

# Ohio State University Physicians, Inc. and Subsidiaries

Consolidated Financial Statements as of and  
for the Years Ended June 30, 2009 and 2008,  
Supplemental Consolidating Schedules as of and  
for the Year Ended June 30, 2009, and  
Independent Auditors' Report





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Ohio State University Physicians, Inc. and Subsidiaries  
2040 Blankenship Hall  
901 Woody Hayes Dr.  
Columbus, Ohio 43210

We have reviewed the *Independent Accountants' Report* of the Ohio State University Physicians, Inc. and Subsidiaries, Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2008 through June 30, 2009. 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

January 19, 2010

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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.  
Columbus, Ohio

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, 2009 and 2008, and the related consolidated statements of operations 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, such consolidated financial statements present fairly, in all material respects, the financial position of OSUP as of June 30, 2009 and 2008, 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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating schedules listed on pages 24–27 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 OSUP's management. Such schedules have been subjected to the auditing procedures applied by us in our audits of the consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of OSUP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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*

December 18, 2009

# OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2009 AND 2008

	2009	2008
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,936,676	\$ 23,094,910
Short-term investments	2,670,564	
Accounts receivable — patient care — net of allowance	31,595,935	30,537,555
Accounts receivable — other — net of allowance	1,207,595	1,857,916
Due from affiliates	6,916,277	6,053,369
Inventories	1,034,785	855,511
Prepaid expenses	629,754	715,653
Notes receivable	<u>21,588</u>	<u>53,286</u>
Total current assets	<u>70,013,174</u>	<u>63,168,200</u>
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation (\$9,756,675 in 2009 and \$8,648,573 in 2008)	20,078,136	10,402,530
Long-term investments	4,657,851	
Other assets	<u>4,231,619</u>	<u>3,891,342</u>
Total noncurrent assets	<u>28,967,606</u>	<u>14,293,872</u>
<b>TOTAL</b>	<u>\$ 98,980,780</u>	<u>\$ 77,462,072</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,097,066	\$ 3,056,800
Accrued expenses	603,009	461,912
Accrued salaries and wages	10,404,385	10,435,315
Due to affiliates — current portion	7,127,809	4,646,335
Notes payable and capital leases — current portion	15,626,314	2,494,505
Retirement and health plans accrual	1,030,718	1,613,130
Other current liabilities	<u>4,650,461</u>	<u>4,827,652</u>
Total current liabilities	<u>42,539,762</u>	<u>27,535,649</u>
LONG-TERM LIABILITIES:		
Notes payable and capital leases — less current portion	1,832,093	3,040,970
Due to affiliates and other — long-term	3,824,065	5,988,362
Other long-term liabilities	<u>3,622,122</u>	<u>1,900,838</u>
Total long-term liabilities	<u>9,278,280</u>	<u>10,930,170</u>
NET ASSETS — Unrestricted	<u>47,162,738</u>	<u>38,996,253</u>
<b>TOTAL</b>	<u>\$ 98,980,780</u>	<u>\$ 77,462,072</u>

See notes to consolidated financial statements.



## OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>OPERATING REVENUE:</b>		
Patient care revenue	\$ 557,889,765	\$ 482,770,145
Less — contractual adjustments	<u>(326,373,410)</u>	<u>(272,930,368)</u>
Net patient revenue	231,516,355	209,839,777
Other revenue	<u>61,775,458</u>	<u>53,278,411</u>
Total operating revenue	<u>293,291,813</u>	<u>263,118,188</u>
<b>OPERATING EXPENSES:</b>		
Salaries and benefits:		
Employee salaries — OSUP	27,434,977	24,026,320
Employee salaries — OSU	16,373,386	16,150,552
Employee benefits — OSUP	8,519,317	7,869,931
Employee benefits — OSU	<u>5,319,644</u>	<u>5,007,583</u>
Total salaries and benefits	<u>57,647,324</u>	<u>53,054,386</u>
Supplies and pharmaceuticals:		
Medical supplies	4,465,768	4,458,221
Drugs and pharmaceuticals	18,480,703	17,047,196
Office supplies	<u>2,407,958</u>	<u>2,660,020</u>
Total supplies and pharmaceuticals	<u>25,354,429</u>	<u>24,165,437</u>
Services:		
Malpractice	7,485,648	8,652,579
General and other insurance	139,272	116,595
Purchased services and management fees	6,267,866	5,404,522
Other	<u>8,550,447</u>	<u>6,915,483</u>
Total services	<u>22,443,233</u>	<u>21,089,179</u>
Occupancy and utilities	5,965,850	5,616,260
Amortization and depreciation	1,950,798	1,830,502
Bad debt	28,619,620	22,680,726
Interest	983,247	728,229
Taxes	<u>2,224</u>	<u>292</u>
Total other expenses	<u>37,521,739</u>	<u>30,856,009</u>
Total expense before general and administrative	<u>142,966,725</u>	<u>129,165,011</u>

(Continued)

## OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
EXCESS REVENUE OVER EXPENSE BEFORE GENERAL AND ADMINISTRATIVE	\$ 150,325,088	\$ 133,953,177
GENERAL AND ADMINISTRATIVE EXPENSES — Dean's tax and strategic initiative	<u>6,818,773</u>	<u>5,594,084</u>
EXCESS REVENUE OVER EXPENSE BEFORE PROVIDER EXPENSE	<u>143,506,315</u>	<u>128,359,093</u>
PROVIDER EXPENSES:		
Salaries and benefits:		
Provider salaries — OSUP	91,951,836	82,149,061
Provider salaries — OSU	18,643,627	17,122,576
Provider benefits — OSUP	14,897,848	13,289,693
Provider benefits — OSU	<u>5,104,475</u>	<u>4,493,923</u>
Total provider salaries and benefits	130,597,786	117,055,253
Other provider related expenses	<u>3,505,941</u>	<u>3,696,280</u>
Total provider related expenses	<u>134,103,727</u>	<u>120,751,533</u>
EXCESS REVENUE OVER EXPENSE AFTER PROVIDER EXPENSE	<u>9,402,588</u>	<u>7,607,560</u>
NONOPERATING (EXPENSE) INCOME:		
Interest income	317,562	506,178
Nonoperating income	659,717	771,264
(Loss)/income from investments	(244,427)	586,049
Gain on sale of assets	123,650	245,986
Loss on change in fair value of interest rate swap	(1,320,000)	
Nonoperating expense	<u>(772,605)</u>	<u>68,124</u>
Total nonoperating (expense) income	<u>(1,236,103)</u>	<u>2,177,601</u>
INCREASE IN NET ASSETS	8,166,485	9,785,161
NET ASSETS — Beginning of year	<u>38,996,253</u>	<u>29,211,092</u>
NET ASSETS — End of year	<u>\$ 47,162,738</u>	<u>\$ 38,996,253</u>
See notes to consolidated financial statements.		(Concluded)

## OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 8,166,485	\$ 9,785,161
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization and depreciation	1,950,798	1,830,502
Change in fair value of interest rate swap agreements	1,320,000	
Gain on sale of assets	(123,650)	(245,986)
(Increase) decrease in:		
Accounts receivable — patient care	(1,058,380)	(3,774,774)
Accounts receivable — other	650,321	(1,713,181)
Due from affiliates	(862,908)	(778,074)
Note receivable	31,698	(31,199)
Inventories	(179,274)	10,341
Prepaid expenses	85,899	128,786
Other assets	(356,814)	(4,339)
Accounts payable	40,266	(163,376)
Due to affiliates	317,177	(611,291)
Accrued salaries and wages	(30,930)	(1,422,205)
Retirement and health plans accrual	(582,412)	153,000
Accrued expenses	141,097	(1,000,840)
Other current and long-term liabilities	224,093	2,845,289
	<u>9,733,466</u>	<u>5,007,814</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(7,885,873)	
Proceeds from sale of investments	557,458	
Purchase of property, plant, furniture, and equipment	(11,851,619)	(3,917,121)
Proceeds from sale of property, plant, furniture, equipment	365,402	961,422
	<u>(18,814,632)</u>	<u>(2,955,699)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	12,672,354	341,706
Payments on notes payable	(749,422)	(2,485,259)
	<u>11,922,932</u>	<u>(2,143,553)</u>
Net cash provided by (used in) financing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,841,766	(91,438)
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<u>23,094,910</u>	<u>23,186,348</u>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<u>\$ 25,936,676</u>	<u>\$ 23,094,910</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION — Cash paid for interest</b>		
	<u>\$ 983,247</u>	<u>\$ 728,229</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, 2009 AND 2008

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

**Organization** — Ohio State University Physicians, Inc. and subsidiaries (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 17 limited liability companies (LLCs). As of June 30, 2009, only 15 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 had no business activity through June 30, 2009.

The table outlines the reporting of OSUP's financial statements as of June 30, 2009 and 2008, is as follows:

Practice Plan	2009	2008
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	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	X
OSU Radiology, LLC ("Radiology")	X	X
OSU Surgery, LLC ("Surgery")	X	X
OSU Urology, LLC ("Urology")	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 OSUP, which are then included in the financial statements of the University because OSUP is a component unit 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 and are stated at cost which approximates fair market value.

**Short-Term and Long-Term Investments** — OSUP holds investments in money market funds, certificates of deposit extending beyond three months, and corporate bonds. Carrying values approximate fair value as all investments trade at par given the nature of the underlying investments. Fair values for these investments are based on market quotes as applicable. Realized gains and losses are calculated based on the specific identification method and are included in income from investments in non-operating expense (income).

**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, 2009 and 2008. 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.

**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).

**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.

**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 Program (USIP). At June 30, 2009, management believes asserted and unasserted claims and assessments will not exceed the limits of insurance coverage. Coverage limits are \$5 million per incident with no aggregate layer. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at June 30, 2009 and 2008.

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.

**Derivative Instruments and Hedging Activities** — OSUP accounts for all derivative instruments on the balance sheet at fair value. Changes in the fair value (i.e., gains or losses) of OSUP's interest rate swap derivative are recorded each period in the consolidated statement of operations and changes in net assets as a component of non-operating expense.

**Non-Patient Care Revenue** — Non-patient care revenue includes contract services, rent, salary recovery and educational revenue. This revenue is recognized in accordance with the underlying agreement when it is earned. Based on management's analysis, it was determined that OSUP acts as a principal in these types of transactions. As such income is shown gross of related expenses in accordance with Emerging Issues Task Force No. 99-19 — *Reporting Revenue Gross as a Principal versus Net as an Agent*.

**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. Charity care write-offs as of June 30, 2009 and 2008 are \$3,182,500 and \$4,457,900, respectively.

**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.

**Estimated Fair Value of Financial Instruments** — The carrying values of cash and cash equivalents, receivables, accounts payable, accrued liabilities, and other current liabilities are estimated at approximate fair value because of the short-term maturity. The carrying values of notes payable approximate fair value due to their variable interest rates. The fair value of derivative instruments are determined based on the terms of the agreement and the underlying data and inputs related to the instrument.

**New Accounting Pronouncement** — In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. FIN No. 48 establishes a single model to address accounting for uncertainty in tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a

minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 was initially effective for fiscal years beginning after December 15, 2006. In December 2008, the FASB issued FSP FIN No. 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. In accordance with FSP FIN 48-3, the OSUP has elected to defer the adoption of FIN No. 48 for the years ended December 28, 2008 and December 30, 2007, and evaluates uncertain tax positions as loss contingencies in accordance with FASB Statement No. 5, *Accounting for Contingencies*. OSUP does not expect FIN No. 48 to have a material impact on its consolidated financial statements when adopted.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*. This statement establishes enhanced disclosures about the entity's derivative and hedging activities. This statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. OSUP will provide the required disclosures after the date of adoption, to the extent OSUP has derivatives to which this statement applies.

In April 2009, the FASB issued FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions – including an amendment of FASB Statement No. 142*. This statement establishes the principles and requirements in accounting for a combination of not-for-profit entities through either a merger or an acquisition to enhance the relevance and comparability of the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition. This statement is effective on or after the beginning of the initial or annual reporting period for mergers and acquisitions, respectively, beginning on or after December 15, 2009. OSUP will apply this guidance to any merger or acquisition occurring subsequent to the effective date.

