

STATE OF ILLINOIS  
SIU PHYSICIANS & SURGEONS, INC.

Compliance Examination  
For the two years ended June 30, 2005

Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

STATE OF ILLINOIS  
SIU PHYSICIANS & SURGEONS, INC.

COMPLIANCE EXAMINATION

For the two years ended June 30, 2005

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STATE OF ILLINOIS  
SIU PHYSICIANS & SURGEONS, INC.

COMPLIANCE EXAMINATION

For the two years ended June 30, 2005

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State of Illinois  
SIU Physicians & Surgeons, Inc.

AGENCY OFFICIALS

For the two years ended June 30, 2005

Chief Executive Officer

Mr. David J. Tkach

Chief Financial Officer

Mr. Peter R. Cadwell

Executive Director, Financial Affairs

Ms. Elizabeth Collier

Agency offices are located at:

800 North Rutledge Street  
Springfield, Illinois 62794



Southern Illinois University  
School of Medicine  
SIU Physicians & Surgeons, Inc.  
Administrative Offices  
P.O. Box 19639  
Springfield, IL 62794-9639  
Telephone Number: 217-545-1884  
FAX Number: 217-545-1884

October 5, 2005

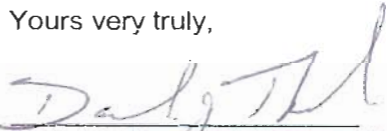
Kerber, Eck & Braeckel LLP  
1000 Myers Building  
Springfield, IL 62701

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations or contracts that could have a material effect on the operations of SIU Physicians & Surgeons, Inc. (SIU P&S). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the SIU P&S's compliance with the following assertions during the two-year period ended June 30, 2005. Based on this evaluation, we assert that during the years ended June 30, 2004 and June 30, 2005, SIU P&S has materially complied with the assertions below.

- A. SIU P&S has obligated, expended, received and used funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. SIU P&S has obligated, expended, received and used funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. SIU P&S has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The revenues and receipts collected by SIU P&S are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by SIU P&S or held in trust by SIU P&S have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

  
David J. Tkach, Chief Executive Officer  
SIU Physicians & Surgeons, Inc.

  
M. Elizabeth Collier, Assistant Provost  
SIU School of Medicine

  
Peter R. Cadwell, Chief Financial Officer and Treasurer  
SIU Physicians & Surgeons, Inc.

State of Illinois  
SIU Physicians & Surgeons, Inc.

COMPLIANCE REPORT SUMMARY

For the two years ended June 30, 2005

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Findings	2	3
Repeated findings	1	1
Prior recommendations implemented or not repeated	2	1

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Prior Finding Code</u>
CURRENT FINDINGS (STATE COMPLIANCE)			
05-1	13	Accounts Receivable Reporting Error	N/A
05-2	16	Cash Credit Risk	03-3
PRIOR FINDINGS NOT REPEATED ( <i>GOVERNMENT AUDITING STANDARDS</i> )			
05-3	17	Inadequate Procedures for Accounts Payable	03-1
05-4	17	Credit Balances in Accounts Receivable	03-2, 02-1

State of Illinois  
SIU Physicians & Surgeons, Inc.

COMPLIANCE REPORT SUMMARY - CONTINUED

For the two years ended June 30, 2005

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with SIU Physicians & Surgeons personnel at an exit conference on December 19, 2005. Attending from SIU P&S were Chief Executive Officer, David Tkach; Chief Financial Officer, Peter Cadwell; and Executive Director, Financial Affairs, Elizabeth Collier. Attending from Kerber, Eck & Braeckel LLP were Partner, Deborah Ringer; Manager, Phil Capps; and Partner, David Schnake (via telephone). Attending from the Office of the Auditor General was Audit Manager, Kim Labonte. Responses to the recommendations were provided by Peter Cadwell in an e-mail on December 21, 2005.



Independent Accountants' Report on State Compliance,  
on Internal Control Over Compliance, and on  
Supplementary Information for State Compliance Purposes

Honorable William G. Holland  
Auditor General  
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined SIU Physicians & Surgeons, Inc.'s ("SIU P&S") compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2005. The management of SIU P&S is responsible for compliance with these requirements. Our responsibility is to express an opinion on SIU P&S's compliance based on our examination.

- A. SIU P&S has obligated, expended, received and used funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. SIU P&S has obligated, expended, received and used funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. SIU P&S has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. The revenues and receipts collected by SIU P&S are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by SIU P&S have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.



Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act, and accordingly, included examining, on a test basis, evidence about SIU P&S's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on SIU P&S's compliance with specified requirements.

In our opinion, SIU P&S complied, in all material respects, with the aforementioned requirements during the two years ended June 30, 2005. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as finding code numbers 05-1 and 05-2. As required by the audit guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

#### Internal Control

The management of SIU P&S is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered SIU P&S's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal controls over compliance that we consider to be material weaknesses. As required by the audit guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

#### Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements (presented under separate cover) of SIU P&S as of and for the year ended June 30, 2005, and have issued our report thereon dated October 5, 2005. The accompanying

supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of SIU P&S. The 2005 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, SIU P&S's basic financial statements for the years ended June 30, 2004 and June 30, 2003. In our reports dated September 3, 2004 and September 12, 2003, we expressed unqualified opinions on the basic financial statements. In our opinion, the 2004 and 2003 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2004 and June 30, 2003, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors, and the SIU P&S management and is not intended to be and should not be used by anyone other than these specified parties.

*Kerben, Eck & Braeckel LLP*

Springfield, Illinois  
October 5, 2005

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*

Honorable William G. Holland  
Auditor General, State of Illinois

As **Special Assistant Auditors** for the Auditor General, we have audited the basic financial statements (presented under separate cover) of SIU Physicians and Surgeons, Inc. (SIU P&S) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SIU P&S's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether SIU P&S's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of SIU P&S in a separate letter dated October 5, 2005.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors, and SIU P&S management and is not intended to be and should not be used by anyone other than these specified parties.

*Harber, Eck & Brauchel LLP*

Springfield, Illinois  
October 5, 2005

State of Illinois  
SIU Physicians & Surgeons, Inc.

FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES

For the two years ended June 30, 2005

CURRENT FINDINGS - (State Compliance)

**05-1 Accounts Receivable Reporting Error**

**Finding:** SIU P&S did not properly accrue an accounts receivable related to an agreement with the Illinois Department of Healthcare and Family Services to facilitate the claiming of federal financial participation matching funds.

SIU P&S has entered into an agreement with the Illinois Department of Healthcare and Family Services (IDHFS) to facilitate the claiming of federal financial participation matching funds. The agreement was signed in January of 2003 and during FY 2003, SIU P&S submitted an Annual Cost Statement to IDHFS for the last quarter of FY 2002, which was the first allowable period under the agreement. Annual Cost Statements for FY 2003 and FY 2004 were submitted during December of 2003 and 2004, respectively. The Annual Cost Statement for FY 2005 is to be submitted in December of 2005. SIU P&S failed to accrue any receivables due to this agreement during the years ended June 30, 2003, 2004, and 2005. Accrued accounts receivable should have been recorded in the amount of \$ 2,340,302, \$ 1,630,489 and \$ 2,049,819 for the years ended June 30, 2003, 2004, and 2005, respectively. As a result, net assets as of July 1, 2004, have been restated. The effect of the restatement was to increase net assets and accounts receivable by \$ 3,970,791. An adjustment was also recorded as of June 30, 2005, to increase accounts receivable and revenue by \$ 1,161,452.

SIU P&S personnel decided not to record an accrued receivable related to this agreement. Their preference was to record the payments in the period they were received. They also did not believe an adequate estimate could be made since their Annual Cost Statement would not be submitted until after their financial reporting for the given fiscal year had been completed.

Accounting principles generally accepted in the United States of America (GAAP) requires revenues for services performed during a fiscal year to be recorded during that fiscal year, regardless of when the amount is actually received. (Finding Code No. 05-1)

**Recommendation:** We recommend SIU P&S establish procedures to assess and document proper accounting treatment of agreements signed with third parties so that revenues and expenses are recorded in the proper financial reporting period. If estimates are required to record the revenue or expense during the proper period, we recommend procedures be put in place to gather the appropriate information to make the estimate.

State of Illinois  
SIU Physicians & Surgeons, Inc.

FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES - CONTINUED

For the two years ended June 30, 2005

CURRENT FINDINGS - (State Compliance) - Continued

**05-1 Accounts Receivable Reporting Error - Continued**

**SIU P&S Response:** Management agrees with the finding and recommendations but we also believe it is important that we explain our rationale for not reporting the revenues in the prior fiscal years.

