

***Ohio State University  
Physicians, Inc. and  
Subsidiaries***

*Consolidated Financial Statements as of  
and for the Years Ended June 30, 2006 and 2005,  
Supplemental Consolidating Schedules  
as of and for the Year Ended June 30, 2006, and  
Independent Auditors' Report*





# Mary Taylor, CPA

Auditor of State

Board of Directors  
Ohio State University Physicians, Inc. and Subsidiaries  
2080 Blankenship Hall  
901 Woody Hayes Drive  
Columbus, Ohio 43210-4016

We have reviewed the *Independent Auditors' Report* of the Ohio State University Physicians, Inc. and Subsidiaries, Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2005 through June 30, 2006. 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. and Subsidiaries is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 22, 2007

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# OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Ohio State University Physicians, Inc.:

We have audited the accompanying consolidated balance sheets of Ohio State University Physicians, Inc. (an Ohio not-for-profit corporation) and subsidiaries ("OSUP") as of June 30, 2006 and 2005, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of OSUP's management. Our responsibility is to express an opinion on these consolidated 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of OSUP as of June 30, 2006 and 2005, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating schedules listed on pages 17 and 18 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of Ohio State University Physicians, Inc. and its subsidiaries' management. Such schedules have been subjected to the auditing procedures applied by us in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2007, on our consideration of OSUP's internal control over financial reporting and 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 audits.

*Deloitte & Touche LLP*

January 12, 2007

# OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2006 AND 2005

	2006	2005
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,865,259	\$ 13,446,575
Accounts receivable—patient care, net of allowance (\$43,382,996 in 2006 and \$37,779,638 in 2005)	24,138,699	22,502,999
Accounts receivable other—current, net of allowance (\$15,330 in 2006 and \$15,330 in 2005)	250,711	978,427
Due from affiliates	2,973,663	2,690,404
Inventories	486,845	74,880
Prepaid expenses	829,625	692,887
Notes receivable	<u>27,208</u>	<u>43,160</u>
Total current assets	<u>47,572,010</u>	<u>40,429,332</u>
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment, net of accumulated depreciation (\$6,155,938 in 2006 and \$6,453,516 in 2005)	8,724,995	6,535,733
Other assets	<u>642,255</u>	<u>1,032,360</u>
Total noncurrent assets	<u>9,367,250</u>	<u>7,568,093</u>
<b>TOTAL</b>	<u>\$ 56,939,260</u>	<u>\$ 47,997,425</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,720,383	\$ 3,199,598
Accrued expenses	2,129,267	995,926
Accrued salaries and wages	7,153,924	7,725,546
Due to affiliates—current portion	6,261,137	5,522,276
Notes payable and capital leases—current portion	3,106,747	4,481,652
Other postretirement benefits obligation	1,284,073	1,199,747
Other current liabilities	<u>2,868,328</u>	<u>2,535,251</u>
Total current liabilities	<u>26,523,859</u>	<u>25,659,996</u>
LONG-TERM LIABILITIES:		
Notes payable and capital leases—less current portion	3,539,775	5,999,653
Due to affiliates—long-term	6,309,342	4,641,028
Other long-term liabilities	<u>1,053,748</u>	<u>1,174,732</u>
Total long-term liabilities	<u>10,902,865</u>	<u>11,815,413</u>
NET ASSETS:		
Unrestricted	19,512,536	10,172,294
Temporarily restricted net assets	<u>                    </u>	<u>349,722</u>
Total net assets	<u>19,512,536</u>	<u>10,522,016</u>
<b>TOTAL</b>	<u>\$ 56,939,260</u>	<u>\$ 47,997,425</u>

See notes to consolidated financial statements.

# OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006		2005	
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Unrestricted Net Assets	Temporarily Restricted Net Assets
OPERATING REVENUES:				
Net patient care revenues (net of charity care of \$2,053,131 in 2006 and \$1,527,985 in 2005)	\$ 178,720,399	\$ -	\$ 152,542,255	\$ -
Contract services	32,662,587		30,686,868	
Other services	6,575,476		5,642,425	250,140
Net assets released from restriction	<u>349,722</u>	<u>(349,722)</u>		
Total operating revenues	<u>218,308,184</u>	<u>(349,722)</u>	<u>188,871,548</u>	<u>250,140</u>
OPERATING EXPENSES:				
Provider salaries	79,549,060		68,787,484	
Employees salaries and wages	31,961,104		30,011,941	
Provision for bad debts	20,456,219		17,529,058	
Provider fringe benefits	13,333,192		11,892,002	
Professional liability insurance	9,625,970		9,112,417	
Employee fringe benefits	9,603,687		9,298,727	
Medical supplies	1,183,401		1,033,562	
Office and administrative other	7,818,728		6,763,154	
Purchased services and management fees	6,108,106		5,745,762	
Academic enrichment and strategic initiative	5,859,580		5,041,341	
Clinical drugs and medications	13,215,304		10,945,032	
Rent and other occupancy costs	2,789,282		2,750,569	
Other provider related expenses	2,924,508		1,127,356	
Supplies	2,562,499		2,223,370	
Depreciation and amortization	1,361,586		1,144,054	
Other clinical related expenses	495,711		528,122	
Office and administrative billing	715,794		591,174	
Interest expense	833,995		524,622	
Insurance	<u>127,463</u>		<u>128,989</u>	
Total operating expenses	<u>210,525,189</u>	<u>-</u>	<u>185,178,736</u>	<u>-</u>
OPERATING INCOME	<u>7,782,995</u>	<u>(349,722)</u>	<u>3,692,812</u>	<u>250,140</u>
NONOPERATING INCOME:				
Other nonoperating—net	357,989		538,028	
Investment income	609,544		117,948	
Forgiveness of payable	700,000			
(Loss) gain on sale of assets	<u>(110,286)</u>		<u>2,867</u>	
Total nonoperating income	<u>1,557,247</u>	<u>-</u>	<u>658,843</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	9,340,242	(349,722)	4,351,655	250,140
NET ASSETS—Beginning of year	<u>10,172,294</u>	<u>349,722</u>	<u>5,820,639</u>	<u>99,582</u>
NET ASSETS—End of year	<u>\$ 19,512,536</u>	<u>\$ -</u>	<u>\$ 10,172,294</u>	<u>\$ 349,722</u>

