

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



FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

June 30, 2014
(With Comparative Totals for 2013)

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

AGENCY OFFICIALS

June 30, 2014

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



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, 2014, 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 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. An 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, 2014, and the changes in its 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 2013 financial statements, and our report dated October 28, 2013, 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, 2013, 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 statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, 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.

Kemper, Eck & Brueckel LLP

Springfield, Illinois
September 29, 2014

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

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2014

Introduction

The discussion and analysis of the financial statements of SIU Physicians & Surgeons, Inc. d/b/a SIU HealthCare, ("SIUHC") provides an overview of the financial activities for the year ended June 30, 2014. 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 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 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 Position Summary				
	For the year ended	June 30, 2014	June 30, 2013	Net Change
Assets				
	Current Assets	\$ 45,428,850	\$ 45,104,066	\$ 324,784
	Noncurrent Assets	4,931,600	5,365,029	(433,429)
	Capital Assets, net	<u>661,768</u>	<u>723,581</u>	<u>(61,813)</u>
Total Assets		51,022,218	51,192,676	(170,458)
Liabilities				
	Current Liabilities	<u>8,237,708</u>	<u>9,506,227</u>	<u>(1,268,519)</u>
Total Liabilities		8,237,708	9,506,227	(1,268,519)
Net Position				
	Invested in capital assets, net of debt	661,768	723,581	(61,813)
	Unrestricted, Designated	6,161,691	6,229,177	(67,486)
	Unrestricted, Undesignated	<u>35,961,051</u>	<u>34,733,691</u>	<u>1,227,360</u>
Total Net Position		<u>\$ 42,784,510</u>	<u>\$ 41,686,449</u>	<u>\$ 1,098,061</u>

Current assets are largely comprised of realizable accounts receivables from patients (\$ 12,712,656) and from the Illinois Department of Healthcare and Family Services (\$1,822,941). As of June 30, 2014 the gross patient accounts receivable balance was \$ 42,449,901 and the comparable amount from the prior fiscal year was \$ 51,398,942, a decrease of 17.4%. Accounts receivable has decreased due to a decline in the number of providers and due to revenue cycle management improvements. The count of physician providers within SIUHC declined from 230 in June 2013 to 223 in June 2014, or 3%. In addition, a revenue cycle management workgroup began meeting in February 2014 and has identified a number of improvement initiatives including reducing the amount of time between a patient visit and billing an insurance company and improved focus on denial management.

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. SIUHC has recognized an improvement in this metric from 59 days outstanding in June 2013 to 52 days in June 2014, or a 10% decline. A key driver of this change was improved timing of payments related to State of Illinois employee health plans declining from 223 days outstanding in June 2013 to 167 days outstanding in June 2014.

Comparative gross accounts receivable by payor are as follows:

Gross Accounts Receivable by Payor Class					
	As of	June 30, 2014		June 30, 2013	
Self Pay and Other		\$ 4,857,415	10.8%	\$ 9,567,109	18.1%
Medicare		8,976,544	21.2%	7,773,553	15.1%
Medicaid		9,904,693	23.3%	10,233,485	19.9%
Managed Care/Commercial		18,983,307	44.7%	24,087,810	46.9%
Unidentified remittances		<u>(272,058)</u>		<u>(263,015)</u>	
Total Accounts Receivable, Prior to Uncollectible		<u>\$ 42,449,901</u>		<u>\$ 51,398,942</u>	
Net Change		<u>\$ (8,949,041)</u>	<u>(17.4%)</u>		

Noncurrent assets decreased by \$433,429 due largely to the increase of investments with short maturities. Current liabilities decreased by \$1,268,519, or 13.3% from FY13 to FY14. This decrease consists primarily of decreased accounts payable to SIU and reduced 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.

