

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southern Illinois Healthcare Foundation, Inc.
Sauget, Illinois

We have audited the accompanying statement of financial position of Southern Illinois Healthcare Foundation, Inc. (the "Organization") as of December 31, 2012, and the related statement of activities and changes in unrestricted net assets and cash flows for the year then ended, and the related notes to the financial statements.

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 these 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 opinions.

Basis for Qualified Opinion

The financial statements exclude Touchette Regional Hospital, a controlled affiliate of the Organization. In our opinion, accounting principles generally accepted in the United States of America require that all controlled entities be accounted for as consolidated affiliates. If the financial statements of Touchette Regional Hospital had been consolidated with those of the Organization, total assets and total liabilities would be increased by approximately \$22,200,000 and \$10,600,000, respectively, as of December 31, 2012, and revenues and expenses would be increased by \$61,300,000 and \$63,000,000, respectively, for the year then ended.

Qualified Opinion

In our opinion, except for the effects of not consolidating the controlled affiliate, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Organization as of December 31, 2012, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Auditors

The financial statements of the Organization as of and for the year ended December 31, 2011, were audited by other auditors whose report dated April 11, 2012, expressed an unmodified opinion on those statements, except for the effects of not consolidating the controlled affiliate, Touchette Regional Hospital.

Board of Directors
Southern Illinois Healthcare Foundation, Inc.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2013, on our consideration of the Organization'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 result of that testing, and not to provide an opinion on 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 the Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Louis, Missouri
April 18, 2013

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 931,972	\$ 1,887,314
Certificates of Deposit	600,000	415,093
Accounts Receivable:		
Patients	4,538,042	5,780,285
Grants	740,620	1,646,574
Other	210,689	265,806
Prepaid Expenses and Other Current Assets	232,916	160,086
Total Current Assets	7,254,239	10,155,158
 ASSETS LIMITED AS TO USE	 407,783	 403,808
 PROPERTY AND EQUIPMENT		
Land	561,315	386,773
Buildings	21,494,966	10,626,106
Furniture and Equipment	4,185,241	3,016,191
Operating Equipment	1,651,540	1,551,662
Vehicles	185,055	185,055
Construction in Progress	95,836	3,839,996
	28,173,953	19,605,783
Less: Accumulated Depreciation	(8,500,954)	(7,516,862)
Net Property and Equipment	19,672,999	12,088,921
 OTHER ASSETS		
Medical Practice Goodwill	-	168,065
 Total Assets	\$ 27,335,021	\$ 22,815,952

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Lines of Credit	\$ -	\$ 1,800,000
Current Portion of Long-Term Debt	981,795	1,242,555
Accounts Payable:		
Trade	1,957,443	1,657,453
Construction	414,708	1,252,101
Accrued Wages and Benefits	1,189,933	799,059
Accrued Compensated Absences	1,858,614	1,521,757
Deferred Grant Revenue	155,605	210,612
Total Current Liabilities	<u>6,558,098</u>	<u>8,483,537</u>
 LONG-TERM DEBT, Less Current Maturities	 3,931,553	 1,588,003
 OTHER LONG-TERM LIABILITIES	 <u>308,000</u>	 <u>308,000</u>
 Total Liabilities	 10,797,651	 10,379,540
 NET ASSETS		
Unrestricted Net Assets	<u>16,537,370</u>	<u>12,436,412</u>
 Total Liabilities and Net Assets	 <u><u>\$ 27,335,021</u></u>	 <u><u>\$ 22,815,952</u></u>

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUE		
Patient Service Revenue (net of contractual allowances, discounts and sliding fee adjustments)	\$ 38,568,195	\$ 35,485,247
Provision for Bad Debts	<u>(1,401,104)</u>	<u>(1,449,666)</u>
Net Patient Service Revenue, Less Provision for Bad Debts	37,167,091	34,035,581
Federal Grant Funds	13,531,126	13,012,768
State and Other Grant Funds	3,451,338	1,610,175
Other Revenue	3,119,354	1,532,506
Interest Income	<u>19,892</u>	<u>8,128</u>
Total Revenue	57,288,801	50,199,158
EXPENSES		
Salaries and Wages	36,374,214	33,092,598
Employee Benefits	6,707,676	5,221,186
Contracted Services	11,489,926	8,074,182
Supplies	2,923,076	2,562,146
Travel	462,873	497,002
Other	565,589	895,449
Depreciation and Amortization	984,087	717,930
Interest	<u>190,439</u>	<u>184,586</u>
Total Expenses	<u>59,697,880</u>	<u>51,245,079</u>
DEFICIT OF REVENUES OVER EXPENSES	(2,409,079)	(1,045,921)
CAPITAL GRANTS		
Federal Funds:		
Affordable Care Act	6,463,277	3,288,910
Capital Improvement Program	<u>46,760</u>	<u>834,525</u>
Total Capital Grants	<u>6,510,037</u>	<u>4,123,435</u>
INCREASE IN NET ASSETS	4,100,958	3,077,514
Net Assets - Beginning of Year	<u>12,436,412</u>	<u>9,358,898</u>
NET ASSETS - END OF YEAR	<u>\$ 16,537,370</u>	<u>\$ 12,436,412</u>

