 4 – CASH AND INVESTMENTS – Continued**

Investment income net of realized and unrealized gains and losses on investments for the year ended June 30, 2013 are reflected below.

Interest earnings	\$ 317,102
Realized gain on investments	2,384
Unrealized loss on investments	<u>(155,344)</u>
Net investment income	<u>\$ 164,142</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 we will do business. Additionally, Fixed Income Securities require a quality rating of "A" or better, as rated by Standard & Poor's or Moody's.

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, 2013, SIUHC maintained \$ 9,850,532 in bank deposits, of which \$ 9,003,781 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, 2013, 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>More Than 10</u>
Government Bonds	\$ 81,962	\$ -	\$ -	\$ -	\$ 81,962
Corporate Bonds	3,050,328	127,632	1,825,218	1,097,478	-
Municipal Bonds	2,289,938	-	834,749	1,455,189	-
Subtotal	5,422,228	<u>\$ 127,632</u>	<u>\$ 2,659,967</u>	<u>\$ 2,552,667</u>	<u>\$ 81,962</u>
Cash and cash equivalents	<u>9,334,550</u>				
Total cash and investments	<u>\$14,756,778</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 Position.

**NOTE 5 – ACCOUNTS RECEIVABLE**

Following is a summary of patients' accounts receivable at June 30, 2013 by type of payor:

Government programs	
Medicare	\$ 7,773,553
Medicaid	10,233,485
Commercial insurance	25,502,053
Self-pay and other	<u>7,889,851</u>
	51,398,942
Less	
Allowance for assignment losses	31,135,988
Allowance for doubtful accounts	<u>4,162,528</u>
Net patients' accounts receivable	<u>\$ 16,100,426</u>

**NOTE 6 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Equipment	\$ 3,000,707	\$ 179,756	\$ -	\$ 3,180,463
Office furniture	<u>13,777</u>	<u>-</u>	<u>-</u>	<u>13,777</u>
	<u>3,014,484</u>	<u>179,756</u>	<u>-</u>	<u>3,194,240</u>
Less accumulated depreciation for				
Equipment	2,172,557	284,325	-	2,456,882
Office furniture	<u>13,777</u>	<u>-</u>	<u>-</u>	<u>13,777</u>
	<u>2,186,334</u>	<u>284,325</u>	<u>-</u>	<u>2,470,659</u>
Capital assets, net	<u>\$ 828,150</u>	<u>\$ (104,569)</u>	<u>\$ -</u>	<u>\$ 723,581</u>

**NOTE 7 – 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, 2013, \$ 7,320,646 was foregone for charitable medical care and supplies furnished.

## **NOTE 8 – 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. 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, 2013, was valued at \$ 49,270,884.

SIUHC acts as the Plan Administrator, and all contributions are from the organization. During the year ended June 30, 2013, SIUHC contributed \$ 4,292,842 to the Plan on behalf of SIUHC employees.

The Plan was established by the SIUHC Board of Directors. SIUHC, by action of its Board of Directors, may amend the Plan at any time.

## **NOTE 9 – 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 \$ 14,320,192 are classified as deposits with SIU in the accompanying statements of net position.

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, 2013, the University earned \$ 40,130,585 for services provided to SIUHC, of which \$ 4,262,066 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, 2013, SIUHC contributed to the University \$ 8,365,840 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 10 – 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 decreased from \$ 5,923,915 in the year ended June 30, 2012 to \$ 5,386,410 in the year ended June 30, 2013. The decrease is consistent with the decline in gross charges and the number of providers between the two years.

**NOTE 11 – LINE OF CREDIT**

SIUHC has a \$ 3,500,000 line of credit with Bank of Springfield, all of which was unused at June 30, 2013. 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.



CPAs and  
Management Consultants  
1000 Myers Building  
1 West Old State Capitol Plaza  
Springfield, IL 62701-1268  
ph 217.789.0960  
fax 217.789.2822  
www.kebcpa.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare (SIUHC), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise SIUHC's basic financial statements, and have issued our report thereon dated October 28, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether SIUHC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Keiber, Ech + Braeckel LLP*

Springfield, Illinois  
October 28, 2013



CPAs and  
Management Consultants  
1000 Myers Building  
1 West Old State Capitol Plaza  
Springfield, IL 62701-1268  
ph 217.789.0960  
fax 217.789.2822  
www.kebcpa.com

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

We have audited the financial statements of the business-type activities of SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare (SIUHC) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 28, 2013. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SIUHC are described in Note 1 to the financial statements. The adoption of new accounting policies is described in Note 2 to the financial statements. New accounting policies adopted by SIUHC during fiscal year 2013 included GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; however, the adoption of these policies had no effect on the SIUHC financial statements. We noted no transactions entered into by SIUHC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the SIUHC's financial statements was:

Management's estimate of the allowance for doubtful accounts is based on historical experience and other relevant factors. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.



### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were noted.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 28, 2013.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SIUHC's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SIUHC's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

*Keuber, Eck + Braeckel LLP*

Springfield, Illinois  
October 28, 2013