See notes to consolidated financial statements.



# OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 8,990,520	\$ 4,601,795
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,361,586	1,144,054
Gain (loss) on sale of assets	110,286	(2,867)
Forgiveness of payable to affiliate	(700,000)	
(Increase) decrease in:		
Accounts receivable—patient care—net	(1,635,700)	(3,158,774)
Accounts receivable—other current—net	727,716	517,387
Due from affiliates	(283,259)	(858,278)
Note receivable—short-term	15,952	(16,853)
Inventories	(411,965)	60,780
Prepaid expenses	(136,738)	(61,102)
Other assets	390,105	(897,131)
Accounts payable	520,785	(1,285,356)
Due to affiliates	3,107,175	5,532,134
Accrued salaries and wages	(571,622)	681,547
Other post-retirement benefit obligation	84,326	(1,107,644)
Other accrued liabilities	1,133,341	(454,114)
Other liabilities	<u>212,093</u>	<u>3,734,870</u>
Net cash provided by operating activities	<u>12,914,601</u>	<u>8,430,448</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES—Purchase of property, plant, furnitures, and equipment</b>	<u>(2,841,258)</u>	<u>(2,586,572)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	14,403,654	11,195,112
Payments on notes payable	<u>(19,058,313)</u>	<u>(13,633,489)</u>
Net cash used in financing activities	<u>(4,654,659)</u>	<u>(2,438,377)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	5,418,684	3,405,499
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>13,446,575</u>	<u>10,041,076</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$ 18,865,259</u>	<u>\$ 13,446,575</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:</b>		
Cash paid for interest	<u>\$ 823,870</u>	<u>\$ 518,375</u>
Property additions under capital lease agreements	<u>\$ 819,876</u>	<u>\$ 704,201</u>
Transfers of assets and liabilities:		
Fair value of assets assumed	<u>\$ 172,832</u>	<u>\$ 1,898,810</u>
Liabilities assumed	<u>\$ (112,949)</u>	<u>\$ (1,873,923)</u>

See notes to consolidated financial statements.

# OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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### 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**—Ohio State University Physicians, Inc., (“OSUP”) located in Columbus, Ohio, is a 501(c)(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 16 limited liability companies (“LLCs”). As of June 30, 2006, only 14 of the LLCs are active and included in consolidated financial statements and the accompanying supplemental consolidating schedules. Two of the LLCs (Anesthesiology and Orthopedics) have been created but have no business activity through June 30, 2006.

The table outlines the reporting of OSUP’s financial statements as of June 30, 2006 and 2005, is as follows:

Practice Plan	2006	2005
Family Medicine Foundation, LLC (“FM”)	X	X
OSU Anesthesiology, LLC (“Anesthesiology”)		
OSU Children’s Pediatrics, LLC (“Children’s Pediatrics”)	X	X
OSU Emergency Medicine, LLC (“EM”)	X	X
OSU Eye Physicians and Surgeons, LLC (“Eye”)	X	X
OSU GYN and OB Consultants, LLC (“OBGYN”)	X	X
OSU Internal Medicine, LLC (“IM”)	X	X
OSU Neuroscience Center, LLC (“Neurology”)	X	X
OSU Orthopedics, LLC (“Orthopedics”)		
OSU Otolaryngology-Head and Neck Surgery, LLC (“Otolaryngology”)	X	
OSU Pathology, LLC (“Pathology”)	X	X
OSU Physical Medicine and Rehabilitation (“Phys Med”)	X	X
OSU Psychiatry, LLC (“Psychiatry”)	X	X
OSU Radiation Medicine, LLC (“Radiation Medicine”)	X	
OSU Radiology, LLC (“Radiology”)	X	X
OSU Surgery, LLC (“Surgery”)	X	X

OSUP obtains certain unique benefits from its association with the University. The consolidated 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.

**Principles of Consolidation**—The consolidated financial statements include the accounts of the Ohio State University Physicians, Inc. and its subsidiaries, which are then included in the financial statements of the University. All significant intercompany balances and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents**—Cash and cash equivalents include investments with original maturities of three months or less, excluding assets whose use is limited.

**Patient Care Accounts Receivable and Net Patient Care Revenues**—Net patient service revenue represents amounts received and the estimated net realizable amounts due from patients and third-party payors for services rendered. OSUP provides care to patients under various reimbursable agreements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement.

OSUP utilizes the allowance method for providing for the possibility of uncollectible accounts. The allowance is provided based on management's estimate of the collectibility of the accounts receivable as of June 30, 2006 and 2005. The estimates take into consideration historical trends, payment history, and current economic conditions. Actual results could vary from the estimate. Accounts are charged against the allowance when management deems them to be uncollectible. Interest is not charged by OSUP on past due accounts.

