

Ohio State University Physicians, Inc. and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended June 30, 2010 and 2009,
Supplemental Consolidating Schedules as of and
for the Year Ended June 30, 2010, and
Independent Auditors' Report



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of Ohio State University Physicians, Inc. and Subsidiaries, Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 11, 2011

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OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Ohio State University Physicians, Inc. (an Ohio not-for-profit corporation) and subsidiaries (OSUP) as of June 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of OSUP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of OSUP as of June 30, 2010 and 2009, and the results of their operations, changes in net assets, and their 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 in the table of contents on pages 24–27 are presented for the purpose of additional analysis of the basic consolidated financial statements, rather than to present the financial position and results of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of OSUP's management. Such schedules have been subjected to the auditing procedures applied by us in our audits of the consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of OSUP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte + Touche LLP

December 14, 2010

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 33,914,485	\$ 25,936,676
Short-term investments	4,033,928	2,670,564
Accounts receivable — patient care — net of allowance	34,360,147	31,595,935
Accounts receivable — other — net of allowance	1,902,995	1,207,595
Due from affiliates	7,072,030	6,916,277
Inventories	1,063,846	1,034,785
Prepaid expenses	837,470	629,754
Notes receivable	7,862	21,588
	<u>83,192,763</u>	<u>70,013,174</u>
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation (\$11,471,147 in 2010 and \$9,756,675 in 2009)	25,759,737	20,078,136
Long-term investments	1,482,049	4,657,851
EPIC ambulatory electronic medical record use agreement	9,818,527	
Other assets	4,943,318	4,231,619
	<u>42,003,631</u>	<u>28,967,606</u>
TOTAL	<u>\$ 125,196,394</u>	<u>\$ 98,980,780</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,173,336	\$ 3,097,066
Accrued expenses	409,345	603,009
Accrued salaries and wages	13,667,490	10,404,385
Due to affiliates — current portion	9,150,024	7,127,809
Notes payable and capital leases — current portion	663,028	15,626,314
Retirement and health plans accrual	2,150,526	1,030,718
Other current liabilities	3,548,494	4,650,461
	<u>32,762,243</u>	<u>42,539,762</u>
LONG TERM LIABILITIES:		
Notes payable and capital leases — less current portion	18,609,065	1,832,093
Due to affiliates and other — long term	11,521,655	3,824,065
Other long term liabilities	4,735,578	3,622,122
	<u>34,866,298</u>	<u>9,278,280</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET ASSETS — Unrestricted	<u>57,567,853</u>	<u>47,162,738</u>
TOTAL	<u>\$ 125,196,394</u>	<u>\$ 98,980,780</u>

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUE:		
Patient care revenue	\$ 604,462,357	\$ 557,889,765
Less — contractual adjustments	<u>(354,395,519)</u>	<u>(326,373,410)</u>
Net patient revenue	250,066,838	231,516,355
Other revenue	<u>66,819,848</u>	<u>61,775,458</u>
Total operating revenue	<u>316,886,686</u>	<u>293,291,813</u>
OPERATING EXPENSES:		
Salaries and benefits:		
Employee salaries — OSUP	29,895,279	27,434,977
Employee salaries — OSU	18,213,091	16,373,386
Employee benefits — OSUP	9,295,115	8,519,317
Employee benefits — OSU	<u>5,645,210</u>	<u>5,319,644</u>
Total salaries and benefits	<u>63,048,695</u>	<u>57,647,324</u>
Supplies and pharmaceuticals:		
Medical supplies	5,420,345	4,465,768
Drugs and pharmaceuticals	17,372,876	18,480,703
Office supplies	<u>2,622,745</u>	<u>2,407,958</u>
Total supplies and pharmaceuticals	<u>25,415,966</u>	<u>25,354,429</u>
Services:		
Malpractice	5,442,706	7,485,648
General and other insurance	179,359	139,272
Purchased services and management fees	6,002,401	6,267,866
Other	<u>8,962,199</u>	<u>8,550,447</u>
Total services	<u>20,586,665</u>	<u>22,443,233</u>
Other expenses:		
Occupancy and utilities	7,339,007	5,965,850
Amortization and depreciation	2,898,935	1,950,798
Bad debt	32,024,186	28,619,620
Interest	1,409,133	983,247
Taxes	<u>611</u>	<u>2,224</u>
Total other expenses	<u>43,671,872</u>	<u>37,521,739</u>
Total expense before general and administrative	<u>152,723,198</u>	<u>142,966,725</u>

