

Ohio State University Physicians, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended June 30, 2007 and 2006, Supplemental
Consolidating Schedules as of and for the Year Ended
June 30, 2007, and Independent Auditors' Report



Mary Taylor, CPA

Auditor of State

Board of Directors
Ohio State University Physicians, Inc.
2040 Blankenship Hall
901 Woody Hayes Dr.
Columbus, Ohio 43210-4016

We have reviewed the *Independent Auditors' Report* of the Ohio State University Physicians, Inc., Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 5, 2007

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OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Ohio State University Physicians, Inc. (an Ohio not-for-profit corporation) and subsidiaries (OSUP) as of June 30, 2007 and 2006, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of OSUP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OSUP's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OSUP as of June 30, 2007 and 2006, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating schedules listed on pages 19 and 20 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of Ohio State University Physicians, Inc. and its subsidiaries' management. Such schedules have been subjected to the auditing procedures applied by us in our audits of the consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2007, on our consideration of OSUP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

November 20, 2007

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23,186,348	\$ 18,865,259
Accounts receivable — patient care — net of allowance ((\$42,910,707 in 2007 and \$43,382,996 in 2006))	26,762,781	24,138,699
Accounts receivable other — current — net of allowance ((\$46,516 in 2007 and \$15,330 in 2006))	144,735	250,711
Due from affiliates and others	5,275,295	2,973,663
Inventories	865,852	486,845
Prepaid expenses	844,439	829,625
Notes receivable	<u>22,087</u>	<u>27,208</u>
Total current assets	<u>57,101,537</u>	<u>47,572,010</u>
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation (\$7,726,274 in 2007 and \$6,155,938 in 2006)	9,031,348	8,724,995
Other assets	<u>3,887,003</u>	<u>642,255</u>
Total noncurrent assets	<u>12,918,351</u>	<u>9,367,250</u>
TOTAL	<u>\$ 70,019,888</u>	<u>\$ 56,939,260</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,220,176	\$ 3,720,383
Accrued expenses	1,462,752	2,129,267
Accrued salaries and wages	11,857,520	7,153,924
Due to affiliates and other — current portion	6,489,207	6,261,137
Notes payable and capital leases — current portion	5,233,551	3,106,747
Other postretirement benefits obligation	1,460,130	1,284,073
Other current liabilities	<u>2,179,457</u>	<u>2,868,328</u>
Total current liabilities	<u>31,902,793</u>	<u>26,523,859</u>
LONG-TERM LIABILITIES:		
Notes payable and capital leases — less current portion	2,445,477	3,539,775
Due to affiliates and other — long-term	4,756,781	6,309,342
Other long-term liabilities	<u>1,703,744</u>	<u>1,053,748</u>
Total long-term liabilities	<u>8,906,002</u>	<u>10,902,865</u>
NET ASSETS — Unrestricted	<u>29,211,093</u>	<u>19,512,536</u>
TOTAL	<u>\$ 70,019,888</u>	<u>\$ 56,939,260</u>

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006	Temporarily Restricted Net Assets
	Unrestricted Net Assets	Unrestricted Net Assets	
OPERATING REVENUES:			
Net patient care revenues (net of charity care of \$5,073,936 in 2007 and \$2,053,131 in 2006)	\$ 198,071,621	\$ 178,720,399	\$ -
Contract services	39,910,090	32,662,587	
Other services	6,870,815	6,575,476	
Net assets released from restriction		349,722	(349,722)
	<u>244,852,526</u>	<u>218,308,184</u>	<u>(349,722)</u>
OPERATING EXPENSES:			
Provider salaries	91,229,105	79,549,060	
Employees salaries and wages	36,388,734	31,961,104	
Provision for bad debts	20,955,764	20,456,219	
Provider fringe benefits	15,553,085	13,333,192	
Professional liability insurance	9,806,074	9,625,970	
Employee fringe benefits	11,310,473	9,603,687	
Medical supplies	1,651,060	1,183,304	
Office and administrative other	7,598,198	7,818,728	
Purchased services and management fees	5,292,177	6,108,106	
Academic enrichment and strategic initiative	6,491,743	5,859,580	
Clinical drugs and medications	15,532,968	13,215,304	
Rent and other occupancy costs	4,263,202	2,789,282	
Other provider related expenses	2,603,630	2,924,508	
Supplies	2,656,289	2,562,499	
Depreciation and amortization	1,665,025	1,361,586	
Other clinical related expenses	921,502	495,711	
Office and administrative billing	583,755	715,794	
Interest expense	790,483	833,995	
Insurance	129,022	127,463	
	<u>235,422,289</u>	<u>210,525,189</u>	<u>-</u>
OPERATING INCOME	<u>9,430,237</u>	<u>7,782,995</u>	<u>(349,722)</u>
NONOPERATING INCOME:			
Other nonoperating — net	(1,124,183)	357,989	
Investment income	921,114	609,544	
Forgiveness of payable	489,973	700,000	
Loss on sale of assets	(18,584)	(110,286)	
	<u>268,320</u>	<u>1,557,247</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	9,698,557	9,340,242	(349,722)
NET ASSETS — Beginning of year	<u>19,512,536</u>	<u>10,172,294</u>	<u>349,722</u>
NET ASSETS — End of year	<u>\$ 29,211,093</u>	<u>\$ 19,512,536</u>	<u>\$ -</u>

