



OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)

Basic Financial Statements

Years Ended June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)



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Columbus, Ohio 43215
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Board of Trustees
Ohio State University Physicians, Inc.
2040 Blankenship Hall
901 Woody Hayes Drive
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We have reviewed the *Independent Auditors' Report* of the Ohio State University Physicians, Inc., Franklin County, prepared by KPMG LLP, for the audit period July 1, 2023 through June 30, 2024. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio State University Physicians, Inc. is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

December 10, 2024

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OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of the Ohio State University)

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KPMG LLP
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Columbus, OH 43215-2568

Independent Auditors' Report

The Board of Directors of
The Ohio State University Physicians, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Ohio State University Physicians, Inc. (the "OSUP"), a component unit of The Ohio State University, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise OSUP's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of OSUP as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OSUP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OSUP's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a



substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OSUP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OSUP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2024 on our consideration of OSUP'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 solely 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 effectiveness of OSUP's 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 OSUP's internal control over financial reporting and compliance.

KPMG LLP

Columbus, Ohio
November 18, 2024

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)

Management's Discussion and Analysis for the years ended June 30, 2024 and 2023
(Unaudited)

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of Ohio State University Physicians, Inc. for the years ended June 30, 2024, 2023, and 2022. Condensed financial information derived from the financial statements is provided for comparative purposes for these three years. We encourage you to read this MD&A section in conjunction with the audited financial statements and the accompanying footnotes included in this report.

About Ohio State University Physicians

Ohio State University Physicians, Inc. and subsidiaries (collectively, "OSUP") located in Columbus, Ohio, is a 501(c)(3) tax-exempt physician organization for the physicians providing medical care, supporting medical research and supporting medical education at The Ohio State University (the "University"). OSUP was incorporated in Ohio in 2002, and the physicians primarily serve communities within the Central Ohio region.

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2024, only 16 of the LLCs are active and included in the financial statements. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no operations within the OSUP structure through June 30, 2024. OSUP is governed by a board of managers who are responsible for oversight of clinical programs, budgets, general administration, and employment of faculty and staff.

The following financial statements reflect all assets, liabilities and net position (equity) of OSUP. The complete set of entities reflected in the financial statements is provided in the Basis of Presentation section of Note 1 to the financial statements.

About the Financial Statements

OSUP presents its financial statements in a "business-type activity" format, in accordance with GASB Statement No. 61, *The Financial Reporting Entity*. In addition to this MD&A section, the financial statements include Statements of Net Position, Statements of Revenue, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements.

The Statement of Net Position is OSUP's balance sheet. It reflects the total assets, liabilities and net position as of June 30, 2024 and 2023. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value or amortized cost depending on original maturity. Capital assets, which include land, buildings, improvements, and equipment, are shown net of accumulated depreciation.

The Statement of Revenue, Expenses and Changes in Net Position is OSUP's income statement. It details how net position has increased (or decreased) during the years ended June 30, 2024 and 2023. Patient care revenue is shown net of allowances for collectability, depreciation is provided for capital assets, and there are required subtotals for operating income (loss) and non-operating income (expense).

The Statement of Cash Flows details how cash has increased (or decreased) during the years ended June 30, 2024 and 2023. It breaks out the sources and uses of OSUP cash into logical categories such as, operating activities, capital financing activities, and investing activities.

The Notes to the Financial Statements, which follow the financial statements, provide additional details on the balances in the financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)

Management's Discussion and Analysis for the years ended June 30, 2024 and 2023
(Unaudited)

Financial Highlights and Key Trends

OSUP's financial position remains strong, and the organization continues its mission to provide medical care and support medical research and medical education at the University.

In the year ended June 30, 2024, OSUP experienced growth in outpatient visits and procedures volumes. Total patient encounters increased 6.7% and surgeries increased 5.4% compared to the year ended June 30, 2023 leading to strong results in operations for the year.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, includes provisions to provide support to individuals, companies and non-profit institutions in the form of loans, grants, tax changes and other types of relief. Provider Relief Funds of \$0 and \$20 million were sub-awarded to The Ohio State University Wexner Medical Center Health System (the "Health System") in fiscal years 2024 and 2023, respectively. Amounts provided to OSUP under CARES Act programs are recognized as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position as eligibility requirements are met.

OSUP's net position decreased \$1.1 million to \$201.2 million at June 30, 2024 and decreased \$18.3 million at June 30, 2023. The decrease in 2024 relates to higher provider expenses associated with investment in patient care services growth and access improvements. The decrease in 2023 related to \$3.0 million of unbudgeted transfers to OSU endowments to support senior faculty in the College of Medicine. The remaining decrease was due to operating losses in select departments that we anticipate are non-recurring. The FY25 OSUP budget was developed in alignment with a group practice model that included incremental support from the Health System and OSUP Corporate to support all operating departments. OSUP is collaborating with departments to ensure expense moderation, revenue enhancement, and mission-based expense/fund alignment activities are identified and implemented.

Net Patient Care Revenues increased by \$63.4 million, and Other Revenue, which includes Medical Center Investment, increased by \$31.0 million, while operating expenses grew by \$57.8 million and Nonoperating Income (Expense) decreased by \$20.9 million, primarily driven by the \$20.5 million of provider relief funds that were subawarded to the Health System in 2023.

Condensed Statements of Net Position

		June 30	
	2024	2023	2022
		(In thousands)	
Assets			
Current assets	\$ 337,939	394,555	364,968
Capital assets	186,661	202,036	101,067
Noncurrent assets	3,840	5,104	4,326
Total assets	<u>\$ 528,440</u>	<u>601,695</u>	<u>470,361</u>

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Management's Discussion and Analysis for the years ended June 30, 2024 and 2023

(Unaudited)

	June 30		
	2024	2023	2022
	(In thousands)		
Liabilities			
Current liabilities	\$ 155,042	215,345	166,367
Long-term liabilities	167,478	178,374	77,925
Deferred inflows	4,704	5,618	5,417
Total liabilities and deferred inflows	327,224	399,337	249,709
Net position			
Net investment in capital assets	6,082	11,228	14,650
Unrestricted	195,134	191,130	206,002
Total net position	201,216	202,358	220,652
Total liabilities, deferred inflows and net position	\$ 528,440	601,695	470,361

Current assets consist of cash and cash equivalents, short-term investments and other assets that are expected to be collected within the year following the balance sheet date. Noncurrent assets consist of capital assets, long-term investments, and other long-term assets with more than a one year expected useful life. Current liabilities consist of debt that is expected to be liquidated within the year, and long-term liabilities consist of long-term debt associated with long-term assets and with a lifespan of greater than one year.

Cash and cash equivalents decreased \$14.7 million from June 30, 2023 to June 30, 2024 and decreased \$82.0 million from June 30, 2022 to June 30, 2023. The primary drivers for the decrease from 2023 to 2024 were payments on real estate leases of \$11.9 million, interest of \$8.0 million, and capital purchases of \$3.0 million. The primary drivers for the decrease from 2022 to 2023 were purchases of short-term investments of \$109.8 million, partially offset by proceeds from the sale of investments of \$47.9 million, payments on real estate leases of \$11.8 million, interest of \$7.7 million, and capital purchases of \$6.5 million.