**Charity Care and Community Benefit**—Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by the OSU Health System and OSUP. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are written off as administrative adjustments and not reported as net patient service revenue. OSUP maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services furnished.

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

**Property, Plant, Furnitures, and Equipment**—Property, plant, furnitures, and equipment are stated at cost and include assets leased under capitalized lease obligations. Depreciation and amortization are calculated on the straight-line method. The depreciation and amortization methods are designed to amortize the assets over their estimated useful lives, ranging from 3 to 40 years. Capitalized lease amortization is included in depreciation expense.

Maintenance and repairs are charged to expense as incurred. Upon retirement of equipment, the cost is removed from the asset accounts and the related depreciation allowance is adjusted with the difference being charged or credited to nonoperating gains (losses).

**Professional and General Insurance**—Because of the nature of its operations, OSUP is at all times subject to pending and threatened legal actions that arise in the normal course of its activities. Malpractice and general patient liability claims have been asserted against OSUP by various claimants. The claims are in various stages and some may ultimately be brought to trial.

OSUP maintains professional and general liability insurance, underwritten by the University Self-Insurance Fund ("USIF"). At June 30, 2006, management believes asserted and unasserted claims and assessments will not exceed the limits of insurance coverage. Coverage limits are \$4 million per incident with a \$25 million aggregate layer. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at June 30, 2006 and 2005.

There may be other claims asserted arising from services provided to patients; however, management has no basis to estimate the ultimate cost, if any, of the settlement of such potential claims and, accordingly, has not accrued for them.

**Temporarily Restricted Net Assets**—Temporarily restricted net assets are cash and other assets whose use by OSUP has been limited by donors. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. As of June 30, 2006 and 2005, the balance of temporarily restricted net assets is \$0 and \$349,722, respectively, and is available for health care services and physician’s expenses.

**Federal Income Taxes**—OSUP is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been included in the accompanying consolidated financial statements.

**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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**—Cash and cash equivalents, accounts receivable, and accounts payable are recorded at their approximate fair value.

**Long-Lived Assets**—OSUP continually evaluates whether circumstances have occurred that would indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, OSUP uses an estimate of the undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. To date, no such impairments have been necessary.

## 2. CASH AND CASH EQUIVALENTS

OSUP maintains cash balances, which are in excess of those insured by the Federal Depository Insurance Corporation. However, to date, no losses have been experienced.

## 3. PATIENT ACCOUNTS RECEIVABLE 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, 2006 and 2005, consists of the following:

	2006	2005
Gross patient accounts receivable	\$ 67,521,695	\$ 60,282,637
Allowances for contractual and administrative adjustments and doubtful accounts	<u>(43,382,996)</u>	<u>(37,779,638)</u>
Total	<u>\$ 24,138,699</u>	<u>\$ 22,502,999</u>

The mix of receivables from patients and third-party payors as of June 30, 2006 and 2005, is as follows:

	2006	2005
Medicare	31 %	28 %
Medicaid	11	14
Commercial/other third-party payors	51	53
Patient	<u>7</u>	<u>5</u>
Total	<u>100 %</u>	<u>100 %</u>

#### 4. PROPERTY, PLANT, FURNITURES, AND EQUIPMENT

The composition of property, plant, furnitures, and equipment as of June 30, 2006 and 2005, is as follows:

	2006	2005
Land and land improvements	\$ 1,192,851	\$ 923,159
Buildings	4,527,499	4,460,085
Equipment	6,667,483	6,400,163
Furniture and fixtures	1,060,190	1,199,835
CIP	<u>1,432,910</u>	<u>6,007</u>
Total property, plant, furnitures, and equipment	14,880,933	12,989,249
Allowances for depreciation and amortization	<u>(6,155,938)</u>	<u>(6,453,516)</u>
Total	<u>\$ 8,724,995</u>	<u>\$ 6,535,733</u>

Depreciation and amortization expense for the years ended June 30, 2006 and 2005, amounted to \$1,361,586 and \$1,144,054, respectively.

**5. NOTE PAYABLE—LINE OF CREDIT AND LONG-TERM DEBT**

Through June 30, 2006, OSUP has available lines of credit agreements with a bank that provided for borrowings as follows:

<b>Practice Plan</b>	<b>Line of Credit</b>	<b>Expiration Date</b>
OSUP—Corporate Family Medicine Foundation, LLC OSU Children’s Pediatrics, LLC	\$ 1,000,000	6/30/2006
OSU Emergency Medicine, LLC	1,000,000	9/30/2006
OSU Eye Physicians & Surgeons, LLC	800,000	6/30/2006
OSU GYN and OB Consultants, LLC	500,000	6/30/2006
OSU Internal Medicine, LLC	3,000,000	9/30/2006
OSU Neuroscience Center, LLC		
OSU Otolaryngology-Head and Neck Surgery, LLC	1,000,000	6/30/2006
OSU Pathology, LLC	1,000,000	9/30/2006
OSU Physical Medicine and Rehabilitation, LLC	100,000	9/30/2006
OSU Psychiatry, LLC	50,000	9/30/2006
OSU Radiation Medicine LLC		
OSU Radiology, LLC	100,000	8/2/2006
OSU Surgery, LLC	1,000,000	9/30/2006

The agreements require monthly interest payments at the bank’s prime rate less 0.75% (8.25% at June 30, 2006 and 6.25% at June 30, 2005). The agreements were secured by accounts receivable, equipment, and fixtures and were subject to certain restrictive and financial covenants. At June 30, 2006 and 2005, \$0 and \$470,984, respectively, were outstanding on these lines of credit. All agreements that expired on June 30, 2006 were extended.