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 9,698,557	\$ 8,990,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,665,025	1,361,586
Gain on sale of assets	18,584	110,286
Forgiveness of payable to affiliate	(489,973)	(700,000)
(Increase) decrease in:		
Accounts receivable — patient care — net	(2,624,082)	(1,635,700)
Accounts receivable — other current — net	105,976	727,716
Due from affiliates	(2,301,632)	(283,259)
Note receivable — short term	5,121	15,952
Inventories	(379,007)	(411,965)
Prepaid expenses	(14,814)	(136,738)
Other assets	(794,748)	390,105
Accounts payable	(500,207)	520,785
Due to affiliates	(834,518)	3,107,175
Accrued salaries and wages	4,703,596	(571,622)
Other post-retirement benefit obligation	176,057	84,326
Other accrued liabilities	(666,515)	1,133,341
Other liabilities	(38,875)	212,093
Net cash provided by operating activities	<u>7,728,545</u>	<u>12,914,601</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Purchase of property, plant, furnitures, and equipment		
	(1,989,962)	(2,841,258)
Contribution to investment in other LLC	(2,450,000)	
Net cash used in investing activities	<u>(4,439,962)</u>	<u>(2,841,258)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	12,227,981	14,403,654
Payments on notes payable	(11,195,475)	(19,058,313)
Net cash provided by (used in) financing activities	<u>1,032,506</u>	<u>(4,654,659)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,321,089	5,418,684
CASH AND CASH EQUIVALENTS — Beginning of year	<u>18,865,259</u>	<u>13,446,575</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 23,186,348</u>	<u>\$ 18,865,259</u>
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:		
Cash paid for interest	<u>\$ 762,531</u>	<u>\$ 823,870</u>
Property additions under capital lease agreements	<u>\$ -</u>	<u>\$ 819,876</u>
Transfers of assets and liabilities:		
Fair value of assets assumed	<u>\$ -</u>	<u>\$ 172,832</u>
Liabilities assumed	<u>\$ -</u>	<u>\$ (112,949)</u>

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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, 2007, only 15 of the LLCs are active and included in consolidated financial statements and the accompanying supplemental consolidating schedules. On July 1, 2006, the division of Urology split from OSU Surgery, LLC to become OSU Urology, LLC. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no business activity through June 30, 2007.

The table outlines the reporting of OSUP’s financial statements as of June 30, 2007 and 2006, is as follows:

Practice Plan	2007	2006
Family Medicine Foundation, LLC (FM)	X	X
OSU Anesthesiology, LLC (“Anesthesiology”)		
OSU Children’s Pediatrics, LLC (“Children’s Pediatrics”)	X	X
OSU Emergency Medicine, LLC (EM)	X	X
OSU Eye Physicians and Surgeons, LLC (“Eye”)	X	X
OSU GYN and OB Consultants, LLC (OBGYN)	X	X
OSU Internal Medicine, LLC (IM)	X	X
OSU Neuroscience Center, LLC (“Neurology”)	X	X
OSU Orthopedics, LLC (“Orthopedics”)		
OSU Otolaryngology-Head and Neck Surgery, LLC (“Otolaryngology”)	X	X
OSU Pathology, LLC (“Pathology”)	X	X
OSU Physical Medicine and Rehabilitation (“Phys Med”)	X	X
OSU Psychiatry, LLC (“Psychiatry”)	X	X
OSU Radiation Medicine, LLC (“Radiation Medicine”)	X	X
OSU Radiology, LLC (“Radiology”)	X	X
OSU Surgery, LLC (“Surgery”)	X	X
OSU Urology, LLC (“Urology”)	X	

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

Principles of Consolidation — The consolidated financial statements include the accounts of the OSUP, which are then included in the financial statements of the University because OSUP is a component unit of the University. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

OSUP utilizes the allowance method for providing for the possibility of uncollectible accounts. The allowance is provided based on management's estimate of the collectibility of the accounts receivable as of June 30, 2007 and 2006. The estimates take into consideration historical trends, payment history, and current economic conditions. Actual results could vary from the estimate. Accounts are charged against the allowance when management deems them to be uncollectible. Interest is not charged by OSUP on past due accounts.

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

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

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

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

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

OSUP maintains professional and general liability insurance, underwritten by the University Self-Insurance Program (USIP). At June 30, 2007, management believes asserted and unasserted claims and assessments will not exceed the limits of insurance coverage. Coverage limits are \$4 million per incident with no aggregate layer. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at June 30, 2007 and 2006.

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

Temporarily Restricted Net Assets — Temporarily restricted net assets are cash and other assets whose use by OSUP has been limited by donors. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. As of June 30, 2007 and 2006, there are no temporarily restricted net assets.

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

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

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

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

New Accounting Pronouncement — In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements*, and is effective for OSUP beginning July 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. OSUP has not determined the impact of the adoption of the Statement on the consolidated financial statements.