Revenue, Expenses and Changes in Net Position				
	For the year ended	June 30, 2014	June 30, 2013	Net Change
Operating Revenues				
Net patient service revenues		\$84,841,895	\$88,505,023	\$ (3,663,128)
Other operating revenue		<u>5,372,872</u>	<u>8,723,546</u>	<u>(3,350,674)</u>
Total Operating Revenues		<u>90,214,767</u>	<u>97,228,569</u>	<u>(7,013,802)</u>
Operating Expenses		<u>89,477,239</u>	<u>92,555,490</u>	<u>(3,078,251)</u>
Operating Income		737,528	4,673,079	(3,935,551)
Non-Operating Revenue		<u>360,533</u>	<u>164,142</u>	<u>196,391</u>
Increase in Net Position		1,098,061	4,837,221	(3,739,160)
Net Position Beginning of Year		<u>41,686,449</u>	<u>36,849,228</u>	<u>4,837,221</u>
Net Position End of Year		<u>\$ 42,784,510</u>	<u>\$ 41,686,449</u>	<u>\$ 1,098,061</u>

The net change in other operating revenue is due to a decrease in meaningful use dollars received in 2014 compared to 2013. Meaningful use dollars received in 2013 was \$3.9M compared to \$800,000 in 2014. Operating expenses declined by 3% due to the decline in provider numbers. Non-operating revenue doubled from the previous year due to an unrealized loss on investment of \$155,000 in 2013 and an unrealized gain on investment of \$13,000 in 2014.

Comparative charges by payor class are:

Total Charges by Payor Class				
	For the year ended	June 30, 2014	June 30, 2013	
Guarantor		\$ 18,777,655	6.3%	\$ 27,784,581 8.8%
Medicare		107,240,753	35.9%	109,051,760 34.5%
Medicaid		62,816,008	21.0%	63,801,079 20.2%
Indemnity		5,818,206	1.9%	5,274,412 1.7%
Managed Care Plans		101,317,218	34.0%	107,880,165 34.2%
Workers Compensation		<u>2,546,546</u>	0.9%	<u>2,036,683</u> 0.6%
Total Charges		<u>\$ 298,516,386</u>		<u>\$ 315,828,680</u>
Net Change		<u>\$(17,312,294)</u>	(5.5%)	

Expenses decreased 3.3% over the FY13 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 41.7% of total costs and decreased over the prior fiscal year by 7.1%. 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 decrease from FY13 to FY14 was a decrease in malpractice costs of \$1,035,897. Member salaries and related payroll taxes decreased by 4% consistent with the decrease in charges. Member compensation, to pay member health care providers for services provided via patient care activities, comprises 33.6% 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 provided 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 Position.

Cash Flows	For the year ended	June 30, 2014	June 30, 2013	Net Change
Cash Provided (Used) by:				
Operating activities		\$ 4,928,680	\$ 1,491,509	\$ 3,437,171
Non-capital financing activities		(3,704)	35,039	(38,743)
Capital financing activities		(208,079)	(179,756)	(28,323)
Investing activities		<u>(277,685)</u>	<u>(3,762,326)</u>	<u>3,484,641</u>
Net Change		4,439,212	(2,415,534)	6,854,746
Cash and cash equivalents, Beginning of Year		<u>9,334,550</u>	<u>11,750,084</u>	<u>(2,415,534)</u>
Cash and cash equivalents, End of Year		<u>\$13,773,762</u>	<u>\$ 9,334,550</u>	<u>\$ 4,439,212</u>

The year-end cash balance has increased from FY13 to FY14 by \$ 4,439,212 due primarily to receipts from IDHFS on amounts receivable at June 30, 2013 and amounts earned in FY14. At June 30, 2014, the agency account balance with SIU was \$ 15.3 million, an increase of \$1.0 million over the June 30, 2013 balance. There is an offsetting amount of approximately \$ 3.4 million due the University.

Future Outlook

Overall, management is optimistic about the market position and future financial performance of SIUHC. The organization is becoming increasingly focused on improvement in key areas such as revenue cycle and the patient experience. SIUHC completed a renovation make-over of the largest outpatient clinic building and is engaged with both hospital partners to construct new medical office buildings over the next several years; this will allow SIUHC to repurpose or terminate leases on existing space. Memorial Medical Center and SIUHC have entered into a partnership to co-develop and co-market a regional neurosciences institute to be located on the SIU campus with the intent of increasing the geographic area from which patients come. In addition, the practice will be implementing a new electronic health record during FY 2015 improving access that patients have to meaningful health information. The practice overall has made significant adjustments in the management of key functions including finance, health information management, revenue cycle, and marketing and will continue to do so in the next fiscal year. Efforts are underway to convert to an electronic provider credentialing system and to issue more modern and informative patient satisfaction surveys. Administrative efficiency and effectiveness gains are anticipated as all SIUHC administrative functions will be consolidated into a single, new location by the end of FY 2015. In addition, there has been and continues to be a focused effort on expanding clinical programs and faculty in targeted areas of growth. 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, 2014
(with comparative totals for 2013)