(Continued)

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
EXCESS REVENUE OVER EXPENSE BEFORE GENERAL AND ADMINISTRATIVE	\$ 164,163,488	\$ 150,325,088
GENERAL AND ADMINISTRATIVE EXPENSES — Dean's tax and strategic initiative	<u>6,707,378</u>	<u>6,818,773</u>
EXCESS REVENUE OVER EXPENSE BEFORE PROVIDER EXPENSE	<u>157,456,110</u>	<u>143,506,315</u>
PROVIDER EXPENSES:		
Salaries and benefits:		
Provider salaries — OSUP	102,368,802	91,951,836
Provider salaries — OSU	21,331,685	18,643,627
Provider benefits — OSUP	16,068,168	14,897,848
Provider benefits — OSU	<u>5,643,744</u>	<u>5,104,475</u>
Total provider salaries and benefits	145,412,399	130,597,786
Other provider related expenses	<u>3,350,563</u>	<u>3,505,941</u>
Total provider expenses	<u>148,762,962</u>	<u>134,103,727</u>
EXCESS REVENUE OVER EXPENSE AFTER PROVIDER EXPENSE	<u>8,693,148</u>	<u>9,402,588</u>
NONOPERATING INCOME (EXPENSE):		
Interest income	125,020	317,562
Nonoperating income	1,521,149	659,717
Income (loss) from investments	1,143,232	(244,427)
(Loss) gain on sale of assets	(7,348)	123,650
Loss on change in fair value of interest rate swap	(629,892)	(1,320,000)
Nonoperating expense	<u>(440,194)</u>	<u>(772,605)</u>
Total nonoperating income (expense)	<u>1,711,967</u>	<u>(1,236,103)</u>
INCREASE IN NET ASSETS	10,405,115	8,166,485
NET ASSETS — Beginning of year	<u>47,162,738</u>	<u>38,996,253</u>
NET ASSETS — End of year	<u>\$ 57,567,853</u>	<u>\$ 47,162,738</u>

See notes to consolidated financial statements.

(Concluded)

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 10,405,115	\$ 8,166,485
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization and depreciation	2,898,935	1,950,798
Change in fair value of interest rate swap agreements	629,892	1,320,000
Loss (gain) on sale of assets	7,348	(123,650)
(Increase) decrease in:		
Accounts receivable — patient care	(2,764,212)	(1,058,380)
Accounts receivable — other	(695,400)	650,321
Due from affiliates	(155,753)	(862,908)
Note receivables	13,726	31,698
Inventories	(29,061)	(179,274)
Prepaid expenses	(207,716)	85,899
Other assets	(752,364)	(356,814)
Accounts payable	76,270	40,266
Due to affiliates	(634,526)	317,177
Accrued salaries and wages	3,263,105	(30,930)
Retirement and health plans accrual	1,119,808	(582,412)
Accrued expenses	(193,664)	141,097
Other current and long-term liabilities	(618,403)	224,093
Net cash provided by operating activities	<u>12,363,102</u>	<u>9,733,466</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(5,468,668)	(7,885,873)
Proceeds from sale of investments	7,281,106	557,458
Purchase of property, plant, furniture, and equipment	(8,124,925)	(11,851,619)
Proceeds from sale of property, plant, furniture, and equipment	<u>113,510</u>	<u>365,402</u>
Net cash used in investing activities	<u>(6,198,979)</u>	<u>(18,814,632)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	21,465,748	12,672,354
Payments on notes payable	<u>(19,652,062)</u>	<u>(749,422)</u>
Net cash provided by financing activities	<u>1,813,686</u>	<u>11,922,932</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,977,809	2,841,766
CASH AND CASH EQUIVALENTS — Beginning of year	<u>25,936,676</u>	<u>23,094,910</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 33,914,485</u>	<u>\$ 25,936,676</u>
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION — Cash paid for interest		
	<u>\$ 1,250,700</u>	<u>\$ 983,247</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, 2010 AND 2009

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, 2010, only 15 of the LLCs are active and included in consolidated financial statements and the accompanying supplemental consolidating schedules. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no business activity through June 30, 2010.