2. CASH AND CASH EQUIVALENTS

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

3. PATIENT ACCOUNTS RECEIVABLE AND CONCENTRATIONS OF CREDIT RISK

OSUP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable as of June 30, 2007 and 2006, consists of the following:

	2007	2006
Gross patient accounts receivable	\$ 69,673,488	\$ 67,521,695
Allowances for contractual and administrative adjustments and doubtful accounts	<u>(42,910,707)</u>	<u>(43,382,996)</u>
Total	<u>\$ 26,762,781</u>	<u>\$ 24,138,699</u>

The mix of receivables from patients and third-party payors as of June 30, 2007 and 2006, is as follows:

	2007	2006
Medicare	27 %	31 %
Medicaid	10	11
Commercial/other third-party payors	57	51
Patient	<u>6</u>	<u>7</u>
Total	<u>100 %</u>	<u>100 %</u>

4. PROPERTY, PLANT, FURNITURES, AND EQUIPMENT

The composition of property, plant, furnitures, and equipment as of June 30, 2007 and 2006, is as follows:

	2007	2006
Land and land improvements	\$ 1,962,732	\$ 1,192,851
Buildings	5,369,487	4,527,499
Equipment	7,850,878	6,667,483
Furniture and fixtures	1,475,510	1,060,190
CIP	<u>99,015</u>	<u>1,432,910</u>
Total property, plant, furnitures, and equipment	16,757,622	14,880,933
Allowances for depreciation and amortization	<u>(7,726,274)</u>	<u>(6,155,938)</u>
Total	<u>\$ 9,031,348</u>	<u>\$ 8,724,995</u>

Depreciation and amortization expense for the years ended June 30, 2007 and 2006, amounted to \$1,665,025 and \$1,361,586, respectively.

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

Through June 30, 2007, OSUP has available lines of credit agreements with a bank that provided for borrowings as follows:

Practice Plan	Line of Credit	Expiration Date
OSUP — Corporate Family Medicine Foundation, LLC	\$1,000,000	9/30/2007
OSU Children’s Pediatrics, LLC		
OSU Emergency Medicine, LLC	1,000,000	9/30/2007
OSU Eye Physicians & Surgeons, LLC	800,000	9/30/2007
OSU GYN and OB Consultants, LLC	500,000	9/30/2007
OSU Internal Medicine, LLC	3,000,000	9/30/2007
OSU Neuroscience Center, LLC	250,000	9/30/2007
OSU Otolaryngology-Head and Neck Surgery, LLC	1,000,000	9/30/2007
OSU Pathology, LLC		
OSU Physical Medicine and Rehabilitation, LLC	95,000	9/30/2007
OSU Psychiatry, LLC		
OSU Radiation Medicine LLC	100,000	9/30/2007
OSU Radiology, LLC		
OSU Surgery, LLC	1,000,000	9/30/2007
OSU Urology, LLC	500,000	10/20/2007

The agreements require monthly interest payments at the bank’s prime rate less 0.75% (7.50% at June 30, 2007, and 8.25% at June 30, 2006). The agreements were secured by accounts receivable, equipment, and fixtures and were subject to certain restrictive and financial covenants. At June 30, 2007 and 2006, \$5,000 and \$0, respectively, were outstanding on these lines of credit. All agreements that expired on September 30, 2007 and October 20, 2007 were extended to November 30, 2007.

A summary of long-term debt (excluding capital lease obligations) at June 30, 2007 and 2006, are as follows:

	2007	2006
Mortgage note payable — due in monthly installments of principal and interest (5.4% fixed rate), due in May 2008	\$ 2,237,917	\$ 2,442,917
Notes payable — due in monthly installments of principal and interest (LIBOR plus 1.85%), due in February 2012	2,118,700	
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate), due in November 2007	700,473	816,836
Notes payable — due in monthly installments of principal and interest (4.53% fixed rate), due in November 2010	309,886	401,868
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate), due in November 2007	1,246,957	1,261,814
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate), due in November 2007	76,813	344,089
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate), due in January 2009	68,200	
Line of credit — due in monthly installments of interest (prime less 0.75%), due in October 2007	<u>5,000</u>	<u> </u>
Total debt outstanding	6,763,946	5,267,524
Less current portion	<u>(4,771,451)</u>	<u>(2,642,830)</u>
Total	<u>\$ 1,992,495</u>	<u>\$ 2,624,694</u>

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

Years Ending June 30	Long-Term Debt
2008	\$4,771,451
2009	199,800
2010	182,000
2011	195,600
2012	<u>1,415,095</u>
Total	<u>\$6,763,946</u>

6. CAPITAL LEASE OBLIGATIONS

OSUP has \$1,274,950 in capital lease obligations that have varying maturity dates through 2011 and carry implicit interest rates ranging from 3.3% to 12.1%. Lease arrangements are being used to provide partial financing for certain movable equipment. Capital asset balances, net of depreciation, as of June 30, 2007 and 2006, that are financed under capital leases are \$921,975 and \$1,360,835, respectively.