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,753,757	\$ 9,214,540
Investments	1,203,566	177,209
Deposits with SIU	15,278,286	14,320,192
Due from SIU	19,526	-
Accounts receivable		
Patient	12,712,656	16,100,426
IDHFS	1,822,941	4,200,000
Accrued interest receivable	55,959	85,903
Other receivables	582,159	1,005,796
Total current assets	45,428,850	45,104,066
Noncurrent Assets		
Cash and cash equivalents	20,005	120,010
Long-term investments	4,886,824	5,245,019
Other receivables	24,771	-
Capital assets, net of accumulated depreciation	661,768	723,581
Total noncurrent assets	5,593,368	6,088,610
Total assets	\$ 51,022,218	\$ 51,192,676
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities-SIU	\$ 3,436,026	\$ 4,262,066
Accounts payable-other	1,045,337	967,935
Employee salaries payable	2,916,005	3,422,416
Retirement contributions payable	242,842	241,489
Withholding taxes payable	490,629	505,592
Employer taxes payable	102,510	103,301
Retirement loan payable	4,359	3,428
Total liabilities	8,237,708	9,506,227
NET POSITION		
Invested in capital assets, net of related debt	661,768	723,581
Net position, unrestricted	42,122,742	40,962,868
	\$ 42,784,510	\$ 41,686,449

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, 2014
(with comparative totals for the year ended June 30, 2013)

	2014	2013
Operating revenues		
Net patient service revenue	\$ 84,841,895	\$ 88,505,023
Other operating revenues	5,372,872	8,723,546
Total operating revenues	90,214,767	97,228,569
Operating expenses		
Salaries	28,532,447	29,786,648
Payroll taxes	1,531,166	1,547,830
General and administrative	1,088,930	966,587
Insurance	424,590	447,249
Professional services	2,570,328	1,909,256
Medical transcription	370,750	472,539
Software license fees	603,471	848,807
Clinical supplies	2,202,903	2,190,789
Equipment	258,906	318,879
Depreciation	269,892	284,325
Pharmaceutical	5,586,055	5,286,156
University overhead	37,288,484	40,130,585
Academic development	8,749,317	8,365,840
Total operating expenses	89,477,239	92,555,490
Operating income	737,528	4,673,079
Nonoperating revenues		
Investment Income	360,533	164,142
Net nonoperating revenues	360,533	164,142
Increase in net position	1,098,061	4,837,221
Net position, beginning of year	41,686,449	36,849,228
Net position, end of year	\$ 42,784,510	\$ 41,686,449

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, 2014
(with comparative totals for the year ended June 30, 2013)

	2014	2013
Cash flows from operating activities		
Cash receipts from patient services	\$ 89,648,630	\$ 86,148,974
Payments to employees	(30,583,494)	(31,020,482)
Payments for goods and services	(13,028,531)	(12,523,093)
Payments to University	(46,863,841)	(49,221,488)
Other cash receipts	5,755,916	8,107,598
	<hr/>	<hr/>
Net cash provided by operating activities	4,928,680	1,491,509
Cash flows from noncapital financing activities		
New loans	(52,445)	-
Proceeds from loan repayments	48,741	35,039
	<hr/>	<hr/>
Net cash provided by (used in) noncapital financing activities	(3,704)	35,039
Cash flows from capital financing activities		
Purchase of capital assets	(208,079)	(179,756)
	<hr/>	<hr/>
Net cash used in capital financing activities	(208,079)	(179,756)
Cash flows from investing activities		
Purchases of investments	(1,030,488)	(4,256,340)
Proceeds from sales of investments and maturities	388,720	236,325
Reinvested interest income	364,083	257,689
	<hr/>	<hr/>
Net cash used in investing activities	(277,685)	(3,762,326)
Net increase (decrease) in cash and cash equivalents	4,439,212	(2,415,534)
Cash and cash equivalents at beginning of year	9,334,550	11,750,084
	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 13,773,762	\$ 9,334,550
	<hr/>	<hr/>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 737,528	\$ 4,673,079
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	269,892	284,325
Changes in assets and liabilities		
Deposits with SIU	(958,094)	(1,915,609)
Receivables (net)	6,147,873	(1,056,388)
Accounts payable and accrued liabilities - SIU	(826,040)	(725,063)
Accounts payable - other	(442,479)	231,165
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 4,928,680	\$ 1,491,509
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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, 2014

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.