The table outlines the reporting of OSUP's consolidated financial statements as of June 30, 2010 and 2009, is as follows:

Practice Plan	2010	2009
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 Oncology, LLC ("Radiation Oncology")	X	X
OSU Radiology, LLC ("Radiology")	X	X
OSU Surgery, LLC ("Surgery")	X	X
OSU Urology, LLC ("Urology")	X	X

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

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

Cash and Cash Equivalents — Cash and cash equivalents include investments with original maturities of three months or less and are stated at cost which approximates fair market value.

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

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, 2010 and 2009. The estimates take into consideration historical trends, payment history, and current economic conditions. Actual results could vary from the estimate. Accounts are charged against the allowance when management deems them to be uncollectible. Interest is not charged by OSUP on past due accounts.

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

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

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

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

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

OSUP maintains professional and general liability insurance, underwritten by the University Self-Insurance Program (USIP). At June 30, 2010, management believes asserted and unasserted claims and assessments will not exceed the limits of insurance coverage. Coverage limits are \$5 million per incident with no aggregate layer. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at June 30, 2010 and 2009.

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

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

Non-Patient Care Revenue — Non-patient care revenue includes contract services, rent, salary recovery, and educational revenue. This revenue is recognized in accordance with the underlying agreement when it is earned. Based on management's analysis, it was determined that OSUP acts as a principal in these types of transactions. As such, income is shown gross of related expenses in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-45, *Revenue Recognition — Principal Agent Considerations*.

Charity Care and Community Benefit — Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by the OSU Health System and OSUP. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are written off as administrative adjustments and not reported as net patient service revenue. OSUP maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services furnished. Charity care write-offs as of June 30, 2010 and 2009, are \$7,677,647 and \$3,182,500, respectively. Additional community benefit is derived by support to the University in the form of funding to support academic services in the amount of \$59,689,995 and \$53,198,222 as of June 30, 2010 and 2009, respectively.

Federal Income Taxes — OSUP is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. OSUP has determined, no provision for income taxes is necessary nor has been included in the accompanying consolidated financial statements. In June 2006, FASB issued ASC 740-10, *Income Taxes*. ASC 740-10 addresses the accounting for uncertainties in income taxes recognized in an enterprise's financial statements and prescribes a threshold of "more-likely-than-not" for recognition of tax positions taken or expected to be taken in a tax return. ASC 740-10 also provides related guidance on measurement, classification, interest and penalties, and disclosure. OSUP evaluated its tax position at June 30, 2010, in accordance with ASC 740-10. Based on this evaluation, OSUP determined that there was no material impact to OSUP's consolidated financial statements as a result of the adoption of ASC 740-10.

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

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

New Accounting Pronouncement — In April 2009, the FASB updated ASC 958-805, *Not-for-Profit Entities — Business Combinations* (formerly FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions — including an amendment of FASB Statement No. 142*). This statement establishes the principles and requirements in accounting for a combination of not-for-profit entities through either a merger or an acquisition to enhance the relevance and comparability of the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition. This statement is effective on or after the beginning of the initial or annual reporting period for mergers and acquisitions, respectively, beginning on or after December 15, 2009. OSUP will apply this guidance to any merger or acquisition occurring subsequent to the effective date.

