

**WOLCOTT, WOOD AND TAYLOR, INC.**

**COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2008**

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

**WOLCOTT, WOOD AND TAYLOR, INC.  
COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2008**

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Wolcott, Wood and Taylor, Inc.'s financial statement report for the year ended June 30, 2008, which includes the report of independent auditors, management discussion and analysis, basic financial statements and notes, and the independent auditor's report on internal control over financial reporting and in compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**COMPLIANCE EXAMINATION**  
**For the Two Years Ended June 30, 2008**

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**WOLCOTT, WOOD AND TAYLOR, INC.  
AGENCY OFFICIALS  
For the Two Years Ended June 30, 2008**

President	Dr. William R. Nicholas
Treasurer	Ms. Heather Haberaecker
Secretary	Mr. Thomas K. Bearrows
Chief Operating Officer	Ms. Carla Dyer (Started March 1, 2007)
Board of Directors	Dr. Fady Charbel Dr. Joeseeph A. Flaherty Mr. John DeNardo Mr. Robert F. Vickrey Mr. Chris Mollett

The Wolcott, Wood and Taylor, Inc. offices are located at:

200 West Adams  
Suite 225  
Chicago, IL 60606

December 18, 2008

Wolcott Wood  
and Taylor Inc.

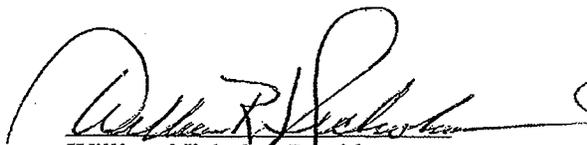
Clifton Gunderson LLP  
301 SW Adams St., Suite 900  
P.O. Box 1835  
Peoria, IL 61656

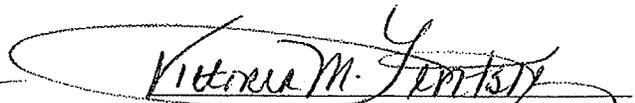
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of Wolcott, Wood and Taylor, Inc (WWT). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of WWT's compliance with the following assertions during the two-year period ended June 30, 2008. Based on this evaluation, we assert that during the years ended June 30, 2008 and June 30, 2007, WWT has materially complied with the assertions below.

- A. WWT has obligated, expended, received and used its funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. WWT has obligated, expended, received and used its funds in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. WWT has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. The revenues and receipts collected by WWT 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 WWT or held in trust by WWT have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Wolcott, Wood and Taylor, Inc

  
William Nicholas, President

  
Victoria Levitske, Chief Financial Officer

**WOLCOTT, WOOD AND TAYLOR, INC.  
COMPLIANCE REPORT SUMMARY  
For the Two Years Ended June 30, 2008**

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 nonstandard language.

**SUMMARY OF FINDINGS**

<b><u>Number of</u></b>	<b><u>This Report</u></b>	<b><u>Prior Report</u></b>
Findings	0	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

**EXIT CONFERENCE**

A formal exit conference was waived by WWT management in a correspondence dated December 17, 2008.

**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  
and  
The Board of Directors  
Wolcott, Wood and Taylor, Inc.

**Compliance**

As Special Assistant Auditors for the Auditor General, we have examined Wolcott, Wood and Taylor, Inc.'s (WWT) 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 years ended June 30, 2008 and June 30, 2007. The management of WWT is responsible for compliance with these requirements. Our responsibility is to express an opinion on WWT's compliance based on our examination.

- A. WWT has obligated, expended, received, and used public funds of the State, in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. WWT has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. WWT 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 State revenues and receipts collected by WWT 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 WWT on behalf of the State or held in trust by WWT have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination 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 WWT's compliance with those requirements listed in the first paragraph of this report 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 WWT's compliance with specified requirements.

In our opinion, WWT complied, in all material respects, with the requirements listed in the first paragraph of this report during the years ended June 30, 2008 and June 30, 2007.

### **Internal Control**

The management of WWT is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered WWT's internal control over compliance with the requirements listed in the first paragraph of this report 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, but not for the purpose of expressing an opinion on the effectiveness of WWT's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of WWT's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

As required by the Audit Guide, immaterial findings 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 of WWT as of and for the years ended June 30, 2008 and June 30, 2007, and have issued our report thereon dated December 18, 2008. 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 WWT. Such information for the years ended June 30, 2008 and 2007, 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 taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, WWT's basic financial statements for the year ended June 30, 2006. In our report dated July 21, 2006, we expressed an unqualified opinion on the basic financial statements of WWT. In our opinion, the 2006 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 year ended June 30, 2006 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 of WWT, and WWT management, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Henderson LLP*

Peoria, Illinois  
December 18, 2008

**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***

Honorable William G. Holland  
Auditor General  
State of Illinois  
and  
The Board of Directors  
Wolcott, Wood and Taylor, Inc.