The scheduled maturities of these leases as of June 30, 2007, are as follows:

Years Ending June 30	Capital Lease Obligations
2008	\$ 494,863
2009	344,558
2010	111,938
2011	<u>18,138</u>
	969,497
Less amount representing interest under capital leases obligations	<u>(54,415)</u>
Total	<u>\$ 915,082</u>

7. RELATED-PARTY TRANSACTIONS AND INTERCOMPANY RECEIVABLES AND PAYABLES

OSUP is a supporting organization of the University.

Due From:

The Ohio State University Health System (the "Health System") — OSUP provides staffing, coding support, and medical directorships at The Ohio State University Hospital and The Ohio State University Hospital East. Also, the Health System has allocated costs for their share of OSUP administration and

information services overhead and billed for physician billing services provided to Health System physicians by OSUP's billing services. The balances due from the Health System as of June 30, 2007, are as follows:

Practice Plan	Due From Health System
OSUP — Corporate	\$ 555,847
Family Medicine Foundation, LLC	289,813
OSU Emergency Medicine, LLC	52,130
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	796,623
OSU Internal Medicine, LLC	953,769
OSU Neuroscience Center, LLC	
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	59,607
OSU Physical Medicine and Rehabilitation, LLC	
OSU Psychiatry, LLC	216,647
OSU Radiation Medicine, LLC	131,250
OSU Radiology, LLC	31,138
OSU Surgery, LLC	<u>139,887</u>
 Total	 <u>\$3,226,711</u>

The Ohio State University and The Ohio State University College of Medicine and Public Health (COMPH) — OSUP provides staffing, coding support, and medical directorships at The Ohio State University. The balances due from the COMPH as of June 30, 2007, are as follows:

Practice Plan	Due From COMPH
OSUP — Corporate	\$ 55,133
Family Medicine Foundation, LLC	1,870
OSU Emergency Medicine, LLC	40,577
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	904
OSU Internal Medicine, LLC	121,101
OSU Neuroscience Center, LLC	
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	
OSU Psychiatry, LLC	
OSU Radiation Medicine, LLC	
OSU Radiology, LLC	71,843
OSU Surgery, LLC	<u>1,378,802</u>
 Total	 <u>\$1,670,230</u>

Due To:

Health System — OSUP pays premiums for the USIF (malpractice) and health insurance to the University Office of the Treasurer. The balances due to the Health System as of June 30, 2007, are as follows:

Practice Plan	Due to Health System
OSUP — Corporate	\$ 286,723
Family Medicine Foundation, LLC	621,000
OSU Emergency Medicine, LLC	
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	
OSU Internal Medicine, LLC	
OSU Neuroscience Center, LLC	4,035
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	60,417
OSU Psychiatry, LLC	67,317
OSU Radiation Medicine, LLC	
OSU Radiology, LLC	
	<hr/>
Total	<u>\$ 1,039,492</u>

COMPH — Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund (“Academic Enrichment”), and Strategic Initiative Fund. Academic Enrichment covers the salaries, benefits, and other operating expenses of the Department of Emergency Medicine. Academic Enrichment is paid to

the Dean's office for support of the Academic, Research, and Clinical missions of the College. The Strategic Initiative fund is comprised of various funds established by the College to support resident education. All of these funds are paid on a quarterly basis.

Practice Plan	Due to COMPH
OSUP — Corporate	\$ -
Family Medicine Foundation, LLC	62,312
OSU Emergency Medicine, LLC	52,716
OSU Eye Physicians & Surgeons, LLC	169,859
OSU GYN and OB Consultants, LLC	1,767,542
OSU Internal Medicine, LLC	1,450,730
OSU Neuroscience Center, LLC	239,057
OSU Otolaryngology-Head and Neck Surgery, LLC	396,189
OSU Pathology, LLC	1,271,848
OSU Physical Medicine and Rehabilitation, LLC	64,130
OSU Psychiatry, LLC	331,163
OSU Radiation Medicine, LLC	98,702
OSU Radiology, LLC	142,672
OSU Surgery, LLC	3,408,558
OSU Urology, LLC	<u>151,018</u>
 Total	 <u>\$ 9,606,496</u>

8. INVESTMENT IN OTHER LIMITED LIABILITY CORPORATIONS (LLC)

In March 2007, OSUP obtained a 40% ownership interest in Fresenius Medical Care-Osuim Kidney Centers, an LLC, by transferring \$2,450,000. At June 30, 2007, the total amount invested is \$2,791,262. Income of \$333,087 was recognized in 2007. OSUP is required to make additional contributions to the LLC to satisfy working capital needs.

OSUP has a 49% ownership interest in Children's Hospital and OSU-Children's Pediatrics, LLC. At June 30, 2007, the total amount invested is \$1,053,923, an increase of \$446,973 from the June 30, 2006, balance of \$606,950. Income of \$446,973 and \$516,684 was recognized for 2007 and 2006, respectively. OSUP is required to make additional contributions to the LLC to satisfy working capital needs.

These investments are recorded on the consolidated balance sheets in other assets.

9. MEDICAL MALPRACTICE CLAIMS

OSUP purchases professional and general liability insurance to cover medical malpractice claims through The Ohio State University. The University has established a trustee self-insurance fund for professional liability claims. The University's estimated liability and the related contributions to the University's self-insurance fund for professional liability claims is based upon an independent actuarial determination as of June 30, 2006. Premiums are assessed to OSUP based on the physician's specialty and the types of surgery performed. Premiums paid for the years ended June 30, 2007 and 2006, were \$10,251,998 and \$9,377,214, respectively.

