OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Basic Financial Statements

Years Ended June 30, 2023, and 2022

(With Independent Auditors' Report Thereon)

OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

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

We have reviewed the *Independent Auditors' Report* of The Ohio State University Physicians, Inc., Franklin County, prepared by KPMG LLP, for the audit period July 1, 2022 through June 30, 2023. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

December 06, 2023

This page intentionally left blank.

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

Table of Contents

This page intentionally left blank.

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Ohio State University Physicians, Inc. (the "OSUP"), a component unit of The Ohio State University, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise OSUP's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of OSUP as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OSUP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OSUP's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2023 on our consideration of OSUP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OSUP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSUP's internal control over financial reporting and compliance.

KPMG LLP

Columbus, Ohio
November 10, 2023

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of Ohio State University Physicians, Inc. for the years ended June 30, 2023, 2022, and 2021. Condensed financial information derived from the financial statements is provided for comparative purposes for these three years. We encourage you to read this MD&A section in conjunction with the audited financial statements and the accompanying footnotes included in this report.

About Ohio State University Physicians

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

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2023, only 16 of the LLCs are active and included in the financial statements. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no operations within the OSUP structure through June 30, 2023. OSUP is governed by a board of managers who are responsible for oversight of clinical programs, budgets, general administration, and employment of faculty and staff.

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

About the Financial Statements

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

The Statement of Net Position is OSUP's balance sheet. It reflects the total assets, liabilities and net position as of June 30, 2023 and 2022. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value or amortized cost depending on original maturity. Capital assets, which include land, buildings, improvements, and equipment, are shown net of accumulated depreciation.

The Statement of Revenue, Expenses and Changes in Net Position is OSUP's income statement. It details how net position has increased (or decreased) during the years ended June 30, 2023 and 2022. Patient care revenue is shown net of allowances for collectability, depreciation is provided for capital assets, and there are required subtotals for operating income (loss) and non-operating income (expense).

The Statement of Cash Flows details how cash has increased (or decreased) during the years ended June 30, 2023 and 2022. It breaks out the sources and uses of OSUP cash into logical categories such as, operating activities, capital financing activities, and investing activities.

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

In 2023, OSUP implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements. GASB 96 extends the right-of-use accounting concepts introduced in GASB Statement No. 87 to subscription-based information technology arrangements, or SBITAs. Under GASB 96, governments are required to identify arrangements that qualify as SBITAs and recognize a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term.

The adoption of GASB 96 had no impact on OSUP's net position as of July 1, 2021. The accompanying financial statements and MD&A information for the year ended June 30, 2022 have been restated to reflect the new accounting standard. MD&A information for the year ended June 30, 2021 has not been restated.

Financial Highlights and Key Trends

OSUP's financial position remains strong, and the organization continues its mission to provide medical care and support medical research and medical education at the University. OSUP opened Outpatient Care New Albany in August 2021 and Outpatient Care Dublin in August 2022.

Effective July 1, 2022, the operations of several clinical areas were transferred from the Health System to OSUP to create a more integrated and simplified practice structure. The departments transitioned to OSUP as part of the integrated practice plan initiative include Anesthesiology, Family and Community Medicine, Neurological Surgery, Orthopedics, and the division of Maternal Fetal Medicine. This integration totaled (unaudited) $162.3 million in net patient revenue, $102.3 million in other revenue, $204.8 million in salaries and benefits, $11.1 million in supplies and pharmaceuticals, $22.9 million in purchased services, and $15.2 million in other operating expenses for the year ended June 30, 2023.

In the year ended June 30, 2023, OSUP experienced growth in outpatient visits and procedures volumes. Total patient encounters increased 3.6% compared to the year ended June 30, 2022 leading to strong results in operations for the year.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, includes provisions to provide support to individuals, companies and non-profit institutions in the form of loans, grants, tax changes and other types of relief. Provider Relief Funds recognized as revenue totaled $11.7 million in fiscal year 2022. Provider Relief Funds of $20 million were sub-awarded to the Health System in fiscal year 2023. Amounts provided to OSUP under CARES Act programs are recognized as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position as eligibility requirements are met.

OSUP's net position decreased $18.3 million to $202.4 million at June 30, 2023 as compared to prior year's growth in net position of $5.2 million. This includes $3.0M FY23 unbudgeted transfers to OSU endowments to support senior faculty in the College of Medicine. The remaining decrease is due to operating losses in select departments that we anticipate are non-recurring. The FY24 OSUP budget was developed in alignment with a group practice model that included incremental support from the Health System and OSUP Corporate to support all operating departments. OSUP is collaborating with departments to ensure expense moderation, revenue enhancement, and mission-based expense/fund alignment activities are identified and implemented.

Net Patient Revenues increased by $198.5 million, and Other Revenue, which includes Medical Center Investment, increased by $107.5 million, while operating expenses grew by $348.0 million and Nonoperating

Income (Expense) increased by $18.5 million, primarily driven by the $20.5 million of provider relief funds that were subawarded to the Health System.