A summary of long-term debt (excluding capital lease obligations) at June 30, 2006 and 2005, are as follows:

	2006	2005
Mortgage note payable—due in monthly installments of principal and interest (5.4% fixed rate), due in May 2008	\$ 2,442,917	\$ 2,647,920
Notes payable—due in monthly installments of principal and interest (2% fixed rate), due in September 2008		2,725,325
Notes payable—due in monthly installments of principal and interest (prime less 0.25% rate), due in February 2006		1,066,667
Notes payable—due in monthly installments of principal and interest (prime less 0.25% rate), due in December 2005		1,447,824
Notes payable—due in monthly installments of principal and interest (prime less 0.25% rate), due in June 2007	816,836	920,000
Notes payable—due in monthly installments of principal and interest (4.53% fixed rate), due in November 2010	401,868	468,122
Notes payable—due in monthly installments of principal and interest (prime less 0.25% rate), due in June 2007	1,261,814	
Notes payable—due in monthly installments of principal and interest (prime less 0.25% rate), due in November 2007	344,089	
Line of credit—due in monthly installments of interest (prime less 0.75%), due in October 2005		<u>470,984</u>
Total debt outstanding	5,267,524	9,746,842
Less current portion	<u>(2,642,830)</u>	<u>(4,317,140)</u>
Total	<u>\$ 2,624,694</u>	<u>\$ 5,429,702</u>

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

Years Ending June 30	Long-Term Debt
2007	\$ 2,642,830
2008	2,410,975
2009	100,776
2010	105,528
2011	<u>7,415</u>
Total	<u>\$ 5,267,524</u>

## 6. CAPITAL LEASE OBLIGATIONS

OSUP has \$1,274,950 in capital lease obligations that have varying maturity dates through 2011 and carry implicit interest rates ranging from 3.3% to 12.1%. Lease arrangements are being used to provide partial financing for certain movable equipment. Capital asset balances, net of depreciation, as of June 30, 2006 and 2005, that are financed under capital leases are \$1,360,835 and \$727,125, respectively.

The scheduled maturities of these leases as of June 30, 2006, are as follows:

Years Ending June 30	Capital Lease Obligations
2007	\$ 513,548
2008	494,202
2009	344,362
2010	112,795
2011	<u>18,137</u>
	1,483,044
Less amount representing interest under capital leases obligations	<u>(104,046)</u>
Total	<u>\$ 1,378,998</u>

## 7. RELATED-PARTY TRANSACTIONS AND INTERCOMPANY RECEIVABLES AND PAYABLES

OSUP is a supporting organization of the University.

**Related-Party Transactions**—OSUP assumed assets and their related liabilities totaling \$172,832 and \$112,949, respectively, in 2006 from related parties. The assets and liabilities were recorded at cost which approximated fair value.



***Due From:***

*The Ohio State University Health System (the "Health System")*—OSUP provides staffing, coding support, and medical directorships at The Ohio State University Hospital and The Ohio State University Hospital East. Also, the Health System is allocated costs for their share of OSUP administration and information services overhead and billed for physician billing services provided to Health System physicians by OSUP's billing services. The balances due from the Health System as of June 30, 2006, are as follows:

<b>Practice Plan</b>	<b>Due From Health System</b>
OSUP—Corporate	\$ 226,765
Family Medicine Foundation, LLC	352,605
OSU Emergency Medicine, LLC	50,380
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	477,535
OSU Internal Medicine, LLC	428,071
OSU Neuroscience Center, LLC	164,354
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	19,151
OSU Physical Medicine and Rehabilitation, LLC	
OSU Psychiatry, LLC	199,094
OSU Radiation Medicine, LLC	
OSU Radiology, LLC	22,400
OSU Surgery, LLC	<u>94,503</u>
Total	<u>\$ 2,034,858</u>

*The Ohio State University and The Ohio State University College of Medicine and Public Health ("COMPH")*—OSUP provides staffing, coding support, and medical directorships at The Ohio State University. The balances due from the COMPH as of June 30, 2006, are as follows:

<b>Practice Plan</b>	<b>Due From COMPH</b>
OSUP—Corporate	\$ (184)
Family Medicine Foundation, LLC	3,060
OSU Emergency Medicine, LLC	
OSU Eye Physicians & Surgeons, LLC	5,550
OSU GYN and OB Consultants, LLC	38,097
OSU Internal Medicine, LLC	248,431
OSU Neuroscience Center, LLC	
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	
OSU Psychiatry, LLC	
OSU Radiation Medicine, LLC	27,795
OSU Radiology, LLC	
OSU Surgery, LLC	
Total	<u>\$ 322,749</u>

**Due To:**

*Health System*—OSUP pays premiums for the USIF (malpractice) and health insurance to the OSU Office of the Treasurer. The balances due to the Health System as of June 30, 2006, are as follows:

<b>Practice Plan</b>	<b>Due to Health System</b>
OSUP—Corporate	\$ 445,219
Family Medicine Foundation, LLC	700,000
OSU Emergency Medicine, LLC	
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	406,667
OSU Internal Medicine, LLC	
OSU Neuroscience Center, LLC	
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	120,417
OSU Psychiatry, LLC	73,665
OSU Radiation Medicine, LLC	43,652
OSU Radiology, LLC	
OSU Surgery, LLC	
	<hr/>
Total	<u>\$ 1,789,620</u>

*The Ohio State University and The Ohio State University College of Medicine and Public Health (“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 covers the salaries, benefits, and other operating expenses of the Department of Emergency Medicine. Academic Enrichment is paid to the Dean’s office for support of the Academic, Research, and Clinical missions of the College. The Strategic Initiative fund is comprised of various funds established by the College to support resident education. All of these funds are paid on a quarterly basis.