2. CASH AND CASH EQUIVALENTS

During fiscal year 2010, cash in accounts that are subject to the Federal Depository Insurance Corporation (FDIC) limits are spread across multiple financial institutions to limit the potential exposure to losses. Noninterest bearing accounts are covered under FDIC for unlimited balances. Amounts invested in interest bearing accounts are spread through other banks primarily in certificate of deposits in amounts less than \$250,000. As of June 30, 2010, 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, 2010 and 2009, consist of the following:

	2010	2009
Gross patient accounts receivable	\$ 93,723,358	\$ 86,607,555
Allowances for contractual and administrative adjustments and doubtful accounts	<u>(59,363,211)</u>	<u>(55,011,620)</u>
Total	<u>\$ 34,360,147</u>	<u>\$ 31,595,935</u>

The mix of receivables from patients and third-party payors as of June 30, 2010 and 2009, is as follows:

	2010	2009
Medicare	21 %	19 %
Medicaid	14	12
Commercial/other third-party payors	43	47
Patient	<u>22</u>	<u>22</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, 2010 and 2009, is as follows:

	2010	2009
Land and land improvements	\$ 5,067,654	\$ 3,725,825
Buildings	18,088,484	7,572,667
Equipment	10,849,370	9,114,990
Furniture and fixtures	2,497,998	1,884,420
Construction in progress	<u>727,379</u>	<u>7,536,909</u>
 Total property, plant, furnitures, and equipment	 37,230,885	 29,834,811
 Allowances for depreciation and amortization	 <u>(11,471,148)</u>	 <u>(9,756,675)</u>
 Total property, plant, furnitures, and equipment — net	 <u>\$ 25,759,737</u>	 <u>\$ 20,078,136</u>

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

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

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

The agreements require monthly interest payments at the bank's prime rate, less 0.75% (2.9% at June 30, 2010, and 2.5% at June 30, 2009). This agreement is secured by accounts receivable, inventory, deposits, and equipment (not including OSU Eye Physicians & Surgeons, LLC), and is subject to certain restrictive and financial covenants. Borrowings on the line of credit as of June 30, 2010 and 2009, were \$0 and \$53,488, respectively.

A summary of long term debt (excluding capital lease obligations) as of June 30, 2010 and 2009, is as follows:

	2010	2009
Series 2010A (\$14.6 million) and 2010B (\$2.8 million) Adjustable Rate Demand Healthcare Facilities Revenue Bonds payable to County of Franklin, Ohio. Semiannual installments of principal and interest based on Bond Market Association Index (BMA Index). Rate as of June 30, 2010 was 4.09%. Bonds are due July 2035.	\$ 17,440,000	\$ -
Notes payable — due in monthly installments of principal and interest based upon BMA, 4.63% as of June 30, 2009, due November 2009		15,335,650
Notes payable — due in monthly installments of principal and interest (LIBOR plus 1.85%, 2.20% as of June 30, 2010, 2.17% as of June 30, 2009) due in February 2012	1,609,800	1,791,800
Line of credit — due in monthly installments of interest (prime less 0.75%, 2.50% as of June 30, 2009 due in July 2009		<u>53,488</u>
Total notes payable	19,049,800	17,180,938
Less current portion	<u>(605,600)</u>	<u>(15,571,138)</u>
Total notes payable — less current portion	<u>\$ 18,444,200</u>	<u>\$ 1,609,800</u>

The agreements are secured by accounts receivable, equipment, and fixtures and were subject to certain restrictive and financial covenants. OSUP's \$17.4 million note payable requires a minimum debt service coverage ratio of 1.25 to 1.50 quarterly, which was met at June 30, 2010.

On January 6, 2009, OSUP entered into an interest rate swap (the "swap") agreement. The swap is used to offset the variable interest rate on a portion of the 2010 bond financing obtained for the ambulatory facility in the amount of \$17,440,000. Under the agreement, OSUP pays a fixed rate of 4.09% to the bank and receives 30-day BMA rate in effect at the beginning of the month. The transaction is designed to manage OSUP's interest costs and risks associated with the variable interest rate debt. OSUP settles with the bank monthly for the difference between the 4.09% and the 30-day BMA rate in effect at the beginning of the month. The estimated fair value of this agreement, based on various factors contained in the related swap agreement and interest rates including the notional amount of \$14,965,750, represents an unrealized loss of \$1.8 million included in other liabilities as of June 30, 2010. OSUP records changes in fair value of the swap each quarter through the statements of operations and changes in net assets (\$518,000 for fiscal year 2010). The swap is settled monthly with net payments or receipts under the swap agreement being reflected as interest expense. The termination date of the swap is September 1, 2018.