Short-term investments decreased by \$24.1 million from June 30, 2023 to June 30, 2024. The primary drivers for the decrease were sale of investments of \$57.0 million, interest income of \$10.1 million, partially offset by purchases of short-term investments of 43.0 million. Short-term investments increased by \$61.9 million from June 30, 2022 to June 30, 2023.

Net patient care accounts receivable increased by \$27.6 million from June 30, 2023 to June 30, 2024 due to increased patient revenue, driven by volume and rate increases. Net patient care accounts receivable increased by \$39.3 million from June 30, 2022 to June 30, 2023 due to increased patient revenue, driven by the new clinical areas transitioned to OSUP from the Health System.

Capital assets, net decreased by \$15.4 million from June 30, 2023 to June 30, 2024 primarily related to \$20.2 million of depreciation and amortization, partially offset by new leases and capital asset purchases.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

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(Unaudited)

Capital assets, net increased by \$101.0 million from June 30, 2022 to June 30, 2023 primarily related to \$117.1 million in new, renewed or expanded leases related to expanding operations at Dublin and New Albany outpatient clinics and the new clinical areas, partially offset by \$19.1 million of depreciation and amortization.

The decrease in current liabilities of \$60.3 million from June 30, 2023 to June 30, 2024 was primarily driven by the decrease in Due to Affiliates of \$65.4 million, related to the timing of settlements with the University and Health System. The increase in current liabilities of \$49.0 million from June 30, 2022 to June 30, 2023 was primarily driven by the increase in Due to Affiliates of \$58.9 million, related to the timing of settlements with the University and Health System, partially offset by the decrease in other current liabilities of \$22.5 million, related to the subaward of Provider Relief Funds to the Health System.

Long-term liabilities decreased \$10.9 million from June 30, 2023 to June 30, 2024 primarily related to payments made on leases, and increased \$100.4 million from June 30, 2022 to June 30, 2023 related to the implementation of GASB 87. The remaining long-term debt associated with various building projects is \$7.7 million as of June 30, 2024, \$8.0 million as of June 30, 2023, and \$9.1 million as of June 30, 2022.

The Statement of Revenue, Expenses, and Changes in Net Position presents OSUP's results of operations. A comparison for the years ended June 30, 2024, 2023 and 2022 is summarized as follows.

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	<u>2024</u>	<u>2023</u>	<u>2022</u>
		(In thousands)	
Net patient care revenue less provisions for bad debts	\$ 711,741	646,915	448,420
Other revenue	390,852	359,852	252,347
Total operating expense	<u>(1,097,479)</u>	<u>(1,039,729)</u>	<u>(691,754)</u>
Operating (loss) income	5,114	(32,962)	9,013
Nonoperating income (expense)	<u>(6,256)</u>	<u>14,668</u>	<u>(3,844)</u>
(Decrease) increase in net position	(1,142)	(18,294)	5,169
Net position – beginning of year	<u>202,358</u>	<u>220,652</u>	<u>215,483</u>
Net position – end of year	<u>\$ 201,216</u>	<u>202,358</u>	<u>220,652</u>

Patient encounters increased 6.7% in fiscal year ended June 30, 2024, compared to fiscal year ended June 30, 2023. The 2024 increase was primarily driven by continued investment in primary care and community outreach services, growth of specialty services, expansion in regional outpatient clinics, and increased surgical capacity with expansion of operating hours and investment in community anesthesia providers. The 2023 increase was primarily driven by the new clinical areas, and the opening of the Dublin Outpatient Care facility. In addition, the number of physicians increased by 35 in 2021, to 1,115 physicians and the number of midlevel providers increased by 42, to 657 midlevel providers.

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(Unaudited)

Changes in net patient care revenue are associated with volume changes noted above as well as changes in rates charged and payments received for services, including the change in mix of services rendered to patients, and the payer mix of patients seen. Net patient care revenue increased by \$63.4 million from fiscal year 2023 to fiscal year 2024 and increased by \$198.5 million from fiscal year 2022 to fiscal year 2023. The 2024 increase related to increased volume and rates. The 2023 increase related to revenue from the new clinical areas of \$162.3 million, as well as increased volume and an increase in charge master rates.

Other revenue increased \$31.0 million from fiscal year ended June 30, 2023 to June 30, 2024 and increased \$107.5 million from fiscal year ended June 30, 2022 to June 30, 2023. Other revenue represents both revenue associated with outside health related organizations and services purchased from physician departments by the Health System. The increases in 2024 and 2023 were primarily due to increases in purchased services payments from the Health System.

Operating expenses increased by \$57.8 million from fiscal year ended June 30, 2023, to June 30, 2024 and increased by \$348.0 million from fiscal year ended June 30, 2022, to June 30, 2023. Approximately \$65.4 million of the 2024 increase came from physician and other provider related costs, \$17.3 million in other salaries and benefits, partially offset by the decrease in grant subawards of \$20.5 million for Provider Relief Funds were sub-awarded to the Health System in 2023. Approximately \$171.0 million of the 2023 increase came from physician and other provider related costs, \$28.6 million in other salaries and benefits, and \$95.8 million in purchased services primarily driven by the addition of the new clinical areas and the opening of the Dublin outpatient care clinic. The 2022 increase was also impacted by an increase in Dean's Tax and strategic initiative transfers of \$2.5 million. In addition, there was an increase in staff salary and benefit costs of \$1.0 million which was due to an increase in staff FTEs.

Nonoperating income (expense) of (\$6.3) million for the year ended June 30, 2024, decreased by \$20.9 million from \$14.7 million for the year ended June 30, 2023, primarily due to \$20.5 million of Provider Relief Funds received that were sub awarded to the Health System in fiscal year 2023. Nonoperating income (expense) of \$14.7 million for the year ended June 30, 2023, increased by \$18.5 million from (\$3.8) million for the year ended June 30, 2022, primarily due to \$20.5 million of Provider Relief Funds received that were sub awarded to the Health System and \$4.2 million of unrealized investment gains in fiscal year 2023, compared to \$8.9 million of unrealized investment losses in fiscal year 2022.

Economic Factors That Will Affect the Future

Healthcare reforms, legislative proposals, and payer contractual models continue to be a source of concern. Patient revenue is highly sensitive to changes in reimbursement of physician services.

The Medicare Physician Fee Schedule (PFS) significantly influences physician reimbursement across the entire healthcare system, not just for Medicare beneficiaries. This influence stems from the fact that many of our private insurers, including employer-provided plans and commercial insurers, use the Medicare PFS as a benchmark for setting reimbursement rates.