See accompanying Notes to Financial Statements.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,100,958	\$ 3,077,514
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	984,087	717,930
Impairment of Goodwill	168,065	-
Capital Grants	(6,510,037)	(4,123,435)
Provision for Bad Debts	1,401,104	1,449,666
(Increase) Decrease in:		
Patients Accounts Receivable	(158,861)	(2,178,667)
Grants Receivable	304,679	(541,064)
Other Receivable	55,117	(169,647)
Prepaid Expenses and Other Current Assets	(72,830)	(19,425)
Increase (Decrease) in:		
Accounts Payable	299,990	1,174,846
Accrued Wages and Benefits	390,874	71,359
Accrued Compensated Absences	336,857	183,243
Deferred Grant Revenue	(55,007)	(43,297)
Net Cash Provided (Used) by Operating Activities	1,244,996	(400,977)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(9,405,558)	(4,909,476)
Change in Assets Limited as to Use	(3,975)	(1,608)
Change in Certificates of Deposit	(184,907)	1,567,013
Net Cash Used by Investing Activities	(9,594,440)	(3,344,071)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Line of Credit	(1,800,000)	(200,000)
Advances on Long-Term Debt	2,300,000	-
Payments on Long-Term Debt	(217,210)	(255,138)
Cash Received for Capital Grants	7,111,312	4,123,435
Net Cash Provided by Financing Activities	7,394,102	3,668,297
NET DECREASE IN CASH AND CASH EQUIVALENTS	(955,342)	(76,751)
Cash and Cash Equivalents - Beginning of Year	1,887,314	1,964,065
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 931,972	\$ 1,887,314
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Construction Accounts Payable	\$ 414,708	\$ 1,252,101
Cash Payments for Interest	\$ 190,439	\$ 184,586
Long-Term Debt Refinanced	\$ 1,171,817	\$ -

See accompanying Notes to Financial Statements.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Southern Illinois Healthcare Foundation, Inc. (the "Organization") is a Federally Qualified Health Center, with 32 locations throughout Southern Illinois. The Organization is dedicated to providing comprehensive primary health care services to residents of St. Clair, Madison, Fayette, Cumberland, Effingham, Macoupin, Marion, Coles and Richland counties in Illinois.

The Organization is governed by a volunteer Board of Directors, a group of local residents who lend their expertise in the areas of law, business, health care administration and as consumers. The Board also takes an active role in establishing the fee schedule and other policies used to manage the Organization. In addition to income generated from patient revenue, the Organization is partially funded by grants from the Department of Health and Human Services, Illinois Department of Health and other agencies.

Controlled Affiliate

Effective May 1, 1993 the Organization's Board of Directors became the sole corporate member of the corporation known as Touchette Regional Hospital (TRH) as provided in the TRH Bylaws. The Organization and Touchette Regional Hospital are separate legal entities, however, the Organization's Board of Directors, as sole member, reserves certain high-level approval rights over TRH and as a result TRH is considered a controlled affiliate of the Organization. The Organization has not consolidated TRH's financial statements for the year ending December 31, 2012 and 2011.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to externally imposed restrictions.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor restriction or by law.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivables

Patient accounts receivable are stated at net realizable value. Receivables are reduced by an allowance for estimated third-party contractual adjustments and an allowance for estimated uncollectible amounts, which are based on past experience. The Organization provides care to patients regardless of their ability to pay. A minimum payment is requested at each visit, but if the patient is unable to pay, they are subsequently billed. All patient account balances receive a statement every 28 days. Patient account balances that are \$20 and less than 180 days old are automatically written off as small balance write-offs. Patient account balances that are \$20 or more and greater than 90 days old from the date that the balance became the patient's responsibility are sent a letter requesting payment. If after 2-3 weeks there has been no response, the account is sent to a collection agency and written off to bad debt expense. The allowance for uncollectible accounts was approximately 80% of self-pay accounts receivable at December 31, 2012. As of December 31, 2012 the allowance for uncollectible accounts was approximately \$593,000.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Assets Limited as to Use

Assets limited as to use include restricted assets held under a letter of credit agreement and amounts restricted for a debt service reserve.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Construction in Progress

Construction in progress as of December 31, 2011 primarily consisted of the cost of constructing a new clinic site and the renovation of another site. The projects had a total approximate cost of \$10 million and were substantially completed as of December 31, 2012. The projects were primarily funded by a capital grant through the Affordable Care Act.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Financial accounting standards specifies criteria that certain intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. The standards require that goodwill and intangible assets with indefinite useful lives not be amortized, but are tested for impairment at least annually. The standards also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

Goodwill represents the excess of the purchase price over the fair value of the acquired assets of a clinic acquisition. During the year ending December 31, 2012, management determined the recorded goodwill, amounting to \$168,065, was impaired and recorded an adjustment to write it off. This write-off is included within operating expenses and classified under "Other".