<b>Practice Plan</b>	<b>Due to COMPH</b>
OSUP—Corporate	\$ -
Family Medicine Foundation, LLC	53,925
OSU Emergency Medicine, LLC	240,833
OSU Eye Physicians & Surgeons, LLC	874,866
OSU GYN and OB Consultants, LLC	1,156,092
OSU Internal Medicine, LLC	1,939,740
OSU Neuroscience Center, LLC	270,636
OSU Otolaryngology-Head and Neck Surgery, LLC	197,146
OSU Pathology, LLC	192,502
OSU Physical Medicine and Rehabilitation, LLC	(5,351)
OSU Psychiatry, LLC	273,114
OSU Radiation Medicine, LLC	18,999
OSU Radiology, LLC	297,050
OSU Surgery, LLC	5,259,307
	<hr/>
Total	<u>\$ 10,768,859</u>

## 8. MEDICAL MALPRACTICE CLAIMS

OSUP purchases professional and general liability insurance to cover medical malpractice claims through The Ohio State University. The University has established a trustee self-insurance fund for professional liability claims. The University's estimated liability and the related contributions to the University's self-insurance fund for professional liability claims is based upon an independent actuarial determination as of June 30, 2006. Premiums are assessed to OSUP based on the physician's specialty and the types of surgery performed. Premiums paid for the years ended June 30, 2006 and 2005, were \$9,377,214 and \$9,327,507, respectively.

## 9. RETIREMENT AND HEALTH PLANS

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) program administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some LLCs make an 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 \$11,394,014 and \$9,943,268 for the years ended June 30, 2006 and 2005, respectively.

Practice Plan	401(a) Contributions	
	2006	2005
OSUP—Corporate	\$ 257,292	\$ 214,955
Family Medicine Foundation, LLC	409,595	468,568
OSU Children's Pediatrics, LLC		
OSU Emergency Medicine, LLC	585,144	520,964
OSU Eye Physicians & Surgeons, LLC	265,573	32,720
OSU GYN and OB Consultants, LLC	1,130,327	1,024,017
OSU Internal Medicine, LLC	2,512,971	2,230,655
OSU Neuroscience Center, LLC	287,151	220,054
OSU Otolaryngology-Head & Neck Surgery, LLC	141,144	
OSU Pathology, LLC	1,440,586	1,228,679
OSU Physical Medicine and Rehabilitation, LLC	115,036	96,082
OSU Psychiatry, LLC	31,380	6,495
OSU Radiation Medicine, LLC	322,177	
OSU Radiology, LLC	1,392,687	1,581,955
OSU Surgery, LLC	2,502,951	2,318,124
Total	<u>\$ 11,394,014</u>	<u>\$ 9,943,268</u>

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.

## 10. COMMITMENTS AND CONTINGENCIES

**Operating Leases**—OSUP leases various equipment and facilities under operating leases expiring at various dates through September 2009. Total rental expense in 2006 and 2005 for all operating leases was approximately \$1.6 million and \$2.1 million, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2006, that have initial or remaining lease terms in excess of one year.

Years Ending June 30	Amount
2007	\$ 1,471,770
2008	809,606
2009	411,408
2010	239,806
2011	223,080
2012–2015	<u>148,720</u>
Total	<u>\$ 3,304,390</u>

**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 or results from operations.

**Healthcare Legislation and Regulation**—The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, 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 healthcare providers. Violations of these regulations could result in the imposition of significant fines and penalties, as well as having a significant effect on reported net income or cash flows.

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.

## 11. FUNCTIONAL EXPENSES

OSUP’s physicians provide medical services to residents within its geographical location. Expenses related to providing these services for the years ended June 30, 2006 and 2005, are as follows:

	2006	2005
Health care services	\$ 133,157,395	\$ 113,842,616
General and administration	<u>77,367,794</u>	<u>71,336,120</u>
Total	<u>\$210,525,189</u>	<u>\$185,178,736</u>

## 12. SUBSEQUENT EVENTS

On July 1, 2006, OSU Urology, LLC became a separate entity from OSU Surgery, LLC.