## 2. CASH AND CASH EQUIVALENTS

OSUP maintains cash balances at primarily one financial institution. During fiscal year 2009, amounts in accounts that are subject to the Federal Depository Insurance Corporation limits were spread across multiple financial institutions to limit the potential exposure to losses. As of June 30, 2009, 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, 2009 and 2008, consists of the following:

	2009	2008
Gross patient accounts receivable	\$ 86,607,555	\$ 82,107,194
Allowances for contractual and administrative adjustments and doubtful accounts	<u>(55,011,620)</u>	<u>(51,569,639)</u>
Total	<u>\$ 31,595,935</u>	<u>\$ 30,537,555</u>

The mix of receivables from patients and third-party payors as of June 30, 2009 and 2008, is as follows:

	<b>2009</b>	<b>2008</b>
Medicare	19 %	16 %
Medicaid	12	10
Commercial/other third-party payors	47	53
Patient	<u>22</u>	<u>21</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, 2009 and 2008, is as follows:

	<b>2009</b>	<b>2008</b>
Land and land improvements	\$ 3,725,825	\$ 2,232,837
Buildings	7,572,667	6,262,774
Equipment	9,114,990	8,361,026
Furniture and fixtures	1,884,420	1,675,540
Construction in progress	<u>7,536,909</u>	<u>518,926</u>
Total property, plant, furnitures, and equipment	29,834,811	19,051,103
Allowances for depreciation and amortization	<u>(9,756,675)</u>	<u>(8,648,573)</u>
Total property, plant, furnitures, and equipment — net	<u>\$20,078,136</u>	<u>\$10,402,530</u>



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

On November 30, 2007, OSUP and each LLC individually and collectively entered into a line of credit agreement with a bank that provided borrowing up to \$5 million collectively. Each individual LLC is limited to borrow as follows:

<b>Practice Plan</b>	<b>Line of Credit</b>
OSUP — Corporate	\$ 1,000,000
Family Medicine Foundation, LLC	250,000
OSU Children's Pediatrics, LLC	
OSU Emergency Medicine, LLC	1,000,000
OSU Eye Physicians and Surgeons, LLC	800,000
OSU GYN and OB Consultants, LLC	500,000
OSU Internal Medicine, LLC	3,000,000
OSU Neuroscience Center, LLC	250,000
OSU Otolaryngology-Head and Neck Surgery, LLC	1,000,000
OSU Pathology, LLC	500,000
OSU Physical Medicine and Rehabilitation, LLC	100,000
OSU Psychiatry, LLC	250,000
OSU Radiation Medicine LLC	100,000
OSU Radiology, LLC	500,000
OSU Surgery, LLC	1,000,000
OSU Urology, LLC	500,000

The agreements require monthly interest payments at the bank's prime rate less 0.75% (2.5% at June 30, 2009 and 4.25% at June 30, 2008). This agreement is secured by accounts receivable, inventory, deposits, equipment (not including OSU Eye Physicians & Surgeons, LLC), and is subject to certain restrictive and financial covenants. Borrowings on the line of credit as of June 30, 2009 and 2008, were \$53,488 and \$0 respectively.

A summary of long-term debt (excluding capital lease obligations) at June 30, 2009 and 2008, are as follows:

	2009	2008
Notes payable — due in monthly installments of principal and interest based upon LIBOR, 4.63% as of June 30, 2009, due November, 2009	\$ 15,335,650	\$ -
Notes payable — due in monthly installments of principal and interest (LIBOR plus 1.85%, 2.17% as of June 30, 2009, 4.31% as of June 30, 2008) due in February 2012	1,791,800	1,960,600
Line of credit — due in monthly installments of interest (prime less 0.75%, 2.50% as of June 30, 2009, 4.25% as of June 30, 2008) due in July 2009	53,488	34,110
Mortgage note payable		2,032,917
Various notes payable		<u>1,258,975</u>
Total notes payable	17,180,938	5,286,602
Less current portion	<u>(15,571,138)</u>	<u>(2,330,171)</u>
Total notes payable — less current portion	<u>\$ 1,609,800</u>	<u>\$ 2,956,431</u>

The agreements are secured by accounts receivable, equipment, and fixtures and were subject to certain restrictive and financial covenants. OSUP's \$15.3 million note payable requires a minimum debt service coverage ratio of 1.25 to 1.0 quarterly which has not been met for the first three quarters during calendar year 2009, due to the note being considered a current liability. The bank has provided a waiver for this covenant at September 30, 2009. OSUP received a commitment letter dated November 4, 2009 from the same bank to refinance this debt before January 31, 2010.

On January 6, 2009, OSUP entered into an interest rate swap ("the swap") agreement fixing the interest rate on the \$15.5 million Term Loan debt which is used to fund construction of the ambulatory facility. Under the agreement OSUP pays a fixed rate of 4.625% to the bank and receives 30-day LIBOR rate in effect at the beginning of the month. The transaction is designed to manage OSUP's interest costs and risks associated with the variable interest rate debt. OSUP settles with the bank monthly for the difference between the 4.625% and the 30-day LIBOR rate in effect at the beginning of the month. The estimated fair value of this agreement, based on various factors contained in the related interest rate swap agreement and interest rates including the notional amount of \$15,335,650, represents an unrealized loss of \$1.3 million included in other liabilities as of June 30, 2009. OSUP records changes in fair value of the swap each period through the statements of operations and changes in net assets (\$1.3 million for fiscal year 2009). The swap is settled monthly with net payments or receipts under the swap agreement being reflected as interest expense. The termination date of the swap is September 1, 2018. OSUP did not hold any other position in a derivative instrument and did not have any other hedges outstanding in the current year. OSUP believes the swap value represents fair value under FASB Statement No. 157.