Condensed Statements of Net Position

		June 30		
		2023	2022	2021
			(In thousands)	
Assets				
Current assets	$	394,555	364,968	370,385
Capital assets		202,036	101,067	68,362
Noncurrent assets		5,104	4,326	5,112
Total assets	$	601,695	470,361	443,859
Liabilities				
Current liabilities	$	215,345	166,367	173,491
Long-term liabilities		178,374	77,925	48,442
Deferred inflows		5,618	5,417	6,443
Total liabilities		399,337	249,709	228,376
Net position				
Net investment in capital assets		11,228	14,650	13,750
Unrestricted		191,130	206,002	201,733
Total net position		202,358	220,652	215,483
Total liabilities and net position	$	601,695	470,361	443,859

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

Cash and cash equivalents decreased $82.0 million from June 30, 2022 to June 30, 2023 and decreased $85.8 million from June 30, 2021 to June 30, 2022. The primary drivers for the decrease from 2022 to 2023 were purchases of short-term investments of $109.8 million, partially offset by proceeds from the sale of investments of $47.9 million, payments on real estate leases or $11.8 million, interest of $7.7 million, and capital purchases of $6.5 million. The primary drivers for the decrease from 2021 to 2022 were purchases of short-term investments of $90.4 million, $8.3 million needed for operations, payments on lease liabilities of $5.7 million, interest of $3.2 million, and capital purchases of $4.7 million, which were partially offset by receipt of $31.6 million of Provider Relief Funds.

Short-term investments increased by $61.9 million from June 30, 2022 to June 30, 2023. The primary drivers for the increase were purchases of short-term investments of $109.8 million, partially offset by proceeds from the sale of investments of $47.9 million, and unrealized gains of $4.2 million. Short-term investments increased

(Continued)

by $81.9 million from June 30, 2021 to June 30, 2022 due to purchases of $90.4 million in exchange traded investments, partially offset by unrealized losses of $8.9 million.

Net patient care accounts receivable increased by $39.3 million from June 30, 2022 to June 30, 2023 due to increased patient revenue, driven by the new clinical areas transitioned to OSUP from the Health System. Net patient care accounts receivable decreased by $2.0 million from June 30, 2021 to June 30, 2022 due to implementation of improved processes, focused on reducing charge lag and increasing the use of automation.

Capital assets, net increased by $101.0 million from June 30, 2022 to June 30, 2023 primarily related to $117.1 million in new, renewed or expanded leases related to expanding operations at Dublin and New Albany outpatient clinics and the new clinical areas, partially offset by $19.1 million of depreciation and amortization. Capital assets, net increased by $32.7 million from June 30, 2021 to June 30, 2022 primarily related to $28.9 million of new and renewed leases executed during fiscal year 2022.

The increase in current liabilities of $49.0 million from June 30, 2022 to June 30, 2023 was primarily driven by the increase in Due to Affiliates of $58.9 million, related to the timing of settlements with the University and Health System, partially offset by the decrease in other current liabilities of $22.5 million, related to the subaward of Provider Relief Funds to the Health System. The decrease in current liabilities of $7.1 million from June 30, 2021 to June 30, 2022 was primarily driven by the Medicare recoupment of $10.2 million of advance payments, partially offset by an increase of $1.8 million in accounts payable. The Due to Affiliates increase was related to a change in processing of settlement of affiliate transactions that occurred in the second half of fiscal year 2021.

Long-term liabilities increased $100.4 million from June 30, 2022 to June 30, 2023 and increased $29.5 million from June 30, 2021 to June 30, 2022 primarily related to the implementation of GASB 87 and and new and renewed leases executed during fiscal years 2023 and 2022, partially offset by payments made on long-term notes payable. The remaining long-term debt associated with various building projects is $8.0 million as of June 30, 2023, $9.1 million as of June 30, 2022, $10.5 million and as of June 30, 2021.

The Statement of Revenue, Expenses, and Changes in Net Position presents OSUP's results of operations. A comparison for the years ended June 30, 2023, 2022 and 2021 is summarized as follows.

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

		2023	2022	2021
			(In thousands)	
Net patient care revenue less provisions for bad debts	$	646,915	448,420	426,218
Other revenue		359,852	252,347	221,382
Total operating expense		(1,039,729)	(691,754)	(622,354)
Operating (loss) income		(32,962)	9,013	25,246
Nonoperating income (expense)		14,668	(3,844)	(15,424)
(Decrease) increase in net position		(18,294)	5,169	9,822
Net position – beginning of year		220,652	215,483	205,661
Net position – end of year	$	202,358	220,652	215,483

Patient encounters increased 3.6% in fiscal year ended June 30, 2023, compared to fiscal year ended June 30, 2022. The 2023 increase was primarily driven by the new clinical areas, and the opening of the Dublin Outpatient Care facility. The 2022 increase was primarily driven by the opening of Outpatient Care New Albany. In addition, the number of physicians increased by 35 in 2021, to 1,115 physicians and the number of midlevel providers increased by 42, to 657 midlevel providers.