The finding states that GAAP requires proper recognition of revenue in the period performed, it also requires that the accrual of revenue estimates be done in a manner that reflects the likelihood that such estimates will become a reality and when in doubt, one should choose the solution that will be least likely to overstate assets and income. As stated in the Finding, the Annual Cost Statements were not filed for each reported period until after the close of the fiscal year and after the release of the annual financial statements. With the first filing submitted in May 2003 for the fourth quarter of FY02 and the second filing made in December 2003 for FY03 and no track record of any success, we were not comfortable making any revenue accrual. In addition, the Illinois Department of Public Aid (IDPA), predecessor to Illinois Department of Healthcare and Family Services (DHFS), had never submitted an Inter-Governmental Transfer (IGT) filing to the federal government before and in fact informed us that in order to do so, had to write a new computer program to make such a filing. Because of recent state budget cutbacks, personnel terminations and retirements at the time, they could not even give us an estimate of when "programming would even begin" except that it would be a minimum of a year. Even though the Cost Reports were filed in a timely manner there was no reasonable method to estimate the amounts which may have been received at the time the financial statements we prepared because we lacked any historical data upon which to base the projection. We have only recently been able to develop a reasonable model to project the IGT funds based upon the recent payments received from our annual cost report filings.

In the meantime, legislation at the federal level continues to be introduced annually, to terminate the IGT program because many legislators view it as a loophole in the federal Medicaid system that is abused by the states using it. Finally, there was no guarantee, especially considering the state's budget situation, that even if the proper filing was made by the state to the federal government, and the federal government paid the state, that any or all of this money would be remitted to SIU P&S. For these reasons management decided to not make an estimate and recognize the revenue in the year it would actually be received.

State of Illinois  
SIU Physicians & Surgeons, Inc.

FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES - CONTINUED

For the two years ended June 30, 2005

CURRENT FINDINGS - (State Compliance) - Continued

**05-1          Accounts Receivable Reporting Error - Continued**

We made the filing without a firm commitment as to if and when we would receive any funds and what that amount would be. We believe the recent history of corporate America and the very aggressive manner that many corporations have taken in recording questionable revenues, has reinforced to all entities to not recognize any revenue until there is reasonably certainty of its realizability. We never received any confirmation that our FY 2002-2003 reports were processed and recognized until we received a check in September 2005. Payment for FY 2004 was received in November 2005.

We now have a track record of these filings being accepted, processed and funds received and agree that an accrual estimate for FY 2005 should be made and that the prior period adjustments are appropriate. We also agree that an estimate will be made in future years basing the estimate on past data.

State of Illinois  
SIU Physicians & Surgeons, Inc.

FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES - CONTINUED

For the two years ended June 30, 2005

CURRENT FINDINGS - (State Compliance)

**05-2 Cash Credit Risk**

**Finding:** SIU P&S consistently maintains a cash account with a bank balance greater than the Federal Deposit Insurance Corporation (“FDIC”) insured amount of \$ 100,000.

At June 30, 2005 and June 30, 2004, the uninsured balances were \$ 2,922,351 and \$ 506,327, respectively.

Prudent business practices require that assets not be subjected to uninsured risk. Even though cash disbursements exceed \$ 100,000 in a given time period, a variety of money management methods exist to ensure bank balances are fully insured.

SIU P&S personnel indicated that they did not believe such measures were necessary, given the size, reputation and good standing of the bank used by SIU P&S. (Finding Code No. 05-2, 03-3)

**Recommendation:** We recommend SIU P&S structure its bank accounts whereby the bank balance at an individual bank is either less than \$ 100,000 or obtain additional collateral for amounts in excess of the FDIC insurance.

**SIU P&S Response:** We had previously responded to the FY03 compliance Finding and Recommendation dealing with this topic that we considered the level of risk to be minimal given the size, reputation and good standing of the bank being used. We agree with this year's Finding in light of the recent increase in the available cash balance on deposit. The recent increase in the available cash balance is due to a change in the distribution of revenues for Academic Development accounts, for the benefit of the School of Medicine, whereby these funds are now being retained by the corporation as opposed to distributing these funds to the School of Medicine and/or the SIU Foundation. We agree with the current Recommendation and will work with our banking representatives to implement a cash management program which will reduce the level of risk.



State of Illinois  
SIU Physicians & Surgeons, Inc.

