WOLCOTT, WOOD AND TAYLOR, INC.
Chicago, Illinois

FINANCIAL STATEMENTS
June 30, 2008 and 2007

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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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 (March 1, 2007 through June 30, 2008)
Board of Directors	Dr. Fady Charbel Dr. Joeseph 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

WOLCOTT, WOOD AND TAYLOR, INC.
FINANCIAL STATEMENT REPORT
SUMMARY
June 30, 2008

The audit of the accompanying basic financial statements of Wolcott, Wood and Taylor, Inc. was performed by Clifton Gunderson LLP.

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

The 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 accompanying basic financial statements of Wolcott, Wood and Taylor, Inc. (WWT), a component unit of the University of Illinois and a component unit of the State of Illinois, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of WWT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Wolcott, Wood and Taylor, Inc. as of June 30, 2008 and 2007, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2008 on our consideration of WWT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
December 18, 2008

WOLCOTT, WOOD AND TAYLOR, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008 and 2007

(Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Wolcott, Wood and Taylor, Inc. (hereinafter referred to as WWT) for the years ended June 30, 2008 and 2007, with selected comparative information for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes which follow this section.

Wolcott, Wood and Taylor is a wholly owned subsidiary of the University of Illinois whose specified purpose is to provide billing and other management services on behalf of the Medical Service Plan of the College of Medicine of the University of Illinois at Chicago (MSP).

Incorporated in 1999, the initial charge to WWT was to transition the billing and collection operations on behalf of the 29 physician groups which comprise the MSP. Prior to the establishment of WWT, billing and collection services were provided by a number of billing entities, some internal but most independent of the University. Phase-in of the billing and collections operations from the many billing entities to WWT was substantially completed in 2004. There continue to be some areas of the practice which bill independently of WWT.

Gross billings on behalf of the University increased from $217.2 million in 2006 to $239.5 million in 2007 to $272.5 million in 2008. Correspondingly, net collections increased from $61.0 million in 2006 to $67.1 million posted in 2007 to $71.2 million posted in 2008.

Gross revenue from operations increased from $6.3 million in 2006 to $8.3 million in 2007 to $8.6 million in 2008. Net income totaled $469,074, $2,047,436, and $541,845 for the years ended June 30, 2006, 2007, and 2008, respectively. Cash and investments grew from $1,723,129 as of June 30, 2006 to $1,912,878 as of June 30, 2007 and decreased to $83,592 as of June 30, 2008. Operating staff increased from an average of 60.5 FTE in 2006 to an average of 64.5 FTE in 2007 to an average of 75.0 FTE in 2008.

In the summer of 2001, WWT executed a five-year lease for approximately 13,000 square feet located in the downtown Chicago area. Due to a favorable real estate market, the lease was renegotiated in December 2004 decreasing annual rental cost by approximately $75,000. The lease amendment also provides an opportunity for expansion, a right of first offer and minimal security deposit requirements. The term of the lease was extended through December 2014.

Management's focus during this past year has been on restructuring operations, recruiting and retaining qualified staff and improving productivity.

WOLCOTT, WOOD AND TAYLOR, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008 and 2007

(Unaudited)

Financial Highlights

2008 represents the seventh full year of operations for WWT. Changes in net assets represent the operating activity of WWT which results from revenues, expenses, gains, and loses and are summarized below for the years ended June 30, 2008, 2007, and 2006:

	2008	**2007**	**2006**
Total revenue from operations	$ 8,640,949	$ 8,298,735	$ 6,291,158
Total operating expenses	8,112,163	6,150,597	5,709,980
Operating income	528,786	2,148,138	581,178
Investment income	62,222	90,170	70,677
Interest expense	(102,767)	(190,872)	(182,781)
Income tax credit	53,604	-	-
Increase in net assets	$ 541,845	$ 2,047,436	$ 469,074

The increase in revenue from 2007 to 2008 reflects the additional funds forwarded to WWT for the UIC debt repayment and an increase in the number of leased employees that are billed to the University. Overall, revenue is established on operating budget and debt retirement requirements. Operating revenue increased by 4.1 percent while operating expenses increased by 31.9 percent. The increase in operating expense reflects additional salary and bonus expense and third party claim processing expenses. Net income decreased to $541,845 in 2008 from the $2,047,436 earned in 2007 because of the increase in operating expenses.

There is an increase in revenue from 2006 to 2007. Overall, operating revenue increased by 31.9 percent while operating expenses increased by 7.7 percent. Net income increased by $1,578,362 because of the increase in operating revenues.

Funds necessary for start-up capital requirements and to cover early operating losses were provided as a loan by the University to WWT and guaranteed by MSP. Indebtedness to the University totaled $4,560,000 and $2,787,566 as of June 30, 2006 and 2007, respectively. Principal repayment began in 2005 and continued through 2008. Repayments totaled $1,772,434 and $2,787,566 for the years ended June 30, 2007 and 2008, respectively, leaving a balance due of $-0- at June 30, 2008.

WOLCOTT, WOOD AND TAYLOR, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008 and 2007

(Unaudited)

Statements of Net Assets

The statement of net assets presents the financial position at the end of the fiscal year and includes all assets and liabilities of WWT. Assets and liabilities are generally measured using current values except for capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of WWT's assets, liabilities, and net assets at June 30, 2008, 2007, and 2006 is as follows:

	2008	2007	2006
Assets:			
Current assets	$ 534,473	$ 2,154,035	$ 1,905,977
Capital assets	2,671,661	2,663,965	2,384,105
Less accumulated depreciation	(2,392,008)	(2,235,069)	(2,043,983)
Capital assets, net	279,653	428,896	340,122
Total assets	814,126	2,582,931	2,246,099
Liabilities:			
Current liabilities	891,136	2,254,972	2,124,824
Noncurrent liabilities	-	946,814	2,787,566
Total liabilities	891,136	3,201,786	4,912,390
Net assets:			
Invested in capital assets	279,653	428,896	340,122
Unrestricted	(356,663)	(1,047,751)	(3,006,413)
Total net assets	$ (77,010)	$ (618,855)	$ (2,666,291)

A review of WWT's statement of net assets as of June 30, 2008, 2007, and 2006 highlights an overall moderate increase consisting of a steady decrease in total liabilities and a mildly fluctuating value of capital assets.

Current assets consist of cash, operating investments, prepaid expense, deferred tax assets, and accounts receivables. Current assets increased from $1,905,977 in 2006 to $2,154,035 in 2007 but decreased to $534,473 in 2008. The increase from 2006 to 2007 reflects a positive net income and an increase in purchases of capital assets. The decrease from 2007 to 2008 reflects the cash outlay to offset the balance of the loan to the University. Capital assets primarily consist of computer hardware, software, and furnishings.

Current liabilities consist of trade accounts, accrued compensation and deferred rent. In 2006 and 2007, a major portion of current liabilities consisted of the current portion of outstanding indebtedness to the University. In 2006, the financing agreement required the repayment of $400,000 in principal and that amount is reflected in the 2006 current liabilities. However, in 2007 the repayment increased to $1,772,434. In 2008, the repayment totaled $2,787,566 which paid off the loan.

Statements of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents WWT's results of operations. A summarized comparison of WWT's revenues, expenses, and changes in net assets for the years ended June 30, 2008, 2007, and 2006 is as follows:

	2008	2007	2006
Revenue:			
Total operating revenues	$ 8,640,949	$ 8,298,735	$ 6,291,158
Expenses:			
Salaries and wages	5,104,995	4,074,020	3,740,444
Nonsalary expenses	2,806,707	1,871,055	1,768,206
Subtotal	7,911,702	5,945,075	5,508,650
Depreciation	200,461	205,522	201,330
Total operating expense	8,112,163	6,150,597	5,709,980
Operating income	528,786	2,148,138	581,178
Nonoperating expense	(40,545)	(100,702)	(112,104)
Income tax credit	53,604	-	-
Increase in net assets	$ 541,845	$ 2,047,436	$ 469,074

Operating revenues represent payments made to WWT by the University for billing services provided on behalf of the MSP together with funds necessary to meet debt retirement requirements. In 2003, the payment was calculated based on a percentage of gross charges billed and payments posted net of refunds. In 2004 through 2007, the payment methodology was revised such that the amount was set at a fixed value agreed upon prior to the start of the year and funds necessary to meet debt retirement requirements. In 2008, the payment methodology was revised to a cost based reimbursement method plus the funds necessary to meet debt retirement requirements. Claims filed on behalf of MSP, gross charges billed, and net payments posted for 2008, 2007, and 2006 are as shown below:

	2008	2007	2006
Claims filed	569,152	500,048	499,628
Gross charges billed	$ 272,478,073	$ 239,589,833	$ 217,225,821
Net payments posted	$ 71,158,716	$ 67,105,587	$ 61,014,002

Salary expense increased 25.3 percent during 2008 over the previous year, reflecting an increase in operating staff (FTEs). Salary expense increased 8.9 percent from 2006 to 2007, which included bonuses.

Nonsalary, depreciation, and interest expense increased to $3,109,935 in 2008 from $2,267,449 in 2007 or 37.2 percent. Expense categories showing significant variation from 2007 to 2008 are as follows:

	2008	2007
General services	$ 249,233	$ 295,849
Professional and other services	238,367	64,538
Recruitment	11,417	58,243
Supplies	76,455	60,520
Software maintenance	504,271	507,505
Third party claim processing	1,232,436	489,051
Other	797,756	791,743
Total nonsalary expense	$ 3,109,935	$ 2,267,449

- The decrease in general services reflects less statements being mailed out after incorrect and duplicate addresses were discovered in FY08. During part of FY07, we were still using an outside vendor for scanning services, and during FY08, scanning was being done in-house for the entire fiscal year.

- The increase in professional and other services is due to increased consulting services, temporary services, and tax preparation fees.

- Recruitment expense decreased in FY08 due to the recruiting of the Chief Operating Officer in FY07 only.

- The increase in supplies represents the purchase of folding tables and chairs purchased for temporary staffing and also the purchase of additional toner for new printers.

- The decrease in software maintenance expense reflects the reduction in payments for Ingenix - claims manager and contract manager implementation and training in FY07.

- The increase in the third party claim processing expense reflects the added costs of Smart and Associates in FY08.

Nonsalary expense increased from $2,152,317 in 2006 to $2,267,449 in 2007 or 5.3 percent. Expense categories showing significant variation from 2006 to 2007 are as follows:

	2007	2006
General services	$ 295,849	$ 351,074
Professional and other services	64,538	360,453
Recruitment	58,243	14,284
Software maintenance	507,505	360,250
Third party claim processing	489,051	226,875
Other	852,263	839,381
Total nonsalary expense	$ 2,267,449	$ 2,152,317

- The decrease in general services is a result of scanning services being done in-house rather than using an outside vendor.

- The decrease in professional and other services reflects a decrease in consulting expense.

- Recruitment expense represents recruiting the Chief Operating Officer in FY07.

- The increase in software maintenance expense reflects an increase in software implementation and maintenance for Ingenix - claims manager and contract manager.

- The increase in third party claim processing expense reflects an increase in new vendors that were added in FY07.

WOLCOTT, WOOD AND TAYLOR, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008 and 2007

(Unaudited)

Statements of Cash Flows

The statement of cash flows provides additional information of WWT's financial results by reporting major sources and uses of cash. A comparative summary of the statements of cash flows for the years ended June 30, 2008, 2007, and 2006 is as follows:

	2008	2007	2006
Cash received from operations	$ 8,465,193	$ 8,238,474	$ 6,290,451
Cash expended for operations	(7,415,150)	(5,831,349)	(5,456,171)
Net cash provided by operating activities	1,050,043	2,407,125	834,280
Net cash used in capital and related financing activities	(51,218)	(344,240)	(116,795)
Net cash used in noncapital financing activities	(2,890,333)	(1,963,306)	(582,781)
Net cash provided by (used in) investing activities	891,508	900,421	(134,704)
Net increase (decrease) in cash and cash equivalents	(1,000,000)	1,000,000	-
Cash and cash equivalents, beginning of year	1,005,000	5,000	5,000
Cash and cash equivalents, end of year	$ 5,000	$ 1,005,000	$ 5,000

The 2007 to 2008 cash provided by operations was due to the increase in scheduled payments due from the University and reimbursements from the University for third party payments.

From 2006 to 2007, the increase in cash received from operations was due to the increase in scheduled payments due from the University.

Economic Factors that will Affect Future

Management believes that opportunities exist for continued improvement of operations. This coupled with greater experience is expected to result in lower costs per claim processed and improved collections.

Insurance companies, governmental payors, and other third party payors continue to ratchet down the amount paid for services provided. Historical reductions in reimbursement coupled with those proposed may reduce payments from some payors by as much as five percent over a two year period. These reductions and other pressures on the Medical Center, including increased malpractice insurance and reduced State support, will increase the College of Medicine's reliance on WWT as a significant element in its funds flow cycle.

It is anticipated that the fiscal year 2009 revenue will decrease by approximately 2.8 million dollars as the reimbursement from the University is expected to decrease by this amount. The decrease is a result of the debt owed to the University being paid in full during fiscal year 2008.

WOLCOTT, WOOD AND TAYLOR, INC.
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,000	$ 1,005,000
Bank repurchase agreement	24,592	850,622
Certificate of deposit	54,000	57,256
Accounts receivable	272,835	97,079
Prepaid expenses	124,442	144,078
Deferred tax asset	53,604	-
Total current assets	534,473	2,154,035
CAPITAL ASSETS, net	279,653	428,896
TOTAL ASSETS	$ 814,126	$ 2,582,931
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 327,102	$ 85,596
Accrued expenses	458,802	302,248
Current installment of long-term debt	-	1,840,752
Accrued rent	105,232	26,376
Total current liabilities	891,136	2,254,972
LONG-TERM DEBT, net of current installment included above	-	946,814
Total liabilities	891,136	3,201,786
NET ASSETS		
Invested in capital assets	279,653	428,896
Unrestricted	(356,663)	(1,047,751)
Total net assets	(77,010)	(618,855)
TOTAL LIABILITIES AND NET ASSETS	$ 814,126	$ 2,582,931

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

WOLCOTT, WOOD AND TAYLOR, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and 2007

	2008	2007
OPERATING REVENUES	$ 8,640,949	$ 8,298,735
OPERATING EXPENSES		
Salaries and wages	5,104,995	4,074,020
General services	249,233	295,849
Recruitment	11,417	58,243
Travel	25,586	15,646
Insurance	13,677	14,166
Telecommunications	42,070	32,751
Software maintenance	504,271	507,505
Professional and other contractual services	238,367	64,538
Leased equipment	8,770	5,564
Supplies	76,455	60,520
Third party claim processing	1,232,436	489,051
Seminars and subscriptions	20,557	14,682
Maintenance and repairs	17,017	14,623
Rent	326,551	266,341
Utilities	23,690	19,991
Other	16,610	11,585
Depreciation	200,461	205,522
Total operating expenses	8,112,163	6,150,597
Operating income	528,786	2,148,138
NONOPERATING REVENUES (EXPENSES)		
Investment income	62,222	90,170
Interest expense	(102,767)	(190,872)
Total nonoperating revenues and expenses	(40,545)	(100,702)
Increase in net assets before income taxes	488,241	2,047,436
INCOME TAX CREDIT	53,604	-
INCREASE IN NET ASSETS	541,845	2,047,436
NET ASSETS, BEGINNING OF YEAR	(618,855)	(2,666,291)
NET ASSETS, END OF YEAR	$ (77,010)	$ (618,855)

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

WOLCOTT, WOOD AND TAYLOR, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Fees collected	$ 8,465,193	$ 8,238,474
Payments to suppliers	(2,466,709)	(1,808,290)
Payments to employees	(4,948,441)	(4,023,059)
Net cash provided by operating activities	1,050,043	2,407,125
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(51,218)	(344,240)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest paid	(102,767)	(190,872)
Payments on long-term debt	(2,787,566)	(1,772,434)
Net cash used in noncapital financing activities	(2,890,333)	(1,963,306)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	62,222	90,170
Purchase of investments	-	(189,749)
Redemption of investments	829,286	1,000,000
Net cash provided by investing activities	891,508	900,421
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,000,000)	1,000,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,005,000	5,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,000	$ 1,005,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 528,786	$ 2,148,138
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	200,461	205,522
Effects of changes in:		
Accounts receivable	(175,756)	(60,261)
Prepaid expenses	19,636	1,952
Accounts payable and accrued expenses	398,060	85,398
Accrued rent	78,856	26,376
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,050,043	$ 2,407,125

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

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Wolcott, Wood and Taylor, Inc. (WWT) is an Illinois not-for-profit corporation with offices located in Chicago, Illinois. The articles of incorporation authorize WWT to provide practice management support services and operate as a billing/collection entity under the laws of the State of Illinois.

WWT was created by the Board of Trustees of the University of Illinois (University) effective July 8, 1999 to provide billing and collection services and practice management support services for the Medical Service Plan of the College of Medicine of the University of Illinois at Chicago (MSP). WWT is recognized by the University of Illinois as a University related organization, and is incorporated within the University's financial report as a component unit.

Basis of Presentation

WWT prepared its financial statements as a Business Type Activity, as defined by GASB Statement No. 34, using the economic resources measurement focus and the accrual basis of accounting. Business Type Activities are those financed in whole or in part by fees charged to external parties for goods and services. Pursuant to GASB Statement No. 20, the Company has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements. WWT has elected not to apply FASB pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for doubtful accounts has been provided since, in management's judgment, it is believed that the amount of such allowance would not be significant.

Capital Assets

Assets with an original cost greater than $1,000 and a useful life of more than one year are capitalized. Capital assets are depreciated on an accelerated or straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful life. The following estimated useful lives are being used by WWT:

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Data processing equipment	5 years
Computer software	3 years
Furniture and fixtures	7 years
Leasehold improvements	5 years

Revenue Recognition

Revenue is recognized by WWT as services are provided.

Classification of Revenues

The Company has classified its revenues as either operating or nonoperating revenues according to the following criteria:

<u>Operating revenues</u> - Operating revenues include activities that have the characteristics of exchange transactions, such as billing and collection and practice management support services.

<u>Nonoperating revenues</u> - Nonoperating revenues include activities that have the characteristics of nonexchange transactions and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as investment income.

Use of Estimates

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

Income Taxes

Although WWT is an Illinois not-for-profit corporation, it is subject to federal income taxes under the U.S. Internal Revenue Code.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

At June 30, 2008, WWT has a bank balance of $128,126, consisting of a checking account with a carrying amount of $74,126 and a certificate of deposit with a carrying amount of $54,000. The balance is insured (FDIC) for $100,000. The remaining balance is collateralized.

At June 30, 2007, WWT has a bank balance of $1,991,041, consisting of a checking account with a carrying amount of $933,785 and two certificates of deposit with carrying amounts of $57,256 and $1,000,000, respectively. The balance is insured (FDIC) for $100,000. The remaining balance is collateralized through the University.

Investments

As of June 30, 2008, WWT had the following investments and maturities:

Investment Type	Fair Value	Less Than 1 Year
Repurchase agreement	$ 24,592	$ 24,592

As of June 30, 2007, WWT had the following investments and maturities:

Investment Type	Fair Value	Less Than 1 Year
Repurchase agreement	$ 850,622	$ 850,622

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, WWT will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. WWT does not have an investment policy for custodial credit risk.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WWT does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
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	82,136	-	-	82,136
Total	2,663,965	51,218	43,521	2,671,662
Less accumulated depreciation:				
Data processing equipment	669,284	115,968	43,521	741,731
Computer software	1,246,018	58,891	-	1,304,909
Furniture and fixtures	238,122	25,112	-	263,234
Leasehold improvements	81,645	490	-	82,135
Total accumulated depreciation	2,235,069	200,461	43,521	2,392,009
Capital assets, net	$ 428,896	$ (149,243)	$ -	$ 279,653

NOTE 3 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
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	82,136	-	-	82,136
Total	2,384,105	294,296	14,436	2,663,965
Less accumulated depreciation:				
Data processing equipment	581,440	102,280	14,436	669,284
Computer software	1,174,912	71,106	-	1,246,018
Furniture and fixtures	213,070	25,052	-	238,122
Leasehold improvements	74,561	7,084	-	81,645
Total accumulated depreciation	2,043,983	205,522	14,436	2,235,069
Capital assets, net	$ 340,122	$ 88,774	$ -	$ 428,896

NOTE 4 - LONG-TERM DEBT

A note between WWT and the University of Illinois had been authorized effective January 31, 2000 in an amount not to exceed $5,500,000 to provide capital to cover initial startup costs of WWT. As of June 30, 2008 and 2007, $-0- and $2,787,566, respectively, of the authorized note was outstanding. The terms of the note provided for interest to be accrued and billed quarterly based on the University's investment money market intermediate rate of return. The effective interest rate as of June 30, 2008 and 2007 was 4.9 percent. Interest rates were reviewed annually and adjusted at the beginning of the fiscal year should the University's investment money market intermediate term rate of return differ by at least 1 percent from the rate currently being charged. The note had been guaranteed by the University's Medical Service Plan (MSP). At June 30, 2008, the note was paid off in full. The note was repaid early based on a mutual agreement by both parties to repay the note early.

NOTE 5 - RELATED PARTIES

The Directors and Officers are employees of the University of Illinois. In accordance with the University's policy on "Conflicts of Commitment and Interest," all such individuals have received approval from their supervisors within the University. Additionally, as the directed purpose of WWT is to provide medical practice management support services for the University's MSP, the activities of these individuals have been judged to not represent conflicts of commitment or interest as defined within the University's policy.

NOTE 6 - RETIREMENT AND POSTEMPLOYMENT BENEFITS

Company employees hired prior to April 1, 1986 are exempt from contributions required under the Federal Insurance Contribution Act. Employees hired after March 31, 1986 are required to contribute 1.45 percent of their gross salary for Medicare. The Company is required to match this contribution.

University employees may also elect to participate in certain tax-sheltered retirement plans. These voluntary plans permit employees to designate a part of their earnings into tax-sheltered investments and thus defer federal and state income taxes on their contributions and the accumulated earnings under the plans. Participation and the level of employee contributions are voluntary. The employer is not required to make contributions to these plans.

In addition to providing pension benefits, the State provides certain health, dental, and life insurance benefits to annuitants who are former State employees. This includes annuitants of WWT. Substantially all State employees, including the employees of WWT, may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits for annuitants under age 60 are equal to their annual salary at the time of retirement; life insurance benefits for annuitants age 60 and older are limited to $5,000 per annuitant.

Currently, the State does not segregate payments made to annuitants from those made to current employees for health, dental, and life insurance benefits. These costs are funded by the State and are not an obligation of WWT or the University.

WWT has established a 401(k) plan for its employees who are at least 21 years of age and have completed 1,000 hours of service within a consecutive 12 month period. WWT does not make any contributions to the 401(k) plan.

NOTE 7 - OPERATING LEASE

WWT has a noncancelable operating lease for office space at 200 West Adams, Suite 225, Chicago, Illinois, that expires December 31, 2014.

Future minimum lease payments under this operating lease at June 30, 2008 are:

2009	$ 133,783
2010	140,309
2011	146,835
2012	153,361
2013	159,887
2014 through 2015	251,251
	$ 985,426

WWT maintains a certificate of deposit for $54,000 at June 30, 2008 as a security deposit on the building lease.

NOTE 8 - INCOME TAX

As of June 30, 2008, WWT had tax net operating loss carryforwards approximating $160,000. Timing differences relate to accounting for capital assets and the capitalization of certain start-up costs for tax reporting purposes. The loss carryforwards expire in varying amounts through the year 2020. Management believes that the likelihood of WWT utilizing the tax loss carryforwards in the near future is probable and thus has recorded a current deferred tax asset in the amount of $53,604 at June 30, 2008 as a result of the remaining net operating loss carryforward. At June 30, 2007 management felt that the likelihood of WWT utilizing the tax loss carryforwards in the near future was remote and thus recorded a full valuation allowance with respect to the future benefits due to the uncertainty of their ultimate realization.

The credit for income taxes consists of the following components:

	2008	2007
Current	$ -	$ -
Deferred	53,604	-
Total credit for income taxes	$ 53,604	$ -

NOTE 9 - COMPENSATED ABSENCES

Paid Time Off (PTO) is provided for employees to be away from work due to vacation, illness, or other personal requirements. All full-time regular employees are eligible for PTO on a calendar year basis. In a calendar year, full-time employees will be granted PTO according to the following schedule:

	0-5 Years of Service	**5+ Years of Service**
Maximum annual accrual	136 hours	176 hours
Unused PTO which can be carried over or for which an employee can receive payment	40 hours	40 hours

PTO carried over from the previous year must be taken by December 31 of the current calendar year. It cannot be deferred again and no payment will be made for unused carryover PTO.

Employees who terminate from WWT before completing six full calendar months of employment will be paid for accrued PTO. All other employees leaving WWT will be paid for accrued but unused PTO computed at the rate of pay earned upon separation. WWT has recorded a liability in the amount of $91,538 and $83,803 for accrued PTO at June 30, 2008 and 2007, respectively, which is included in the accrued expenses account.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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 as a basis for designing 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 Gunderson LLP

Peoria, Illinois
December 18, 2008