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 \$12,772,182 and \$11,394,014 for the years ended June 30, 2007 and 2006, respectively.

Practice Plan	401(a) Contributions	
	2007	2006
OSUP — Corporate	\$ 332,150	\$ 257,292
Family Medicine Foundation, LLC	396,791	409,595
OSU Children's Pediatrics, LLC		
OSU Emergency Medicine, LLC	905,561	585,144
OSU Eye Physicians & Surgeons, LLC	279,416	265,573
OSU GYN and OB Consultants, LLC	1,108,555	1,130,327
OSU Internal Medicine, LLC	2,966,867	2,512,971
OSU Neuroscience Center, LLC	357,523	287,151
OSU Otolaryngology-Head & Neck Surgery, LLC	403,733	141,144
OSU Pathology, LLC	1,384,412	1,440,586
OSU Physical Medicine and Rehabilitation, LLC	110,152	115,036
OSU Psychiatry, LLC	32,121	31,380
OSU Radiation Medicine, LLC	340,526	322,177
OSU Radiology, LLC	1,445,858	1,392,687
OSU Surgery, LLC	2,492,128	2,502,951
OSU Urology, LLC	216,389	
Total	<u>\$12,772,182</u>	<u>\$11,394,014</u>

OSUP participates in a health insurance plan covering substantially all non-physician employees. All physician employees and certain non-physician employees receive benefits through the health care plan sponsored by the University. Covered services under both plans include medical, dental and vision benefits, life insurance, and long-term disability.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases — OSUP leases various equipment and facilities under operating leases expiring at various dates through December 2018. Total rental expense in 2007 and 2006 for all operating leases was approximately \$1.9 million and \$1.6 million, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2007, that have initial or remaining lease terms in excess of one year.

Years Ending June 30	Amount
2008	\$ 2,613,542
2009	1,978,271
2010	1,661,284
2011	1,621,597
2012	1,389,929
2013–2019	<u>7,371,528</u>
Total	<u>\$ 16,636,151</u>

Litigation — OSUP is involved in litigation arising in the course of business. After consultation with legal counsel, management does not believe that claims and lawsuits individually or in the aggregate will have a material adverse effect on OSUP’s future financial position or results from operations.

Health care Legislation and Regulation — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Federal and state government activity has continued with respect to investigations and allegations concerning possible violation of billing regulations by health care providers. Violations of these regulations could result in the imposition of significant fines and penalties, as well as having a significant effect on reported net income or cash flows.

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

12. FUNCTIONAL EXPENSES

OSUP’s physicians provide medical services to residents within its geographical location. Expenses related to providing these services for the years ended June 30, 2007 and 2006, are as follows:

	2007	2006
Health care services	\$ 148,447,114	\$ 133,157,395
General and administration	<u>86,975,175</u>	<u>77,367,794</u>
Total	<u>\$ 235,422,289</u>	<u>\$ 210,525,189</u>