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 payers, 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 payers, 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 payer 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 payer, for the year ended June 30, 2014:

Government programs	
Medicare	36 %
Medicaid	21
Managed Care & Commercial Ins	36
Self-pay and other	<u>7</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 is 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 \$ 6,161,691 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, 2014, from which the summarized financial information was derived.

NOTE 2 – ADOPTION OF NEW ACCOUNTING PRINCIPLES

For 2014, SIUHC adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Adoption of GASB Statement No. 65 had no effect on the SIUHC financial statements.

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 \$ 104,435.

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, 2014 are reflected below.

Interest earnings	\$ 352,574
Realized loss on investments	(4,667)
Unrealized gain on investments	<u>12,626</u>
Net investment income	<u>\$ 360,533</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, 2014, SIUHC maintained \$ 14,432,785 in bank deposits, of which \$ 14,062,775 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, 2014, 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	\$ 62,757	\$ -	\$ -	\$ -	\$ 62,757
Corporate Bonds	3,298,664	1,068,626	1,431,221	798,817	-
Municipal Bonds	<u>2,728,969</u>	<u>156,202</u>	<u>1,885,284</u>	<u>687,483</u>	-
Subtotal	6,090,390	<u>1,224,828</u>	<u>3,316,505</u>	<u>1,486,300</u>	<u>62,757</u>
Cash and cash equivalents	<u>13,773,762</u>				
Total cash and investments	<u>\$19,864,152</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, 2014 by type of payor:

Government programs	
Medicare	\$ 8,976,544
Medicaid	9,904,693
Commercial insurance	18,983,307
Self-pay and other	<u>4,585,357</u>
	42,449,901
Less	
Allowance for assignment losses	28,010,422
Allowance for doubtful accounts	<u>1,726,823</u>
Net patients' accounts receivable	<u>\$ 12,712,656</u>

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Equipment	\$ 3,180,463	\$ 208,079	\$ 14,500	\$ 3,374,042
Office furniture	<u>13,777</u>	<u>-</u>	<u>-</u>	<u>13,777</u>
	<u>3,194,240</u>	<u>208,079</u>	<u>14,500</u>	<u>3,387,819</u>
Less accumulated depreciation for				
Equipment	2,456,882	269,892	14,500	2,712,274
Office furniture	<u>13,777</u>	<u>-</u>	<u>-</u>	<u>13,777</u>
	<u>2,470,659</u>	<u>269,892</u>	<u>14,500</u>	<u>2,726,051</u>
Capital assets, net	<u>\$ 723,581</u>	<u>\$ (61,813)</u>	<u>\$ -</u>	<u>\$ 661,768</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, 2014, \$5,468,083 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, 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, 2014, was valued at \$ 59,201,908.

SIUHC acts as the Plan Administrator, and all contributions are from the organization. During the year ended June 30, 2014, SIUHC contributed \$ 4,176,454 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 \$ 15,278,286 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, 2014, the University earned \$ 37,288,484 for services provided to SIUHC, of which \$ 3,436,026 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, 2014, SIUHC contributed to the University \$ 8,749,317 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. Annually, the University's Risk Management Department, with input from actuarial advisors and SIUHC, determines the required professional liability reserve based on historical trends and outstanding cases. Required adjustments to the reserve as well projections on new cases and associated administrative costs for the next year, determine the annual malpractice expense allocation assigned to SIUHC. The medical professional liability assessment for the self-insurance fund decreased from \$ 5,386,410 in the year ended June 30, 2013 to \$4,350,513 in the year ended June 30, 2014. The decrease is a result of prior year case resolutions of amounts less than originally anticipated in prior year reserve calculations.

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, 2014. Advances on the line of credit are payable on December 5, 2014 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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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, 2014, and the related notes to the financial statements, which collectively comprise SIUHC's basic financial statements, and have issued our report thereon dated September 29, 2014.

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.

Kulow, Eck & Bruesel LLP

Springfield, Illinois
September 29, 2014