OHIO STATE UNIVERSITY PHYSICIANS, INC.
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Management's Discussion and Analysis for the years ended June 30, 2024 and 2023
(Unaudited)

The Medicare Physician Fee Schedule (PFS) for 2026 and beyond is structured to ensure fair compensation for physicians while promoting high-quality, efficient care for Medicare beneficiaries. Payments are determined based on Relative Value Units (RVUs), which consider the clinician's work, practice expenses, and professional liability insurance. These RVUs are converted into payment amounts using a conversion factor, which is updated annually to reflect changes in the cost of providing care. For 2026, the conversion factor will be adjusted to account for inflation and other economic factors.

To maintain budget neutrality, adjustments are made to ensure that changes in RVUs do not increase overall Medicare spending. The budget-neutrality threshold is set to increase to \$53 million for 2026, meaning any changes in payment rates must be offset by savings elsewhere in the system. Additionally, payments are adjusted based on the quality of care provided, with incentives for high-quality, cost-effective care. This includes the Merit-based Incentive Payment System (MIPS) and Advanced Alternative Payment Models (APMs), which reward providers for meeting specific performance metrics.

Inflationary updates are designed to ensure that Medicare reimbursement rates keep pace with the rising costs of providing healthcare services. Annual inflationary updates aim to reflect the increasing costs of medical supplies, equipment, and wages. The Medicare Economic Index (MEI) plays a key role in determining these updates, measuring changes in the costs of providing physician services, including expenses related to staff wages, medical supplies, and equipment. Recent legislative efforts, such as the Physician Fee Stabilization Act, support regular indexing of the budget-neutrality threshold to the MEI, ensuring that payment rates are adjusted in line with economic conditions. These adjustments and updates are part of ongoing efforts to adapt Medicare reimbursement policies to the evolving healthcare landscape, ensuring that providers are fairly compensated while promoting high-quality care for beneficiaries.

OSUP estimated the impact of changes to the PFS for CY24 was a reduction in Medicare reimbursement of \$5.05M. Our forecast of the impact for CY25 is \$4.17M. Reductions in Medicare reimbursement are offset by increases in volume, productivity, and negotiated managed care payment rates.

The PFS also continues to support and expand telehealth services, especially in rural and underserved areas. This includes permanent coverage for certain telehealth services and expanded access to mental health services via telehealth. Furthermore, there is an emphasis on chronic care management and transitional care management services to improve patient outcomes. These services are designed to provide comprehensive care coordination for patients with multiple chronic conditions and to ensure smooth transitions from hospital to home care. The PFS includes provisions for new and emerging services, such as remote patient monitoring and digital health technologies, to keep pace with advancements in medical practice. Telehealth services account for approximately 3% of OSUP patient volume. OSUP is expanding utilization of remote patient monitoring and other digital health technologies.

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)

Statements of Net Position

June 30, 2024 and 2023

(In thousands)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 54,810	69,499
Short-term investments	119,646	143,771
Accounts receivable – patient care – net of provisions for bad debts of \$15,297 in 2024 and \$13,118 in 2023	115,728	88,127
Accounts receivable – other	8,956	15,033
Due from affiliates	29,964	70,659
Lease receivables	1,160	711
Inventories	2,480	2,266
Prepaid expenses	5,195	4,489
Total current assets	<u>337,939</u>	<u>394,555</u>
Noncurrent assets:		
Capital assets, net	186,661	202,036
Lease receivable less current portion	3,820	5,084
Other assets	20	20
Total noncurrent assets	<u>190,501</u>	<u>207,140</u>
Total assets	<u><u>\$ 528,440</u></u>	<u><u>601,695</u></u>
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,450	5,225
Accrued salaries and wages	12,856	14,640
Due to affiliates	101,269	166,664
Current portion of notes payable	662	646
Current portion of lease liability	12,439	11,788
Retirement and health plan accrual	1,661	1,401
Other current liabilities	17,705	14,981
Total current liabilities	<u>155,042</u>	<u>215,345</u>
Long-term liabilities:		
Notes payable less current portion	7,707	8,339
Lease liability less current portion	159,771	170,035
Total long-term liabilities	<u>167,478</u>	<u>178,374</u>
Total liabilities	<u>322,520</u>	<u>393,719</u>
Deferred inflows:		
Leases	4,704	5,618
Net position:		
Net investment in capital assets	6,082	11,228
Unrestricted	195,134	191,130
Total net position	<u>201,216</u>	<u>202,358</u>
Total liabilities, deferred inflows, and net position	<u><u>\$ 528,440</u></u>	<u><u>601,695</u></u>

See accompanying notes to financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2024 and 2023

(In thousands)

	2024	2023
Operating revenue:		
Net patient care revenue	\$ 724,567	661,188
Provisions for bad debts	(12,826)	(14,273)
Net patient care revenue less provisions for bad debts	711,741	646,915
Contract income	168,964	147,708
Other revenue	221,888	212,144
Total operating revenue	1,102,593	1,006,767
Operating expenses:		
Salaries and benefits	863,325	780,645
Supplies and pharmaceuticals	33,450	34,350
Purchased services	134,865	142,842
Dean's tax	27,807	24,789
Occupancy and utilities	5,733	6,783
Amortization and depreciation	20,189	19,134
Grant subaward	—	20,495
Other expenses	12,110	10,691
Total operating expenses	1,097,479	1,039,729
Operating income (loss)	5,114	(32,962)
Nonoperating revenue (expenses):		
Gain from investments, net	28	4,193
Grant subaward	—	20,495
Other nonoperating activities, net	(6,284)	(10,020)
Total nonoperating (expense) income	(6,256)	14,668
Decrease in net position	(1,142)	(18,294)
Net position – beginning of year	202,358	220,652
Net position – end of year	\$ 201,216	202,358

See accompanying notes to financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Patient receipts, net	\$ 684,140	607,646
Other receipts	437,624	352,197
Payments to and on behalf of employees	(930,244)	(735,854)
Payments to vendors for supplies and services	(165,304)	(175,988)
Payments on dean's tax	(27,807)	(24,789)
Payments on occupancy and utilities	(6,439)	(8,673)
Payments on other expenses	(9,386)	(12,590)
Net cash (used in) provided by operating activities	<u>(17,416)</u>	<u>1,949</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(2,998)	(6,493)
Principal payments on debt	(616)	(1,023)
Payments on lease liabilities	(11,929)	(11,825)
Cash paid for interest	(8,014)	(7,756)
Payments received on lease receivables	2,131	856
Net cash used in capital and related financing activities	<u>(21,426)</u>	<u>(26,241)</u>
Cash flows from investing activities:		
Purchase of investments	(43,048)	(109,763)
Proceeds from sale of investments	57,075	47,851
Interest income	10,126	4,250
Net cash provided by (used in) investing activities	<u>24,153</u>	<u>(57,662)</u>
Net decrease in cash	(14,689)	(81,954)
Cash and cash equivalents – beginning of year	<u>69,499</u>	<u>151,453</u>
Cash and cash equivalents – end of year	<u>\$ 54,810</u>	<u>69,499</u>