Changes in net patient care revenue are associated with volume changes noted above as well as changes in rates charged and payments received for services, including the change in mix of services rendered to patients, and the payer mix of patients seen. Net patient care revenue increased by $198.5 million from fiscal year 2022 to fiscal year 2023 and increased by $22.2 million from fiscal year 2021 to fiscal year 2022. The 2023 increase related to revenue from the new clinical areas of $162.3 million, as well as increased volume and an increase in charge master rates. The 2022 increase was due to the opening of Outpatient Care New Albany.

Other revenue increased $107.5 million from fiscal year ended June 30, 2022 to June 30, 2023 and increased $31.0 million from fiscal year ended June 30, 2021 to June 30, 2022. Other revenue represents both revenue associated with outside health related organizations and services purchased from physician departments by the Health System. The increases in 2023 and 2022 were primarily due to increases in purchased services payments from the Health System.

Operating expenses increased by $348.0 million from fiscal year ended June 30, 2022, to June 30, 2023 and increased by $69.4 million from fiscal year ended June 30, 2021, to June 30, 2022. Approximately $171.0 million of the 2023 increase came from physician and other provider related costs, $28.6 million in other salaries and benefits, and $95.8 million in purchased services primarily driven by the addition of the new clinical areas and the opening of the Dublin outpatient care clinic. Additionally, $20.5 million of Provider Relief Funds were sub-awarded to the Health System. These expenses are included in operating expenses. Approximately $37.3 million of the 2022 increase came from physician and other provider related costs and $22.8 million in other salaries and benefits OSUP invested in personnel for Outpatient Care New Albany and Outpatient Care Dublin. The 2022 increase was also impacted by an increase in Dean's Tax and strategic initiative transfers of $2.5 million. In addition, there was an increase in staff salary and benefit costs of $1.0 million which was due to an increase in staff FTEs.

Nonoperating income (expense) of $14.7 million for the year ended June 30, 2023, increased by $18.5 million from ($3.8) million for the year ended June 30, 2022, primarily due to $20.5 million of Provider Relief Funds received that were sub awarded to the Health System and $4.2 million of unrealized investment gains in fiscal year 2023, compared to $8.9 million of unrealized investment losses in fiscal year 2022. Nonoperating income (expense) of ($15.4) million for the year ended June 30, 2021 decreased by $11.6 million to ($3.8) million for the year ended June 30, 2022, primarily due to $11.7 million of Provider Relief Funds received in fiscal year in 2022.

Economic Factors That Will Affect the Future

Healthcare reforms are always a source of concern as legislative proposals and contractual models are constantly discussed as a need for change. The Medicare Access and CHIP Re-Authorization Act (MACRA) was signed into law on April 16, 2015. This law repealed the Sustainable Growth Rate formula and imposed a new payment methodology for physician billing based upon value rather than volume. The new law locks provider reimbursement rate at or near zero growth for the upcoming years, as follows.

Centers for Medicare and Medicaid Services (CMS) Physician Fee Schedule:

- 2020-2025 – 0% annual increase
- 2026 and beyond – .25% annual increase or .75% for Advanced Alternative Payment Model (APM) qualified participants

CMS has kept the two new payment tracks, Merit Based Incentive Payment System (MIPS) and Alternative Payment Model (APM). MIPS absorbed quality, meaningful use and value-based payment modifier programs into one budget neutral pay for performance program while APM creates a more risk based program with similar quality measures and other requirements.

The details of these programs are many but the implications for OSUP involve positive or negative payment adjustments that are based upon our performance vs. our peers on various indicators. Negative payment adjustments for low performance could mean as much as a 9% reduction on Medicare Part B reimbursements for physician services in years going out to 2022 to 2026. Adjustments for high performance could mean positive adjustments ranging from 2-9%, however due to budget neutrality positive adjustments have been much lower (approximately 1.5% for high performers).

The projected risk amounts are fluid as it will depend on the MIPS scores achieved, number of billing eligible clinicians, program requirements, participation/qualification in an Advanced APM, our Medicare patient population and Medicare reimbursement rates. As a result, OSUP is preparing for this transition of payment models with significant resources that will track quality, cost/resource usage, clinical practice improvement, and promoting interoperability (meaningful use of certified EHR technology) scored on participation and performance.

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

Statements of Net Position

June 30, 2023 and 2022

(In thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	69,499	151,453
Short-term investments		143,771	81,916
Accounts receivable – patient care – net of provisions for bad debts of $13,118 in 2023 and $9,591 in 2022		88,127	48,858
Accounts receivable – other		15,033	14,245
Due from affiliates		70,659	63,792
Lease receivables		711	908
Inventories		2,266	1,197
Prepaid expenses		4,489	2,599
Total current assets		394,555	364,968
Noncurrent assets:			
Capital assets, net		202,036	101,067
Lease receivable less current portion		5,084	4,177
Other assets		20	149
Total noncurrent assets		207,140	105,393
Total assets	$	601,695	470,361
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	5,225	2,997
Accrued salaries and wages		14,640	8,506
Due to affiliates		166,664	107,771
Current portion of notes payable		646	947
Current portion of lease liability		11,788	7,545
Retirement and health plan accrual		1,401	1,142
Other current liabilities		14,981	37,459
Total current liabilities		215,345	166,367
Long-term liabilities:			
Notes payable less current portion		8,339	9,061
Lease liability less current portion		170,035	68,864
Total long-term liabilities		178,374	77,925
Total liabilities		393,719	244,292
Deferred inflows:			
Leases		5,618	5,417
Net position:			
Net investment in capital assets		11,228	14,650
Unrestricted		191,130	206,002
Total net position		202,358	220,652
Total liabilities, deferred inflows, and net position	$	601,695	470,361