FINDINGS, RECOMMENDATIONS AND AGENCY RESPONSES - CONTINUED

For the two years ended June 30, 2005

PRIOR FINDINGS NOT REPEATED - (*Government Auditing Standards*)

**05-3 Inadequate Procedures for Accounts Payable**

**Finding:** During the prior period, SIU P&S did not have adequate procedures in place to determine accounts payable at the end of each fiscal year.

SIU P&S management reviewed payments made 30 days after year end in search of vouchers which needed to be recorded as accounts payable. However, due to the untimely payment of vouchers in both Fiscal Year 2002 and 2003, vouchers approved and paid after 30 days from fiscal year end were not recorded as accounts payable. (Finding Code No. 03-1)

**Reason not Repeated:** During the current period, we noted no occurrences of this nature.

**05-4 Credit Balances in Accounts Receivable**

**Finding:** During the prior period, SIU P&S did not have procedures in place to accumulate credit balances due to patients or other responsible parties at year end and therefore was not able to adequately account for credit balances in patient accounts receivable balances. (Finding Code Nos. 03-2, 02-1)

**Reason not Repeated:** During the current period, SIU P&S implemented procedures to dispose of aged credit balances in a timely and reasonable manner and the patient credit balances now included in patients accounts receivable is not material to the financial statements.

**SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

State of Illinois  
SIU Physicians & Surgeons, Inc.

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES  
SUMMARY

For the two years ended June 30, 2005

Supplementary Information for State Compliance Purposes presented in this section of the audit includes the following:

- Fiscal Schedules and Analysis

- Comparative Schedule of Cash
- Comparative Schedule of Cash Receipts
- Schedule of Changes in Furniture and Equipment
- Analysis of Significant Variations in Revenue and Expenses
- Analysis of Significant Variations in Statement of Net Assets Accounts
- Analysis of Patient Accounts Receivable

- Analysis of Operations

- Agency Functions and Planning Program
- Additional Required Information (Unaudited)
- Summary of Payments to the University

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited", on which they express no opinion, it is stated fairly, in all material respects, in relation to the basic financial statements taken as a whole.

State of Illinois  
SIU Physicians & Surgeons, Inc.

COMPARATIVE SCHEDULE OF CASH

June 30

	<u>2005</u>	2004 <u>(Restated)</u>	2003 <u>(Restated)</u>
Cash			
National City	<u>\$ 2,701,540</u>	<u>\$ 58,860</u>	<u>\$ 562,744</u>

State of Illinois  
SIU Physicians & Surgeons, Inc.

COMPARATIVE SCHEDULE OF CASH RECEIPTS

For the years ended June 30

	<u>2005</u>	2004 <u>(Restated)</u>	<u>2003</u> <u>(Restated)</u>
Net professional fees	\$ 62,766,555	\$ 52,280,282	\$ 47,265,381
Interest income	200,601	194,692	251,725
Other revenues	<u>838,616</u>	<u>495,765</u>	<u>722,572</u>
	<u>\$ 63,805,772</u>	<u>\$ 52,970,739</u>	<u>\$ 48,239,678</u>

State of Illinois  
SIU Physicians & Surgeons, Inc.

SCHEDULE OF CHANGES IN FURNITURE AND EQUIPMENT

For the years ended June 30, 2005 and 2004

	<u>Furniture</u>	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balance, June 30, 2003	\$ 13,777	\$ 545,982	\$ (205,154)	\$ 354,605
Additions	-	108,130	-	108,130
Disposals	-	-	-	-
Depreciation expense	-	-	(96,303)	(96,303)
<hr/>				
Balance, June 30, 2004	13,777	654,112	(301,457)	366,432
Additions	-	344,890	-	344,890
Disposals	-	-	-	-
Depreciation expense	-	-	(118,096)	(118,096)
<hr/>				
Balance, June 30, 2005	<u>\$ 13,777</u>	<u>\$ 999,002</u>	<u>\$ (419,553)</u>	<u>\$ 593,226</u>

State of Illinois  
SIU Physicians & Surgeons, Inc.

ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE AND EXPENSES

For the year ended June 30

	<u>2005</u>	<u>Increase (Decrease)</u>	<u>2004 (Restated)</u>	<u>Increase (Decrease)</u>	<u>2003 (Restated)</u>
<b>Revenues and other additions</b>					
Net professional fees	\$ 68,934,176	\$ 10,196,756 a	\$ 58,737,420	\$ 8,953,686 a	\$ 49,783,734
Interest income	200,601	5,909	194,692	(57,033) b	251,725
Other revenues	838,616	342,851 c	495,765	(226,807) c	722,572
<b>Expenditures and other deductions</b>					
Salaries	22,968,895	3,270,574 a	19,698,321	2,155,710 a	17,542,611
Payroll taxes	1,041,861	112,312 a	929,549	74,557 a	854,992
General and administrative	425,106	134,771 d	290,335	215,854 d	74,481
Contributions/donations	1,559	(104)	1,663	(2,879)	4,542
Insurance	572,657	(632,279) e	1,204,936	886,136 e	318,800
Professional services	808,437	66,503	741,934	76,228 f	665,706
Medical transcription	574,486	121,394 g	453,092	(48,703) g	501,795
Software license fees	631,311	(1,573)	632,884	(125,593) h	758,477
Clinical supplies	1,262,801	115,257 i	1,147,544	274,877 i	872,667
Equipment	64,952	24,004	40,948	(57,869) j	98,817
Depreciation	118,096	21,793	96,303	14,895	81,408
Pharmaceutical	2,571,490	414,118 k	2,157,372	554,761 k	1,602,611
University overhead	24,664,328	3,480,763 l	21,183,565	(88,969)	21,272,534
Academic development	5,683,819	(225,496)	5,909,315	1,027,454 m	4,881,861
Interest expense	7,712	(4,677)	12,389	12,389	-

All increases/decrease > \$ 36,000 and 10% were determined to be significant.

- a The increase is attributable to additional physicians joining SIU P&S, an increase in fees charged and additional reimbursements from Medicaid.
- b The decrease in FY04 was mainly attributable to the decreased deposit balance in funds held by the University and not yet remitted to SIU P&S.
- c Increase in FY05 is due to reimbursement for trauma calls and insurance bonuses, and the decrease in FY04 is due to fewer insurance bonuses.
- d The increase is attributable to additional rent expense for new clinical space.
- e Increase in FY04 and decrease in FY05 is attributable to a large tail premium expense for new physicians in FY04.
- f The increase is attributable to on-call service contracts. SIU P&S contracts with outside physicians to fill some of the on-call times. SIU P&S then pays the outside physicians. This resulted in a majority of the increase.
- g The decrease in FY04 is attributable to a change in vendors resulting in a decrease in per line charges with a corresponding decrease in the number of lines charged by the new vendor. The increase in FY05 is attributable to increased number of procedures.
- h The decrease is attributable to decreased use of services provided by an outside service provider. SIU P&S contracts with Siemens Medical Solutions Health Services Corporation for its patient billing system. Claims manager and document imaging services have been added to the contract requiring fewer additional outside service providers, thus lowering overall expense.
- i The increases are attributable to increased volume of patients seen by SIU P&S and the addition and expansion of clinics offered.
- j All equipment purchases are recorded through the equipment expense account. At year end the items over \$ 5,000 are capitalized. Less small equipment items were purchased in FY04.
- k The increases are attributable to increased volume of patients seen by SIU P&S and the addition and expansion of clinics offered.
- l The increases are attributable to increased volume of patients seen by SIU P&S and the addition and expansion of clinics offered. As revenues increase, so do related expenses.
- m The increase in FY04 is a direct result of additional physicians joining SIU P&S.

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ANALYSIS OF SIGNIFICANT VARIATIONS IN STATEMENT OF NET ASSET ACCOUNTS

June 30

	<u>2005</u>	<u>Increase</u> <u>(Decrease)</u>	<u>2004</u> <u>(Restated)</u>	<u>Increase</u> <u>(Decrease)</u>	<u>2003</u> <u>(Restated)</u>
<b>Assets</b>					
Cash	\$ 2,701,540	\$ 2,642,680 a	\$ 58,860	\$ (503,884) a	\$ 562,744
Deposits with SIU	10,262,961	1,364,269 b	8,898,692	3,018,582 b	5,880,110
Accounts receivable					
Patient, net of allowances and uncollectibles	15,755,765	4,320,777 c	11,434,988	1,129,192 c	10,305,796
Illinois Department of Healthcare and Family Services	5,132,243	1,161,272 d	3,970,971	1,630,669 d	2,340,302
Other	-	(678,876) e	678,876	678,876 e	-
Capital assets, net	593,226	226,794 f	366,432	11,827	354,605
<b>Liabilities</b>					
Accounts payable	\$ 635,479	\$ 295,088 g	\$ 340,391	\$ (81,314) g	\$ 421,705
Due to SIU	1,793,437	(9,526)	1,802,963	582,487 h	1,220,476
Employee salaries payable	2,806,390	486,338 i	2,320,052	70,325	2,249,727
Retirement contributions payable	225,199	28,106	197,093	24,751	172,342
Withholding taxes payable	333,929	47,221 i	286,708	43,236 i	243,472
Employer taxes payable	59,869	5,957	53,912	3,864	50,048
Retirement loan payable	2,878	750	2,128	385	1,743
Garnishments payable	900	900	-	-	-
Notes payable	-	(393,621) j	393,621	393,621 j	-