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Wolcott, Wood and Taylor, Inc. (WWT) as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 18, 2008. 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 WWT's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WWT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of WWT's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether WWT'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*.

We noted a certain other matter which we have reported to management of WWT in a separate letter dated December 18, 2008.

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 of WWT, and WWT management, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Henderson LLP*

Peoria, Illinois  
December 18, 2008

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**FINANCIAL STATEMENT REPORT SUMMARY**  
**For the Two Years Ended June 30, 2008**

The audit of the financial statements of the Wolcott, Wood and Taylor, Inc. (WWT) was performed by Clifton Gunderson LLP.

Based on their audit, the auditors expressed an unqualified opinion on WWT's financial statements.

The financial statements are issued under separate cover, in a report titled "Wolcott, Wood and Taylor, Inc. Financial Statements, June 30, 2008 and 2007."

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**SUPPLEMENTARY INFORMATION FOR**  
**STATE COMPLIANCE PURPOSES SUMMARY**  
**For the Two Years Ended June 30, 2008**

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

- Fiscal Schedules and Analysis:
  - Schedule of Changes in Property and Equipment
  - Comparative Schedule of Cash Receipts
  - Comparative Schedule of Cash and Cash Equivalents
  - Analysis of Accounts Receivable
  - Explanation of Significant Account Balances
  - Explanation of Significant Variances in Revenues and Expenses
  
- Analysis of Operations:
  - Agency Functions and Planning Program
  - Average Number of Employees (Unaudited)
  - Service Efforts and Accomplishments (Unaudited)

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 fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**SCHEDULE OF CHANGES IN PROPERTY AND EQUIPMENT**  
**For the Years Ended June 30, 2008 and 2007**

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2008</u>
Data processing equipment	\$ 941,551	\$ 37,265	\$ 43,521	\$ 935,295
Computer software	1,359,484	12,763	-	1,372,247
Furniture and fixtures	280,794	1,190	-	281,984
Leasehold improvements	<u>82,136</u>	<u>-</u>	<u>-</u>	<u>82,136</u>
Total	2,663,965	51,218	43,521	2,671,662
Less accumulated depreciation	<u>2,235,069</u>	<u>200,461</u>	<u>43,521</u>	<u>2,392,009</u>
<b>CAPITAL ASSETS, NET</b>	<u>\$ 428,896</u>	<u>\$ (149,243)</u>	<u>\$ -</u>	<u>\$ 279,653</u>
	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2007</u>
Data processing equipment	\$ 718,708	\$ 237,279	\$ 14,436	\$ 941,551
Computer software	1,302,467	57,017	-	1,359,484
Furniture and fixtures	280,794	-	-	280,794
Leasehold improvements	<u>82,136</u>	<u>-</u>	<u>-</u>	<u>82,136</u>
Total	2,384,105	294,296	14,436	2,663,965
Less accumulated depreciation	<u>2,043,983</u>	<u>205,522</u>	<u>14,436</u>	<u>2,235,069</u>
<b>CAPITAL ASSETS, NET</b>	<u>\$ 340,122</u>	<u>\$ 88,774</u>	<u>\$ -</u>	<u>\$ 428,896</u>

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS**  
**For the Years Ended June 30, 2008, 2007, and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Fees	\$ 8,465,193	\$ 8,238,474	\$ 6,290,451
Redemption of investments	829,286	1,000,000	-
Interest on investments	<u>62,222</u>	<u>90,170</u>	<u>70,677</u>
<b>TOTAL CASH RECEIPTS</b>	<b><u>\$ 9,356,701</u></b>	<b><u>\$ 9,328,644</u></b>	<b><u>\$ 6,361,128</u></b>

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**COMPARATIVE SCHEDULE OF CASH AND CASH EQUIVALENTS**  
**June 30, 2008 and 2007**