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, case rates, discounted charges, per diem payments, and enhancements. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors as final settlements are determined.

For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided. A significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided. The Organization also records provision for doubtful accounts related to third-party payors for services provided.

Sliding Fee Adjustments (Charity Care)

The Organization has a policy of providing care to uninsured patients who meet certain criteria under its policy at amounts less than its established rates, or without charge. However, all patients are requested to pay a minimum fee for each visit, although no patient is denied services because of inability to pay. Since management does not expect payment for this care, the services that are discounted from the established rates are excluded from revenue. During the years ended December 31, 2012 and 2011, the Organization provided approximately \$9,098,000 and \$9,134,000, respectively, of discounted services under this policy based on gross charges.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Electronic Health Record Incentive Payments

As discussed in Note 8, the Organization received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Organization recognized revenue for payments received during the period. Going forward the Organization will recognize revenue when management is reasonably assured they will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years is made.

Grant Revenue

The Organization receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grant receivables. Amounts received but not yet earned are reported as deferred grant revenue.

Excess of Revenues Over Expenses

The statement of activities includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from operations, consistent with industry practice, include grants and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets and the related releases).

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization applies the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the income tax standard. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

The Organization's income tax returns are subject to review and examination by federal, state, and local authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The tax returns for the fiscal years 2009 to 2011 are open to examination by federal, local, and state authorities.

Adoption of Accounting Standard

During 2012 the Organization adopted an accounting standard update "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts" in the financial statements. The update results in net patient service revenue being presented net of the provision for bad debts for patient accounts the Organization did not believe were collectible at the time the service was provided.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Accounting Standard (continued)

The change in the presentation results in net patient service revenue (after any provision for bad debts) that is more consistent to the actual revenue that the Organization expects to collect. The added disclosures will assist the users of the financial statements to better understand how the Organization recognizes patient service revenue and assesses bad debts. This standard was retroactively applied to the financial statements for the year ending December 31, 2011. The adoption has no impact, other than presentation, on the financial statements for the fiscal year ended December 31, 2011.

Subsequent Events

Subsequent events have been evaluated through April 18, 2013, which is the date the financial statements were available to be issued.

NOTE 2 NET PATIENT SERVICE REVENUE

The Organization has agreements with third-party payors that provide for payments at amounts different from its established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare

Services rendered to Medicare program beneficiaries are paid at established federal qualified health center (FQHC) enhancement rates, no matter the level or amount of services provided to the beneficiary. For each visit provided to a Medicare program beneficiary, the Organization is paid 80% of the established FQHC rate, with the beneficiary being responsible for 20% as co-insurance, or alternatively, the remaining 20% is billed to Medicaid for qualifying patients (dual eligible). The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the CMS Medicare fiscal intermediary.

Medicaid

Services rendered to Medicaid program beneficiaries were reimbursed under a prospective payment system (PPS). The prospectively determined rates are not subject to retroactive adjustments. Medicaid reimbursement may be subject to periodic adjustment, as well as changes in annual reimbursement rates.

Other

The Organization has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 63%, respectively, of the Organization's net patient revenue for the years ended December 31, 2012 and 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 3 ASSETS LIMITED AS TO USE

The composition of assets limited as to use at December 31, 2012 and 2011 is shown in the following table.

	2012	2011
Certificates of Deposit:		
Restricted for Letter of Credit Agreement	\$ 405,023	\$ 403,808
Restricted Under Debt Agreement	2,760	-
Total Assets Limited as to Use	\$ 407,783	\$ 403,808

NOTE 4 LONG-TERM DEBT

A summary of long-term debt at December 31, 2012 and 2011 follows:

Description	2012	2011
Loan Payable to a bank with interest at 3.70%, monthly payments of \$951, collateralized by a property at 2119 Iowa, Granite City, Illinois. A final payment estimated at \$71,150 is due on May 26, 2014.	\$ 82,300	\$ 90,449
Loan Payable to a bank with interest at 4.22%, final payment due December 3, 2013, monthly payments of \$2,322 collateralized by a building at 7210 West Main Street Belleville, Illinois. A final payment estimated at \$295,395 is due on December 3, 2013.	308,049	322,362
Loan Payable to a bank with interest at 3.70%, monthly payments of \$4,427, collateralized by a building at 100 N. 8th St., East St. Louis, Illinois A final payment estimated at \$675,307 is due on May 27, 2014.	709,465	735,370
Loan Payable to a bank with interest at 4.28%, final payment due October 19, 2013, monthly payments of \$2,678 collateralized by a building at 1275 Hawthorne Drive, Salem, Illinois. A final payment estimated at \$339,323 is due October 19, 2013.	350,971	367,441
Loan Payable to a bank with interest at 3.77%, monthly payment of \$13,675, collateralized by building at 6000 Bond Avenue, Centreville, Illinois, equipment and accounts receivable. A final payment due June 20, 2017 (refinanced during 2012).	678,479	798,437