\* \* \* \* \*

**SUPPLEMENTAL CONSOLIDATING SCHEDULES**

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET  
AS OF JUNE 30, 2006

ASSETS	OSUP—Corporate	FM	IM	EM	Eye	Surgery	Pathology	Radiation Medicine	Radiology	Phys Med	OBGYN	Neurology	Otolaryngology Head and Neck Surgeons	Psychiatry	Aggregated	EJE	Total
CURRENT ASSETS:																	
Cash and cash equivalents	\$ 1,876,316	\$ 2,991,152	\$ 3,287,194	\$ 825,405	\$ 296,272	\$ 2,412,048	\$ 4,216,902	\$ 232,158	\$ 576,576	\$ 30,831	\$ 384,136	\$ 965,260	\$ 453,514	\$ 298,863	\$ 18,886,627	\$ 18,632	\$ 18,865,259
Accounts receivable—patient:																	
Accounts receivable—patient care gross		235,652	17,391,748	5,279,690	2,484,450	13,511,279	5,344,267	1,295,144	9,323,964	1,001,273	7,015,075	2,481,188	1,424,688	733,277	67,521,695		67,521,695
Allowances		(105,169)	(9,928,259)	(3,968,889)	(1,209,582)	(9,179,978)	(3,576,224)	(836,233)	(6,946,913)	(563,219)	(4,409,910)	(1,511,188)	(685,086)	(462,346)	(43,382,996)		(43,382,996)
Accounts receivable—patient—net		130,483	7,463,489	1,310,801	1,274,868	4,331,301	1,768,043	458,911	2,377,051	438,054	2,605,165	970,000	739,602	270,931	24,138,699		24,138,699
Accounts receivable other—current		17,498					31,283			93,859	123,401	164,355		199,094	266,041	(176,954)	266,041
Due from affiliate	246,141	355,665	676,802	50,380	5,550	94,504	(137,942)	27,794	22,400	3,000	515,632	164,355		34,161	2,220,375		2,043,421
Due from other	76,753	1,710	126,542	60,479	89,733	352,792	3,000		136,236	3,000	7,200	38,636			930,242		930,242
Allowance for uncollectible non-patient receivables							(15,330)								(15,330)		(15,330)
Inventories			217,822	18,599	1,110	72,408	9,092		417	11,000	252,760	16,263			486,845		486,845
Prepaid expenses	248,961	8,300	443,498				27,209				16,240				829,625		829,625
Notes receivable															27,208		27,208
Total current assets	2,371,418	3,503,098	12,088,805	2,205,185	1,577,800	6,910,261	5,899,257	718,863	2,976,444	573,744	3,897,334	2,115,878	1,193,116	768,888	46,800,090	(158,322)	47,572,010
NONCURRENT ASSETS:																	
Property, plant, furnishings, and equipment:																	
Property, plant, furnishings, and equipment	1,881,964		9,255,142	64,175	2,323,521	303,427	358,072	1,788	37,537	42,236	506,969	76,956	29,146		14,880,933		14,880,933
Accumulated depreciation	(649,922)		(4,897,167)	(35,871)	(128,890)	(150,334)	(50,115)	(536)	(18,739)	(29,333)	(166,622)	(25,796)	(2,613)		(6,155,938)		(6,155,938)
Property, plant, furnishings, and equipment—net	1,232,042		4,357,975	28,304	2,194,631	153,093	307,957	1,252	18,798	12,903	340,347	51,160			8,724,995		8,724,995
Due from affiliate—long-term	606,950	16,476	116,992	40,897		31,985	30,935	8,530	48,702	10,337	30,543	21,100		17,674	981,121	(432,643)	548,478
Other assets	68,694					5,583	18,500		1,000						93,777		93,777
Total noncurrent assets	1,907,686	16,476	4,474,967	69,201	2,194,631	190,661	357,392	9,782	68,500	23,240	370,890	72,260		17,674	9,799,893	(432,643)	9,367,250
TOTAL	\$ 4,279,104	\$ 3,519,574	\$ 16,563,772	\$ 2,274,386	\$ 3,772,431	\$ 7,100,922	\$ 6,256,649	\$ 728,645	\$ 3,044,944	\$ 596,984	\$ 4,268,224	\$ 2,188,138	\$ 1,193,116	\$ 786,562	\$ 56,599,983	\$ (590,965)	\$ 56,939,260
LIABILITIES AND NET ASSETS																	
CURRENT LIABILITIES:																	
Accounts payable	\$ 111,711	\$ 60,449	\$ 1,501,927	\$ 44,997	\$ 100,609	\$ 172,440	\$ 143,988	\$ 90	\$ 56,115	\$ 171,503	\$ 580,854	\$ 740,586	\$ 45,265	\$ 45,964	\$ 3,720,383	\$	\$ 3,720,383
Accrued expenses	(2)	7,217	18,689	67,000	61,391	841,136	12,307	21,084	44,919	30,049	715,443	295,243	34,474	81,645	2,129,267		2,129,267
Accrued salaries and wages	326,928	1,273,227	2,443,034	717,633	874,866	568,142	1,440,856	62,651	77,762	77,762	53,724	40,110	53,724	55,065	7,153,924	(158,322)	7,153,924
Due to affiliates—current portion	206,867	753,925	1,359,953	240,833	874,866	1,226,560	35,408	62,651	297,350	115,066	613,589	270,636	14,869	346,886	6,419,459		6,261,137
Notes payable and capital leases—current portion	177,450	38,772	458,566	319,294	2,203,455	25,919	16,110	7,324	65,576	3,288	496,416	27,615	267,276		3,106,747		3,106,747
Other postretirement benefits obligation	12,919		261,646	87,729	16,110	518,529	11,964	56,897	270,539	54,469	374,820	207,770	9,194	17,578	1,284,073		1,284,073
Other current liabilities	277,559	3,776	717,792		239,286								29,620		2,868,328		2,868,328
Total current liabilities	1,113,432	2,137,366	6,761,607	1,477,486	3,495,717	3,352,726	1,644,523	148,046	734,499	374,375	2,858,884	1,581,960	454,422	547,138	26,682,181	(158,322)	26,523,859
LONG-TERM LIABILITIES:																	
Notes payable and capital leases—less current portion	251,388		2,934,510		277,064	4,032,747					949,169	644,814	76,813		3,539,775	(432,643)	3,539,775
Due to affiliates—long-term	670,996		906,445										182,628		6,741,985		6,309,342
Other long-term liabilities	190								877,796						1,053,748		1,053,748
Total long-term liabilities	922,574		3,840,955		277,064	4,032,747			877,796		949,169	644,814	76,813		11,335,508	(432,643)	10,902,865
NET ASSETS:																	
Unrestricted	2,319,851	1,383,918	6,087,752	857,379	89,383	68,241	4,615,125	404,837	1,568,885	225,609	467,371	644,814	505,786	273,585	19,512,536		19,512,536
Temporarily restricted net assets																	
Total net assets	2,319,851	1,383,918	6,087,752	857,379	89,383	68,241	4,615,125	404,837	1,568,885	225,609	467,371	644,814	505,786	273,585	19,512,536		19,512,536
TOTAL	\$ 4,355,857	\$ 3,521,284	\$ 16,690,314	\$ 2,334,865	\$ 3,862,164	\$ 7,453,714	\$ 6,259,648	\$ 728,645	\$ 3,181,180	\$ 599,984	\$ 4,275,424	\$ 2,226,774	\$ 1,219,649	\$ 820,723	\$ 57,530,225	\$ (590,965)	\$ 56,939,260

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED JUNE 30, 2006

	OSUP	FM	IM	EM	Eye	Surgery	Pathology	Radiation Medicine	Radiology	Phys Med	OB/GYN	Neurology	Otolaryngology Head and Neck Surgeons	Psychiatry	Aggregated	EJE	Total
OPERATING REVENUES:																	
Patient care revenues:																	
Gross patient care revenue	\$ -	\$ 603,683	\$ 130,195,155	\$ 28,760,240	\$ 16,927,987	\$ 70,579,032	\$ 36,871,292	\$ 6,107,919	\$ 56,197,334	\$ 6,564,379	\$ 32,946,868	\$ 15,610,985	\$ 6,812,020	\$ 5,014,849	\$ 413,191,743	\$ -	\$ 413,191,743
Provision for contractual and administrative		(238,469)	(70,305,216)	(14,370,282)	(7,700,237)	(42,991,175)	(23,699,011)	(3,372,623)	(3,649,344)	(3,157,786)	(17,341,463)	(8,894,854)	(3,599,415)	(2,881,459)	(234,471,344)		(234,471,344)
Net patient care revenues		365,214	59,889,939	14,389,958	9,227,750	27,587,857	12,902,281	2,735,296	20,547,990	3,406,593	15,605,405	6,716,131	3,212,605	2,133,390	178,720,399		178,720,399
Contract services	2,524,766	7,819,692	2,029,070	980,484	658,108	5,071,086	6,498,596	500,000	382,784	971,828	2,762,611	647,453	10,801	2,221,287	33,078,566	(415,979)	32,662,587
Other services	4,586,169	355,068	1,368,035	555,990	906	1,555,520	597,723		210,217	6,922	52,744	314,477	300,000		9,903,771	(3,328,295)	6,575,476
Total operating revenues	7,110,935	8,539,974	63,287,044	15,926,432	9,886,764	34,214,463	19,998,600	3,235,296	21,140,991	4,385,333	18,420,760	7,678,061	3,523,406	4,354,677	221,702,736	(3,744,274)	217,958,462
OPERATING EXPENSES:																	
Provider salaries	202,873	6,269,511	24,388,730	5,184,487	3,074,161	12,365,949	5,565,665	1,633,727	10,684,913	1,429,986	4,341,711	1,961,265	772,110	1,673,972	79,549,060	(5,964)	79,549,060
Employees salaries and wages	3,015,389	55,181	9,293,479	661,864	2,273,174	5,127,288	4,904,501	276,621	1,405,050	337,033	2,317,520	1,137,329	701,190	461,449	31,961,068		31,961,104
Provision for bad debts	32,764	770,571	4,591,618	5,786,332	381,275	2,887,748	1,466,015	159,972	3,704,937	174,440	988,525	300,009	62,775	269,809	20,456,219		20,456,219
Provider fringe benefits	16,049	770,571	2,777,460	957,835	340,771	2,880,604	1,569,652	349,561	1,679,229	176,386	884,481	438,881	135,108	356,604	13,333,192		13,333,192
Professional liability insurance		677,168	2,127,916	521,352	338,313	3,411,153	1,588,771	116,569	430,737	143,038	624,678	342,507	648,029	85,719	9,625,970		9,625,970
Employee fringe benefits	687,739	28,496	2,696,938	184,240	578,125	1,618,956	1,525,554	98,292	457,909	27,598	858,399	348,912	230,047	179,272	1,183,401	(436)	1,183,401
Medical supplies		436,476	436,476		110,977	176,985	91,302	26,578	437,521	73,891	215,417	148,217	63,185	162,007	1,183,401	(3,940)	1,183,401
Office and administrative other	1,129,685	12,744	2,129,335	227,978	303,861	1,397,311	1,287,989	9,641	438,680	285,952	1,564,391	172,757	51,778	529,736	6,347,474	(239,368)	6,108,106
Purchased services and management fees	715,686	81,440	669,264	79,442	384,679	334,775	1,029,253	9,641	438,680	285,952	1,564,391	172,757	51,778	529,736	6,347,474	(239,368)	6,108,106
Academic enrichment and strategic initiative		169,488	1,069,698	801,592	391,596	760,965	590,786	212,501	1,240,658	82,651	245,240	123,473	75,629	95,303	5,859,580		5,859,580
Clinical drugs and medications		5,220,372	5,220,372		770,789												
Rent and other occupancy costs	218,139	371	654,451	47,589	469,143	496,122	84,892	14,645	45,634	1,162,133	4,257,920	1,789,610	12,127	2,333	13,215,304	(123,838)	13,215,304
Other provider related expenses	93,972	93,972	93,972	210,622	185,839	444,349	226,678	50,017	312,234	20,207	559,138	90,989	60,920	150,880	2,924,508		2,924,508
Supplies	132,636	44,537	919,068	44,537	94,350	293,905	1,312,495	8,849	83,649	113,022	163,881	121,913	32,528	32,528	2,924,508		2,924,508
Depreciation and amortization	274,897	68	786,394	17,075	111,837	48,914	49,988	358	10,517	29,532	92,970	129,817	24,166	36,706	2,562,499		2,562,499
Other clinical related expenses		88	86,859	346	41,767	106,771	66,146	1,921	234	1,921	151,269	30,875	9,523	199,966	1,361,586		1,361,586
Office and administrative billing	522,076	223,310	629,851	102,228	83,952	307,594	139,931	24,829	234,127	37,562	168,070	271,739	30,922	299	2,775,047	(2,059,253)	495,711
Interest expense	205	223,310	293,366	13,012	83,952	307,594	139,931	24,829	234,127	37,562	168,070	271,739	30,922	299	2,775,047	(2,059,253)	495,711
Insurance	58,235	1,184	34,318	13,012	83,952	307,594	139,931	24,829	234,127	37,562	168,070	271,739	30,922	299	2,775,047	(2,059,253)	495,711
Taxes	50	1,184	34,318	13,012	83,952	307,594	139,931	24,829	234,127	37,562	168,070	271,739	30,922	299	2,775,047	(2,059,253)	495,711
Allocated overhead		96,223	429,863	71,550	59,887	250,552	123,424	20,014	123,401	32,111	116,702	60,010	21,997	30,479	1,436,213		1,436,213
Total operating expenses	6,973,659	8,311,491	59,512,295	14,912,081	10,131,199	33,221,693	19,881,371	3,002,174	21,291,018	4,258,240	18,052,079	7,568,529	3,010,410	4,267,062	214,393,301	(3,868,112)	210,525,189
OPERATING INCOME (LOSS)	137,276	228,483	3,774,749	1,014,351	(244,435)	992,770	117,229	233,122	(150,027)	127,093	368,681	109,532	512,996	87,615	7,309,435	123,838	7,433,273
NONOPERATING REVENUE (EXPENSE):																	
Other nonoperating revenue	28,654	73,647	166,832	(1,748)	348,880	118	(155,531)	(2,377)	19,564	(1,434)	6,504	6,078	(7,360)			(123,838)	357,989
Investment income (loss)	516,683	73,647	161,508	(2,584)	255,318	(6,119)	(114,639)	(2,377)	51,969	(1,676)	3,203	700,000	(7,360)		700,000	(123,838)	609,544
Forgiveness of payable			(5,324)	(836)	(93,562)	(6,237)				(242)	(3,301)				(110,286)		700,000
Loss on sale of assets	(784)																(110,286)
Total nonoperating revenue (expense)	544,533	73,647	161,508	(2,584)	255,318	(6,119)	(114,639)	(2,377)	71,533	(1,676)	3,203	700,000	(7,360)		1,681,085	(123,838)	609,544
INCREASE (DECREASE) IN NET ASSETS	\$ 681,829	\$ 302,130	\$ 3,936,257	\$ 1,011,767	\$ 10,883	\$ 986,651	\$ 2,590	\$ 230,745	\$ (78,494)	\$ 125,417	\$ 371,884	\$ 815,610	\$ 505,636	\$ 87,615	\$ 8,990,520	\$ -	\$ 8,990,520

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of  
Ohio State University Physicians, Inc.  
Columbus, Ohio

We have audited the financial statements of Ohio State University Physicians, Inc. ("OSUP"), as of and for the year ended June 30, 2006, and have issued our report thereon dated January 12, 2007. 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 OSUP's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect OSUP's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the attached summary.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

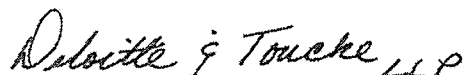


## Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSUP'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 certain matters that we reported to management of OSUP in a separate letter dated January 12, 2007.

This report is intended solely for the information and use of the Board of Directors, management of OSUP, and Auditor of the State of Ohio and is not intended to be, and should not be, used by anyone other than these specified parties.

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in black ink and is positioned above the date.

January 12, 2007

**SUMMARY OF REPORTABLE CONDITIONS**  
**Ohio State University Physicians, Inc.**

**Medicare and Medicaid Billing Improprieties**

During the course of our audit, the management of OSUP disclosed to us that one of its LLC's had applied the incorrect Medicare/Medicaid billing code for certain procedures and did not have adequate support for certain charges that were billed, resulting in the LLC over billing Medicare and Medicaid for these procedures. This practice occurred over a six-year period where the attending physician was directly responsible for coding all services performed. The codes applied by the physician were not subject to an independent review prior to being submitted to Medicare or Medicaid. Had these charges been reviewed and approved by someone independent of the initial procedure, the overbilling would not have occurred. Management should implement procedures to prevent additional billing improprieties.

**Management's Response**

Management is aware of the need to improve procedures surrounding Medicare and Medicaid billing and is in the process of implementing changes to ensure that the appropriate amounts are billed and are supported by the patient records.



**Mary Taylor, CPA**  
Auditor of State

**OHIO STATE UNIVERSITY PHYSICIANS, INC. & SUBSIDIARIES**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 5, 2007**