All increases/decreases > \$ 36,000 and 10% were determined to be significant.

- a The decrease from FY03 to FY04 was due to decreased cash flow from operations. The increase from FY04 to FY05 is due to cash flow from operation and the inclusion of academic development funds. In FY05, SIU P&S stopped paying the Foundation and started paying Academic Development directly.
- b Increases are due to better collection efforts, increased patient charges and collections.
- c Increases are due to the number of months in the Medicaid reimbursement cycle increasing due to State budget problems, paying approximately 5.5 months behind a normal billing cycle.
- d Increases are due to matching funds by the Illinois Department of Healthcare and Family Services not yet received.
- e The receivable in FY04 was due to the payment of rent by SIU P&S that was normally paid by the SIU School of Medicine. Due to a rent contract dispute, SIU P&S paid the rent expense for the SIU School of Medicine until the contract was settled. Once the rental contract was resolved, the rental payment was reimbursed to SIU P&S in FY05.
- f Increase is due to purchases of clinical equipment.
- g The decrease in FY04 is mainly due to a decrease in medical transcription expense owed at year end. The increase in accounts payable for FY05 is due to additional accounts payable for academic development accounts.
- h The increase is due to the timing of expenses due and payable to SIU at a given point in time and the lack of cash available to transfer to SIU as of June 30, 2004.
- i The increase is due to an increase in accrued physician compensation for additional physicians.
- j The difference from year to year is due to a note payable to the University established in FY04 and paid in FY05.



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ANALYSIS OF PATIENT ACCOUNTS RECEIVABLE

	June 30		
	<u>2005</u>	2004 (Restated)	2003 (Restated)
Gross patient accounts receivable	\$ 44,695,942	\$ 27,416,670	\$ 24,676,743
Less allowances and uncollectibles	<u>28,940,177</u>	<u>15,981,682</u>	<u>14,370,947</u>
Net patient accounts receivable	<u><u>\$ 15,755,765</u></u>	<u><u>\$ 11,434,988</u></u>	<u><u>\$ 10,305,796</u></u>

Accounts Receivable Aging

<u>June 30</u>						
<u>2005</u>	<u>0-120</u>	<u>121-150</u>	<u>151-180</u>	<u>181-210</u>	<u>211-over</u>	<u>Total</u>
Commercial	91.95%	2.79%	2.03%	1.19%	2.04%	100%
Guarantor	55.01%	7.34%	4.63%	4.10%	28.92%	100%
Medicaid	58.28%	14.10%	8.85%	10.65%	8.12%	100%
PPO	97.72%	0.87%	0.95%	0.20%	0.26%	100%
Medicare	97.50%	1.11%	0.19%	0.68%	0.52%	100%
HMO	95.21%	1.08%	0.86%	0.55%	2.30%	100%
Blue Shield	87.75%	4.09%	7.57%	0.65%	-0.06%	100%
Workman's Comp.	86.18%	11.88%	1.08%	0.34%	0.52%	100%
<u>2004 - Restated</u>	<u>0-120</u>	<u>121-150</u>	<u>151-180</u>	<u>181-210</u>	<u>211-over</u>	<u>Total</u>
Commercial	99.20%	3.87%	0.94%	1.68%	-5.69%	100%
Guarantor	50.95%	7.36%	9.35%	3.30%	29.04%	100%
Medicaid	77.22%	5.58%	5.05%	2.56%	9.59%	100%
PPO	92.51%	2.65%	1.80%	1.60%	1.44%	100%
Medicare	95.14%	1.04%	1.00%	0.58%	2.24%	100%
HMO	93.42%	2.90%	0.86%	0.63%	2.19%	100%
Blue Shield	86.26%	0.71%	2.54%	1.50%	8.99%	100%
Workman's Comp.	91.46%	5.56%	1.97%	0.13%	0.88%	100%
<u>2003 - Restated</u>	<u>0-120</u>	<u>121-150</u>	<u>151-180</u>	<u>181-210</u>	<u>211-over</u>	<u>Total</u>
Commercial	98.51%	1.65%	1.65%	1.68%	-3.49%	100%
Guarantor	48.41%	8.55%	6.57%	3.41%	33.06%	100%
Medicaid	76.79%	8.07%	4.82%	2.60%	7.72%	100%
PPO	99.01%	1.84%	0.82%	0.59%	-2.26%	100%
Medicare	95.02%	0.55%	0.55%	1.11%	2.77%	100%
HMO	95.48%	1.58%	1.23%	0.89%	0.82%	100%
Blue Shield	95.81%	0.97%	0.18%	1.25%	1.79%	100%
Workman's Comp.	95.40%	3.43%	0.61%	1.38%	-0.82%	100%