	<u>2008</u>		<u>2007</u>	
	<u>Interest</u>		<u>Interest</u>	
	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>
<b>CASH AND SHORT-TERM INVESTMENTS</b>				
LaSalle Bank:				
Commercial checking account	None	\$ 5,000	None	\$ 5,000
Repurchase agreements	Varies	24,592	Varies	850,622
Certificate of deposit	3.75%	54,000	3.75%	57,256
Certificate of deposit	-	<u>-</u>	5.025%	<u>1,000,000</u>
 <b>TOTAL</b>		 <u>\$ 83,592</u>		 <u>\$ 1,912,878</u>

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**ANALYSIS OF ACCOUNTS RECEIVABLE**  
**June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>ACCOUNTS RECEIVABLE FROM</b>		
University of Illinois:		
Consulting services	\$ 266,835	\$ 97,079
Internal Revenue Service	<u>6,000</u>	<u>-</u>
 <b>TOTAL ACCOUNTS RECEIVABLE</b>	 <u><u>\$ 272,835</u></u>	 <u><u>\$ 97,079</u></u>

All receivables are considered fully collectible, therefore, no allowance for bad debts has been provided.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT ACCOUNT BALANCES**  
**June 30, 2008 and 2007**

Scope: Changes greater than \$24,000 and 20 percent

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percent of Change</u>	<u>Notes</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 5,000	\$ 5,000	\$ -	- %	
Bank repurchase agreement	24,592	850,622	(826,030)	(97)%	1
Certificate of deposit	54,000	1,057,256	(1,003,256)	(95)%	2
Accounts receivable	272,835	97,079	175,756	181%	3
Prepaid expenses	124,442	144,078	(19,636)	(14)%	
Deferred tax asset	<u>53,604</u>	<u>-</u>	53,604	100%	4
Total current assets	534,473	2,154,035			
<b>CAPITAL ASSETS, NET</b>	<u>279,653</u>	<u>428,896</u>	(149,243)	35%	5
<b>TOTAL ASSETS</b>	<u>\$ 814,126</u>	<u>\$ 2,582,931</u>			
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 327,102	\$ 85,596	241,506	282%	6
Accrued expenses	458,802	302,248	156,554	52%	7
Accrued rent	105,232	26,376	78,856	299%	8
Current installment of long-term debt	<u>-</u>	<u>1,840,752</u>	(1,840,752)	(100)%	9
Total current liabilities	891,136	2,254,972			
<b>LONG-TERM DEBT</b> , net of current installment included above	<u>-</u>	<u>946,814</u>	(946,814)	(100)%	9
Total liabilities	<u>891,136</u>	<u>3,201,786</u>			
<b>NET ASSETS</b>					
Invested in capital assets	279,653	428,896	(149,243)	(35)%	10
Unrestricted	<u>(356,663)</u>	<u>(1,047,751)</u>	691,088	66%	11
Total net assets	<u>(77,010)</u>	<u>(618,855)</u>			
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 814,126</u>	<u>\$ 2,582,931</u>			

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT ACCOUNT BALANCES**  
**June 30, 2008 and 2007**

1. Decrease is a result of the change to the cost-reimbursement method for billing service revenue.
2. Decrease is a result of the University loan being paid off in fiscal year 2008.
3. Increase is a result of two new services being added through the vendors Medova and Ingenix.
4. Represents operating loss carryforwards that will be deductible in future years' tax returns. It was deemed more likely than not that the deferred tax asset will be utilized in fiscal year 2009.
5. The decrease relates to the depreciation expense recognized in fiscal year 2008.
6. The increase is a result of two new services being added through the vendors Medova and Ingenix.
7. Increase is a result of the Chief Operating Officer's general release agreement being accrued for at June 30, 2008. Accrued salaries also increased due to an increase in the number of employees.
8. Accrued rent increased as there was six months accrued in fiscal year 2007 and twelve months accrued in fiscal year 2008.
9. Long-term debt decreased as the University loan was paid off in fiscal year 2008.
10. The decrease relates to the depreciation expense recognized in fiscal year 2008.
11. Increase is a result of positive net income of \$541,845 in fiscal year 2008.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT ACCOUNT BALANCES**  
**June 30, 2007 and 2006**