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Operating revenue:			
Net patient care revenue	$	661,188	452,856
Provisions for bad debts		(14,273)	(4,436)
Net patient care revenue less provisions for bad debts		646,915	448,420
Contract income		147,708	97,781
Other revenue		212,144	154,566
Total operating revenue		1,006,767	700,767
Operating expenses:			
Salaries and benefits		780,645	581,070
Supplies and pharmaceuticals		34,350	21,047
Purchased services		142,842	47,058
Dean’s tax		24,789	20,776
Occupancy and utilities		6,783	3,754
Amortization and depreciation		19,134	10,861
Grant subaward		20,495	—
Other expenses		10,691	7,188
Total operating expenses		1,039,729	691,754
Operating (loss) income		(32,962)	9,013
Nonoperating revenue (expenses):			
Provider relief funds		—	11,686
Gain (loss) from investments		4,193	(8,899)
Grant subaward		20,495	—
Other nonoperating activities, net		(10,020)	(6,631)
Total nonoperating income (expense)		14,668	(3,844)
(Decrease) increase in net position		(18,294)	5,169
Net position – beginning of year		220,652	215,483
Net position – end of year	$	202,358	220,652

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Cash flows from operating activities:			
Patient receipts, net	$	607,646	445,985
Other receipts		352,197	251,572
Payments to and on behalf of employees		(735,854)	(604,120)
Payments to vendors for supplies and services		(175,988)	(69,962)
Payments on dean's tax		(24,789)	(20,776)
Payments on occupancy and utilities		(8,673)	(3,607)
Payments on other expenses		(12,590)	(7,420)
Net cash provided by (used in) operating activities		1,949	(8,328)
Cash flows from noncapital financing activities:			
Funding to affiliates		—	(6,498)
Provider Relief Funds		—	31,565
Net cash provided by noncapital financing activities		—	25,067
Cash flows from capital and related financing activities:			
Purchase of capital assets		(6,493)	(4,683)
Principal payments on debt		(1,023)	(1,419)
Payments on lease liabilities		(11,825)	(5,660)
Cash paid for interest		(7,756)	(3,272)
Payments received on lease receivables		856	2,856
Net cash used in capital and related financing activities		(26,241)	(12,178)
Cash flows from investing activities:			
Purchase of investments		(109,763)	(90,355)
Proceeds from sale of investments		47,851	—
Interest income		4,250	—
Net cash used in investing activities		(57,662)	(90,355)
Net decrease in cash		(81,954)	(85,794)
Cash and cash equivalents – beginning of year		151,453	237,247
Cash and cash equivalents – end of year	$	69,499	151,453

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Reconciliation of net operating income to net cash provided by (used in) operating activities:			
Operating (loss) income	$	(32,962)	9,013
Adjustments to reconcile net operating income to net cash provided by (used in):			
Amortization and depreciation		19,134	10,861
Changes in assets and liabilities:			
Accounts receivable-patient care – net of allowance		(39,269)	1,977
Accounts receivable – other		(788)	(7,497)
Due from affiliates		(6,867)	6,722
Inventories		(1,069)	6
Prepaid expenses		(1,890)	147
Other assets		129	(232)
Accounts payable and accrued expenses		2,228	(1,863)
Medicare Advance Payment Program		—	(10,191)
Due to affiliates		58,893	(24,505)
Accrued salaries and wages		6,134	1,387
Retirement and health plans accrual		259	68
Other liabilities		(1,983)	5,779
Net cash provided by (used in) operating activities	$	1,949	(8,328)
Non cash transactions:			
Unrealized gain (loss) on investments	$	4,193	(8,899)

See accompanying notes to financial statements.

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

(a) Organization

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

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2023, only 16 of the LLCs are active and included in these financial statements. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no operations within the OSUP structure through June 30, 2023.

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

(b) Basis of Presentation

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

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

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

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

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

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

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

(c) Basis of Accounting

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

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

(d) Net Position

Net position is categorized as:

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

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

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

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of petty cash, demand deposit accounts, money market accounts, savings accounts and investments with original maturities of three months or less, stated at fair market value.

(f) Short-Term Investments

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

(g) Accounts Receivable-Patient Care

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

(h) Inventories

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

(i) Capital assets, Net

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

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

Maintenance and repairs are charged to expense as incurred and are included in service expenses on the Statements of Revenue, Expenses, and Changes in Net Position. Upon retirement of equipment, the cost is removed from the asset account and the related accumulated depreciation is adjusted with the difference being charged or credited to income.