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)

Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Reconciliation of net operating income (loss) to net cash (used in) provided by operating activities:		
Operating income (loss)	\$ 5,114	(32,962)
Adjustments to reconcile net operating income to net cash provided by (used in):		
Amortization and depreciation	20,189	19,134
Changes in assets and liabilities:		
Accounts receivable-patient care – net of allowance	(27,601)	(39,269)
Accounts receivable – other	6,077	(788)
Due from affiliates	40,695	(6,867)
Inventories	(214)	(1,069)
Prepaid expenses	(706)	(1,890)
Other assets	—	129
Accounts payable and accrued expenses	3,225	2,228
Due to affiliates	(65,395)	58,893
Accrued salaries and wages	(1,784)	6,134
Retirement and health plans accrual	260	259
Other current liabilities	2,724	(1,983)
Net cash (used in) provided by operating activities	\$ <u>(17,416)</u>	<u>1,949</u>
Non cash transactions:		
Unrealized gain on investments	\$ 28	4,193

See accompanying notes to financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

(1) Description of Organization and Summary of Significant Accounting Policies

(a) Organization

Ohio State University Physicians, Inc. and subsidiaries ("OSUP") located in Columbus, Ohio, is a 501c (3) tax-exempt physician organization for the physicians providing medical care and supporting medical research and medical education at The Ohio State University (the "University"). It was incorporated in Ohio in 2002, and the physicians primarily serve communities within the Central Ohio region.

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2024, only 16 of the LLCs are active and included in these financial statements. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no operations within the OSUP structure through June 30, 2024.

Effective July 1, 2022, the operations of several clinical areas were transferred from the Ohio State University Wexner Medical Center Health System (the "Health System") to OSUP to create a more integrated and simplified practice structure. The departments transitioned to OSUP as part of the integrated practice plan initiative include Anesthesiology, Family and Community Medicine, Neurological Surgery, Orthopedics, and the division of Maternal Fetal Medicine.

(b) Basis of Presentation

The accompanying financial statements present the activity of the following entities:

- Family Medicine Foundation, LLC ("FM")
- OSU Emergency Medicine, LLC ("EM")
- OSU Eye Physicians and Surgeons, LLC ("Eye")
- OSU GYN and OB Consultants, LLC ("OBGYN")
- OSU Internal Medicine, LLC ("IM")
- OSU Neuroscience Center, LLC ("Neurology")
- OSU Otolaryngology-Head and Neck Surgery, LLC ("Otolaryngology")
- OSU Pathology, LLC ("Pathology")
- OSU Physical Medicine and Rehabilitation ("Phys Med")
- OSU Plastic Surgery, LLC ("Plastics")
- OSU Psychiatry, LLC ("Psychiatry")
- OSU Radiation Oncology, LLC ("Radiation Oncology")
- OSU Radiology, LLC ("Radiology")
- OSU Surgery, LLC ("Surgery")
- OSU Urology, LLC ("Urology")
- OSU Community Outreach, LLC ("Community Outreach")

All LLCs listed above are included within OSUP's financial statements on a blended basis. All LLCs are governed by the same board of managers of OSUP, exist solely to carry out OSUP's mission of providing medical care and supporting medical research and medical education, and are organized as not-for-profit single member limited liability company in which OSUP is the sole member. Additionally, OSUP has a corporate function that operates as a shared service center that supports all the LLCs. Services offered include shared practice management services, clinical information systems, and certain financial management services. Given that this corporate function does not have any

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

substantive activities on its own and exists only to provide the LLCs with these administrative services, the LLCs are displayed in a single column format in the financial statements.

OSUP obtains certain unique benefits from its association with the University. The financial statements of OSUP may not necessarily be indicative of the conditions that would have existed or the results of operations if OSUP had been operated without its affiliation with the University.

Faculty members are employed through The Ohio State University Faculty Group Practice ("FGP") and are leased back to OSUP, with the exception of Community Outreach physicians. To support medical research and education, OSUP provides funding to the College of Medicine ("COM"). This funding takes a variety of forms. OSUP makes academic enrichment payments (which go into departmental COM funds) and Dean's Tax payments (which go into a college-level COM fund). In addition to these recurring sources of funding, OSUP also makes non-recurring transfers of funds to COM (for example, to pay for programs initiated by a new college dean).

In managing these funding sources and related expenditures, COM assigns primary financial responsibility for certain enrichment and FGP funds, referred to internally as "practice funds", to OSUP. OSUP recognizes the revenues and expenses in these funds in its financial statements as operating revenue and expense.

The financial statements include the accounts of OSUP, which are then included in the financial statements of the University because OSUP is a discretely presented component unit of the University for reporting purposes, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 61. All significant LLC intercompany balances and transactions have been eliminated.

(c) Basis of Accounting

The financial statements of OSUP have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when an obligation has been incurred. OSUP is reporting as a special purpose entity engaged in business type activities (BTA). Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, OSUP presents Management's Discussion and Analysis; Statements of Net Position; Statements of Revenue, Expenses, and Changes in Net Position; Statements of Cash Flows; and Notes to the Financial Statements.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

(d) Net Position

Net position is categorized as:

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding balances of debt attributable to the acquisition, construction or improvement of those assets, including lease liabilities.

Unrestricted – Net position that is not subject to externally-imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

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Years ended June 30, 2024 and 2023

OSUP first applies resources in restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of petty cash, demand deposit accounts, money market accounts, savings accounts and investments with original maturities of three months or less, stated at fair market value. OSUP's policy for determining which assets are treated as cash equivalents includes classifying money market accounts that are maintained for operational purposes as cash equivalents.

(f) Short-Term Investments

Investments are reported at fair value. Investment income is recognized on an accrual basis. Interest and dividend income is recorded when earned.

(g) Accounts Receivable-Patient Care

OSUP gross accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, OSUP analyzes past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments and provisions for bad debts. For receivables associated with services provided to patients who have third party coverage, OSUP analyzes contractually due amounts and provides an allowance for contractual adjustments. For receivables associated with self-pay patients, including patient deductibles and co-insurance, OSUP records a provision for bad debts in the period of service on the basis of its past experience, which indicates many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Actual results could vary from the estimate.

(h) Inventories

OSUP's inventory, which consists primarily of prescription drugs and medical supplies, is valued at lower of cost or market, on a first-in, first-out basis.

(i) Capital Assets, Net

Capital assets are stated at cost. Capital assets are long-life assets in the service of OSUP and include land, buildings, improvements, equipment, and software. OSUP applies capitalization thresholds of \$5,000 for capital assets. Depreciation and amortization are calculated using the straight-line method. The depreciation and amortization methods are designed to amortize the assets over their estimated useful lives. Ranges for useful lives by fixed asset category are shown below:

Land improvements	2–29 years
Buildings and improvements	5–40 years
Equipment	5–15 years

Maintenance and repairs are charged to expense as incurred and are included in purchased services expenses on the Statements of Revenue, Expenses, and Changes in Net Position. Upon retirement of

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Notes to Financial Statements

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equipment, the cost is removed from the asset account and the related accumulated depreciation is adjusted with the difference being charged or credited to income.