Scope: Changes greater than \$24,000 and 20 percent

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent of Change</u>	<u>Notes</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 5,000	\$ 5,000	\$ -	- %	
Bank repurchase agreement	850,622	1,662,998	(812,376)	(49)%	1
Certificate of deposit	1,057,256	55,131	1,002,125	1818%	2
Accounts receivable	97,079	36,818	60,261	164%	3
Prepaid expenses	<u>144,078</u>	<u>146,030</u>	(1,952)	(1)%	
Total current assets	2,154,035	1,905,977			
<b>CAPITAL ASSETS, NET</b>	<u>428,896</u>	<u>340,122</u>	88,774	26%	4
<b>TOTAL ASSETS</b>	<u>\$ 2,582,931</u>	<u>\$ 2,246,099</u>			
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 85,596	\$ 101,103	(15,507)	(15)%	
Accrued expenses	302,248	251,287	50,961	20%	
Accrued rent	26,376	-	26,376	100%	5
Current installment of long-term debt	<u>1,840,752</u>	<u>1,772,434</u>	68,318	4%	
Total current liabilities	2,254,972	2,124,824			
<b>LONG-TERM DEBT</b> , net of current installment included above	<u>946,814</u>	<u>2,787,566</u>	(1,840,752)	(66)%	6
Total liabilities	<u>3,201,786</u>	<u>4,912,390</u>			
<b>NET ASSETS</b>					
Invested in capital assets	428,896	340,122	88,774	26%	7
Unrestricted	<u>(1,047,751)</u>	<u>(3,006,413)</u>	1,958,662	65%	8
Total net assets	<u>(618,855)</u>	<u>(2,666,291)</u>			
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,582,931</u>	<u>\$ 2,246,099</u>			

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT ACCOUNT BALANCES**  
**June 30, 2007 and 2006**

1. Decrease is the result of the purchase of a \$1,000,000 certificate of deposit.
2. Increase is the result of the purchase of a \$1,000,000 certificate of deposit.
3. Increase is a result of a new vendor being added in fiscal year 2007, and an increase in campus employees.
4. Increase is a result of the purchase of a new computer (alpha server).
5. Changed the method of recording rent expense to the straight-line method.
6. Decrease is the result of a repayment of a large portion of the University loan.
7. Increase is the result of the purchase of a new computer (alpha server).
8. Increase is a result of positive net income of \$2,047,436 in fiscal year 2007.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES**  
**For the Years Ended June 30, 2008 and 2007**

Scope: Changes greater than \$24,000 and 20 percent

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percent of Change</u>	<u>See Note Below</u>
<b>OPERATING REVENUES</b>	<u>\$ 8,640,949</u>	<u>\$ 8,298,735</u>	<u>\$ 342,214</u>	4%	
<b>OPERATING EXPENSES</b>					
Salaries and wages	5,104,995	4,074,020	1,030,975	25%	1
General services	249,233	295,849	(46,616)	(16)%	
Recruitment	11,417	58,243	(46,826)	(80)%	2
Travel	25,586	15,646	9,940	64%	
Insurance	13,677	14,166	(489)	(3)%	
Telecommunications	42,070	32,751	9,319	28%	
Software maintenance	504,271	507,505	(3,234)	(1)%	
Professional and other contractual services	238,367	64,538	173,829	269%	3
Leased equipment	8,770	5,564	3,206	58%	
Supplies	76,455	60,520	15,935	26%	
Third party claim processing	1,232,436	489,051	743,385	152%	4
Seminars and subscriptions	20,557	14,682	5,875	40%	
Maintenance and repairs	17,017	14,623	2,394	16%	
Rent	326,551	266,341	60,210	23%	5
Utilities	23,690	19,991	3,699	19%	
Other	16,610	11,585	5,025	43%	
Depreciation	<u>200,461</u>	<u>205,522</u>	<u>(5,061)</u>	(2)%	
Total operating expenses	<u>8,112,163</u>	<u>6,150,597</u>	<u>1,961,566</u>		
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	62,222	90,170	(27,948)	(31)%	6
Interest expense	<u>(102,767)</u>	<u>(190,872)</u>	<u>88,105</u>	(46)%	7
Total nonoperating revenues (expenses)	<u>(40,545)</u>	<u>(100,702)</u>	<u>60,157</u>		
<b>INCOME TAX CREDIT</b>	<u>53,604</u>	<u>-</u>	<u>53,604</u>	100%	8
<b>INCREASE IN NET ASSETS</b>	<u>\$ 541,845</u>	<u>\$ 2,047,436</u>	<u>\$ (1,505,591)</u>		

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES**  
**For the Years Ended June 30, 2008 and 2007**