(Continued)

(j) Leases

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

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

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

(k) Loss Contingencies

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

(l) Professional and General Insurance

On July 1, 2003, OSUP joined with The Ohio State University Wexner Medical Center Health System (the “Health System”) to establish a self-insurance fund for professional and patient general liability claims (“Fund II”), covering the employed physicians of OSUP as well as the Health System. The assets and liabilities of Fund II are included in the University’s financial statements, but are not included in OSUP’s financial statements, as a result of the retained risk being held by the University. The estimated liability and the related contributions are based upon an independent actuarial determination as of June 30, 2023 and 2022. The medical liability contribution expense is recorded as period expenses for OSUP. There was no medical liability contribution expense for fiscal years 2023 and 2022.

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

(m) Operating and Non-Operating Revenues and Expenses

OSUP defines operating activities, for purposes of reporting on the Statements of Revenues, Expenses, and Changes in Net Position, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness and certain expenses related to investments, substantially all expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, rental income and net investment income. In addition, amounts provided to OSUP under Federal COVID-19 assistance grant programs are recognized as non-operating revenues as eligibility requirements are met.

(n) Net Patient Care Revenue

Net patient care revenue represents amounts received and estimated net realizable amounts due from patients and third-party payors for services rendered. OSUP provides care to patients under various reimbursement agreements, including governmental and commercial payers (third-party payors). These arrangements provide for payment on covered services at agreed-upon rates, which may result in discounts from charges. Provisions have been made in the financial statements for estimated contractual adjustments, representing the difference between customary charges and related reimbursements, and for administrative adjustments. Administrative adjustments represent amounts that will not be received for provided services due to various reasons, such as noncovered services, untimely filing of claims, insufficient documentation or invalid patient registration. OSUP applies a self-pay discount to self-pay accounts for non-cosmetic services which approximates the average managed care discount for patients with commercial insurance. Self-pay discounts as of June 30, 2023 and 2022 are $26.1 million and $16.8 million, respectively, and are recorded in the contractual adjustments and other discounts line in the table below. Additionally, bad debts are recorded as a reduction of net patient care revenue to calculate net patient care revenue less provisions for bad debts. Upper Payment Limit (UPL) supplemental payments amounting to $13.5 million and $10.7 million for the years ended June 30, 2023 and 2022, respectively were recorded as a reduction of contractual adjustments. UPL is a federal matching program which allows for payments of services associated with Medicaid patients to be brought up to levels more closely representing Medicare rates. These dollars are paid in arrears based upon federal calculations and paid through the state Medicaid program. Future payments are not recognized until amounts are determined, as future payments may not be realizable. Amounts recorded for fiscal year 2023 and fiscal year 2022 are as follows (in thousands):

		2023	**2022**
Gross patient care revenue	$	1,921,167	1,233,978
Contractual adjustments and other discounts		(1,239,814)	(763,340)
Administrative adjustments		(20,165)	(17,782)
Net patient care revenue		661,188	452,856
Provisions for bad debts		(14,273)	(4,436)
Net patient care revenue less provisions for bad debt	$	646,915	448,420

Additionally, net patient care revenue amounts recognized from major payor sources for fiscal year 2023 and fiscal year 2022 are as follows (in thousands):

		2023	2022
Medicare	$	174,081	128,287
Medicaid		58,027	39,576
Anthem		109,524	68,297
United Health Care		70,991	46,985
OSU Health Plan		62,195	39,918
Other commercial/third party payors		169,928	117,817
Patient		16,442	11,976
Net patient care revenue		661,188	452,856
Provisions for bad debts		(14,273)	(4,436)
Net patient care revenue less provisions for bad debt	$	646,915	448,420

(o) Non-Patient Care Revenue

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

(p) Charity Care

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by OSUP. As collection of amounts determined to qualify as charity care are not pursued, such amounts are written off and not reported as gross patient care revenue. OSUP maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services furnished. Charity care costs as of June 30, 2023 and 2022 totaled $23.0 million and $14.6 million, respectively. The cost of charity care is calculated by taking the ratio of operating expenses divided by gross patient revenue, applied to charity care dollars written off.

(q) Federal Income Taxes

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

(r) Use of Estimates

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

(s) Estimated Fair Value of Investments

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

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

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

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

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

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. As of June 30, 2023 and 2022, OSUP had no investments classified as Level 3.

(t) Expansion of Operations

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

(Continued)

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

(u) Recently Adopted Accounting Standards

In fiscal year 2023, OSUP implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements. GASB 96 extends the right-of-use accounting concepts introduced in GASB Statement No. 87 to subscription-based information technology arrangements, or SBITAs. Under GASB 96, governments are required to identify arrangements that qualify as SBITAs and recognize a subscription liability and a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term. The adoption of GASB 96 had no impact on OSUP's net position as of July 1, 2021. The effects of adopting Statement No. 96 retroactively to OSUP's financial statements for the year ended June 30, 2022, increased assets $2.7 million, increased liabilities $2.9 million and decreased net position by $0.2 million.

(v) Newly Issued Accounting Pronouncements

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates (IBOR). Due to global reference rate reform, the London Interbank Offered Rate (LIBOR) is expected to cease to exist at the end of 2021. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The Statement is effective for periods beginning after December 31, 2024 (FY2026).