(j) Leases

OSUP is a lessee for various noncancellable leases of buildings. OSUP also has noncancellable subscription IT arrangements (similar to a lease) for the right-to use information technology hardware and software (subscription IT arrangements). Lease and subscription IT assets are reported with capital assets. Lease and subscription IT liabilities are reported with long-term debt in the Statement of Net Position.

For leases that have a maximum possible term of 12 months or less at commencement, OSUP recognizes expense based on the provisions of the lease contract. For all other leases (i.e. those that are not short-term), OSUP recognizes a lease asset. At lease commencement, OSUP initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If OSUP is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

OSUP generally uses the University's internal bank loan rate as the discount rate for leases unless the rate that the lessor charges is known.

(k) Loss Contingencies

Liabilities for asserted or unasserted claims and assessments are recorded when an unfavorable outcome of a matter is deemed to be both probable and the amount of the loss contingency is reasonably estimable.

(l) Professional and General Insurance

On July 1, 2003, OSUP joined with the Health System to establish a self-insurance fund for professional and patient general liability claims ("Fund II"), covering the employed physicians of OSUP as well as the Health System. The assets and liabilities of Fund II are included in the University's financial statements, but are not included in OSUP's financial statements, as a result of the retained risk being held by the University. The estimated liability and the related contributions are based upon an independent actuarial determination as of June 30, 2024 and 2023. The medical liability contribution expense is recorded as period expenses for OSUP. There was no medical liability contribution expense for fiscal years 2024 and 2023.

The University has also established a pure captive insurer ("Oval Limited") that provides excess liability coverage over Fund II which retains \$4 million per occurrence with various aggregate limits and a \$2 million buffer layer in excess of this retention. Effective July 1, 2022, Oval Limited provides coverage with limits of \$100 million per occurrence and in the aggregate.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

(m) Operating and Non-Operating Revenues and Expenses

OSUP defines operating activities, for purposes of reporting on the Statements of Revenues, Expenses, and Changes in Net Position, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness and certain expenses related to investments, substantially all expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, rental income and net investment income.

(n) Net Patient Care Revenue

Net patient care revenue represents amounts received and estimated net realizable amounts due from patients and third-party payors for services rendered. OSUP provides care to patients under various reimbursement agreements, including governmental and commercial payers (third-party payors). These arrangements provide for payment on covered services at agreed-upon rates, which may result in discounts from charges. Provisions have been made in the financial statements for estimated contractual adjustments, representing the difference between customary charges and related reimbursements, and for administrative adjustments. Administrative adjustments represent amounts that will not be received for provided services due to various reasons, such as noncovered services, untimely filing of claims, insufficient documentation or invalid patient registration. OSUP applies a self-pay discount to self-pay accounts for non-cosmetic services which approximates the average managed care discount for patients with commercial insurance. Self-pay discounts as of June 30, 2024 and 2023 are \$29.2 million and \$26.1 million, respectively, and are recorded in the contractual adjustments and other discounts line in the table below. Additionally, bad debts are recorded as a reduction of net patient care revenue to calculate net patient care revenue less provisions for bad debts. Upper Payment Limit (UPL) supplemental payments amounting to \$15.3 million and \$13.5 million for the years ended June 30, 2024 and 2023, respectively were recorded as a reduction of contractual adjustments. UPL is a federal matching program which allows for payments of services associated with Medicaid patients to be brought up to levels more closely representing Medicare rates. These dollars are paid in arrears based upon federal calculations and paid through the state Medicaid program. Future payments are not recognized until amounts are determined, as future payments may not be realizable. Amounts recorded for fiscal year 2024 and fiscal year 2023 are as follows (in thousands):

	2024	2023
Gross patient care revenue	\$ 2,106,700	1,921,167
Contractual adjustments and other discounts	(1,361,330)	(1,239,814)
Administrative adjustments	(20,803)	(20,165)
Net patient care revenue	724,567	661,188
Provisions for bad debts	(12,826)	(14,273)
Net patient care revenue less provisions for bad debt	\$ <u>711,741</u>	<u>646,915</u>

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Notes to Financial Statements

Years ended June 30, 2024 and 2023

Additionally, net patient care revenue amounts recognized from major payor sources for fiscal year 2024 and fiscal year 2023 are as follows (in thousands):

	2024	2023
Medicare	\$ 178,447	174,081
Medicaid	58,913	58,027
Anthem	132,239	109,524
United Health Care	92,023	70,991
OSU Health Plan	74,539	62,195
Other commercial/third party payors	157,702	169,928
Patient	30,704	16,442
Net patient care revenue	724,567	661,188
Provisions for bad debts	(12,826)	(14,273)
Net patient care revenue less provisions for bad debt	\$ 711,741	646,915

(o) **Non-Patient Care Revenue**

Non-patient care revenue, which is classified as other revenue in the Statements of Revenue, Expenses, and Changes in Net Position, includes contract services for professional services provided to unaffiliated medical facilities, rent, salary recovery, educational and research revenue. This revenue is recognized in accordance with the underlying agreement when it is earned. OSUP acts as a principal in these types of transactions. As such, income is shown gross of related expenses in accordance with the applicable accounting guidance.

(p) **Charity Care**

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by OSUP. As collection of amounts determined to qualify as charity care are not pursued, such amounts are written off and not reported as gross patient care revenue. OSUP maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services furnished. Charity care costs as of June 30, 2024 and 2023 totaled \$36.1 million and \$23.0 million, respectively. The cost of charity care is calculated by taking the ratio of operating expenses divided by gross patient revenue, applied to charity care dollars written off.

(q) **Federal Income Taxes**

OSUP is a not-for-profit organization that is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code (the Code), except for taxes on income determined to be unrelated business taxable income. OSUP assesses uncertain tax positions and has determined there were no such positions that have a material effect on the financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

(r) 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 including estimated uncollectibles for accounts receivable and liabilities, and disclosure of contingent 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.

(s) Estimated Fair Value of Investments

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value.

Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Directly held equity securities, registered bond and equity mutual funds, and other miscellaneous investments classified in Level 1 are valued using prices quoted in active markets that the custodians and OSUP have the ability to access.

Level 2 – Quoted prices in the markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. As of June 30, 2024 and 2023, OSUP had no investments classified as Level 3.

(t) Expansion of Operations

Effective July 1, 2022, several departments were transitioned from the Health System to OSUP. The primary departments transitioned to OSUP as part of the integrated practice plan include Anesthesiology, Orthopedics and Sports Medicine, Maternal Fetal Medicine, Neurosurgery, and Family Medicine. In addition, the transition of operations created a leased staffing arrangement for salaries and benefits of Health System employees supporting the transitioned practices. OSUP reimbursed the Health System for these employee salaries and benefits which were recorded in purchased services.