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4 LONG-TERM DEBT (CONTINUED)

Description (Continued)	2012	2011
Loan Payable to a bank with interest at 3.20%, monthly payments of \$1,986 collateralized by a building at 2900 Frank Scott Parkway West, Belleville, Illinois. A final payment estimated at \$251,408 is due October 17, 2016 (refinanced during 2012).	309,929	320,634
Loan Payable to United States Department of Agriculture with interest at 3.50%, monthly payments of \$13,340, collateralized by a building at 1200 N. East St., Olney, Illinois, a final payment due October 15, 2032.	2,286,755	-
Notes Payable to medical office lessor with interest at 6%. During 2012, additional improvements were made, thereby increasing the notes payable by \$52,127, final payments due April, 1, 2018, monthly payment of \$2,010.	108,393	69,154
Notes Payable to medical office lessor with interest at 8.5%, final payment due January 2014, monthly payments of \$1,805.	20,711	39,727
Notes Payable to medical office lessor with interest at 0%, final payment due January 31, 2017, monthly payment of \$972.	58,296	69,960
Note payable to medical office lessor with interest at 6.5%, final payment made in July 2012.	-	17,024
Total Long-Term Debt	4,913,348	2,830,558
Less: Current Maturities of Long-Term Debt	(981,795)	(1,242,555)
Long-Term Debt, Net of Current Maturities	<u>\$ 3,931,553</u>	<u>\$ 1,588,003</u>

Scheduled principal repayments on long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Long-Term Debt</u>
2013	\$ 981,795
2014	1,031,950
2015	286,331
2016	297,011
2017	460,222
Thereafter	1,856,039
Total	<u>\$ 4,913,348</u>

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4 LONG-TERM DEBT (CONTINUED)

Debt Reserve

The USDA loan entered into during the year ending December 31, 2012 requires that a debt reserve be established. The reserve requires monthly payments of \$1,380 until an amount of \$165,600 is accumulated. Accordingly, these funds are included as assets limited as to use in the financial statements.

Line of Credit Agreement

SIHF has a line of credit agreement with a bank in the amount of \$4,000,000. This line of credit is renewed each year in November. The present interest rate is prime plus 3.0%. The line of credit is secured by a lien on accounts receivable. The outstanding balance at December 31, 2012 and 2011 was \$-0- and \$1,800,000, respectively.

NOTE 5 OPERATING LEASES

The Organization leases clinic and office space and equipment under noncancelable operating leases expiring through 2027. The future minimum payments under these leases are:

<u>Years Ending December 31,</u>	<u>Clinic/Office Space</u>	<u>Office Equipment</u>
2013	\$ 1,254,356	\$ 164,957
2014	695,503	108,854
2015	613,251	3,646
2016	587,366	3,637
2017	203,293	3,039
Thereafter	488,926	-
Total	<u>\$ 3,842,695</u>	<u>\$ 284,133</u>

The Organization also has leases on a month-to-month basis. For those leases there are no future minimum lease payments.

Total rent expense for the years ended December 31, 2012 and 2011, was approximately \$1,848,000 and \$1,711,000, respectively.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 6 RELATED PARTY TRANSACTIONS

Shared Services Agreements

The Organization and TRH maintain several agreements where the Organization performs certain services for TRH. For the years ending December 31, 2012 and 2011, the Organization received approximately \$917,000 and \$903,000, respectively, and had a current receivable of approximately \$76,000, respectively, from TRH for services performed.

The Organization utilizes certain TRH services and personnel. For the years ending December 31, 2012 and 2011 the Organization reimbursed TRH approximately \$3,118,000 and \$2,684,000, respectively, for those services. Included in accounts payable at December 31, 2012 and 2011 are approximately \$540,000 and \$1,003,000, respectively, which represents amounts owed to TRH.

Rental Agreements

TRH rents space from the Organization in two locations. The Organization received approximately \$69,000 and \$26,000 in rental income during years ending December 31, 2012 and 2011.

Grant Agreement

During 2012 the Organization was awarded a \$4.6 million grant on behalf of TRH. During 2012 \$2.3 million of this amount was received and paid to TRH. Receipt and payment of the current year amount to TRH are included under State and Other Grant Funds and Contracted Services in the Statement of Activities for the year ending December 31, 2012.

NOTE 7 RETIREMENT PLAN

The Organization has a defined contribution pension plan. For the years ended December 31, 2012 and 2011 the Organization made contributions to the plan of approximately \$942,000 and \$845,000, respectively. The plan is available to any full-time or part-time employee after a half year of employment. For eligible participating employees who have completed one year of service, the Organization matches up to 4% of their salary.