In April 2022, the GASB issued Statement No. 99, Omnibus 2022. This Statement includes an extension of the use of LIBOR, clarifies provisions related to the new Statements for leases, public-private partnerships (PPPs) and subscription-based IT arrangements, and the classification and reporting of derivative instruments. The provisions related to LIBOR are effective upon issuance, the provisions related to leases, PPPs and SBITAs are effective for periods beginning after June 15, 2022 (FY2023), and the provisions related to derivatives are effective for periods beginning after June 15, 2023 (FY2024).

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment to GASB Statement No. 62*. This Statement requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and changes in accounting estimates be reported prospectively by recognizing the change in the current period. The Statement also provides guidance on related note disclosures and addresses corrections to Required Supplementary Information and Supplementary Information. The Statement is effective for fiscal years beginning after June 15, 2023 (FY2024).

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

(Continued)

cash or settled through noncash means. The Statement is effective for fiscal years beginning after December 15, 2023 (FY2025).

OSUP management is currently assessing the impact that implementation of GASB Statements No. 93, 99, 100 and 101 will have on OSUP's financial statements.

(2) COVID-19 and Cares Act Assistance

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

(a) Health Care Provider Relief Funds

The CARES Act provided $100 billion to establish a Provider Relief Fund for hospitals and other healthcare providers. These funds are to be used to prevent, prepare for, and respond to coronavirus, and further states these payments shall reimburse recipients only for healthcare related expenses or lost revenues that are attributable to coronavirus. OSUP received $31.6 million in Provider Relief Fund grants, with $11.7 million recognized as revenue in fiscal year 2022, recorded in nonoperating revenue in the Statements of Revenue, Expenses, and Changes in Net Position and $20.5 million was sub-awarded to the Health System in fiscal year 2023. The receipt of these funds is considered a voluntary nonexchange transaction.

(3) Cash and Cash Equivalents and Investments

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

OSUP had no long-term investments at June 30, 2023 or June 30, 2022.

Total investments by major category at June 30, 2023 and 2022 are as follows (in thousands):

		2023	2022
Cash equivalents	$	48,311	20,162
Equity mutual funds		—	29,475
Bond mutual funds		94,633	31,799
Investment in partnership		827	480
	$	143,771	81,916

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

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

Investments by fair value hierarchy summarized in Note 1 as of June 30, 2022 are as follows (in thousands):

		Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
Cash equivalents	$	20,162	—	—	20,162
Equity mutual funds		29,475	—	—	29,475
Bond mutual funds		31,799	—	—	31,799
	$	81,436	—	—	81,436

Additional Risk Disclosures for Investments

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

(a) Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their values as a result of future changes in interest rates. OSUP investments consisted of short-term mutual funds at June 30, 2023 and 2022, and therefore not subject to interest rate risk. Under OSUP's investment policy, the short-term investment's weighted average duration may not exceed one year. Intermediate investment's weighted average duration may not exceed five years.

(b) Custodial Credit Risk

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

(c) Credit Risk

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

(d) Concentration of Credit Risk

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

At June 30, 2023 and 2022, OSUP's investments were in mutual funds and therefore, no issuers represented 5% or more of total investments.

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

OSUP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable as of June 30, 2023 and 2022 consist of the following (in thousands):

		2023	2022
Gross accounts receivable – patient care	$	227,174	144,049
Allowance for contractual adjustments		(125,929)	(85,600)
Allowance for bad debt		(13,118)	(9,591)
Total	$	88,127	48,858

Risk of loss for third party payors is based upon contractual obligations, legislative changes, or bankruptcy of the payor. Risk of loss for the patient self-payors is related to economic factors of the individual, and thus has a higher reserve for loss based upon our historical indicators. The mix of gross receivables from patients and third-party payors as of June 30, 2023 and 2022 are as follows:

	2023	2022
Medicare	23 %	24 %
Medicaid	18	15
Commercial/other third party payors	43	44
Patient	16	17
	100 %	100 %

(Continued)

(5) Capital Assets

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

	Beginning balance	Additions	Retirements/ reductions	Ending balance
Capital assets not being depreciated:				
Land	$ 2,090	—	—	2,090
Total non-depreciable capital assets	2,090	—	—	2,090
Capital assets being depreciated:				
Leasehold improvements	9,293	—	18	9,275
Buildings	18,555	—	359	18,196
Equipment	26,274	6,813	280	32,807
Total	54,122	6,813	657	60,278
Less accumulated depreciation				
Leasehold improvements	(4,820)	(705)	16	(5,509)
Buildings	(9,211)	(397)	61	(9,547)
Equipment	(16,238)	(3,245)	244	(19,239)
Total	(30,269)	(4,347)	321	(34,295)
Total depreciable capital assets, net	23,853	2,466	336	25,983
Capital assets, net	$ 25,943	2,466	336	28,073
Lease and subscription IT assets, net				173,963
Total capital assets, net as reported in the statement of net position				$ 202,036

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

The composition of capital assets as of June 30, 2022 is as follows (in thousands):

	Beginning balance	Additions	Retirements/ reductions	Ending balance
Capital assets not being depreciated:				
Land	$ 2,090	—	—	2,090
Total non-depreciable capital assets	2,090	—	—	2,090
Capital assets being depreciated:				
Leasehold improvements	9,293	—	—	9,293
Buildings	18,553	2	—	18,555
Equipment	21,617	4,690	33	26,274
Total	49,463	4,692	33	54,122
Less accumulated depreciation				
Leasehold improvements	(4,046)	(774)	—	(4,820)
Buildings	(8,755)	(456)	—	(9,211)
Equipment	(13,999)	(2,263)	24	(16,238)
Total	(26,800)	(3,493)	24	(30,269)
Total depreciable capital assets, net	22,663	1,199	9	23,853
Capital assets, net	$ 24,753	1,199	9	25,943
Lease and subscription IT assets, net				75,124
Total capital assets, net as reported in the statement of net position				$ 101,067

Depreciation expense for the year ended June 30, 2022 was $10.9 million.

(6) Leases

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

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

The composition of lease assets as of June 30, 2022 is as follows (in thousands):

		Beginning balance	Additions	Remeasure-ments	Deductions	Ending balance
Leases assets – real estate	$	48,236	35,301	—	229	83,308
Less accumulated amortization		(4,628)	(6,441)	—	229	(10,840)
Total assets, net		43,608	28,860	—	—	72,468
Subscription IT assets		3,582	—	—	—	3,582
Less accumulated amortization		—	(926)	—	—	(926)
Subscription IT assets, net		3,582	(926)	—	—	2,656
Total lease and subscription IT assets, net	$	47,190	27,934	—	—	75,124

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

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

The composition of lease liabilities as of June 30, 2022 is as follows (in thousands):

		Beginning balance	Additions	Remeasure-ments	Reductions	Ending balance	Current portion
Lease liability	$	43,185	35,301	—	4,981	73,505	6,505
Subscription IT liabilities		3,583	—	—	679	2,904	1,040
Total	$	46,768	35,301	—	5,660	76,409	7,545

The following is a schedule by year of future minimum lease payments (in thousands) as of June 30, 2023, that have initial or remaining lease terms in excess of one year.

		Principal	Interest	Total
Year ended June 30:				
2024	$	10,527	7,627	18,154
2025		11,024	7,184	18,208
2026		11,704	6,712	18,416
2027		12,264	6,210	18,474
2028		12,370	5,692	18,062
2029–2033		51,864	21,335	73,199
2034–2038		44,633	10,341	54,974
2039–2043		25,573	1,931	27,504
Total	$	179,959	67,032	246,991

The following is a schedule by year of future minimum subscription IT payments (in thousands) as of June 30, 2023, that have initial or remaining lease terms in excess of one year.

		Principal	Interest	Total
Year ended June 30:				
2024	$	1,261	32	1,293
2025		603	8	611
Total	$	1,864	40	1,904

OSUP is lessor for various noncancellable leases of real estate. Lease-related revenues recognized for the years ended June 30, 2023 and 2022 are as follows (in thousands):

		2023	2022
Lease revenue	$	495	1,024
Interest revenue		200	213
	$	695	1,237

(7) Note Payable — Long Term Debt

(a) Debt

Changes in long-term obligations as of June 30, 2023 and 2022 are as follows (in thousands):

		Beginning balance	Additions	Reductions	Ending balance	Current portion
June 30, 2023:						
Series 2013 Health Care Facilities Revenue Bond	$	9,636	—	678	8,958	619
Term loan		274	—	274	—	—
Other obligations		98	—	71	27	27
	$	10,008	—	1,023	8,985	646

		Beginning balance	Additions	Reductions	Ending balance	Current portion
June 30, 2022:						
Series 2013 Health Care Facilities Revenue Bond	$	10,754	—	1,118	9,636	622
Term loan		558	—	284	274	274
Other obligations		115	—	17	98	51
	$	11,427	—	1,419	10,008	947

There were no new borrowings in 2023 and 2022 and OSUP paid cash of $1.0 million and $1.4 million and related to repayments in fiscal year 2023 and 2022, respectively.

The Series 2013 healthcare facilities revenue bonds, which were issued on May 1, 2013 for $15.4 million, are subject to certain restrictive and financial covenants, requiring minimum debt service coverage ratios of 1.25 to 1.50 quarterly and minimum tangible net worth semi-annually, as defined by the agreement, of $48 million. OSUP was in compliance with all covenants for all applicable quarters during 2023 and 2022.

The Series 2013 healthcare facilities revenue bond is to be paid monthly with payments of principal and interest to be made until July 1, 2035. The interest rate increased to 2.556% per annum effective January 1, 2018. The interest rate increased as the terms of the bonds state that in the event of a decrease in the corporate tax rate, the interest rate on the bonds shall be increased to the Adjusted Tax Exempt Rate. The annual interest expense was $258 thousand for fiscal year 2023 and $255 thousand for fiscal year 2022.

On May 1, 2013, at the same time the 2013 healthcare facilities revenue bonds were issued, a term loan was issued in the amount of $2.6 million. Included in the term loan is the taxable portion of OBGYN's build out for their Mill Run location. Monthly payments of principal and fixed interest on the term loan are to be made until May 1, 2023. An interest rate of 2.3% per annum was used to calculate payments. The annual interest expense was $3 thousand for fiscal year 2023 and $10 thousand for fiscal year 2022. This term loan was paid in full during fiscal year 2023.

Debt service requirements on long-term debt as of June 30, 2023, are as follows (in thousands):

		Bonds		Other obligations		
		Principal	Interest	Principal	Interest	Total
2024	$	619	172	27	—	818
2025		695	174	—	—	869
2026		710	159	—	—	869
2027		725	144	—	—	869
2028		740	129	—	—	869
2029–2033		3,943	400	—	—	4,343
2034–2037		1,526	41	—	—	1,567
	$	8,958	1,219	27	—	10,204

(8) Other Current Liabilities

Other liabilities include amounts due to others (patient credit balances prior to refunding), unearned revenue (prepayments for services) and in fiscal year 2022, provider relief funds that have been deferred until eligibility criteria has been verified. Other current liability activity for the years ended June 30, 2023 and 2022, respectively, is as follows (in thousands):

		Beginning balance	Additions	Reductions	Ending balance
2023:					
Unearned revenue	$	78	20	—	98
Deferred provider relief funds		19,879	—	19,879	—
Due to others		17,502	—	2,619	14,883
	$	37,459	20	22,498	14,981
2022:					
Unearned revenue	$	34	44	—	78
Deferred provider relief funds		—	19,879	—	19,879
Due to others		11,767	31,791	26,056	17,502
	$	11,801	51,714	26,056	37,459

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

OSUP is a component unit of the University. Due to this relationship with the University, related-party transactions are pervasive throughout the statements of revenue, expenses and changes in net position. All amounts are settled after period end through payments to or from the affiliated entity. A summary of the nature of these transactions and related due to/from affiliate balances reported in the statements of net position as of June 30, 2023 and 2022, are as follows (in thousands):

Due From:

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

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

The Ohio State University and The Ohio State University College of Medicine and Public Health ("COMPH") — OSUP provides staffing, coding support, facility space and medical directorships to the COMPH. OSUP provides healthcare services to University employees enrolled in University sponsored health insurance programs. OSUP collected $58.6 million for these healthcare services in fiscal year 2023 and $39.1 million in fiscal year 2022, which is reflected in net patient care revenue.

Balances due from each affiliate as of June 30, 2023 and 2022 are as follows (in thousands):

		2023	2022
Due from the Health System	$	18,360	19,601
Due from COMPH		52,299	44,191
	$	70,659	63,792

Due to:

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

COMPH — Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund ("Academic Enrichment"), and Strategic Initiative Fund. Academic Enrichment is paid to the Dean's office for support of the academic, research, and clinical missions of the COM. The Strategic Initiative Fund is comprised of various funds established by the COM to support resident education. These funds are paid periodically during the year. OSUP paid $5.9 million and $11.8 million in contributions to OSU departments to fund endowments and support research funds during fiscal years 2023 and 2022, respectively. Dean's tax and strategic initiative expenses as of June 30, 2023 and 2022 are $24.8 million and $20.1 million, respectively. OSUP has leases for various facility spaces with the University. The amount paid to the University for leases during the fiscal years ended June 30, 2023 and 2022 was $10.0 million and $4.6 million respectively.

Balances due to each affiliate as of June 30, 2023 and 2022 are as follows (in thousands):

		2023	2022
Due to the Health System	$	49,450	23,124
Due to COMPH		117,214	84,647
	$	166,664	107,771

(10) Retirement and Health Plans

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) defined contribution plan administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, a small number of current employees receive additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was $9.3 million and $7.8 million for the years ended June 30, 2023 and 2022, respectively. Employee contributions were $4.8 million and $3.5 million for the years ended June 30, 2023 and 2022, respectively.

OSUP participates in a health insurance plan covering substantially all non-physician employees. All physician employees and certain non-physician employees receive benefits through the health care plan sponsored by the University. Covered services under both plans include medical, dental, and vision benefits, life insurance, and long term disability. Health Insurance premium payments to the University for the years ended June 30, 2023 and 2022 were $22.3 million and $17.3 million, respectively. There were no outstanding premiums due at the end of both years.

(11) Commitments and Contingencies

(a) Litigation

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

(b) Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Federal and state government activity has continued with respect to investigations and allegations concerning possible violation of billing regulations by health care providers.

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

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

(12) Subsequent Events

OSUP evaluated subsequent events through November 10, 2023, the date the financial statements were issued. All material matters are disclosed in the footnotes to the financial statements.

KPMG LLP
Suite 500
191 West Nationwide Blvd.
Columbus, OH 43215-2568

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University, which comprise OSUP's statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSUP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OSUP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Columbus, Ohio
November 10, 2023

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER

THE OHIO STATE UNIVERSITY PHYSICIANS, INC.

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 12/19/2023

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