1. The average gross wages per pay period increased in FY 2008 from about \$140,000 at the beginning of FY 2008 to about \$180,000 per pay period at the end of FY 2008. This is a result of adding approximately 10 new employees during the year.
2. In FY 2007, WWT hired Koppen & Associates to help fill the vacant position of Chief Operating Officer. Their fees were approximately \$52,000. It was not necessary for WWT to hire Koppen & Associates again in FY 2008.
3. The increase in professional and other contractual services relates to additional FY 2008 expenses that were not incurred during FY 2007. These expenses include: \$6,706 in additional tax return preparation fees, \$45,866 of temporary staffing expenses, \$33,444 paid to Peters & Associates for a Citrix upgrade and other support, and \$66,000 of training and preparation for SAS103-112 implementation.
4. The increase in the Third Party claims processing account relates to additional FY 2008 expenses that were not incurred during FY 2007. These expenses include: \$598,648 in multiple invoices from Smart & Associates for the University's clinical cash handling. In 2007, WWT incurred only \$18,948 in 3<sup>rd</sup> party Smart & Associates invoices.
5. The increase in the rent account relates to an FY 2007 audit adjustment posted in FY 2008 to increase rent for \$20,666. Operating fees and real estate taxes also increased from \$13,271 per month in FY 2007 to \$14,196 per month in FY 2008.
6. Investment income decreased in FY 2008 due to a decrease in the Billing Services Revenue received from the University during FY 2008. Thus, WWT carried a smaller bank balance and earned less interest on the sweep account with the repurchase agreement.
7. The decrease in interest expense relates directly with the one loan that WWT has with the University of Illinois. There was less interest during FY 2008 because the loan was paid down throughout the year and eventually paid off in June 2008.
8. Fiscal year 2008 represents the first year the deferred tax provision was recorded. This represents the operating loss carryforwards that will be deductible in future years' tax returns.

Responses were provided by Wolcott, Wood and Taylor, Inc. personnel.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES**  
**For the Years Ended June 30, 2007 and 2006**

Scope: Changes greater than \$24,000 and 20 percent

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent of Change</u>	<u>See Note Below</u>
<b>OPERATING REVENUES</b>	<u>\$ 8,298,735</u>	<u>\$ 6,291,158</u>	<u>\$2,007,577</u>	32%	1
<b>OPERATING EXPENSES</b>					
Salaries and wages	4,074,020	3,740,444	333,576	9%	
General services	295,849	351,074	(55,225)	(16)%	
Recruitment	58,243	14,284	43,959	308%	2
Travel	15,646	25,292	(9,646)	(38)%	
Insurance	14,166	13,595	571	4%	
Telecommunications	32,751	28,665	4,086	14%	
Software maintenance	507,505	360,250	147,255	41%	3
Professional and other contractual services	64,538	360,453	(295,915)	(82)%	4
Leased equipment	5,564	5,363	201	4%	
Supplies	60,520	43,667	16,853	39%	
Third party claim processing	489,051	226,875	262,176	116%	5
Seminars and subscriptions	14,682	18,799	(4,117)	(22)%	
Maintenance and repairs	14,623	12,313	2,310	19%	
Rent	266,341	276,613	(10,272)	(4)%	
Utilities	19,991	16,789	3,202	19%	
Other	11,585	14,174	(2,589)	(18)%	
Depreciation	<u>205,522</u>	<u>201,330</u>	<u>4,192</u>	2%	
Total operating expenses	<u>6,150,597</u>	<u>5,709,980</u>	<u>440,617</u>		
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	90,170	70,677	19,493	28%	
Interest expense	<u>(190,872)</u>	<u>(182,781)</u>	<u>(8,091)</u>	4%	
Total nonoperating revenues (expenses)	<u>(100,702)</u>	<u>(112,104)</u>	<u>11,402</u>		
<b>INCREASE IN NET ASSETS</b>	<u>\$ 2,047,436</u>	<u>\$ 469,074</u>	<u>\$1,578,362</u>		

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**EXPLANATION OF SIGNIFICANT VARIANCES IN REVENUES AND EXPENSES**  
**For the Years Ended June 30, 2007 and 2006**

1. In FY 2007, there was an additional vendor for which WWT performed consulting services, Healthcare Business Consultants. Total fees paid to WWT from this vendor for FY 2007 were approximately \$291,000. The amount of medical record deposits also increased from FY 2006 to FY 2007.
2. In FY 2007, WWT hired Koppen & Associates to aid in the recruiting process of a new Chief Operating Officer. Total fees paid to Koppen & Associates during FY 2007 were \$51,803.
3. In FY 2007, WWT entered into a maintenance contract with Ingenix for training and software implementation. This contract did not exist in FY 2006. WWT also paid for Ingenix claims manager software licenses, RealMed installation fee, and Dell 750 email encryption fees. None of these expenses were incurred in FY 2006.
4. The decrease in professional and other services reflects a decrease in consulting expense. In FY 2006, WWT paid approximately \$287,000 to the Rohmann Group for consulting.
5. WWT contracted with an additional vendor during FY 2007, Healthcare Business Consultants. Total fees paid to this vendor for FY 2007 were approximately \$291,000, which approximates the change from FY 2006.

Responses were provided by Wolcott, Wood and Taylor, Inc. personnel.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**AGENCY FUNCTIONS AND PLANNING PROGRAM**  
**For the Years Ended June 30, 2008 and 2007**

Wolcott, Wood and Taylor, Inc. (WWT) is an Illinois not-for-profit corporation with offices located in Chicago, Illinois. WWT was formed by the Board of Trustees of the University of Illinois (University), a body corporate and politic of the State of Illinois.

WWT was incorporated July 19, 1999 for the purpose of providing practice management support services and billing and collection services on behalf of the Medical Service Plan of the College of Medicine of the University of Illinois at Chicago (MSP). These services include data entry, claim generation and insurance company follow-up, patient statement generation and patient follow-up, payment posting, accounts receivable management, reimbursement analysis, reporting, software application support, and customer services.

WWT was established to:

- Eliminate the disruptions of the billing and collection process resulting from the continual turnover and lack of performance among the previous billing vendors;
- Provide billing services in a flexible, timely and cost-effective manner thereby eliminating unnecessary duplication of effort;
- Provide a more customer-focused approach for the patients of MSP;
- Implement a single patient accounting system and develop a common database for more timely and complete management reporting;
- Enhance integration between the front-end and back-end components of the billing process; and
- Develop and foster a true partnership between the physicians, departments, and WWT.

Billing operations began in October 2000. Through June 2008, WWT has transitioned all physicians billing with the exception of one department and services provided in the outpatient setting. Annual claim volume totals approximately 569,000, while the annual number of statements sent to patients exceeds 180,000. Annual billings for the 12 month period ended June 30, 2008 totaled 272.5 million. Correspondingly, payments posted net of refunds totaled \$71.2 million.

Staffing associated with operations as of June 30, 2008 totaled 75.0 full time equivalents. WWT contracts with ADP Total Source, a Fortune 500 company, to provide human resource management and health care benefits for WWT's staff.

In the summer of 2001, WWT executed a five-year lease for approximately 13,000 square feet located in the downtown Chicago area. Renovation and relocation of the newly leased facility was completed in October 2001. The lease was renegotiated in December 2004. The term of the lease was extended through December 2014. WWT's current address is:

Wolcott, Wood and Taylor, Inc.  
200 West Adams Street, Suite 225  
Chicago, Illinois 60606

WWT's mission and goals are formally documented on a current basis and formal planning and monitoring procedures have been designed and implemented to meet the needs of WWT.

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**AVERAGE NUMBER OF EMPLOYEES**  
**For the Years Ended June 30, 2008, 2007, and 2006**

**(Unaudited)**

	<u><b>2008</b></u>	<u><b>2007</b></u>	<u><b>2006</b></u>
Employed by Wolcott, Wood and Taylor, Inc.:			
Management	11.0	11.9	10.9
Staff	<u>64.0</u>	<u>52.6</u>	<u>49.6</u>
Total employed by WWT	75.0	64.5	60.5
Employed by the University of Illinois:			
President	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
<b>TOTAL</b>	<u><b>75.5</b></u>	<u><b>65.0</b></u>	<u><b>61.0</b></u>

**WOLCOTT, WOOD AND TAYLOR, INC.**  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
**For the Years Ended June 30, 2008 and 2007**

**(Unaudited)**

WWT recognized the downturn in collections. As a result, outside consultants were brought in to address the issue.

The following experts were brought in:

- Accounting Expertise
- Computer Expertise
- Billing Expertise

This resulted in a reorganization of management and introduction of new technology and an upgrade of that technology in the processing and claims management.

The downturn in collections proficiency was reversed in FY 2008 with WWT achieving its best collection year in its history.