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Notes to Financial Statements

Years ended June 30, 2024 and 2023

The new departments totaled \$162.3 million in net patient revenue, \$102.3 million in other revenue, \$204.8 million in salaries and benefits, \$11.1 million in supplies and pharmaceuticals, \$22.9 million in purchased services, and \$15.2 million in other operating expenses for the year ended June 30, 2023.

(u) Newly Issued Accounting Pronouncements

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The Statement is effective for fiscal years beginning after December 15, 2023 (FY2025).

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires governments to disclose significant concentrations or constraints that could affect the level of service governments provide or their ability to meet obligations as they come due. Concentrations are defined as a lack of diversity related significant inflows or outflows of resources. Constraints are defined as limitations imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. The Statement is effective for fiscal years beginning after June 15, 2024 (FY2025).

In June 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential to decision making and assessing a government's accountability. The Statement includes provisions related to the presentation of Management's Discussion and Analysis, the presentation of proprietary fund Statements of Revenues, Expenses and Changes in Net Position and the presentation of major component unit information and is effective for fiscal years beginning after June 15, 2025 (FY2026).

OSUP management is currently assessing the impact that implementation of GASB Statements No. 101, 102 and 103 will have on OSUP's financial statements.

(2) COVID-19 and Cares Act Assistance

The worldwide coronavirus pandemic (COVID-19) as designated by the World Health Organization on March 11, 2020 and resulting mitigating actions taken by the Governor of Ohio and the Ohio Department of Health, significantly impacted the results of OSUP operations. In response to the impact on the healthcare environment from the coronavirus pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act became law on March 27, 2020. The CARES Act includes provisions to support healthcare providers in the form of loans, grants, advances of Medicare payments, among other types of relief.

(a) Health Care Provider Relief Funds

The CARES Act provided \$100 billion to establish a Provider Relief Fund for hospitals and other healthcare providers. These funds are to be used to prevent, prepare for, and respond to coronavirus, and further states these payments shall reimburse recipients only for healthcare related expenses or lost revenues that are attributable to coronavirus. OSUP received \$31.6 million in Provider Relief Fund grants, with \$0 and \$20.5 million recognized as revenue in fiscal years 2024 and 2023, respectively,

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

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recorded in nonoperating revenue in the Statements of Revenue, Expenses, and Changes in Net Position and \$20.5 million was sub-awarded to the Health System in fiscal year 2023. The receipt of these funds is considered a voluntary nonexchange transaction.

(3) Cash and Cash Equivalents and Investments

OSUP Investments are grouped into three major categories for financial reporting purposes: cash equivalents, short-term investments and long-term investments. Instruments with original maturity of less than three months are treated as cash equivalents. Short-term Investments are investments that have a maturity of 1 year or less. Investments in partnerships are valued at net asset value (NAV).

OSUP had no long-term investments at June 30, 2024 or June 30, 2023.

Total investments by major category at June 30, 2024 and 2023 are as follows (in thousands):

	2024	2023
Cash equivalents	\$ 51,190	48,311
Bond mutual funds	67,077	94,633
Investment in partnership	1,379	827
	<u>\$ 119,646</u>	<u>143,771</u>

Investments by fair value hierarchy summarized in Note 1 as of June 30, 2024 are as follows (in thousands):

	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Cash equivalents	\$ 51,190	—	—	51,190
Bond mutual funds	67,077	—	—	67,077
	<u>\$ 118,267</u>	<u>—</u>	<u>—</u>	<u>118,267</u>

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

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Investments by fair value hierarchy summarized in Note 1 as of June 30, 2023 are as follows (in thousands):

	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Cash equivalents	\$ 48,311	—	—	48,311
Bond mutual funds	94,633	—	—	94,633
	<u>\$ 142,944</u>	<u>—</u>	<u>—</u>	<u>142,944</u>

Additional Risk Disclosures for Investments

Statement Nos. 3 and 40 of the Governmental Accounting Standards Board require certain additional disclosures related to interest-rate, custodial, credit and foreign currency risks associated with deposits and investments.

(a) Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their values as a result of future changes in interest rates. OSUP investments consisted of short-term mutual funds at June 30, 2024 and 2023, and therefore not subject to interest rate risk. Under OSUP's investment policy, the short-term investment's weighted average duration may not exceed one year. Intermediate investment's weighted average duration may not exceed five years.

(b) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, OSUP investments may not be recovered. It is the policy of OSUP to hold investments in custodial accounts, and the securities are registered in the name of OSUP or one of its LLCs. All investments are transacted with nationally reputable brokerage firms offering protection by the Securities Investor Protection Corporation.

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. Credit quality information, as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings, provides a current depiction of potential variable cash flows and credit risk. The credit ratings of OSUP's interest-bearing investments in bond mutual funds is AA. OSUP's investment policy requires operating funds to be invested in securities that, in aggregate, represent a credit quality of "A" or better (on a weighted average basis). Not more than five percent (5%) of operating funds will be invested in below investment grade securities.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

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(d) Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing OSUP to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

At June 30, 2024 and 2023, OSUP's investments were in mutual funds and therefore, no issuers represented 5% or more of total investments.

(4) Accounts Receivable – Patient Care and Concentrations of Credit Risk

OSUP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable as of June 30, 2024 and 2023 consist of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Gross accounts receivable – patient care	\$ 266,331	227,174
Allowance for contractual adjustments	(135,306)	(125,929)
Allowance for bad debt	(15,297)	(13,118)
Total	\$ <u>115,728</u>	<u>88,127</u>

Risk of loss for third party payors is based upon contractual obligations, legislative changes, or bankruptcy of the payor. Risk of loss for the patient self-payors is related to economic factors of the individual, and thus has a higher reserve for loss based upon our historical indicators. The mix of gross receivables from patients and third-party payors as of June 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Medicare	26 %	23 %
Medicaid	15	18
Commercial/other third party payors	44	43
Patient	15	16
	<u>100 %</u>	<u>100 %</u>

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

(5) Capital Assets

The composition of capital assets as of June 30, 2024 is as follows (in thousands):

	Beginning balance	Additions	Retirements/ reductions	Ending balance
Capital assets not being depreciated:				
Land	\$ 2,090	—	—	2,090
Total non-depreciable capital assets	2,090	—	—	2,090
Capital assets being depreciated:				
Leasehold improvements	9,275	—	258	9,017
Buildings	18,196	249	—	18,445
Equipment	32,807	2,749	2,725	32,831
Total	60,278	2,998	2,983	60,293
Less accumulated depreciation:				
Leasehold improvements	(5,509)	(674)	247	(5,936)
Buildings	(9,547)	(401)	—	(9,948)
Equipment	(19,239)	(3,751)	2,308	(20,682)
Total	(34,295)	(4,826)	2,555	(36,566)
Total depreciable capital assets, net	25,983	(1,828)	428	23,727
Capital assets, net	\$ 28,073	(1,828)	428	25,817
Lease and subscription IT assets, net				160,844
Total capital assets, net as reported in the Statement of Net Position				\$ 186,661

Depreciation and amortization expense for capital, lease and subscription IT assets for the year ended June 30, 2024 was \$20.2 million.