* * * * *

SUPPLEMENTAL CONSOLIDATING SCHEDULES

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2007

	OSUP — Corporate	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	E/E	Total
ASSETS																		
CURRENT ASSETS:																		
Cash and cash equivalents	\$3,455,997	\$3,145,921	\$ 1,689,109	\$ 174,272	\$ 760,311	\$ 3,746,187	\$ 214,202	\$1,058,851	\$ 5,454,269	\$ 10,786	\$ 347,553	\$ 539,343	\$ 279,398	\$ 1,405,589	\$ 898,010	\$ 23,179,798	\$ 6,550	\$ 23,186,348
Accounts receivable — patient:																		
Accounts receivable — patient care gross	113,185	113,185	4,974,250	2,078,628	7,568,510	17,751,894	1,926,077	1,780,739	6,198,555	1,073,089	714,366	1,666,351	9,340,970	12,890,180	1,596,694	69,673,488	-	69,673,488
Allowances	-	(113,185)	(3,674,497)	(970,291)	(4,550,619)	(9,444,118)	(1,164,384)	(936,585)	(4,057,699)	(306,455)	(463,849)	(1,051,196)	(6,469,486)	(8,478,648)	(1,049,695)	(42,910,707)	-	(42,910,707)
Accounts receivable — patient — net	-	-	1,299,753	1,108,337	3,017,891	8,307,776	761,693	844,154	2,140,856	566,634	250,517	635,155	2,871,484	4,411,532	546,999	26,762,781	-	26,762,781
Accounts receivable other — current	-	3,649	-	-	46,516	-	-	-	56,566	84,520	-	-	-	-	191,251	(46,516)	-	191,251
Allowance for uncollectible non-patient receivables	-	-	-	-	(46,516)	-	-	-	-	-	-	-	-	-	-	-	-	(46,516)
Accounts receivable — other — net	-	3,649	-	-	-	-	-	-	56,566	84,520	-	-	-	-	144,735	-	-	144,735
Due from affiliate and others	973,318	295,133	95,414	80,090	821,679	1,243,274	28,338	2,007	60,586	9,242	397,778	131,987	106,209	1,105,706	602	5,342,121	(66,826)	5,275,295
Inventories	292,831	-	16,293	4,476	251,868	543,403	70,581	920	19,243	-	-	-	575	43,488	2,709	865,852	(9,242)	865,852
Prepaid expenses	-	-	-	-	27,503	424,708	11,693	-	22,087	-	-	-	-	-	-	853,681	-	853,681
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,087	-	-	22,087
Total current assets	4,722,146	3,444,703	3,100,569	1,367,175	4,879,252	14,265,348	1,086,507	1,905,932	7,753,607	671,182	995,848	1,306,485	3,257,666	6,966,315	1,448,320	57,171,055	(69,518)	57,101,537
NONCURRENT ASSETS:																		
Property, plant, furnishings, and equipment:																		
Property, plant, furnishings, and equipment	2,539,549	-	71,387	2,815,222	644,307	9,664,398	89,741	114,195	375,875	55,415	-	1,788	39,932	342,813	3,000	16,757,622	-	16,757,622
Accumulated depreciation	(980,633)	-	(49,957)	(336,685)	(228,608)	(5,698,567)	(41,199)	(21,560)	(113,849)	(33,985)	-	(894)	(29,208)	(190,731)	(398)	(7,726,274)	-	(7,726,274)
Property, plant, furnishings, and equipment — net	1,558,916	-	21,430	2,478,537	415,699	3,965,831	48,542	92,635	262,026	21,430	-	894	10,724	152,082	2,602	9,031,348	-	9,031,348
Investments and long-term receivables	1,053,923	16,476	40,897	990	30,543	2,908,254	21,100	17,322	30,935	10,337	17,674	8,530	48,702	14,253	-	4,201,624	(432,643)	3,768,981
Other assets	72,190	-	-	-	5,765	-	-	-	18,500	-	-	-	-	3,255	118,072	-	-	118,072
Total noncurrent assets	2,685,029	16,476	62,327	2,479,527	452,007	6,874,085	69,642	109,957	311,461	31,767	17,674	9,424	59,426	169,590	2,602	13,350,994	(432,643)	12,918,351
TOTAL	\$7,407,175	\$3,461,179	\$ 3,162,896	\$3,846,702	\$ 5,331,259	\$21,139,433	\$ 1,156,149	\$2,015,889	\$ 8,065,068	\$ 702,949	\$1,013,522	\$ 1,315,909	\$ 3,317,092	\$ 7,135,905	\$ 1,450,922	\$ 70,522,049	\$(502,161)	\$ 70,019,888
LIABILITIES AND NET ASSETS																		
CURRENT LIABILITIES:																		
Accounts payable	\$ 82,230	\$ 6,238	\$ 21,341	\$ 226,512	\$ 866,221	\$ 1,086,824	\$ 87,448	\$ 37,681	\$ 226,388	\$ 267,745	\$ 25,755	\$ 76	\$ 110,481	\$ 149,474	\$ 25,762	\$ 3,220,176	\$ -	\$ 3,220,176
Accrued expenses	253,298	8,533	5,859	14,485	377,112	10,071	202,742	828	12,343	5	63,081	20,183	1,791	575,665	1,425,014	1,462,752	-	1,462,752
Accrued salaries and wages	2,839,264	964,875	702,156	110,900	601,526	3,012,654	54,958	912,998	1,345,576	49,705	398,479	98,702	68,457	753,103	358,074	11,857,520	-	11,857,520
Due to affiliates and other — current portion	59,077	683,385	52,851	174,063	957,276	1,474,737	243,110	36,698	1,271,848	124,547	-	-	142,972	802,459	38,521	6,558,725	(69,518)	6,489,207
Notes payable and capital leases — current portion	177,449	-	-	2,257,318	2,257,318	646,850	-	114,013	-	5,000	-	-	-	9,500	-	3,200,630	-	3,200,630
Other postretirement benefits obligation	37,823	81,551	119,888	22,774	362,469	362,469	29,644	9,635	-	8,220	-	10,903	48,898	1,460,130	-	1,460,130	-	1,460,130
Other current liabilities	173,851	2,117	17,326	230,148	140,841	437,530	67,254	87,927	27,567	54,548	4,481	81,690	392,002	447,750	14,425	2,179,457	-	2,179,457
Total current liabilities	3,622,992	1,746,719	919,421	3,036,200	3,430,411	7,031,135	685,156	1,199,780	3,115,122	509,770	491,796	211,554	764,601	2,737,951	436,782	29,939,390	(69,518)	29,869,872
LONG-TERM LIABILITIES:																		
Notes payable and capital leases — less current portion	73,938	-	-	-	-	4,373,460	31,000	3,100	-	-	-	-	-	-	-	4,478,398	(432,643)	4,756,781
Due to affiliates and other — long-term	670,995	-	-	-	810,266	-	359,563	-	-	-	-	-	-	-	-	-	-	1,703,744
Other long-term liabilities	845,731	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total long-term liabilities	1,590,664	-	-	-	810,266	4,373,460	31,000	3,100	-	-	-	-	-	-	-	4,478,398	(432,643)	10,938,923
NET ASSETS — Unrestricted	2,193,519	1,714,460	2,243,475	810,502	1,090,882	9,734,838	470,993	425,546	4,949,946	193,179	521,726	1,063,268	1,735,565	1,191,855	871,639	29,211,093	-	29,211,093
TOTAL	\$7,407,175	\$3,461,179	\$ 3,162,896	\$3,846,702	\$ 5,331,259	\$21,139,433	\$ 1,156,149	\$2,015,889	\$ 8,065,068	\$ 702,949	\$1,013,522	\$ 1,315,909	\$ 3,317,092	\$ 7,135,905	\$ 1,450,922	\$ 70,522,049	\$(502,161)	\$ 70,019,888