NOTE 8 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospital and providers that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Organization continuing to meet the escalating meaningful use criteria. For the first payment year, the Organization must attest, subject to an audit, they have adopted, implemented, or upgraded certified EHR technology used in achieving meeting the meaningful use criteria.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 8 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)

For the subsequent payment year, the Organization must demonstrate meaningful use for the entire year. The incentive payments are generally made over a six year period.

The Organization received incentive payments of approximately \$1,488,000 for the year ended December 31, 2012 which are included in other operating revenues.

NOTE 9 SELF-FUNDED HEALTH INSURANCE PLAN

The Organization maintains a self-funded health insurance plan that is administered by a third-party administrator who recommends current funding under the plan. At December 31, 2012 and 2011, the Organization has estimated a liability of approximately \$188,000 and \$-0- for incurred but unreported claims included in accrued wages and benefits on the accompanying balance sheet, respectively. The Organization has recognized approximately \$3,291,000 and \$1,987,000 in total employer health insurance expenses for the years ended December 31, 2012 and 2011, respectively.

NOTE 10 FUNCTIONAL EXPENSES

The Organization provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended December 31, 2012 and 2011 are estimated to be:

	2012	2011
Program Services	\$ 48,779,489	\$ 43,175,676
Supporting Services	10,918,391	8,069,403
	\$ 59,697,880	\$ 51,245,079

NOTE 11 SIGNIFICANT CONCENTRATIONS AND CREDIT RISK

Government Funding

Over 70% of the Organization's revenues for the year ending December 31, 2012 and 2011, respectively, were generated from either government sponsored health programs or government funded grant programs. The programs are dependent upon continued funding from these government agencies and the legislative acts that impact the programs.

Net Patient Receivables

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2012 and 2011, is:

	2012	2011
Medicare	17 %	15 %
Medicaid	54	54
Self Pay	7	9
Other Third-Party Payors	22	22
Total	100 %	100 %

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 11 SIGNIFICANT CONCENTRATIONS AND CREDIT RISK (CONTINUED)

FDIC Coverage

The Organization maintains cash balances at several financial institutions. FDIC insurance coverage per depositor account is \$250,000 and all non-interest bearing accounts are entirely covered by FDIC insurance. At times, cash balances may have been in excess of insured limits.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Medical Malpractice Insurance Coverage and Claims

The Organization is covered under the provision of the Federal Tort Claims Act (FTCA) for malpractice. The FTCA is a government-funded program which allows community health centers and other qualified providers to be covered for malpractice.

Grants

The Organization has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit by the grantor may become a liability of the Organization. Such amounts will be recognized in the period they become known.

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. This coverage has not changed significantly from the previous year. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigation

The Organization is involved in various legal actions in the normal course of business. The actions are in various stages of processing, and some may ultimately be brought to trial. In the opinion of management, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

NOTE 13 ADOPTION OF NEW ACCOUNTING STANDARD

During the year ending December 31, 2012 the Organization adopted an accounting standard update for the "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts" in the financial statements, as described in Note 1. This standard was retroactively applied to the financial statements for the year ending December 31, 2011. The following table reflects the impact of the reclassifications to the December 31, 2011 statement of operations.

Statement of Activities

	<u>As Previously Reported</u>	<u>Reclassifications</u>	<u>As Reclassified</u>
Net Patient Service Revenue, Less Provision for Bad Debts	\$ 35,485,247	\$ (1,449,666)	\$ 34,035,581
Provision for Bad Debts	\$ 1,449,666	\$ (1,449,666)	\$ -

NOTE 14 LOSSES AND FUTURE OPERATIONS

For the years ended December 31, 2012 and 2011, the Organization sustained losses of approximately \$2,409,000 and \$1,046,000, respectively. In response to the operating losses management has implemented several changes in the organization which they expect will improve operations and financial outcomes of the Organization in future periods.

Management has identified and implemented the following action items:

- A reduction in full time equivalent employees and contracted employees
- Furloughs will be implemented for many positions over the next months
- Strict enforcement of budgeted expenses and provider productivity
- Currently analyzing the number and viability of individual center locations and hours of service

Management believes through the implementation of these items that the Organization will sustain financial viability and improve outcomes in future periods.

**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
Southern Illinois Healthcare Foundation, Inc.
Sauget, Illinois

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 Southern Illinois Healthcare Foundation, Inc., (the "Organization"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in unrestricted net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 18, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Questioned Costs, 2012-1 to 2012-3 to be material weaknesses.

Board of Directors
Southern Illinois Healthcare Foundation, Inc.

Compliance and Other Matters

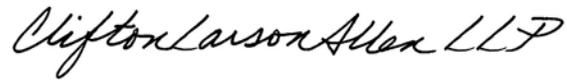
As part of obtaining reasonable assurance about whether the Organization’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The Organization’s Response to Findings

The Organization’s responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. The Organization’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.



CliftonLarsonAllen LLP

St. Louis, Missouri
April 18, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Southern Illinois Healthcare Foundation, Inc.
Sauget, Illinois

Report on Compliance for Each Major Federal Program

We have audited the Southern Illinois Healthcare Foundation, Inc.'s, (the "Organization"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of audit findings and questioned costs as item 2012-4. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's Response to Findings

The Organization's response to the noncompliance findings identified in our audit are described in the accompanying schedule of audit findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2012-4 to be a material weakness.

Board of Directors
Southern Illinois Healthcare Foundation, Inc.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

St. Louis, Missouri
April 18, 2013

**SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

SECTION 1 SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified not considered to be material weakness(es)? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section .510(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224	Consolidated Health Centers
93.718	ARRA – Health Information Technology Regional Extension Centers Program
10.766	Community Facilities Loan

Dollar threshold used to distinguish between type A and type B programs: \$671,859

Auditee qualified as low-risk auditee? yes X no

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

SECTION II FINANCIAL STATEMENT FINDINGS

2012-1: CONTROL OVER THE FINANCIAL REPORTING PROCESS

Condition

As part of the audit, management requested CliftonLarsonAllen to prepare a draft of their financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements, however management relies on the outsourced expertise of the CPA firm to assure compliance with accounting standards including all required footnote disclosures.

Criteria

It is the responsibility of management to assure financial statements including all required footnote disclosures are presented in accordance with Generally Accepted Accounting Principles.

Effect

Material misstatements related to financial statement presentation and disclosures could be present.

Cause

Management feels that committing the resources necessary to develop the expertise and perform a detail review of the footnote disclosure for completeness would be a duplication of expenditures, as this is part of the cost of the audit engagement. In addition, the CFO and Controller review internal financial statements on a monthly basis and present the results to the Board of Directors.

Recommendation

We recommend that management implement an effective financial statement review process which would insure compliance with accounting standards and all required footnote disclosures.

Management's Response

Management has implemented revised process and procedures to assure the capacity to prepare all financial statements as required by the independent auditor prior to the actual audit. This shall include each required financial statements with required footnotes for FY2013 of which will be presented to the independent auditor. This change has been generated through the guidance from the new auditing firm of which the previous independent auditor did not require. SIHF will use the independent auditor's checklist for all necessary statements that is required to be provided prior to the commencement of the audit.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

2012-2 MISSTATEMENTS DETECTED BY THE AUDIT

Condition

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Included in this is the responsibility to adjust the financial statements to correct misstatements in order to ensure accuracy and completeness of all financial records.

Criteria

It is the responsibility of management to adjust the financial statements to correct misstatements in order to ensure accuracy and completeness of all financial records.

Effect

During the performance of the audit engagement procedures material adjusting journal entries were required to correct various general ledger balances. The overall impact of the adjusting journal entries increased the deficit of revenue over expenses by approximately \$1,194,000.

Cause

Several significant estimates were understated as of December 31, 2012.

Recommendation

We recommend reviewing the accounting processes in place for significant estimates. In addition, we recommend implementing various estimate processes as recommended during the audit.

Management's Response

Management has recognized that the new auditor has established changes to the financial statements that are in accordance with generally accepted accounting standards. These changes modify the previous auditor's directions that resulted in the following items to be under or overstated for the FY2012 audit in the financial statements:

- contractual allowance estimate on patient revenue
- allowance for doubtful accounts
- the employee health plan claims IBNR
- fixed asset depreciation

Management has accepted and implemented changes provided by the new audit firm. Management will assure the continuous implementation of these new so current data is used for the application of the contractual allowance formula on patient revenue and allowance for bad debts. The employee health plan IBNR steps will result in the health plan administrator providing monthly report on all unpaid claims. These reports plus prior year history will allow SIHF to estimate and post a reserve for our IBNR claims. The IBNR estimate will be reviewed and updated monthly during FY2013. Management will conduct a complete review and update of the SIHF fixed asset list. Current guide lines and standards for depreciation will be applied to each asset class as appropriate. The independent audit firm will assist by providing information on the current standards and guidelines.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

2012-3: SEGREGATION OF DUTIES

Condition

We noted during testing and review of the Organization's internal controls that there is a lack of segregation of duties over certain processes. A lack of segregation occurs when there is an individual who has responsibility to execute a transaction, has physical access to the related asset, and has responsibility or authority to record the transaction.

We noted lack of segregation of duties, to various degrees, in the following areas:

- Manual Journal Entry Process - The Controller and the Senior Accountant have the ability and responsibility to perform manual journal entries in the general ledger without a review and approval process. Manual journal entries represent adjustments to the financial records outside the course of daily accounting. We encourage the Organization to implement a policy that would require manual journal entries prepared by the Controller and Senior Accountant be reviewed and approved by the CFO. We would also recommend that support and sign-offs be maintained for manual journal entries reviewed and posted which documents the approval for the entry.
- Payroll Cycle - The individuals responsible for processing payroll have the ability to add new employees and changes wage rates in the system without a follow up review and approval protocol. While mitigating controls may be present that limit the risk related to this concern we recommend that the human resources department review the status change report that is generated after processing payroll.
- Disbursements Cycle - The Controller currently has the ability to create new vendors in the system, enter invoices, has access to the check signing machine, print checks, and has the ability to post manual journal entries in the general ledger system without a review process. The majority of the checks that are processed by the Controller are reviewed and approved by the CFO, however the patient refund checks prepared by the Controller are not being reviewed by another individual. We recommend that the individuals responsible for approving patient refunds review the check run to provide a level of review similar to other disbursements.
- Cash Receipts - In some instances individuals at clinic locations have access to patient cash payments and have access to post payments and adjustments in the system. While mitigating controls do exist we recommend that the Organization work with the software vendor to remove the ability to post adjustments to patient accounts or continue to consider other mitigating review procedures.
- Corporate Credit Cards - Currently there is no formal review and approval process in place for expenditures performed on corporate credit cards. We recommend the Organization implement a policy that would require that a review of the monthly activity and supporting documents be reviewed and approved by a supervisor or equivalent.
- User IT System Access - Based on our review of the IT system user access relating to terminated employees we identified instances where terminated employees access to the system was not removed in a timely manner. There were instances where the user access was maintained for a period of time for particular reasons, however in some instances it appears to be maintained beyond a reasonable period. We recommend that the Organization review the policies and procedures surrounding IT system access for terminated employees.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

2012-3: SEGREGATION OF DUTIES (CONTINUED)

Criteria

Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Effect

Controls are not in place to prevent or detect errors for these transaction.

Cause

Process flows and control processes are not designed to provide for proper segregation of duties in each area.

Recommendation

We recommend that the Organization continue to segregate duties as best it can within the limits of what the Organization considers to be cost beneficial and to review current procedures as staffing levels change.

Management's Response

Management has reviewed and implemented processes to strengthen internal controls:

- Manual journal entries prepared by the Assistant CFO and Senior Accountant are now reviewed by the CFO each month.
- Changes to payroll are audited internally each payroll cycle by the Human Resources Director for accuracy and compliance.
- Patient refund checks prepared by the Finance Department are now reviewed by the staff of the Central Business Office prior to release.
- SIHF will work with the software vendor (NextGen) and HCCN to modify the electronic practice management system so front desk patient registration staff cannot post adjustments to patient accounts.
- A policy will be implemented to ensure all credit card statements are reviewed and approved by the card holder's supervisor. Until the new policy is in place, all credit card statements are being reviewed and approved by the CFO.
- The process for removing terminated employees from IT system access was reviewed immediately. Terminated employee access is now removed either prior to notification of termination or at the time of their termination.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

SECTION III FEDERAL AWARD FINDINGS

2012-04: PROGRAM INCOME REQUIREMENT

Federal Agency: US Department of Health and Human Services
Program Title: Consolidated Health Centers
CFDA Number: 93.224
Award Number: H80CS00195
Award Period: January 1, 2012 to December 31, 2012

Condition

For a sample of 55 sliding fee discounts tested, we identified the following:

- Four instances which a sliding fee discount was applied without valid proof of income necessary to receive the applied discount.
- Two instances which a patient was eligible for sliding fee discount as they provided valid proof of income; however, the appropriate sliding fee discount was not applied.
- A Sliding fee discount level was applied incorrectly; based on annual income the patient was eligible for a different sliding fee discount level than what was applied to the patient account.
- Manual error in data entry resulted in an inaccurate recording of patient annual income, based on data entry error the incorrect sliding fee discount level was applied to the patient account.
- Twenty-two instances including those previously listed which a lack of consistency was noted regarding documentation maintained in a patient files related to the application of the sliding fee discount from site to site.

Criteria

As required by 42 United States Code (USC) Part 254, the Organization must prepare and maintain a schedule of fees or payments for the provision of its services with a discount schedule applied according to the patient's ability to pay as determined by the Department of Health and Human Services official poverty guidelines.

Effect

The Organization's application of the sliding fee discounts could have inadvertently under or over charged eligible patients.

Cause

The Organizations processes and policies are inconsistently applied from site to site.

Questioned Costs

None

Recommendation

We recommend the Organization review policies and processes for providing sliding fee adjustments to patients and provide additional training. We would also recommend the Organization consider the review of patient sliding fee eligibility as part of the Organization's ongoing quality control monitoring.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

2012-04 PROGRAM INCOME REQUIREMENT (CONTINUED)

Management's Response

SIHF will re-train all front desk and patient registration staff on income evaluation. SIHF is currently in the process of converting to an electronic health record system (NextGen). 12 of 32 clinic locations have been converted. During this conversion, the process for the application of the sliding fee discounts is standardized and automated to the maximum extent possible to eliminate errors and inconsistency. For those centers not immediately scheduled for conversion, retraining will be conducted on an ongoing and recurring basis.

SECTION IV SCHEDULE OF PRIOR FINDINGS

There were no prior audit findings.

SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency/ Pass-through Identifying Number	Federal Disbursements/ Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Direct Programs:</u>			
* Consolidated Health Centers	93.224	H80CS00195	\$ 10,600,530
Eliminating Disparities in Perinatal Health (Healthy Start Initiative)	93.926	H49MC00049	464,864
Eliminating Disparities in Perinatal Health (Healthy Start Initiative)	93.926	H49MC00049	483,408
Grants to Provide Outpatient Early Intervention Services with Respect	93.918	H76HA00579	360,870
Grants to Provide Outpatient Early Intervention Services with Respect	93.918	H76HA00579	249,570
Affordable Care Act	93.526	C8ACS21285	6,613,591
Capital Development	93.526	C8BCS23945	46,760
<u>Pass-through programs from:</u>			
<i>State of Illinois Department of Human Services:</i>			
Social Services Block Grant (Family Planning)	93.217	FCSRE01289	107,221
Male Involvement	93.217	11GQ01043	75,266
Male Involvement	93.217	FCSRE1112	9,779
Social Services Block Grant (Family Planning)	93.667	11GQ00468	59,276
Social Services Block Grant (Family Planning)	93.994	11GQ00468	5,203
<i>IL Public Health Association:</i>			
Regional Implementation Grant	93.944	1175406	34,199
Regional Implementation Grant	93.944	13-140-05	26,490
<i>State of Illinois Department of Public Health:</i>			
HIV Prevention	93.940	PS 12-1201	9,600
<i>St. Clair County Health Department:</i>			
Illinois Breast & Cervical Cancer	93.283	FY 12	31,952
Illinois Breast & Cervical Cancer	93.283	FY 13	16,683
Wise Woman	93.283	FY 12	3,868
Wise Woman	93.283	FY 13	1,637
Ryan White Part B Case Management	93.917	h1530312	26,431
Ryan White Part B Case Management	93.917	h1530313	92,056
Ryan White Part B Specialty Medical	93.917	h1530312	9,872
Ryan White Part B Specialty Medical	93.917	h1530313	5,418
Ryan White Part B Outreach	93.917	h1530312	2,852
Ryan White Part B Transportation	93.917	h1530312	8,977
Ryan White Part B Food Vouchers	93.917	h1530312	6,200
Ryan White Part B Food Vouchers	93.917	h1530313	3,000
<i>IL Dept of Public Health:</i>			
Minority Aids Initiative	93.917	20180012PBC65305	12,368
<i>St. Clair County Health Department:</i>			
HIV Care Consortium Ryan White - CARE Services - Part A	93.914	h1540212	21,916
HIV Care Consortium Ryan White - CARE Services - Part A	93.914	h1540212	57,067
Ryan White Part A - Specialty - Medical Diagnostic Services	93.914	h1540212	33,936
Ryan White Part A - Specialty - Medical Diagnostic Services	93.914	h1540212	89,052
Ryan White Part A Drug Reimbursement	93.914	h1540212	5,475
Ryan White Part A Drug Reimbursement	93.914	h1540213	37,289
Ryan White Part A Treatment Adherence	93.914	h1540212	2,881
Ryan White Part A Treatment Adherence	93.914	h1540213	2,458
<i>City of St. Louis Department of Public Health:</i>			
Linkage to Care STL	93.914	FY 11	5,783
Linkage to Care STL	93.914	FY 12	44,844
<i>Northern Illinois University:</i>			
Health Information Technology Regional Extension Centers Program:			
* ILTREC Core - ARRA	93.718	90RC0023101	20,691
* ILTREC Technical Assistance - ARRA	93.718	90RC0023101	297,500

**SOUTHERN ILLINOIS HEALTHCARE FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency/ Pass-through Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>Pass-through programs from:</u>			
<i>Northern Illinois University (continued):</i>			
Health Information Technology Regional Extension Centers Program:			
* ILTREC Supplemental - ARRA	93.718	90RC0023101	74,800
U.S. DEPARTMENT OF JUSTICE			
<u>Pass-through programs from:</u>			
<i>Illinois Criminal Justice Information Authority:</i>			
Downstate Victims of Violent Crime (VOCA)	16.575	211313	30,887
Downstate Victims of Violent Crime (VOCA)	16.575	212313	2,781
U.S. DEPARTMENT OF AGRICULTURE			
<u>Direct Programs:</u>			
* Community Facilities Loan	10.766	Loan # 97-01	<u>2,300,000</u>
Total Federal Awards			<u>\$ 22,395,301</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

This schedule includes the federal grant activity of Southern Illinois Healthcare Foundation, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

* Major Federal program