The composition of capital assets as of June 30, 2023 is as follows (in thousands):

	Beginning balance	Additions	Retirements/ reductions	Ending balance
Capital assets not being depreciated:				
Land	\$ 2,090	—	—	2,090
Total non-depreciable capital assets	2,090	—	—	2,090
Capital assets being depreciated:				
Leasehold improvements	9,293	—	18	9,275
Buildings	18,555	—	359	18,196
Equipment	26,274	6,813	280	32,807
Total	54,122	6,813	657	60,278

OHIO STATE UNIVERSITY PHYSICIANS, INC.

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Years ended June 30, 2024 and 2023

	Beginning balance	Additions	Retirements/ reductions	Ending balance
Less accumulated depreciation:				
Leasehold improvements	\$ (4,820)	(705)	16	(5,509)
Buildings	(9,211)	(397)	61	(9,547)
Equipment	(16,238)	(3,245)	244	(19,239)
Total	(30,269)	(4,347)	321	(34,295)
Total depreciable capital assets, net	23,853	2,466	336	25,983
Capital assets, net	\$ 25,943	2,466	336	28,073
Lease and subscription IT assets, net				173,963
Total capital assets, net as reported in the statement of net position				\$ 202,036

Depreciation expense for the year ended June 30, 2023 was \$19.1 million.

(6) Leases

The composition of lease assets as of June 30, 2024 is as follows (in thousands):

	Beginning balance	Additions	Remeasure- ments	Deductions	Ending balance
Leases assets – real estate	\$ 197,415	1,496	(22)	—	198,889
Less accumulated amortization	(25,182)	(14,474)	—	—	(39,656)
Leases assets – equipment	—	213	—	—	213
Less accumulated amortization	—	(62)	—	—	(62)
Total lease assets, net	172,233	(12,827)	(22)	—	159,384
Subscription IT assets	3,582	557	—	—	4,139
Less accumulated amortization	(1,852)	(827)	—	—	(2,679)
Subscription IT assets, net	1,730	(270)	—	—	1,460
Total lease and subscription IT assets, net	\$ 173,963	(13,097)	(22)	—	160,844

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

The composition of lease assets as of June 30, 2023 is as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Remeasure- ments</u>	<u>Deductions</u>	<u>Ending balance</u>
Leases assets – real estate	\$ 83,308	98,273	19,849	4,015	197,415
Less accumulated amortization	(10,840)	(14,191)	(1,742)	1,591	(25,182)
Total lease assets, net	<u>72,468</u>	<u>84,082</u>	<u>18,107</u>	<u>2,424</u>	<u>172,233</u>
Subscription IT assets	3,582	—	—	—	3,582
Less accumulated amortization	(926)	(926)	—	—	(1,852)
Subscription IT assets, net	<u>2,656</u>	<u>(926)</u>	<u>—</u>	<u>—</u>	<u>1,730</u>
Total lease and subscription IT assets, net	<u>\$ 75,124</u>	<u>83,156</u>	<u>18,107</u>	<u>2,424</u>	<u>173,963</u>

The composition of lease liabilities as of June 30, 2024 is as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Remeasure- ments</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Lease liability	\$ 179,959	1,709	(22)	10,903	170,743	11,361
Subscription IT liabilities	1,864	629	—	1,026	1,467	1,078
Total	<u>\$ 181,823</u>	<u>2,338</u>	<u>(22)</u>	<u>11,929</u>	<u>172,210</u>	<u>12,439</u>

The composition of lease liabilities as of June 30, 2023 is as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Remeasure- ments</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Lease liability	\$ 73,505	96,411	20,828	10,785	179,959	10,527
Subscription IT liabilities	2,904	—	—	1,040	1,864	1,261
Total	<u>\$ 76,409</u>	<u>96,411</u>	<u>20,828</u>	<u>11,825</u>	<u>181,823</u>	<u>11,788</u>

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

The following is a schedule by year of future minimum lease payments (in thousands) as of June 30, 2024, that have initial or remaining lease terms in excess of one year.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30:			
2025	\$ 11,361	7,220	18,581
2026	11,931	6,739	18,670
2027	12,428	6,230	18,658
2028	12,525	5,706	18,231
2029	11,804	5,187	16,991
2030–2034	51,100	19,050	70,150
2035–2039	41,634	8,410	50,044
2040–2044	17,960	967	18,927
Total	<u>\$ 170,743</u>	<u>59,509</u>	<u>230,252</u>

The following is a schedule by year of future minimum subscription IT payments (in thousands) as of June 30, 2024, that have initial or remaining lease terms in excess of one year.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30:			
2025	\$ 1,078	27	1,105
2026	389	7	396
Total	<u>\$ 1,467</u>	<u>34</u>	<u>1,501</u>

OSUP is lessor for various noncancellable leases of real estate. Lease-related revenues recognized for the years ended June 30, 2024 and 2023 are as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Lease revenue	\$ 1,107	495
Interest revenue	209	200
	<u>\$ 1,316</u>	<u>695</u>

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

(7) Note Payable — Long-Term Debt

Changes in long-term obligations as of June 30, 2024 and 2023 are as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
June 30, 2024:					
Series 2013 Health Care Facilities revenue bond	\$ 8,958	—	589	8,369	662
Other obligations	27	—	27	—	—
	<u>\$ 8,985</u>	<u>—</u>	<u>616</u>	<u>8,369</u>	<u>662</u>
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
June 30, 2023:					
Series 2013 Health Care Facilities revenue bond	\$ 9,636	—	678	8,958	619
Term loan	274	—	274	—	—
Other obligations	98	—	71	27	27
	<u>\$ 10,008</u>	<u>—</u>	<u>1,023</u>	<u>8,985</u>	<u>646</u>

There were no new borrowings in 2024 and 2023 and OSUP paid cash of \$0.6 million and \$1.0 million related to repayments in fiscal year 2024 and 2023, respectively.

The Series 2013 healthcare facilities revenue bonds, which were issued on May 1, 2013 for \$15.4 million, are subject to certain restrictive and financial covenants, requiring minimum debt service coverage ratios of 1.25 to 1.50 quarterly and minimum tangible net worth semi-annually, as defined by the agreement, of \$48 million. OSUP was in compliance with all covenants for all applicable quarters during 2024 and 2023.

The Series 2013 healthcare facilities revenue bond is to be paid monthly with payments of principal and interest to be made until July 1, 2035. The interest rate increased to 2.556% per annum effective January 1, 2018. The interest rate increased as the terms of the bonds state that in the event of a decrease in the corporate tax rate, the interest rate on the bonds shall be increased to the Adjusted Tax Exempt Rate. The annual interest expense was \$223 thousand for fiscal year 2024 and \$258 thousand for fiscal year 2023.