Gross Patient Service Revenues by Payor

	<u>2005</u>	2004 (Restated)	2003 (Restated)
Government programs:			
Medicare	32%	28%	28%
Medicaid	16%	16%	16%
Commercial insurance	42%	44%	44%
Self-pay and other	<u>10%</u>	<u>12%</u>	<u>12%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>

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AGENCY FUNCTIONS AND PLANNING PROGRAM

Two years ended June 30, 2005

The administrative office of SIU Physicians & Surgeons, Inc., ("SIU P&S") is located at 800 North Rutledge Street in Springfield, Illinois. The Chief Executive Officer of SIU P&S at June 30, 2005, is Mr. David J. Tkach.

SIU P&S 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 (the "School of Medicine"). SIU P&S has formal, written long-term and short-term goals designed to achieve the above-mentioned mission. Various development activities have been designed as a means to reach identified goals. The achievement of these goals and the effectiveness of the development activities are reviewed by David Tkach, the Chief Executive Officer, on an ongoing basis. Overall performance is monitored with members of SIU P&S's Board of Directors. The documentation of goals and the monitoring of progress appears reasonable.

The School of Medicine assigns all support staff to SIU P&S. Therefore, only physicians and a chief executive officer are employees of SIU P&S.

The parties agree that SIU P&S is a University-related organization as defined by the Legislative Audit Commission Guidelines of the Illinois General Assembly. The relationship between the parties is to be conducted according to these guidelines.

It is the intention of the management and the Board of Directors of SIU P&S that its continuing long-term goals are those described in its by-laws.

Auditors' Assessment

The planning program described above appears reasonable for SIU Physicians & Surgeons, Inc. for the two years ended June 30, 2005.

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ADDITIONAL REQUIRED INFORMATION (UNAUDITED)

Two years ended June 30, 2005

***Local Funds***

All funds of SIU P&S are locally held funds and are not appropriated.

***Receivables***

An analysis of patient accounts receivable is presented on page 25 of this report.

***Employee Statistics***

SIU P&S obtains all support staff through the contract with the University. During the years ended June 30, 2005 and 2004, there were 198 and 188 members, respectively, working for SIU P&S.

***Service Efforts and Accomplishments***

The Board of Directors of SIU P&S seeks to ensure that in conjunction with supporting the missions of the School of Medicine and delivering cost-effective, high-quality patient care, the members of SIU P&S will provide a reasonable and proportionate share of charitable medical care to individuals unable to pay for such care. It is the policy of SIU P&S to screen patients who indicate an inability to meet financial obligations due to financial hardship. Discounts will be based on current Poverty Income Guidelines established by the federal government and other relevant data which is deemed appropriate to the particular account under consideration.

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SUMMARY OF PAYMENTS TO THE UNIVERSITY

For the years ended June 30, 2005 and 2004

During the years ended June 30, 2005 and 2004, Physicians and Surgeons, Inc. was under contract with the University to provide:

	<u>2005</u>	<u>2004</u> <u>(Restated)</u>
Payments for Dean's Tax	\$ 1,303,476	\$ 1,303,476
Payments to reimburse the University for overhead costs	23,360,852	19,880,089
Payments to the School of Medicine for academic development	5,436,218	3,190,394
Payments to the SIU Foundation for academic development	<u>247,601</u>	<u>2,718,921</u>
	<u>\$ 30,348,147</u>	<u>\$ 27,092,880</u>