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2007

	OSUP	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	EJE	Total
OPERATING REVENUES:																		
Patient care revenues:																		
Gross patient care revenue	\$	\$ 122,323	\$ 31,239,301	\$ 18,238,582	\$ 43,164,401	\$ 135,232,157	\$ 14,757,469	\$ 13,633,302	\$ 38,855,011	\$ 6,566,364	\$ 4,373,162	\$ 7,003,002	\$ 59,660,685	\$ 65,915,053	\$ 12,884,825	\$ 451,645,637	\$	\$ 451,645,637
Provision for contractual and administrative		(90,606)	(15,948,299)	(9,293,409)	(23,742,625)	(69,679,231)	(8,503,161)	(6,273,449)	(24,577,067)	(2,916,609)	(2,418,261)	(3,947,821)	(36,693,356)	(41,083,344)	(8,406,778)	(253,574,016)		(253,574,016)
Net patient care revenues		31,717	15,291,002	8,945,173	19,421,776	65,552,926	6,254,308	7,359,853	14,277,944	3,649,755	1,954,901	3,055,181	22,967,329	24,831,709	4,478,047	198,071,621		198,071,621
Contract services		3,289,089	7,086,784	1,473,794	732,732	3,325,661	771,333	402,460	8,166,900	1,035,862	2,716,086	786,239	202,674	7,945,012	343,465	40,793,399	(883,309)	39,910,090
Other services		5,397,597	375,220	572,830	124,119	1,375,440	251,611	494,569	543,540	95,054	4,492	4,492	151,458	1,914,060	11,299,990	11,299,990	(4,429,175)	6,870,815
Total operating revenues		8,686,686	7,493,721	17,337,626	9,677,905	22,061,203	70,254,027	7,277,252	8,256,882	4,780,671	4,670,987	3,845,912	23,321,461	34,690,781	4,821,512	250,165,010	(5,312,484)	244,852,526
OPERATING EXPENSES:																		
Provider salaries		244,758	5,225,173	5,786,047	3,219,669	5,093,130	2,066,085	3,181,060	6,240,983	1,483,645	1,913,928	1,681,011	11,857,371	12,859,624	1,829,067	91,229,105	(27,456)	91,229,105
Employees salaries and wages		4,200,363	75,603	622,987	2,176,718	3,212,710	1,270,070	1,421,957	5,478,344	470,939	454,865	205,161	904,689	5,100,756	2,414,577	36,416,190		36,388,734
Provision for bad debts		53,125	59,444,364	5,944,364	144,757	860,859	476,412	797,550	774,654	133,348	123,979	155,547	4,157,741	2,391,850	401,203	20,955,764		20,955,764
Provider fringe benefits		25,650	725,584	1,072,850	378,224	950,840	443,194	541,677	1,653,842	213,245	456,762	423,517	1,911,552	3,033,397	337,445	15,553,085		15,553,085
Professional liability insurance		600,572	571,859	173,878	173,878	649,901	322,675	212,753	178,212	113,655	108,858	112,427	490,207	3,100,971	238,187	9,806,074		9,806,074
Employee fringe benefits		1,024,170	32,477	169,811	613,311	1,144,452	412,724	466,897	1,696,015	168,626	144,559	79,684	366,478	1,745,158	58,727	11,310,473		11,310,473
Medical supplies		64,411	269,541	504,164	64,411	269,541	36,975	129,626	545,927	(29,266)	48,266	109,950	485,735	124,745	4,937	1,651,060	(17,548)	1,651,060
Office and administrative other		1,208,672	20,425	172,838	400,297	743,149	155,220	1,692,348	1,074,289	64,344	48,266	16,768	514,698	1,248,617	(7,844)	7,615,746	(915,044)	7,598,177
Purchased services and management fees		955,240	91,056	144,739	231,185	707,727	146,053	774,782	1,178,852	212,078	602,282	479,308	6,207,221	479,308	378,653	6,207,221		6,207,221
Academic enrichment and strategic initiative		180,026	270,592	894,783	293,164	270,592	173,408	1,178,852	621,330	80,483	101,151	273,123	1,462,373	669,658	106,092	6,491,743		6,491,743
Clinical drugs and medications		534,536	523	40,363	1,007,202	6,255,510	1,298,591	19,990	189,529	1,460,558	2,859	12,396	46,532	500,830	44,891	15,532,968	(135,300)	15,532,968
Rent and other occupancy costs		90,201	157,734	192,734	90,201	157,734	93,375	178,131	302,597	169,653	149,658	57,741	305,662	609,925	6,071	2,603,630		2,603,630
Other provider related expenses		137,711	55	49,046	58,560	212,060	97,966	94,419	1,049,951	40,308	41,665	4,275	82,879	501,773	31,126	2,656,289		2,656,289
Supplies		375,978	55	32,996	207,795	18,134	61,988	93,148	426,353	4,651	4,651	358	10,470	47,833	398	1,665,025		1,665,025
Depreciation and amortization		18,134	18,134	14,086	18,134	14,086	18,134	14,086	18,134	14,086	18,134	14,086	18,134	14,086	18,134	14,086		14,086
Other clinical related expenses		519,588	14,424	149,222	127,559	162,412	105,834	39,608	130,606	35,626	219,735	23,388	339,911	255,303	37,538	2,779,139	(2,195,384)	583,755
Office and administrative billing		1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791	1,791		1,791
Interest expense		63,986	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188		1,188
Insurance		107,100	107,100	117,696	109,484	165,619	98,969	51,023	6,224	58,675	49,841	26,756	177,686	307,724	50,715	2,157,052	(2,157,052)	129,022
Allocated overhead																		
Total operating expenses		9,292,443	7,282,859	15,976,421	9,997,468	21,532,076	7,470,339	8,344,971	21,019,566	4,812,505	4,432,949	3,182,602	23,115,583	33,293,185	3,772,213	240,870,073	(5,447,784)	235,422,289
OPERATING INCOME (LOSS)		(605,757)	210,862	1,361,205	(319,563)	529,127	(193,087)	(88,089)	1,968,818	(31,834)	238,038	663,310	205,878	1,397,596	1,049,299	9,294,937	135,300	9,430,237
NONOPERATING REVENUE (EXPENSE):																		
Other nonoperating income		49,094	119,680	24,891	550,708	95,693	19,266	7,849	(1,775,376)	(595)	10,103	(4,879)	(39,198)	(416,150)	(35,159)	(988,883)	(135,300)	(1,124,183)
Investment income (loss)		446,973			489,973				141,379							921,114		921,114
Forgiveness of Debt		(16,642)				(1,609)								(333)		489,973		489,973
Gain (Loss) sale of assets																(18,584)		(18,584)
Total nonoperating revenue (expense)		479,425	119,680	24,891	1,040,681	94,084	19,266	7,849	(1,633,997)	(595)	10,103	(4,879)	(39,198)	(416,483)	(35,159)	403,620	(135,300)	268,320
INCREASE (DECREASE) IN NET ASSETS		\$ (126,332)	\$ 330,542	\$ 1,386,096	\$ 721,118	\$ 623,211	\$ (173,821)	\$ (80,240)	\$ 334,821	\$ (32,429)	\$ 248,141	\$ 658,431	\$ 166,680	\$ 981,113	\$ 1,014,140	\$ 9,698,557	\$	\$ 9,698,557

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

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

We have audited the financial statements of Ohio State University Physicians, Inc. (OSUP), as of and for the year ended June 30, 2007, and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the Appendix to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

OUR CONSIDERATION OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING WAS FOR THE LIMITED PURPOSE DESCRIBED IN THE FIRST PARAGRAPH OF THIS SECTION

AND WOULD NOT NECESSARILY IDENTIFY ALL DEFICIENCIES IN THE INTERNAL CONTROL THAT MIGHT BE SIGNIFICANT DEFICIENCIES AND, ACCORDINGLY, WOULD NOT NECESSARILY DISCLOSE ALL SIGNIFICANT DEFICIENCIES THAT ARE ALSO CONSIDERED TO BE MATERIAL WEAKNESSES. HOWEVER, WE BELIEVE THAT NONE OF THE SIGNIFICANT DEFICIENCIES DESCRIBED ABOVE IS A MATERIAL WEAKNESS.

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of OSUP in a separate letter dated November 20, 2007.

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

Deloitte & Touche LLP

November 20, 2007

**SUMMARY OF SIGNIFICANT DEFICIENCIES
OHIO STATE UNIVERSITY PHYSICIANS, INC.
YEAR ENDED JUNE 30, 2007**

MANAGEMENT'S ESTIMATION OF ACCRUED REVENUE

The unbilled revenue accrual is an accounting estimate requiring management's judgment based on knowledge and experience about past and current events. The unbilled revenue accrual represents revenue earned on or before June 30, 2007, which has not been billed due to the lag period between the performance of services and the billing of services. In order to capture revenue in the appropriate period, OSUP estimated the unbilled revenue at June 30, 2007, based on the actual lag period for the previous quarter. During our audit procedures, we determined the unbilled revenue accrual was understated by approximately \$1.5 million. Management recorded an audit adjustment to correct this understatement. To assess the appropriateness of all balances that are deemed to be significant estimates, management should review the pertinent assumptions used in computing accounting estimates for relevance and accuracy.

FORMAL RISK ASSESSMENT

OSUP has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.



Mary Taylor, CPA
Auditor of State

OHIO STATE UNIVERSITY PHYSICIANS, INC.

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 18, 2007**