On May 1, 2013, at the same time the 2013 healthcare facilities revenue bonds were issued, a term loan was issued in the amount of \$2.6 million. Included in the term loan is the taxable portion of OBGYN's build out for their Mill Run location. Monthly payments of principal and fixed interest on the term loan were to be made until May 1, 2023. An interest rate of 2.3% per annum was used to calculate payments. The annual interest expense was \$3 thousand for fiscal year 2023. This term loan was paid in full during fiscal year 2023.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

Debt service requirements on long-term debt as of June 30, 2024, are as follows (in thousands):

	Principal	Interest	Total
2025	\$ 662	174	836
2026	710	159	869
2027	725	144	869
2028	740	129	869
2029	756	113	869
2030–2034	4,027	317	4,344
2035–2038	749	11	760
	<u>\$ 8,369</u>	<u>1,047</u>	<u>9,416</u>

(8) Other Current Liabilities

Other liabilities include amounts due to others (patient credit balances prior to refunding), unearned revenue (prepayments for services) and in fiscal year 2023, provider relief funds that have been deferred until eligibility criteria has been verified. Other current liability activity for the years ended June 30, 2024 and 2023, respectively, is as follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance
2024:				
Unearned revenue	\$ 98	—	9	89
Due to others	14,883	2,733	—	17,616
	<u>\$ 14,981</u>	<u>2,733</u>	<u>9</u>	<u>17,705</u>
2023:				
Unearned revenue	\$ 78	20	—	98
Deferred provider relief funds	19,879	—	19,879	—
Due to others	17,502	—	2,619	14,883
	<u>\$ 37,459</u>	<u>20</u>	<u>22,498</u>	<u>14,981</u>

(9) Related-Party Transactions and Due To/From Affiliates

OSUP is a component unit of the University. Due to this relationship with the University, related-party transactions are pervasive throughout the Statements of Revenue, Expenses and Changes in Net Position. All amounts are settled after period end through payments to or from the affiliated entity. A summary of the nature of these transactions and related due to/from affiliate balances reported in the Statements of Net Position as of June 30, 2024 and 2023, are as follows (in thousands):

Due From:

OSU Health System — OSUP provides staffing, coding support, and medical directorships to The Ohio State University Hospital and The Ohio State University Hospital East. The Health System reimburses

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

OSUP for its share of administration and information service overhead, and physician billing services provided to them.

The Ohio State University and The Ohio State University College of Medicine and Public Health ("COMPH") — OSUP provides staffing, coding support, facility space and medical directorships to the COMPH. OSUP provides healthcare services to University employees enrolled in University sponsored health insurance programs. OSUP collected \$66.1 million for these healthcare services in fiscal year 2024 and \$58.6 million in fiscal year 2023, which is reflected in net patient care revenue.

Balances due from each affiliate as of June 30, 2024 and 2023 are as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Due from the Health System	\$ 20,851	18,360
Due from COMPH	9,113	52,299
	<u>\$ 29,964</u>	<u>70,659</u>

Due to:

The Health System — OSUP reimburses the Health System for various services provided on OSUP's behalf. These expenses include scheduling, registration, and other operating expenses at shared clinic locations, leasing of midlevel providers employed by the Health System, leasing of staff for salaries and benefits of Health System employees, shared services for the transitioned practices, and Health System Accounts Payable processing of OSUP invoices from major suppliers. OSUP is responsible for certain ongoing costs of the Ambulatory electronic medical record ("EMR") system coordinated through the Health System. OSUP reimburses the Health System for annual subscription fees and system support.

COMPH — Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund ("Academic Enrichment"), and Strategic Initiative Fund. Academic Enrichment is paid to the Dean's office for support of the academic, research, and clinical missions of the COM. The Strategic Initiative Fund is comprised of various funds established by the COM to support resident education. These funds are paid periodically during the year. OSUP paid \$7.6 million and \$5.9 million in contributions to OSU departments to fund endowments and support research funds during fiscal years 2024 and 2023, respectively. Dean's tax and strategic initiative expenses as of June 30, 2024 and 2023 are \$27.8 million and \$24.8 million, respectively. OSUP has leases for various facility spaces with the University. The amount paid to the University for leases during the fiscal years ended June 30, 2024 and 2023 was \$13.5 million and \$10.0 million respectively.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

Balances due to each affiliate as of June 30, 2024 and 2023 are as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Due to the Health System	\$ 37,908	49,450
Due to COMPH	63,361	117,214
	<u>\$ 101,269</u>	<u>166,664</u>

(10) Retirement and Health Plans

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) defined contribution plan administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, a small number of current employees receive additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was \$10.9 million and \$9.3 million for the years ended June 30, 2024 and 2023, respectively and were recorded as salaries and benefits in the Statement of Revenue, Expenses, and Changes in Net Assets. Employee contributions were \$5.7 million and \$4.8 million for the years ended June 30, 2024 and 2023, respectively.

OSUP participates in a health insurance plan covering substantially all non-physician employees. All physician employees and certain non-physician employees receive benefits through the health care plan sponsored by the University. Covered services under both plans include medical, dental, and vision benefits, life insurance, and long-term disability. Health Insurance premium payments to the University for the years ended June 30, 2024, and 2023 were \$26.1 million and \$22.3 million, respectively and were recorded as salaries and benefits in the Statement of Revenue, Expenses, and Changes in Net Assets. There were no outstanding premiums due at the end of both years.

(11) Commitments and Contingencies

(a) *Litigation*

OSUP is involved in litigation arising in the course of business. After consultation with legal counsel, management does not believe that claims and lawsuits individually or in the aggregate will have a material adverse effect on OSUP's future financial position, changes in net position, or cash flows.

(b) *Health Care Legislation and Regulation*

The health care 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 health care program participation requirements, and reimbursement for patient services. Federal and state government activity has continued with respect to investigations and allegations concerning possible violation of billing regulations by health care providers.

Violations of these regulations could result in the imposition of significant fines and penalties, as well as having a significant effect on reported changes in net position and cash flows.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

Notes to Financial Statements

Years ended June 30, 2024 and 2023

Management believes that OSUP is in compliance with applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

(12) Subsequent Events

OSUP evaluated subsequent events through November 18, 2024, the date the financial statements were issued. All material matters are disclosed in the footnotes to the financial statements.



KPMG LLP
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**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Directors of The Ohio State University Physicians, Inc.:

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 The Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University, which comprise OSUP's statement of net position as of June 30, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OSUP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSUP's internal control. Accordingly, we do not express an opinion on the effectiveness of OSUP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSUP'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OSUP'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.

KPMG LLP

Columbus, Ohio
November 18, 2024

OHIO AUDITOR OF STATE KEITH FABER



THE OHIO STATE UNIVERSITY PHYSICIANS, INC.

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 12/24/2024

65 East State Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov