Ohio State University Physicians, Inc. and Subsidiaries

(A component unit of The Ohio State University)

Consolidated Financial Statements as of and
for the Year Ended June 30, 2011,
Supplemental Consolidating Schedules as of and
for the Year Ended June 30, 2011, and
Independent Auditors' Report

Dave Yost • Auditor of State

Board of Directors
The Ohio State University Physicians, Inc.
2040 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210

We have reviewed the *Report of Independent Auditors* of The Ohio State University Physicians, Inc., Franklin County, prepared by Pricewaterhouse Coopers LLP, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

April 9, 2012

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OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

(A COMPONENT UNIT OF THE OHIO STATE UNIVERSITY)

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statement of net assets and related statement of revenues, expenses and changes in net assets and statement of cash flows present fairly, in all material respects, the financial position of The Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of OSUP management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2012 on our consideration of OSUP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 29 and 30 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. Accordingly, we do not express an opinion on the financial position, or results of operations of the individual entities. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 13, 2012

Management's Discussion and Analysis for the Year Ended June 30, 2011 (Unaudited)

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of Ohio State University Physicians, Inc. for the year ended June 30, 2011. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

About Ohio State University Physicians

Ohio State University Physicians, Inc. and subsidiaries organizations (OSUP) located in Columbus, Ohio, is a 501(c)(3) tax-exempt physician organization for the physicians providing medical care, supporting medical research and supporting medical education at The Ohio State University (the University). 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, 2011, only 15 of the LLCs are active and included in the consolidated financial statements and the accompanying supplemental consolidating schedules of OSUP. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no business activity for the year ended June 30, 2011.

OSUP is governed by a board of trustees who are responsible for oversight of clinical programs, budgets, general administration, and employment of faculty and staff. Effective January 1, 2011 all new faculty members are employed through The Ohio State University Faculty Group Practice (FGP) and are leased back to OSUP. Physicians currently and previously employed through OSUP began integrating through the FGP effective July 1, 2011 and will do so up through July 1, 2012, and be leased back to OSUP in the same manner as new hires that started after January 1, 2011. This will continue until the integration with OSU FGP is complete, creating an integrated health, research and educational system.

The following consolidated financial statements reflect all assets, liabilities and net assets (equity) of OSUP. The complete set of entities that are included in the consolidated OSUP financial statements is provided in the Basis of Presentation section of the footnotes to consolidated financial statements.

About the Consolidated Financial Statements

OSUP presents its financial reports in a "business type activity" format, in accordance with GASB Statement No. 34, Basic Financial Statements – Management's Discussion and Analysis. In addition to this MD&A section, the financial report includes a Statement of Net Assets, a Statement of Revenues, Expenses and Other Changes in Net Assets, a Statement of Cash Flows and Notes to the Financial Statements.

The Statement of Net Assets is OSUP's balance sheet. It reflects the total assets, liabilities and net assets (equity) as of June 30, 2011. Liabilities due within one year, and assets available to pay those liabilities are classified as current. Other assets and liabilities are classified as non-current. Investment assets are carried at market value. Capital assets, which include the land, buildings, improvements, furnitures, and equipment, are shown net of accumulated depreciation.

The statement of Revenues, Expenses and Other Changes in Net Assets is OSUP's income statement. It details how net assets have increased (or decreased) during the year ended June 30, 2011. Patient care revenue is shown net of allowances for collectability, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions.

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2011. It breaks out the sources and uses of OSUP cash into logical categories such as operating activities, capital financing activities, and investing activities.

The Notes to the Financial Statements, which follow the financial statements, provide additional details on the numbers in the financial statements. Behind the notes is a section that provides supplemental information to assist the reader in a better understanding of operations.

Financial Highlights and Key Trends

OSUP's net assets (equity) increased $7.9 million to $65.5 million at June 30, 2011, primarily due to increases in Net Patient Revenues of $4.2 million, and increases in Other Contract Revenue of $1.6 million from that of the prior fiscal year ended June 30, 2010.

Condensed Statements of Net Assets

June 30, 2011

Assets	
Current assets	$89,508,397
Non current assets	40,999,258
Total assets	130,507,655
Liabilities	
Current liabilities	34,428,170
Non current liabilities	30,608,563
Total Liabilities	65,036,733
Net Assets	
Unrestricted	65,470,922
Total Net Assets	$130,507,655

Current Assets consist of cash and cash equivalents, short term investments and accounts receivable that are expected to be collected within the year following the balance sheet date. Non current assets consist of Property, Plant, Furnitures, and Equipment and other long term assets with more than a one year expected lifespan. Current liabilities consist of debt that is expected to be liquidated within the year, and Non current liabilities consist of long term debt associated with long term assets and with a lifespan of greater than one year.

Average monthly patient visit volumes increased from 132,657 per month in the fiscal year ended June 30, 2010 to 140,919 per month in the fiscal year ended June 30, 2011. Other Contract Revenue represents both revenue associated with outside health related organizations, and support payments associated with funding of programs deemed important through The Ohio State University. Additionally Non Operating income increased $1.5 million for the year ended June 30, 2011 over prior year primarily due to increases in income from rental properties of $882,000 and $545,000 respectively.

Demand for services of OSUP faculty has steadily increased since the inception of the organization.

Cash and cash equivalents increased $9.0 million over the prior year. Approximately $7.9 million of that amount came from the net gain from Operating and Non-Operating sources, plus the impact of non cash expenditures such as depreciation of $3.5 million.

Net Patient Receivables decreased by $1.7 million over the prior year which was a combination of increased collection efforts and up front recognition of patients that had and inability to pay and were thus deemed charity care.

Current Assets increased by $6.9 million over the prior year based upon the two items noted above.

Property, Plant, Furnitures, and Equipment increased $0.8 million over prior year primarily in various equipment items used in the operations of the business. Depreciation was in excess of purchases by approximately $0.9 million. Most significant building projects were completed in the two years prior to June 30, 2011.

Other Assets decreased by $3.4 million over prior year primarily related to the amortization of costs associated with the OSUP portion of the installation of the EPIC system within the Health System. The physicians of OSUP will fund approximately $11.3 Million into this project upon completion of the electronic medical record process. Medicare funding for this project will offset the cost to OSUP over the next 5 years.

The increase in Current Liabilities over prior year came primarily from a $1.5 million increase in the current portion of Notes Payable associated with prior years building projects.

Long term Liabilities decreased $2.6 million over prior year associated with payments on the debts associated with buildings, the increase in current portion of long term debt, and the decrease in amounts due to affiliated organizations within The Ohio State University.

Increases in Net Patient Care Revenues over prior year are primarily associated with a growth in patient volumes along with increased support payments for programs sponsored by The Ohio State University which accounted for $3.2 million of the increase in revenues from the prior year.

Expenditures increased by $7.2 million over the prior year. Approximately $6.7 million of that increase came in physician related costs. New physicians entering the practice generally take 1-2 years of practice to grow their clinical practice before they are considered a mature practice. The fiscal year ended June 30, 2011 included an increase of 32 physicians into the OSUP/FGP practice.

Economic Factors That Will Affect the Future

As in prior years, the Medicare program has automatic cuts that if implemented would mean significant reductions of income for clinical services. Historically Congress has found support to eliminate these automatic cuts before they have become law. For January 1, 2012 these cuts would approximate $16.4 million annually at the 27.4% reduction in the current law.

As of July 1, 2011 and again by January 1, 2012, in excess of 500 physicians have or will integrate into the OSU FGP, which is designed to integrate services across The Ohio State University. These changes will give the organization an improved way to deal with the coming changes in healthcare reimbursement and research funding.

Immediately preceding and after the June 30, 2011 year end, several of the physician practice locations became hospital based structures which will transfer the cost and reimbursement for the facility component of physician reimbursement over to the OSU Medical Center. Thus far, these changes have had a positive impact on the bottom line of OSUP and the Medical Center.

Future governmental funding for our investment in an electronic medical record system (EPIC) will allow OSUP to recoup significant funding to pay for the $11.3 million cost incurred by OSUP. The expectation is to recoup more than the direct $11.3 million in system cost over the next 5 years from the stimulus funding set by Congress in prior years.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

(A component unit of The Ohio State University)

CONSOLIDATED STATEMENT OF NET ASSETS

AS OF JUNE 30, 2011

		2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	42,877,674
Short-term investments		2,699,935
Accounts receivable — patient care — net of allowance		32,634,380
Accounts receivable — other — net of allowance		1,948,216
Due from affiliates		6,793,725
Inventories		1,033,759
Prepaid expenses		1,518,458
Notes receivable		2,250
Total current assets		89,508,397
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation of $13,143,565		24,865,364
Long-term investments		2,050,495
EPIC ambulatory electronic medical record use agreement		8,734,194
Investment in affiliates		3,768,449
Other assets		1,580,756
Total noncurrent assets		40,999,258
TOTAL	$	130,507,655
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$	3,227,628
Accrued expenses		763,924
Accrued salaries and wages		13,050,569
Due to affiliates — current portion		9,411,028
Notes payable and capital leases — current portion		2,187,306
Retirement and health plans accrual		1,657,602
Other current liabilities		4,130,113
Total current liabilities		34,428,170
LONG TERM LIABILITIES:		
Notes payable and capital leases — less current portion		16,550,648
Due to affiliates and other — long term		9,607,043
Other long term liabilities		4,450,872
Total long-term liabilities		30,608,563
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS — Unrestricted		65,470,922
TOTAL	$	130,507,655

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

(A component unit of The Ohio State University)

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	2011
OPERATING REVENUE:	
Patient care revenue	$ 613,948,582
Less — contractual and administrative adjustments	(391,717,742)
Net patient revenue	222,230,840
Other revenue	68,370,163
Total operating revenue	290,601,003
OPERATING EXPENSES:	
Salaries and benefits	218,052,827
Supplies and pharmaceuticals	24,351,817
Services	17,056,083
Malpractice	4,346,570
Dean's tax	7,203,989
Occupancy and utilities	7,437,355
Amortization and depreciation	3,470,965
Interest	996,377
Other expenses	2,910,628
Total operating expenses	285,826,611
Operating Income	4,774,392
NONOPERATING INCOME (EXPENSES):	
Interest income	90,342
Nonoperating income	2,403,869
Income from investments	969,364
Loss on sale of assets	(36,259)
Nonoperating expense	(298,639)
Total nonoperating income	3,128,677
INCREASE IN NET ASSETS	7,903,069
NET ASSETS- Beginning of year	57,567,853
NET ASSETS- End of year	$ 65,470,922

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

(A component unit of The Ohio State University)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

Cash Flow from Operating Activities:	
Patient Receipts	$ 224,538,226
Other receipts	68,603,247
Payments to and on behalf of employees	(218,659,317)
Payments to vendors for supplies and services	(41,644,318)
Payments on malpractice and dean's tax	(13,204,167)
Payments on occupancy and utilities	(7,437,355)
Payments on other expenses	(2,910,628)
Net cash provided by operating activities	9,285,688
Cash Flows from Financing Activities:	
Proceeds from debt	208,778
Payments on capital debts and leases	(745,262)
Payments on interest	(996,377)
Net cash used by capital financing activities	(1,532,861)
Cash Flows from Investing activities:	
Purchase of Capital Assets	(1,348,890)
Purchase of other assets- Academic Enrichment	(401,867)
Purchase of investments	(12,401,932)
Proceeds from sale of investments	13,167,479
Interest Income	90,342
Rental income	2,403,869
Non operating expense	(298,639)
Net cash used by investing activities	1,210,362
Net Increase in Cash	8,963,189
Cash and Cash Equivalents - Beginning of year	33,914,485
Cash and Cash Equivalents- End of Year	$ 42,877,674

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

(A component unit of The Ohio State University)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

FOR THE YEAR ENDED JUNE 30, 2011

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$ 4,774,392
Adjustments to reconcile net operating income to net cash	
Depreciation	3,470,965
Interest Expense	996,377
Changes in assets and liabilities:	
Accounts Receivable-patient care	1,725,767
Accounts Receivable-other	581,619
Due from affiliates	278,305
Note Receivable	5,612
Inventories	30,087
Prepaid expenses	(680,988)
Accounts payable	54,292
Due to affiliates	(1,653,608)
Accrued salaries & wages	(158,787)
Retirement and health plans accrual	(492,924)
Accrued expenses	354,579
Net cash provided by operating activities	$ 9,285,688

See notes to consolidated financial statements.

NOTE 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, 2011, 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 for the year ended June 30, 2011.

Basis of Presentation - The accompanying financial statements present the activity of the following entities:

Practice Plan

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

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 for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39. All significant LLC intercompany balances and transactions have been considered and eliminated in consolidation.

OSUP is reporting as a special purpose entity engaged in business type activities (BTA). Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, OSUP presents Management's Discussion and Analysis; a Consolidated Statement of Net Assets; a Consolidated Statement of Operations and Changes in Net Assets; a Consolidated Statement of Cash Flows; and Notes to the Financial Statements.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). OSUP has the option of applying pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. OSUP has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Cash and Cash Equivalents — Cash and cash equivalents consist of petty cash, demand deposit accounts, money market accounts, savings accounts and investments with original maturities of three months or less, stated at 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, in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Realized gains and losses are calculated based on the type of investment and are included in income (loss) from investments in nonoperating income (expense).

Investment income is recognized on an accrual basis. Interest and dividend income is recorded when earned.

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 at June 30, 2011. 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. Capitalized lease amortization is included in depreciation expense. Ranges for useful lives by fixed asset category are shown below:

Land and land improvements	2-29 years
Buildings	5-40 years
Furniture and fixtures	5-15 years
Construction in progress	N/A

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).

EPIC ambulatory electronic medical record use agreement- OSUP and OSU Medical Center ("OSUMC") entered into a software system use agreement with University for the purchase of an electronic medical records system (i.e. Epic). This agreement, treated for accounting purposes similar to a capital lease, was between OSUMC and OSUP. As such OSUP has recorded a noncurrent asset for the right to use the licensed Epic software, including the implementation of such software, and a related due to Health System balance of $10.4M. Total costs allocated to OSUP were $11.3M; these costs were discounted using a rate of 2.5% at June 30, 2011. This cost is being amortized over no more than seven years, to begin upon effective implementation within a physician's group. At June 30, 2011 accumulated amortization is $1.7 million.

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 — On July 1, 2003, OSUP joined with the University Health System, a consolidating organization within The Ohio State University to establish a new self-insurance fund for professional liability claims (Fund II), covering the OSUP physicians as well as hospitals within Health System. The assets and liabilities of Fund II are not reflected in OSUP's financial statements as a result of the retained risk being held by the University. Annual insurance costs are allocated to OSUP by the University and reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

The University has also established a pure captive insurer (Oval Limited) that provides excess coverage over Fund II. Funds II) has a retention of $4,000,000 per occurrence. Unique to Fund II is aggregate loss of $14,000,000 per year for fiscal years 2010 through 2013. Oval Limited covers up to $55,000,000 per occurrence with a $55,000,000 annual aggregate limit. A portion of the risk written to date is reinsured by a combination of three reinsurance companies rated A by A. M. Best. Oval Limited's net retention is 50% of the first $15,000,000 and 0% for the remaining $40,000,000 per occurrence.

There have been no settlements in the past 3 fiscal years which have exceeded the coverage provided by Fund II or Oval Limited. OSUP has not made any additional contributions in the last 3 years beyond its actuarially determined and the University's Self Insurance Board approved premiums.

Derivative Instruments and Hedging Activities — OSUP accounts for all derivative instruments on at fair value. Changes in the fair value (i.e., gains or losses) of OSUP's interest rate swap derivative are settled monthly with net payments or receipts under the swap agreement being reflected as interest expense.

Operating and Non-Operating Revenues

Net Patient Revenue- Net patient service revenue represents amounts received and estimated net realizable amounts due from patients and third-party payers for services rendered. OSUP provides care to patients under various reimbursement agreements, including Medicare and Medicaid. These arrangements provide for payment on covered services at agreed-upon rates, which may result in discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between customary charges and related reimbursements. Additionally charity care, bad debts and other administrative adjustments are recorded as a reduction of gross patient revenues to calculate net patient revenue.

Non-Patient Care Revenue — Non-patient care revenue includes contract services, rent, salary recovery, educational and research 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 applicable accounting guidance.

Charity Care and Community Benefit (unaudited)— 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 provisions as of June 30, 2011 are $6,090,641. The cost of charity care is calculated by taking the ratio of operating expenses divided by gross patient revenue. Additional community benefit is derived by support to the University in the form of funding to support academic services in the amount of $60,939,873 as of June 30, 2011.

Federal Income Taxes — OSUP is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Under a now disregarded legal entity name, OSUP obtained its determination letter on October 21, 1996, in which the Internal Revenue Service stated that the organization was in compliance with applicable requirements of the Internal Revenue Code. OSUP management and legal counsel believe that the organization is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. OSUP has determined, no provision for income taxes is necessary nor has been included in the accompanying consolidated financial statements. Any unrelated business income is taxable.

Management Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets including estimated uncollectibles for accounts receivable, and 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 — 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. Carrying values of notes payable approximate the 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.

Newly Issued Accounting Pronouncements – In December 2009, GASB issued Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. This Statement amends provisions in Statements No. 45 and 43 related to measurement and actuarial valuation of other post employment benefits. In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and it participating employers, the provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

OSUP's management has not yet determined the impact that implementation of GASB Statement No. 57 will have on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

During fiscal year 2011, cash in accounts that are subject to the Federal Depository Insurance Corporation (FDIC) limits are spread across multiple financial institutions to limit the potential exposure to losses. Noninterest bearing accounts are covered under FDIC for unlimited balances. Amounts invested in interest bearing accounts are spread through other banks primarily in certificate of deposits in amounts less than $250,000. Maturity of these instruments is generally less than 90 days. As of June 30, 2011, no losses have been experienced on these accounts.

OSUP Investments are grouped into two major categories for financial reporting purposes: Short term investments and Long term investments. Short Term Investments are investments that have a maturity of between 90 days and 1 year. Long Term Investments have a maturity of greater than 1 year. All Long Term Investments held at June 30, 2011 mature within five years.

	Cash and Cash Equivalents	Short Term Investments	Long Term Investments
Demand Deposits & Cash	$28,931,818	$ -	$ -
Money Market Fund	8,185,137		
Certificates of Deposit	5,760,719	2,636,103	504,880
Corporate Bonds			1,545,615
Mutual Funds		63,832	
	-----------------	---------------	---------------
	$42,877,674	$2,699,935	$2,050,495
	===========	==========	==========

Additional Risk Disclosures for Investments

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

Interest-rate risk – Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information – as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

The credit ratings of OSUP's interest-bearing investments at June 30, 2011 are as follows:

Credit Rating (S&P)	Total	U.S. Government-FDIC Insured	Corporate Bonds	Mutual Funds
AAA	$4,196,599	$3,140,983	$1,545,615	$55,534
Not Rated	8,298	0	0	8,298
TOTAL	**$4,750,430**	**$3,140,983**	**$1,545,615**	**$63,832**

NOTE 3 - PATIENT ACCOUNTS RECEIVABLE AND CONCENTRATIONS OF CREDIT RISK

OSUP grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Receivables are pledged as a part of the 2010A Bond financing. Patient accounts receivable as of June 30, 2011 consist of the following:

	2011
Gross patient accounts receivable	$ 87,677,420
Allowances for contractual and administrative adjustments and doubtful accounts	(55,043,040)
Total	$ 32,634,380

Risk of loss for third party payors would be based upon contractual obligations, legislative changes, or bankruptcy of the payor. Risk of loss for the patient mix of receivables is related to economic factors of the individual, and thus has a higher reserve for loss based upon our historical indicators. The mix of receivables from patients and third-party payors as of June 30, 2011 is as follows:

	2011
Medicare	23%
Medicaid	13%
Commercial/other third-party payors	49%
Patient	15%
Total	100%

NOTE 4 - PROPERTY, PLANT, FURNITURES, AND EQUIPMENT

The composition of property, plant, furnitures, and equipment as of June 30, 2011 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Property,Plant, and Equipment not being depreciated:				
Land	$ 2,090,595	$ -	$ -	$ 2,090,595
Construction in progress	727,379	702,524	126,940	1,302,963
Total non-depreciable assets	2,817,974	702,524	126,940	3,393,558
Property, Plant, and Equipment being depreciated:				
Land improvements	2,977,059	190,979	18,030	3,150,008
Buildings	18,088,484	38,424	364,652	17,762,256
Equipment	10,849,372	668,358	325,581	11,192,149
Furniture and Fixtures	2,497,998	62,265	49,305	2,510,958
Total	34,412,913	960,026	757,568	34,615,371
Less: Accumulated Depreciation	(11,471,149)	(2,207,803)	(535,387)	(13,143,565)
Total depreciable assets, net	22,941,764	(1,247,777)	222,181	21,471,806
Property, Plant, and Equipment Net	$25,759,738	($545,253)	$349,121	$24,865,364

Depreciation expense for the year ending June 30, 2011 was $2,207,803.

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

LINE OF CREDIT - On November 30, 2007, OSUP and each LLC individually and collectively entered into a line of credit agreement with a bank (the "Agreement"). On October 13, 2010, borrowers amended the agreement to extend the maturity of the line of credit to September 30, 2011 and not to make OSU Urology, LLC, per their request, a party to the Agreement on a going forward basis and to have its ability to borrow under the Agreement terminated. In addition, borrowers have agreed to reduce the revolving credit commitment not to exceed $4 million collectively, down from $5 million in 2010, as well as modify the borrowing limits individually. Each individual LLC is limited to borrow as follows:

	June 30, 2011
OSUP -Corporate	$750,000
Family Medicine Foundation, LLC	150,000
OSU Emergency Medicine, LLC	500,000
OSU Eye Physicians and Surgeons, LLC	400,000
OSU GYN and OB Consultants, LLC	500,000
OSU Internal Medicine, LLC	2,000,000
OSU Neuroscience Center, LLC	250,000
OSU Otolaryngology-Head and Neck Surgery, LLC	500,000
OSU Pathology, LLC	500,000
OSU Physical Medicine and Rehabilitation, LLC	100,000
OSU Psychiatry, LLC	100,000
OSU Radiation Oncology, LLC	100,000
OSU Radiology, LLC	500,000
OSU Surgery, LLC	1,000,000
OSU Urology, LLC	-0-

The agreements require monthly interest payments at the bank's prime rate, less 0.75% (2.69% at June 30, 2011). This agreement is secured by accounts receivable, inventory, deposits, and equipment (not including OSU Eye Physicians & Surgeons, LLC), and is subject to certain restrictive and financial covenants. There were no borrowings on the line of credit as of June 30, 2011.

LONG TERM DEBT - A summary of long term debt (excluding capital lease obligations) as of June 30, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Series 2010A and 2010B Adjustable Rate Demand Healthcare Facilities Revenue Bonds payable to County of Franklin, Ohio. Semiannual installments of principal and interest based on Bond Market Association Index (BMA). Rate as of June 30, 2011 was 4.09%. Bonds due July 2035.	$17,440,000	$ -	$410,000	$17,030,000	$660,000
Note payable due to monthly installments of principal and interest (LIBOR plus 1.85%as of June 30, 2011), due in February 2012.	1,609,800		195,600	1,414,200	1,414,200
Line of credit	-	23,000	23,000	-	-
Note payable due in monthly installments of $4,444 principal and interest (LIBOR plus 3.85%, 4.1% as of June 30, 2011) due October 2013.	-	185,778	56,889	128,889	53,333

Capital lease obligations	224,638	0	59,773	164,865	59,773
	------------------	-----------------	----------------	---------------	-------------------
	$19,274,438	$208,778	$745,262	$18,737,954	$2,187,306
	============	==========	=========	==========	============

The agreements are secured by accounts receivable, equipment, and fixtures and were subject to certain restrictive and financial covenants. OSUP's $17.0 million note payable requires a minimum debt service coverage ratio of 1.25 to 1.50 quarterly, which was met for all quarters during 2011 and at June 30, 2011.

On January 6, 2009, OSUP entered into an interest rate swap (the "swap") agreement. The swap is used to offset the variable interest rate on a portion of the 2010 bond financing obtained for the ambulatory facility in the amount of $17,030,000. Under the agreement, OSUP pays a fixed rate of 4.09% to the bank and receives 30-day BMA 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 4.09% and the 30-day BMA rate in effect at the beginning of the month. The estimated fair value of this agreement, based on various factors contained in the related swap agreement and interest rates including the notional amount of $14,470,950 at June 30, 2011, represents an unrealized loss of $1.8 million included in other liabilities as of June 30, 2011. The change in fair value was $28,000 in fiscal year 2011 and 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.

On March 2, 2007, Internal Medicine entered into the swap agreement fixing the interest rate on a $2,169,000 term loan which was used to fund a 40% interest in the Fresenius Partnership. Under the agreement IM pays a fixed rate of 5.29% to the bank and receives 30-day LIBOR in effect at the beginning of the month. The transaction is designed to manage IM's interest costs and risks associated with the variable interest rate debt. IM settles with the bank monthly for the difference between the 5.29% and the 30-day LIBOR 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 $1,414,200 at June 30, 2011, represents an unrealized loss of $46,000 included in other liabilities as of June 30, 2011. The change in fair value was $63,000 in fiscal year 2011 and 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 February 28, 2012.

OSUP did not hold any other position in a derivative instrument and did not have any other hedges outstanding in the current year as defined by GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. OSUP believes the swap value represents fair value.

On September 30, 2010, OSU Otolaryngology-Head and Neck Surgery, LLC issued $160,000, 3.85% plus one month LIBOR rate fixed by the British Bankers Association note for the purpose of purchasing equipment. The note was issued for a 36 month period with a final maturity of October 31, 2013.

Scheduled principal repayments on long term debt as of June 30, 2011, are as follows:

	Principal	Interest	Total
2012	$ 2,187,306	$ 739,134	$ 2,926,440
2013	800,545	599,763	1,400,308
2014	770,103	570,098	1,340,201

2015	745,000	542,977	1,287,977
2016	765,000	515,452	1,280,452
2017-2021	3,500,000	2,156,492	5,656,492
2022-2026	3,170,000	1,579,293	4,749,293
2027-2031	3,525,000	957,778	4,482,778
2032-2035	3,275,000	311,033	3,586,033
	$18,737,954	$ 7,972,020	$ 26,709,974

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 accumulated amortization of $130,511, as of June 30, 2011, that are financed under capital leases are $160,031.

The scheduled maturities of these leases as of June 30, 2011, are as follows:

Years Ending June 30	**Capital Lease Obligations**
2012	$ 65,290
2013	65,290
2014	43,526
Capital lease obligation	174,106
Less amount representing interest under capital leases obligations	(9,242)
Total	$ 164,864

NOTE 6 – OTHER CURRENT AND LONG TERM LIABILITIES

Other liabilities include a tenant allowance provided by the landlord that is recognized as income over the life of the lease, the market to market adjustment associated with the interest rate swap on the 2010A Bonds, long term retention bonuses in one of the LLC's, and patient credit balances prior to refunding. The table below details those liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Deferred Revenue	$2,048,465	$1,082,740	$1,131,941	$1,999,264	$1,001,026
Interest Rate Swap	1,837,534	586,280	614,149	1,809,665	
Retention bonuses	774,000	560,000		1,334,000	
Due to Others	2,967,192	21,667,969	21,197,105	3,438,056	3,129,087
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	$7,627,191	$23,896,989	$22,943,195	$8,580,985	$4,130,113
	=========	==========	===========	=========	===========

NOTE 7 - RELATED-PARTY TRANSACTIONS AND INTERCOMPANY RECEIVABLES AND PAYABLES

OSUP is a component unit 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 on the statement of net assets at June 30, 2011, 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 its 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 following are balances due from the Health System as of June 30, 2011:

Due From Health System	
Practice Plan	**2011**
OSUP Corporate	$597,561
Family Medicine Foundation, LLC	153,181
OSU Eye Physicians & Surgeons, LLC	416,149
OSU GYN and OB Consultants, LLC	462,154
OSU Internal Medicine, LLC	1,118,442
OSU Neuroscience Center, LLC	347,397
OSU Otolaryngology-Head and Neck Surgery, LLC	3,000
OSU Pathology, LLC	361,834
OSU Psychiatry, LLC	327,773
OSU Radiology, LLC	68,000
OSU Surgery, LLC	583,172
OSU Urology, LLC	20,964
Total	$4,459,627 =============

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 University. The balances due from the COMPH as of June 30, 2011 are as follows:

Due From COMPH	
Practice Plan	**2011**
Family Medicine Foundation, LLC	$ 57,371
OSU Emergency Medicine, LLC	241,399
OSU Eye Physicians & Surgeons, LLC	31,240
OSU GYN and OB Consultants, LLC	207,061
OSU Internal Medicine, LLC	534,720
OSU Otolaryngology-Head and Neck Surgery, LLC	277,070
OSU Pathology, LLC	32,179

OSU Physical Medicine and Rehabilitation, LLC	39,602
OSU Psychiatry, LLC	20,383
OSU Radiation Oncology, LLC	43,055
OSU Radiology, LLC	287,297
OSU Surgery, LLC	577,547
Total	$2,348,924 =============

Due To:
Health System — OSUP pays premiums for the USIF (malpractice) and health insurance to the University Office of the Treasurer. Additionally, OSUP is responsible for certain costs of the EPIC ambulatory electronic health record (EHR) implementation coordinated through the Health System. As of June 30, 2011 and 2010, OSUP has $10.3 million payable to the Health System for the EPIC EMR implementation. The balances due to the Health System as of June 30, 2011 are as follows:

Due to Health System	
Practice Plan	**2011**
OSUP Corporate	$ 561,814
Family Medicine Foundation, LLC	23,535
OSU Emergency Medicine, LLC	596,052
OSU Eye Physicians & Surgeons, LLC	518,179
OSU GYN and OB Consultants, LLC	453,053
OSU Internal Medicine, LLC	4,525,587
OSU Neuroscience Center, LLC	569,139
OSU Otolaryngology-Head and Neck Surgery, LLC	324,551
OSU Pathology, LLC	865,719
OSU Physical Medicine and Rehabilitation, LLC	295,261
OSU Psychiatry, LLC	455,582
OSU Radiation Oncology, LLC	99,391
OSU Radiology, LLC	946,927
OSU Surgery, LLC	1,213,811
OSU Urology, LLC	154,376
Total	$11,602,977 =============

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, 2011 is $7,203,989. Balances due to the COMPH as of June 30 2011 are as follows:

Due to COMPH	
Practice Plan	**2011**
OSUP Corporate	$ 402,439
Family Medicine Foundation, LLC	235,510
OSU Emergency Medicine, LLC	109,178
OSU Eye Physicians & Surgeons, LLC	1,112,005
OSU GYN and OB Consultants, LLC	895,503
OSU Internal Medicine, LLC	569,200

OSU Neuroscience Center, LLC	458,788
OSU Otolaryngology-Head and Neck Surgery, LLC	74,910
OSU Pathology, LLC	106,222
OSU Physical Medicine and Rehabilitation, LLC	200,265
OSU Psychiatry, LLC	695,133
OSU Radiation Oncology, LLC	33,478
OSU Radiology, LLC	168,807
OSU Surgery, LLC	2,204,525
OSU Urology, LLC	240,879
Total	$7,506,842 =============

NOTE 8 -INVESTMENT IN OTHER LIMITED LIABILITY CORPORATIONS (LLC)

OSUP has a 40% ownership interest in Fresenius Medical Care-OSUIM Kidney Centers, LLC. At June 30, 2011, the total amount invested is $2,836,290. Income and distributions of $543,351 and $573,073, respectively, were recognized in 2011. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded in the consolidated statement of net assets in other assets using the equity method of accounting.

OSUP has a 49% ownership interest with Children's Hospital and OSU-Children's Pediatrics, LLC. At June 30, 2011, the total amount invested is $932,159. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded in the consolidated statement of net assets in other assets using the equity method of accounting.

NOTE 9 - MEDICAL MALPRACTICE CLAIMS

OSUP purchases professional and general liability insurance to cover medical malpractice claims through the University. The University has established a trusteed 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 are based upon an independent actuarial determination as of June 30, 2011. Premiums are assessed to OSUP based on the physician's specialty and the types of procedures performed. Premiums paid for the year ended June 30, 2011 were $4,346,570.

NOTE 10 - 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 $17,745,927 for the year ended June 30, 2011.

401 (a) Contributions	
Practice Plan	**2011**
OSUP — Corporate	$ 682,612
Family Medicine Foundation, LLC	447,622
OSU Emergency Medicine, LLC	1,009,246

OSU Eye Physicians and Surgeons, LLC	331,730
OSU GYN and OB Consultants, LLC	595,276
OSU Internal Medicine, LLC	4,530,017
OSU Neuroscience Center, LLC	474,257
OSU Otolaryngology-Head and Neck Surgery, LLC	934,615
OSU Pathology, LLC	1,846,468
OSU Physical Medicine and Rehabilitation, LLC	175,397
OSU Psychiatry, LLC	40,991
OSU Radiation Oncology, LLC	341,775
OSU Radiology, LLC	1,958,038
OSU Surgery, LLC	3,903,587
OSU Urology, LLC	474,296
Total	$ 17,745,927

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.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Operating Leases — OSUP leases various equipment and facilities under operating leases expiring at various dates through September 2029. Total rental expense in 2011 for all operating leases was approximately $6.2 million, 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, 2011, that have initial or remaining lease terms in excess of one year.

Year Ending June 30	
2012	$ 4,220,367
2013	3,891,938
2014	3,365,831
2015	2,875,370
2016	2,718,719
Thereafter	12,474,819
Total	$ 29,547,044

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 consolidated 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.

NOTE 12 - SUBSEQUENT EVENTS

OSUP evaluated events occurring between the end of our most recent fiscal year and January 13, 2012, the date the consolidated financial statements were issued.

Effective January 1, 2011 all new faculty members are employed through The Ohio State University Faculty Group Practice (FGP) and are leased back to OSUP. Physicians currently and previously employed through OSUP began integrating through the FGP effective July 1, 2011 and will do so up through July 1, 2012, and be leased back to OSUP in the same manner as new hires that started after January 1, 2011. This will continue until the integration with OSU FGP is complete, creating an integrated health, research and educational system.

On October 1, 2011, a new LLC has commenced operations. OSU Plastic Surgery, a former division of OSU Surgery, is becoming its own separate department.

In August 2011 Internal Medicine sold their 40% investment in Fresenius, netting $3.1 million in cash from the transactions. A portion of the proceeds from the sale were used to pay off the $1.4 million loan with Fifth Third held in connection with that investment, including payoff of the swap instrument in place.

The oncology division within OSU GYN and OB Consultants, LLC switched to a provider-based clinic model on August 1, 2011. Clinical costs associated with this division are now being assumed by the Health System, who is also handling the billing.

Subsequent to the balance sheet date, OSUP and each LLC individually and collectively entered into a series of amendments to the revolving credit loan and security agreement (see Note 5) reducing their line of credit limits to provide total borrowing up to $4 million collectively, to exclude OSU Urology LLC from the line of credit, and to add the additional subsidiary noted above, OSU Plastics Surgery, LLC, to the revolving credit line. Pursuant to these amendments of the Agreement, each individual LLC has changed their limited amount to borrow to as follows:

	December 31, 2011
OSUP -Corporate	$750,000
Family Medicine Foundation, LLC	$150,000
OSU Emergency Medicine, LLC	$500,000
OSU Eye Physicians and Surgeons, LLC	$400,000
OSU GYN and OB Consultants, LLC	$500,000
OSU Internal Medicine, LLC	$2,000,000
OSU Neuroscience Center, LLC	$250,000
OSU Otolaryngology-Head and Neck Surgery, LLC	$500,000
OSU Pathology, LLC	$500,000
OSU Physical Medicine and Rehabilitation, LLC	$100,000
OSU Plastic Surgery, LLC	$500,000
OSU Psychiatry, LLC	$100,000
OSU Radiation Oncology, LLC	$100,000
OSU Radiology, LLC	$500,000
OSU Surgery, LLC	$1,000,000

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of The Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 13, 2012. 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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We noted certain matters that we reported to management of OSUP in a separate letter dated January 13, 2012.

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

PricewaterhouseCoopers LLP

January 13, 2012

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

SUPPLEMENTAL CONSOLIDATING SCHEDULES

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES
(A component unit of The Ohio State University)
CONSOLIDATING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011

	OSUP — Corporate	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Radiation Oncology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
ASSETS																		
CURRENT ASSETS:																		
Cash and cash equivalents	$ 4,824,223	$ 1,620,293	$ 4,680,797	$ 286,592	$ 326,583	$ 10,473,970	$ 402,177	$ 1,755,942	$ 4,280,711	$ 683,364	$ 2,192,447	$ 3,929,059	$ 1,203,259	$ 2,548,007	$ 3,612,386	$ 42,819,810	$ 57,864	$ 42,877,674
Short-term investments		1,225,000	200,000						314,481			240,000			720,454	2,699,935		2,699,935
Accounts receivable — patient care:																		
Accounts receivable — patient care			8,012,772	2,674,924	6,007,868	22,815,970	2,999,691	6,627,141	7,690,274	1,631,027	604,956	1,291,103	7,166,632	17,528,517	2,626,545	87,677,420		87,677,420
Allowances			(6,059,716)	(1,478,309)	(3,681,732)	(12,485,242)	(1,874,394)	(3,827,810)	(5,233,958)	(991,474)	(316,728)	(743,282)	(4,685,257)	(11,856,045)	(1,809,093)	(55,043,040)		(55,043,040)
Accounts receivable — patient care — net	-	-	1,953,056	1,196,615	2,326,136	10,330,728	1,125,297	2,799,331	2,456,316	639,553	288,228	547,821	2,481,375	5,672,472	817,452	32,634,380	-	32,634,380
Accounts receivable — other	553,553	18,538	18,997	199,401	13,236	474,238	19,977	170,326	338,165	249,162			856	122,810		2,179,259		2,179,259
Allowance for uncollectible non-patient receivables									(231,043)							(231,043)		(231,043)
Accounts receivable — other — net	553,553	18,538	18,997	199,401	13,236	474,238	19,977	170,326	107,122	249,162	-	-	856	122,810	-	1,948,216	-	1,948,216
Due from affiliates	1,200,127	210,597	252,711	531,100	724,441	1,880,366	355,218	302,882	421,433	42,772	349,608	45,429	384,781	1,216,479	36,975	7,954,919	(1,161,194)	6,793,725
Inventories	104,080				397,475	254,889	220,279			57,036						1,033,759		1,033,759
Prepaid expenses	1,181,046	1,083	1,502	4,069	48,520	143,930	6,535	28,522	31,652	3,711	115	331	2,396	90,056	749	1,544,217	(25,759)	1,518,458
Notes receivable									2,250							2,250		2,250
Total current assets	7,863,029	3,075,511	7,107,063	2,217,777	3,836,391	23,558,121	2,129,483	5,057,003	7,613,965	1,675,598	2,830,398	4,762,640	4,072,667	9,649,824	5,188,016	90,637,486	(1,129,088)	89,508,397
NONCURRENT ASSETS:																		
Property, plant, furnitures, and equipment:																		
Property, plant, furnitures, and equipment	17,879,250		78,506	3,270,626	2,480,136	11,626,712	138,108	869,471	571,627	85,919		1,788	31,967	803,044	171,777	38,008,931		38,008,931
Accumulated depreciation	(3,432,709)		(73,022)	(990,625)	(935,308)	(6,442,682)	(70,755)	(287,813)	(368,499)	(68,058)		(1,788)	(31,798)	(405,075)	(35,435)	(13,143,567)		(13,143,567)
Property, plant, furnitures, and equipment — net	14,446,541	-	5,484	2,280,001	1,544,828	5,184,030	67,353	581,658	203,128	17,861	-	-	169	397,969	136,342	24,865,364		24,865,364
Long term investments									2,050,495							2,050,495		2,050,495
EPIC EMR			533,521	370,127	404,077	3,427,964	447,180	243,414	865,718	256,411	404,906	86,313	584,686	972,041	137,836	8,734,194		8,734,194
Investment in affiliates	932,159					2,836,290										3,768,449		3,768,449
Other assets	3,094,358	16,477	40,897	20,929	247,483	225,301	67,634	306,690	528,947	100,674	17,674	8,531	48,702	83,102		4,807,399	(3,226,643)	1,580,756
Total noncurrent assets	4,026,517	16,477	574,418	391,056	651,560	6,489,555	514,814	550,104	3,445,160	357,085	422,580	94,844	633,388	1,055,144	137,836	19,360,537	(3,226,644)	16,133,894
TOTAL ASSETS	26,336,087	3,091,988	7,686,965	4,888,834	6,032,779	35,231,706	2,711,650	6,188,765	11,262,253	2,050,544	3,252,978	4,857,484	4,706,224	11,102,935	5,462,194	134,863,387	(4,355,732)	130,507,655
LIABILITIES AND NET ASSETS																		
CURRENT LIABILITIES:																		
Accounts payable	$ 432,657	$ 2,505	$ 7,525	$ 260,008	$ 713,896	$ 667,577	$ 292,450	$ 164,532	$ 126,774	$ 223,353	$ 13,091	$ 3,424	$ 136,533	$ 133,510	$ 49,793	$ 3,227,628		$ 3,227,628
Accrued expenses	6,553	45,433	18,130	127,885	116,805	148,705	43,134	11,031	36,517	10,320	13,761	3,377	19,870	45,122	143,039	789,682	(25,758)	763,924
Accrued salaries and wages	3,348,829	549,388	1,119,770	76,579	365,182	2,569,377	338,952	1,581,154	1,971,019	284,432	54,512	16,716	328,694	421,437	24,528	13,050,569		13,050,569
Due to affiliates — current portion	1,111,159	259,101	287,978	676,202	842,693	2,536,708	708,603	204,493	294,849	314,810	885,562	70,164	746,115	1,274,718	301,205	10,514,360	(1,103,332)	9,411,028
Notes payable and capital leases — current portion	660,000					1,473,973		53,333								2,187,306		2,187,306
Retirement and health plans accrual	253,176	79,799	218,643	14,589	14,667	400,106	61,520	(3,375)	348,198	28,892	3,314	9,420	212,371	15,548	734	1,657,602		1,657,602
Other current liabilities	350,965	3,426	520,716	206,867	425,209	738,646	93,880	222,836	674,083	22,151	39,248	29,750	231,152	517,865	53,319	4,130,113		4,130,113
Total current liabilities	6,163,339	939,652	2,172,762	1,362,130	2,478,452	8,535,092	1,538,539	2,234,004	3,451,440	883,958	1,009,488	132,851	1,674,735	2,408,200	572,618	35,557,260	(1,129,090)	34,428,170
LONG-TERM LIABILITIES:																		
Notes payable and capital leases — less current portion	16,370,000					105,092		75,556								16,550,648		16,550,648
Due to affiliates and other — long term	670,995		426,913	2,117,200	938,465	4,249,821	341,688	215,094	692,732	195,683	268,349	65,871	387,499	2,161,263	102,112	12,833,685	(3,226,642)	9,607,043
Other long term liabilities	2,614,799				502,073										1,334,000	4,450,872		4,450,872
Total long term liabilities	19,655,794	-	426,913	2,117,200	1,440,538	4,354,913	341,688	290,650	692,732	195,683	268,349	65,871	387,499	2,161,263	1,436,112	33,835,205	(3,226,642)	30,608,563
NET ASSETS — Unrestricted	516,954	2,152,336	5,087,290	1,409,504	2,113,789	22,341,701	831,423	3,664,111	7,118,081	970,903	1,975,141	4,658,762	2,643,990	6,533,473	3,453,464	65,470,922		65,470,922
TOTAL	$ 26,336,087	$ 3,091,988	$ 7,686,965	$ 4,888,834	$ 6,032,779	$ 35,231,706	$ 2,711,650	$ 6,188,765	$ 11,262,253	$ 2,050,544	$ 3,252,978	$ 4,857,484	$ 4,706,224	$ 11,102,935	$ 5,462,194	$ 134,863,387	$ (4,355,732)	$ 130,507,655

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

(A component unit of The Ohio State University)

CONSOLIDATING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	OSUP Corporate	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Radiation Onocology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
OPERATING REVENUE																		
Patient care revenue:																		
Patient care revenue	$ -	$ (438)	$ 42,680,708	$ 21,243,964	$ 45,848,511	$ 167,109,733	$ 21,580,171	$ 43,013,778	$ 69,736,633	$ 12,383,670	$ 4,049,010	$ 9,157,895	$ 62,458,189	$ 94,781,800	$ 19,904,958	$ 613,948,582	$ -	$ 613,948,582
Less — contractual adjustments	(15,024)	-	(31,079,300)	(11,004,019)	(27,920,996)	(97,478,549)	(12,088,324)	(27,311,486)	(50,228,946)	(8,162,765)	(2,002,231)	(5,020,932)	(40,884,125)	(64,719,568)	(13,801,477)	(391,717,742)	-	(391,717,742)
Net patient care revenue	(15,024)	(438)	11,601,408	10,239,945	17,927,515	69,631,184	9,491,847	15,702,292	19,507,687	4,220,905	2,046,779	4,136,963	21,574,064	30,062,232	6,103,481	222,230,840	-	222,230,840
Other revenue	15,487,516	8,062,065	3,928,517	2,077,807	3,280,314	13,378,556	1,994,312	2,167,747	7,956,056	1,959,623	4,610,076	519,558	853,115	13,464,792	1,114,029	80,854,083	(12,483,920)	68,370,163
Total operating revenue	15,472,492	8,061,627	15,529,925	12,317,752	21,207,829	83,009,740	11,486,159	17,870,039	27,463,743	6,180,528	6,656,855	4,656,521	22,427,179	43,527,024	7,217,510	303,084,923	(12,483,920)	290,601,003
OPERATING EXPENSES:																		
Salaries and benefits	9,384,932	7,034,545	12,472,280	7,389,443	11,555,050	60,921,047	6,700,981	12,584,602	20,599,517	3,860,239	5,546,945	2,845,287	17,259,421	34,742,109	5,454,619	218,351,017	(298,190)	218,052,827
Supplies and pharmaceuticals	712,675	-	70,691	1,673,068	5,267,264	8,655,078	2,211,258	826,246	2,151,387	1,478,983	53,580	7,824	83,079	906,422	254,262	24,351,817	-	24,351,817
Services	4,261,155	10,196	885,122	892,614	1,367,814	4,645,889	644,044	1,047,313	3,299,383	202,343	480,255	200,879	1,755,383	1,181,656	396,792	21,270,838	(4,214,755)	17,056,083
Malpractice	-	196,745	403,305	78,224	288,886	1,272,617	196,376	134,552	111,678	81,732	46,820	26,436	290,664	1,136,392	82,143	4,346,570	-	4,346,570
Dean's tax	-	208,439	715,937	256,622	294,473	1,688,713	182,442	444,800	614,943	65,568	104,109	124,295	1,441,782	879,152	182,714	7,203,989		7,203,989
Occupancy and utilities	2,038,482	479	7,179	1,010,545	1,023,079	1,731,160	368,652	737,057	288,238	70,122	148,158	897	91,142	838,270	126,114	8,479,574	(1,042,219)	7,437,355
Amortization and depreciation	681,138	-	3,439	318,206	332,263	1,369,073	101,894	149,863	147,828	70,931	-	13,078	254	247,223	35,775	3,470,965	-	3,470,965
Interest	473,719	-	11,829	146,405	42,583	238,122	7,853	14,691	-	(4,686)	9,501	2,169	12,761	36,277	5,153	996,377	-	996,377
Other expenses	254,396	299,442	609,630	398,157	753,804	2,826,358	390,559	548,398	804,248	265,311	113,224	244,501	1,079,091	1,625,814	668,671	10,881,604	(7,970,976)	2,910,628
Total operating expenses	17,806,497	7,749,846	15,179,412	12,163,284	20,925,216	83,348,057	10,804,059	16,487,522	28,017,222	6,090,543	6,502,592	3,465,366	22,013,577	41,593,315	7,206,243	299,352,751	(13,526,140)	285,826,611
Operating income	(2,334,005)	311,781	350,513	154,468	282,613	(338,317)	682,100	1,382,517	(553,479)	89,985	154,263	1,191,155	413,602	1,933,709	11,267	3,732,172	1,042,220	4,774,392
NONOPERATING INCOME (EXPENSES):																		
Interest Income	871	10,324	3,731	431	-	6,689	-	-	45,005	-	114	553	-	11,203	11,421	90,342	-	90,342
Nonoperating income	3,013,343	-			-	432,746	-	-	-	-	-	-	-	-	-	3,446,089	(1,042,220)	2,403,869
Income (loss) from investments	142,860	-	(554)		-	815,478	-	-	11,334	-	-	-	-	246	-	969,364	-	969,364
(Loss) gain on sale of assets	-	-			-	(36,259)	-	-	-	-	-	-	-	-	-	(36,259)	-	(36,259)
Nonoperating expense	(1,335)	(147,869)	(1,400)	(2,350)	(16,202)	(4,011)	(14,189)	(14,150)	(33,546)	-	-	(8,000)	(1,250)	4,809	(59,146)	(298,639)	-	(298,639)
Total nonoperating income (expense)	3,155,739	(137,545)	1,777	(1,919)	(16,202)	1,214,643	(14,189)	(14,150)	22,793	-	114	(7,447)	(1,250)	16,258	(47,725)	4,170,897	(1,042,220)	3,128,677
(DECREASE) INCREASE IN NET ASSETS	821,734	174,236	352,290	152,549	266,411	876,326	667,911	1,368,367	(530,686)	89,985	154,377	1,183,708	412,352	1,949,967	(36,458)	7,903,069	-	7,903,069
NET ASSETS — Beginning of year	(304,780)	1,978,100	4,735,000	1,256,955	1,847,378	21,465,375	163,512	2,295,744	7,648,767	880,918	1,820,764	3,475,054	2,231,638	4,583,506	3,489,922	57,567,853	-	57,567,853
NET ASSETS — End of year	$ 516,954	$ 2,152,336	$ 5,087,290	$ 1,409,504	$ 2,113,789	$ 22,341,701	$ 831,423	$ 3,664,111	$ 7,118,081	$ 970,903	$ 1,975,141	$ 4,658,762	$ 2,643,990	$ 6,533,473	$ 3,453,464	$ 65,470,922	$ -	$ 65,470,922

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Dave Yost • Auditor of State

THE 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
APRIL 19, 2012