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

Years Ending June 30	Long-Term Debt
2010	\$ 15,571,138
2011	195,600
2012	<u>1,414,200</u>
Total	<u>\$ 17,180,938</u>

## 6. CAPITAL LEASE OBLIGATIONS

OSUP has capital lease obligations that have varying maturity dates through 2014 and carry implicit interest rates ranging from 4.75% 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, 2009 and 2008, that are financed under capital leases are \$323,571 and \$441,515, respectively.

The scheduled maturities of these leases as of June 30, 2009, are as follows:

Years Ending June 30	Capital Lease Obligations
2010	\$ 65,290
2011	65,290
2012	65,290
2013	65,290
2014	<u>43,527</u>
	304,687
Less amount representing interest under capital leases obligations	<u>(27,218)</u>
Total	<u>\$ 277,469</u>

## 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective July 1, 2008, OSUP adopted FASB Statement No. 157, *Fair Value Measurement* which establishes a framework for measuring fair value by providing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1 inputs") and the lowest priority to unobservable inputs ("Level 3 inputs"). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

*Level 1* — Quoted prices in active markets for identical assets.

*Level 2* — Other significant inputs (including quoted prices of similar securities, interest rates, prepayment speeds, credit risk, etc.)

*Level 3* — Significant unobservable inputs (which may include OSUP's own assumptions in determining the fair value of investments).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, OSUP's assets at fair value as of June 30, 2009:

	<b>Assets at Fair Value as of June 30, 2009</b>			
	<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>	<b>Total</b>
Short-term and long-term investments	\$ 47,309	\$ 7,281,106	\$ -	\$ 7,328,415
Interest rate swap	<u>                    </u>	<u>                    </u>	<u>(1,320,000)</u>	<u>(1,320,000)</u>
Total assets at fair value	<u>\$ 47,309</u>	<u>\$ 7,281,106</u>	<u>\$ (1,320,000)</u>	<u>\$ 6,008,415</u>

**8. RELATED-PARTY TRANSACTIONS AND INTERCOMPANY RECEIVABLES AND PAYABLES**

OSUP is a supporting organization of the University. Due to this relationship with the University related party transactions are pervasive throughout the statements of operations and changes in net assets. A summary of the nature of these transactions and related due to/from affiliate balances reported in the balance sheet as of June 30, 2009 are as follows:

**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 has 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, 2009, are as follows:

<b>Practice Plan</b>	<b>Due From Health System</b>
OSUP — Corporate	\$ 200,949
Family Medicine Foundation, LLC	345,791
OSU Emergency Medicine, LLC	116,839
OSU Eye Physicians and Surgeons, LLC	
OSU GYN and OB Consultants, LLC	65,646
OSU Internal Medicine, LLC	1,924,941
OSU Neuroscience Center, LLC	9,040
OSU Otolaryngology-Head and Neck Surgery, LLC	7,000
OSU Pathology, LLC	166,520
OSU Physical Medicine and Rehabilitation, LLC	
OSU Psychiatry, LLC	272,047
OSU Radiation Medicine, LLC	
OSU Radiology, LLC	73,900
OSU Surgery, LLC	<u>102,757</u>
<b>Total</b>	<b><u>\$3,285,430</u></b>

*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, 2009, are as follows:

<b>Practice Plan</b>	<b>Due From COMPH</b>
OSUP — Corporate	\$ 35
Family Medicine Foundation, LLC	52,235
OSU Emergency Medicine, LLC	520,819
OSU Eye Physicians and Surgeons, LLC	
OSU GYN and OB Consultants, LLC	90,818
OSU Internal Medicine, LLC	1,991,935
OSU Neuroscience Center, LLC	
OSU Otolaryngology-Head and Neck Surgery, LLC	4,870
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	5,532
OSU Psychiatry, LLC	7,462
OSU Radiation Medicine, LLC	450,255
OSU Radiology, LLC	246,450
OSU Urology, LLC	30,603
OSU Surgery, LLC	<u>229,833</u>
 Total	 <u>\$3,630,847</u>

**Due To:**

*Health System* — OSUP pays premiums for the USIF (malpractice) and health insurance to the University Office of the Treasurer. The balances due to the Health System as of June 30, 2009, are as follows:

<b>Practice Plan</b>	<b>Due to Health System</b>
OSUP — Corporate	\$355,641
Family Medicine Foundation, LLC	
OSU Emergency Medicine, LLC	
OSU Eye Physicians and Surgeons, LLC	
OSU GYN and OB Consultants, LLC	
OSU Internal Medicine, LLC	29,539
OSU Neuroscience Center, LLC	107,836
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	124,299
OSU Psychiatry, LLC	68,103
OSU Radiation Medicine, LLC	
OSU Radiology, LLC	
OSU Urology, LLC	
OSU Surgery, LLC	
 Total	 <u>\$685,418</u>

*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. Dean’s tax and strategic initiative expense as of June 30, 2009 and June 30, 2008 are \$6,818,773 and \$5,594,084, respectively.

<b>Practice Plan</b>	<b>Due to COMPH</b>
OSUP — Corporate	\$ 346,767
Family Medicine Foundation, LLC	185,501
OSU Emergency Medicine, LLC	89,913
OSU Eye Physicians and Surgeons, LLC	1,356,703
OSU GYN and OB Consultants, LLC	910,833
OSU Internal Medicine, LLC	1,234,753
OSU Neuroscience Center, LLC	250,698
OSU Otolaryngology-Head and Neck Surgery, LLC	1,741,441
OSU Pathology, LLC	186,773
OSU Physical Medicine and Rehabilitation, LLC	822,252
OSU Psychiatry, LLC	
OSU Radiation Medicine, LLC	25,801
OSU Radiology, LLC	168,219
OSU Surgery, LLC	2,893,104
OSU Urology, LLC	<u>53,698</u>
 Total	 <u>\$ 10,266,456</u>

**9. INVESTMENT IN OTHER LIMITED LIABILITY CORPORATIONS (LLC)**

OSUP has a 40% ownership interest in Fresenius Medical Care-OSUIM Kidney Centers, LLC. At June 30, 2009, the total amount invested is \$2,830,776, an increase of \$156,325 from June 30, 2008 balance of \$2,674,451. Income and distributions of \$467,125 and \$310,800, respectively, was recognized in 2009. Income and distributions recognized in 2008 was \$569,189 and \$686,000, respectively. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded in the consolidated balance sheets in other assets using the equity method of accounting.

OSUP has a 49% ownership interest in Children’s Hospital and OSU-Children’s Pediatrics, LLC. At June 30, 2009, the total amount invested is \$512,688, a decrease of \$542,192 from the June 30, 2008, balance of \$1,054,880. Loss of \$542,192 and income of \$957 was recognized for 2009 and 2008, respectively. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded in the consolidated balance sheets in other assets using the equity method of accounting.

**10. MEDICAL MALPRACTICE CLAIMS**

OSUP purchases professional and general liability insurance to cover medical malpractice claims through The 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, 2009. 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, 2009 and 2008, were \$7,458,043 and \$9,473,858, respectively.

## 11. 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 \$15,598,214 and \$13,828,179 for the years ended June 30, 2009 and 2008, respectively.

Practice Plan	401(a) Contributions	
	2009	2008
OSUP — Corporate	\$ 481,215	\$ 456,130
Family Medicine Foundation, LLC	399,061	411,251
OSU Children's Pediatrics, LLC		
OSU Emergency Medicine, LLC	743,327	767,877
OSU Eye Physicians and Surgeons, LLC	233,672	230,437
OSU GYN and OB Consultants, LLC	1,079,754	981,414
OSU Internal Medicine, LLC	3,852,133	3,441,923
OSU Neuroscience Center, LLC	476,919	424,452
OSU Otolaryngology-Head and Neck Surgery, LLC	792,368	590,810
OSU Pathology, LLC	1,568,122	1,463,567
OSU Physical Medicine and Rehabilitation, LLC	148,468	119,819
OSU Psychiatry, LLC	38,473	34,701
OSU Radiation Medicine, LLC	337,866	327,898
OSU Radiology, LLC	1,769,911	1,519,028
OSU Surgery, LLC	3,270,111	2,760,699
OSU Urology, LLC	406,814	298,173
Total	<u>\$ 15,598,214</u>	<u>\$ 13,828,179</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.

## 12. COMMITMENTS AND CONTINGENCIES

**Operating Leases** — OSUP leases various equipment and facilities under operating leases expiring at various dates through December 2018. Total rental expense in 2009 and 2008 for all operating leases was approximately \$6.3 million and \$4.8 million, respectively, which includes leases that operate on a month to month basis.



The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2009, that have initial or remaining lease terms in excess of one year.

**Years Ending  
June 30**

2010	\$ 1,271,451
2011	759,968
2012	422,634
2013	<u>4,383</u>
Total	<u>\$2,458,436</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.

**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 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.

### 13. SUBSEQUENT EVENTS

OSUP evaluated events occurring between the end of our most recent fiscal year and December 18, 2009, the date the financial statements were issued.

\* \* \* \* \*

## 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 Audit Committee of  
Ohio State University Physicians, Inc.  
700 Ackerman Road, Suite 630  
Columbus, OH 43202

We have audited the financial statements of Ohio State University Physicians, Inc. and its subsidiaries (OSUP) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSUP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OSUP's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 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 OSUP'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. We consider the deficiency described in the accompanying schedule summary of significant deficiency to be significant deficiency.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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* and is described in the accompanying schedule of summary of a significant deficiency.

We noted certain matters that we reported to management of OSUP in a separate letter dated December 18, 2009.

OSUP's response to the findings identified in our audit is described in the accompanying schedule summary of a significant deficiency. We did not audit OSUP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within 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.

*Deloitte ; Touche LLP*

December 18, 2009

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

**SUMMARY OF A SIGNIFICANT DEFICIENCY**  
**Ohio State University Physicians, Inc.**  
**Year Ended June 30, 2009**

**Fair Value of Interest Rate Swap**

Prior to the closing of its internal financial records for the year ended June 30, 2009, OSUP management failed to determine and record the fair value associated with its interest rate swap agreement. The agreement was entered into during fiscal 2009 to fix the interest rate over the next ten years in connection with the OSUP's new \$15.5M Term Loan Debt. The estimated fair value of this agreement, based on various factors contained in the related interest rate swap agreement and interest rates, including the notional amount of \$15,335,650 at June 30, 2009, resulted in an audit adjustment for the unrealized loss of \$1.3 million. We recommend OSUP determine and adjust the fair value of the swap agreement on a regular basis.

Management should consider adjusting the fair value each month for its internal financial statements or at least on an annual basis. This will ensure all adjustments are made to OSUP's financial statements before the final reports are provided to The Ohio State University for inclusion in their consolidated report.

**Management's Response**

Management is currently implementing procedures to adjust fair value on the interest rate swap agreement on an interim and annual basis.

**SUPPLEMENTAL CONSOLIDATING SCHEDULES**

# OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET AS OF JUNE 30, 2009

ASSETS	OSUP— Corporate	FM	EM	Eye	OB/GYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	EJE	Total
<b>CURRENT ASSETS:</b>																		
Cash and cash equivalents	\$ 4,523,968	\$2,006,179	\$ 2,401,391	\$ 514,905	\$ 123,554	\$ 3,801,669	\$ 1,100	\$ 807,026	\$ 4,164,284	\$ 116,754	\$ 653,632	\$11,179,731	\$ 745,661	\$ 1,955,878	\$ 2,937,734	\$ 25,933,466	\$ 3,210	\$ 25,936,676
Short-term investments	745,000	745,000							1,579,404		252,160			94,000		2,670,564		2,670,564
Accounts receivable — patient care:																		
Accounts receivable — patient care	—	—	8,674,206	2,509,443	6,857,398	24,985,479	2,644,447	4,094,505	7,879,884	1,415,503	753,953	1,166,108	8,297,398	14,479,470	2,849,761	86,607,555	—	86,607,555
Allowances	—	—	(6,424,812)	(1,506,090)	(4,140,626)	(13,935,727)	(1,764,906)	(2,654,073)	(5,119,964)	(789,237)	(490,422)	(712,963)	(5,735,676)	(9,791,000)	(1,946,124)	(55,011,620)	—	(55,011,620)
Accounts receivable — patient care — net	—	—	2,249,394	1,003,353	2,716,772	11,049,752	879,541	1,440,432	2,759,920	626,266	263,531	453,145	2,561,722	4,688,470	903,637	31,595,935	—	31,595,935
Accounts receivable — other	232,313	495	5,564	193,941	8,104	280,371	23,362	113,523	337,955	144,782	—	—	243	177,930	2,073	1,520,656	—	1,520,656
Allowance for uncollectible non-patient receivables	—	—	—	—	—	—	—	—	(313,061)	—	—	—	—	—	—	(313,061)	—	(313,061)
Accounts receivable — other — net	232,313	495	5,564	193,941	8,104	280,371	23,362	113,523	24,894	144,782	—	—	243	177,930	2,073	1,207,595	—	1,207,595
Inventories	747,836	398,026	732,181	25,338	185,407	3,895,319	33,682	55,498	179,267	20,494	288,223	452,074	336,413	387,155	32,689	7,769,602	(853,325)	6,916,277
Prepaid expenses	71,718	—	—	—	342,450	412,508	160,073	20,136	10,221	48,036	—	—	—	26,979	—	1,034,785	—	1,034,785
Notes receivable	373,599	—	—	—	32,481	112,780	53,558	—	21,588	—	—	—	—	—	—	629,754	—	629,754
Total current assets	5,949,434	3,149,700	5,388,530	1,737,537	3,408,768	19,552,399	1,151,316	2,436,615	8,739,578	956,332	1,457,546	2,084,950	3,644,039	7,330,412	3,876,133	70,863,289	(850,115)	70,013,174
<b>NONCURRENT ASSETS:</b>																		
Property, plant, furniture, and equipment:																		
Property, plant, furniture, and equipment — net	8,740,348	—	12,988	2,492,062	1,983,216	5,589,618	216,026	464,303	187,729	35,339	—	179	876	229,538	125,914	20,078,136	—	20,078,136
Long-term investments	4,337,851	245,000	—	4,639	111,854	2,971,556	75,000	315,627	461,420	10,337	17,674	8,530	49,702	(37,260)	—	4,657,851	(3,662,559)	4,657,851
Other assets	3,901,626	16,476	40,897	—	—	—	21,100	—	—	—	—	—	—	—	—	7,894,178	—	7,894,178
Total noncurrent assets	16,979,825	261,476	53,885	2,496,701	2,095,070	8,561,174	312,126	779,930	649,149	45,676	17,674	8,709	50,578	192,278	125,914	32,630,165	(3,662,559)	28,967,606
<b>TOTAL</b>	<b>\$22,929,259</b>	<b>\$3,411,176</b>	<b>\$ 5,442,415</b>	<b>\$ 4,234,238</b>	<b>\$ 5,503,838</b>	<b>\$ 28,113,573</b>	<b>\$ 1,463,442</b>	<b>\$ 3,216,545</b>	<b>\$ 9,388,727</b>	<b>\$ 1,002,008</b>	<b>\$ 1,475,220</b>	<b>\$ 2,093,659</b>	<b>\$ 3,694,617</b>	<b>\$ 7,522,690</b>	<b>\$ 4,002,047</b>	<b>\$ 103,493,454</b>	<b>\$(4,512,674)</b>	<b>\$ 98,980,780</b>
<b>LIABILITIES AND NET ASSETS</b>																		
<b>CURRENT LIABILITIES:</b>																		
Accounts payable	\$ 367,958	\$ 2,663	\$ 14,323	\$ 266,566	\$ 927,940	\$ 670,710	\$ 207,057	\$ 107,714	\$ 119,147	\$ 184,751	\$ 19,709	\$ 2,916	\$ 80,530	\$ 125,030	\$ 52	\$ 3,097,066	\$ -	\$ 3,097,066
Accrued expenses	6,554	50,640	14,485	16,023	16,023	10,778	28,121	459,471	1,743,119	62,452	57,366	62,102	95,335	11,408	465,000	603,009	—	603,009
Accrued salaries and wages	2,623,987	740,602	880,301	149,579	368,057	1,873,159	119,809	1,750,681	1,743,119	42,452	73,655	30,090	219,447	707,198	461,848	10,404,385	(850,115)	10,404,385
Due to affiliates — current portion	777,148	188,199	109,727	516,788	424,435	1,434,423	278,214	1,750,681	203,094	1,011,070	73,655	30,090	219,447	859,907	101,046	7,977,924	—	7,127,809
Notes payable and capital leases — current portion	15,335,650	69,375	109,727	16,259	(29,327)	237,176	53,488	20,095	330,384	12,652	2,999	18,151	71,285	9,290	56,258	15,626,314	(850,115)	15,626,314
Retirement and health plans accrual	35,453	402,110	635,416	125,157	125,157	321,833	42,542	220,103	129,372	91,821	2,037	55,664	410,783	666,191	—	1,030,718	—	1,030,718
Other current liabilities	745,888	402,110	635,416	125,157	125,157	321,833	42,542	220,103	129,372	91,821	2,037	55,664	410,783	666,191	—	1,030,718	—	1,030,718
Total current liabilities	19,892,638	1,453,589	1,749,494	1,100,090	1,832,285	5,410,219	840,339	2,558,064	2,525,116	1,362,746	155,766	168,923	877,380	2,379,024	1,084,204	43,389,877	(850,115)	42,539,762
<b>LONG-TERM LIABILITIES:</b>																		
Notes payable and capital leases — less current portion	670,995	—	—	2,033,125	944,562	1,832,093	89,545	—	1,674,167	—	—	—	650,802	2,065,171	9,059	7,486,624	(3,662,559)	3,824,065
Due to affiliates and other — long-term	2,266,620	—	—	2,033,125	629,700	75,000	89,545	—	—	—	—	—	650,802	—	—	3,622,122	—	3,622,122
Other long-term liabilities	2,937,615	—	—	2,033,125	1,574,262	3,581,260	89,545	—	—	—	—	—	650,802	—	—	12,940,839	(3,662,559)	9,278,280
Total long-term liabilities	99,006	1,957,587	3,692,921	1,101,023	2,097,291	19,122,094	533,558	658,481	6,863,611	(360,738)	1,319,454	1,924,736	2,166,435	3,078,495	2,908,784	47,162,738	—	47,162,738
<b>NET ASSETS — Unrestricted</b>	<b>\$22,929,259</b>	<b>\$3,411,176</b>	<b>\$ 5,442,415</b>	<b>\$ 4,234,238</b>	<b>\$ 5,503,838</b>	<b>\$ 28,113,573</b>	<b>\$ 1,463,442</b>	<b>\$ 3,216,545</b>	<b>\$ 9,388,727</b>	<b>\$ 1,002,008</b>	<b>\$ 1,475,220</b>	<b>\$ 2,093,659</b>	<b>\$ 3,694,617</b>	<b>\$ 7,522,690</b>	<b>\$ 4,002,047</b>	<b>\$ 103,493,454</b>	<b>\$(4,512,674)</b>	<b>\$ 98,980,780</b>

# OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

	OSUP	FM	EM	Eye	OB/GYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	EJE	Total
<b>OPERATING REVENUE</b>																		
Patient care revenue:																		
Less — contractual adjustments	\$ -	\$ (111)	\$ 35,261,280	\$ 20,349,727	\$ 49,606,514	\$ 165,222,616	\$ 19,424,815	\$ 27,764,944	\$ 56,708,956	\$ 111,001,725	\$ 4,138,833	\$ 7,762,910	\$ 67,565,184	\$ 75,979,238	\$ 17,103,134	\$ 557,889,765	\$ -	\$ 557,889,765
Net patient care revenue	-	(111)	18,079,357	10,079,744	20,776,730	74,214,321	8,222,110	10,588,840	20,926,722	4,561,191	2,000,291	3,486,904	24,851,876	27,656,846	6,071,534	231,516,355	-	231,516,355
Other revenue	13,156,047	7,349,250	2,850,303	1,275,640	2,496,985	12,166,899	1,541,458	1,730,435	7,904,202	1,240,330	4,482,879	899,471	625,047	12,927,125	1,316,397	71,962,468	(10,187,010)	61,775,458
Total operating revenue	13,156,047	7,349,139	20,929,660	11,355,384	23,273,715	86,381,220	9,763,568	12,319,275	28,830,924	5,801,521	6,483,170	4,386,375	25,476,923	40,583,971	7,387,931	303,478,823	(10,187,010)	293,291,813
<b>OPERATING EXPENSES:</b>																		
Salaries and benefits:																		
Employee salaries — OSUP	6,039,505	17,896	132,352	1,135,256	1,956,144	9,747,884	950,698	1,583,669	1,520,615	502,644	14,583	158,373	604,821	3,206,471	13,310	27,566,325	(131,348)	27,434,977
Employee salaries — OSU	65,868	1,477	409,015	1,083,019	1,741,714	2,930,571	566,748	389,345	4,494,436	235,183	537,198	179,839	502,719	2,738,626	547,076	16,439,253	(65,867)	16,373,386
Employee benefits — OSUP	1,559,301	1,477	24,644	439,810	638,936	2,832,177	313,915	555,074	539,087	166,600	1,898	58,017	256,467	1,181,648	8,559,051	8,559,051	(39,734)	8,519,317
Employee benefits — OSU	21,476	7,345	147,303	378,879	577,762	670,018	189,763	127,861	1,538,328	77,834	191,623	64,239	164,749	988,232	195,708	5,341,120	(21,476)	5,319,644
Total salaries and benefits	7,686,150	26,718	713,314	3,036,964	4,914,556	16,170,650	2,021,124	2,655,949	8,092,466	982,261	745,302	460,468	1,528,756	8,114,977	756,094	57,905,749	(238,425)	57,647,324
Supplies and pharmaceuticals:																		
Medical supplies			176	100,453	419,405	628,781	116,160	539,534	2,133,408	36,072	375	375	377	481,276	15,284	4,471,301	(5,533)	4,465,768
Drugs and pharmaceuticals				1,171,158	6,899,465	7,269,345	1,481,201	52,116	52,116	1,612,618	38,214	23,134	92,276	182,052	75,008	18,485,903	(5,200)	18,480,703
Office supplies	541,270	67	48,407	50,548	189,922	527,350	122,981	296,559	199,836	34,129	38,214	23,509	92,276	182,052	2,421,753	2,421,753	(13,795)	2,407,958
Total supplies and pharmaceuticals	541,270	67	48,583	1,322,159	7,508,792	8,425,476	1,720,342	888,209	2,333,244	1,682,819	38,214	23,509	92,653	663,328	90,292	25,378,957	(24,528)	25,354,429
Services:																		
Malpractice			378,833	489,990	464,415	2,527,884	326,163	181,068	186,928	156,235	118,032	84,750	482,584	1,826,446	124,587	7,485,648	(1,990,840)	7,485,648
General and other insurance	142,592	41,078	147,989	230,471	1,177,649	1,075,590	134,678	911,623	881,913	194,991	607,665	38,949	912,427	660,293	66,627	7,288,909	(1,021,043)	6,267,866
Purchased services and management fees	2,085,152	36,982	223,729	377,004	649,736	2,477,969	112,014	285,356	797,249	48,713	81,839	52,916	349,190	993,316	49,079	8,620,244	(69,797)	8,550,447
Other	3,240,279	456,893	861,708	729,456	1,492,983	6,081,443	572,855	1,378,608	1,866,090	399,939	807,536	176,615	1,744,201	3,485,174	240,293	23,534,073	(1,090,840)	22,443,233
Total services	1,408,169	528	8,903	619,554	853,849	1,609,729	267,269	398,691	216,922	51,653	147,470	8,567	69,653	689,440	62,672	6,413,069	(447,219)	5,965,850
Occupancy and utilities	570,691		6,157	230,471	1,177,649	796,836	27,379	67,448	68,283	10,549	358	358	2,101	48,587	4,800	1,951,309	(511)	1,950,798
Bad debt	458,660		7,917,744	996,833	1,023,636	6,445,051	501,130	846,395	3,145,385	259,345	(4,561)	226,283	4,262,106	2,333,194	667,079	28,619,620	(561)	28,619,620
Interest	600			1,606	31,642	291,130	1,570	30,692	18	22,829		22,829	37,076	5,886	2,224	2,224		2,224
Taxes	2,438,120	528	7,932,804	1,952,787	2,026,776	9,142,746	797,348	1,343,244	3,430,590	344,376	142,909	235,208	4,333,860	3,108,297	740,437	37,970,030	(448,291)	37,521,739
Total other expenses	13,905,819	484,206	9,556,409	7,041,366	15,943,107	39,820,315	5,111,669	6,266,010	15,722,390	3,409,395	1,733,961	895,800	7,699,470	15,371,776	1,827,116	144,788,809	(1,822,084)	142,966,725
Total expense before general and administrative	(823,630)	6,510,533	9,590,539	3,675,334	6,269,925	42,754,032	4,037,628	5,508,119	12,018,480	2,057,819	4,398,955	3,289,580	15,403,437	23,412,117	4,900,460	143,003,328	502,987	143,506,315
<b>EXCESS REVENUE OVER EXPENSE BEFORE PROVIDER EXPENSE</b>																		
	(823,630)	6,510,533	9,590,539	3,675,334	6,269,925	42,754,032	4,037,628	5,508,119	12,018,480	2,057,819	4,398,955	3,289,580	15,403,437	23,412,117	4,900,460	143,003,328	502,987	143,506,315
<b>PROVIDER EXPENSES:</b>																		
Salaries and benefits:																		
Provider salaries — OSUP	166,667	4,465,521	5,398,687	2,509,902	4,530,988	31,193,696	1,993,957	3,944,379	6,187,194	1,537,478	600,261	1,713,433	11,384,189	13,610,667	2,728,984	91,966,003	(14,167)	91,951,836
Provider salaries — OSU	19,898	1,025,577	1,831,636	652,318	516,288	2,335,179	1,115,317	720,168	1,695,291	501,967	2,501,059	479,819	1,263,700	3,667,804	337,504	18,643,627	(1,886)	18,643,627
Provider benefits — OSUP	281,854	504,134	889,118	204,868	438,000	3,895,302	405,621	765,084	1,635,699	180,060	45,139	358,972	1,949,398	3,127,946	480,495	14,897,848	(1,886)	14,897,848
Provider benefits — OSU	186,565	6,277,086	8,636,496	3,544,125	5,625,531	37,996,477	3,825,440	5,626,084	9,975,078	2,357,819	3,865,428	2,698,395	14,959,041	21,401,281	3,638,993	130,613,839	(16,053)	130,597,786
Total provider salaries and benefits	186,565	144,182	222,674	86,341	106,678	740,550	156,664	216,870	401,630	104,834	827	122,263	355,370	813,617	37,591	3,510,091	(4,150)	3,505,941
Other provider related expenses	186,565	6,421,268	8,859,170	3,630,466	5,732,209	38,737,027	3,982,104	5,842,954	10,376,708	2,462,653	3,866,255	2,820,658	15,314,411	22,214,898	3,676,584	134,123,930	(20,203)	134,103,727
Total provider related expenses	186,565	6,421,268	8,859,170															

# OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

	OSUP	FM	EM	Eye	OB/GYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	EJE	Total
NON-OPERATING INCOME (EXPENSE):																		
Interest income	\$ 85,379	\$ 38,922	\$ 15,276	\$ 220	\$ -	\$ 27,622	\$ 3,069	\$ 3,982	\$ 81,390	\$ -	\$ 3,653	\$ 13,688	\$ 6,503	\$ 16,126	\$ 21,732	\$ 317,562	\$ -	\$ 317,562
Nonoperating income	741,021	-	-	43,315	1,018	321,582	-	-	-	-	-	-	-	2,214	-	1,106,936	(447,219)	659,717
(Loss)/income from investments	(542,192)	-	-	-	-	467,125	-	-	(171,574)	-	-	-	-	-	-	(244,427)	-	(244,427)
Gain (loss) on sale of assets	-	-	-	-	-	126,527	-	-	(2,677)	-	-	-	-	-	-	123,650	-	123,650
Loss on change in value of interest rate swap	(1,320,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,320,000)	-	(1,320,000)
Nonoperating expense	(45)	(15,691)	(250)	(6,072)	(13,525)	8,158	(26,717)	(49,400)	(138,375)	(1,500)	-	(3,500)	(11,850)	(7,242)	(506,596)	(772,605)	-	(772,605)
Total nonoperating income (expense)	(1,035,837)	23,231	15,026	37,463	(12,507)	950,814	(23,648)	(45,418)	(231,236)	(1,500)	3,653	10,188	(5,347)	11,098	(484,864)	(788,884)	(447,219)	(1,236,103)
INCREASE (DECREASE) IN NET ASSETS	(2,046,032)	112,496	746,395	82,331	525,209	4,967,819	31,876	(380,253)	1,410,536	(406,334)	536,353	479,110	83,679	1,208,317	739,012	8,090,514	75,971	8,166,485
NET ASSETS — Beginning of year	2,145,038	1,845,091	2,946,526	1,018,692	1,572,082	14,154,275	501,682	1,038,734	5,453,075	45,596	783,101	1,445,626	2,082,756	1,870,178	2,169,772	39,072,224	(75,971)	38,996,253
NET ASSETS — End of year	\$ 99,006	\$1,957,587	\$ 3,692,921	\$ 1,101,023	\$ 2,097,291	\$ 19,122,094	\$ 533,558	\$ 658,481	\$ 6,863,611	\$ (360,738)	\$ 1,319,454	\$ 1,924,736	\$ 2,166,435	\$ 3,078,495	\$ 2,908,784	\$ 47,162,738	\$ -	\$ 47,162,738

(Continued)

(Concluded)





Mary Taylor, CPA  
Auditor of State

**OHIO STATE UNIVERSITY PHYSICIANS, INC.**

**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  
FEBRUARY 2, 2010**