On March 2, 2007, IM entered into the swap agreement fixing the interest rate on a \$2,169,000 term loan which was used to fund a 40% interest in the Fresenius Partnership. Under the agreement IM pays a fixed rate of 5.29% to the bank and receives 30-day LIBOR in effect at the beginning of the month. The transaction is designed to manage OSUIM's interest costs and risks associated with the variable interest rate debt. IM settles with the bank monthly for the difference between the 5.29% and the 30-day LIBOR

in effect at the beginning of the month. The estimated fair value of this agreement, based on various factors contained in the related interest rate swap agreement and interest rates, including the notional amount of \$1,609,800, represents an unrealized loss of \$112,000 included in other liabilities as of June 30, 2010. OSUIM records changes in fair value of the swap each quarter through the statements of operations and changes in net assets (\$112,000 for fiscal year 2010). The swap is settled monthly with net payments or receipts under the swap agreement being reflected as interest expense. The termination date of the swap is February 28, 2012.

OSUP did not hold any other position in a derivative instrument and did not have any other hedges outstanding in the current year. OSUP believes the swap value represents fair value under FASB ASC 820, *Fair Value Measurement and Disclosure*.

Scheduled principal repayments on long term debt as of June 30, 2010, are as follows:

Years Ending June 30	Long-Term Debt
2011	\$ 605,600
2012	2,074,200
2013	685,000
2014	705,000
2015–2035	<u>14,980,000</u>
Total	<u>\$19,049,800</u>

6. CAPITAL LEASE OBLIGATIONS

OSUP has capital lease obligations that have varying maturity dates through 2014 and carry implicit interest rates ranging from 4.75% to 12.1%. Lease arrangements are being used to provide partial financing for certain movable equipment. Capital asset balances, net of depreciation, as of June 30, 2010 and 2009, that are financed under capital leases are \$221,107 and \$323,571, respectively.

The scheduled maturities of these leases as of June 30, 2010, are as follows:

Years Ending June 30	Capital Lease Obligations
2011	\$ 65,290
2012	65,290
2013	65,290
2014	<u>43,527</u>
Capital lease obligation	239,397
Less amount representing interest under capital leases obligations	<u>(17,104)</u>
Total	<u>\$ 222,293</u>

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective July 1, 2008, OSUP adopted ASC 820 (formerly FASB Statement No. 157, *Fair Value Measurement*), which establishes a framework for measuring fair value by providing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (“Level 1 inputs”) and the lowest priority to unobservable inputs (“Level 3 inputs”). The three levels of the fair value hierarchy under ASC 820 are described below:

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

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

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

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

OSUP’s assets and liabilities at fair value as of June 30, 2010, set forth by level, within the fair value hierarchy, are as follows:

	Assets at Fair Value			Total
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Short-term and long-term investments	\$ 64,928	\$ 5,451,049	\$ -	\$ 5,515,977
Interest rate swap	<u> </u>	<u> </u>	<u>(1,949,892)</u>	<u>(1,949,892)</u>
Total assets at fair value	<u>\$ 64,928</u>	<u>\$ 5,451,049</u>	<u>\$ (1,949,892)</u>	<u>\$ 3,566,085</u>

8. RELATED-PARTY TRANSACTIONS AND INTERCOMPANY RECEIVABLES AND PAYABLES

OSUP is a supporting organization of the University. Due to this relationship with the University, related-party transactions are pervasive throughout the statements of operations and changes in net assets. A summary of the nature of these transactions and related due to/from affiliate balances reported in the balance sheet as of June 30, 2010, are as follows:

Due From:

The Ohio State University Health System (the "Health System") — OSUP provides staffing, coding support, and medical directorships at The Ohio State University Hospital and The Ohio State University Hospital East. Also, the Health System has allocated costs for its share of OSUP administration and information services overhead and billed for physician billing services provided to Health System physicians by OSUP's billing services. The balances due from the Health System as of June 30, 2010, are as follows:

Practice Plan	Due From Health System
OSUP — Corporate	\$ 426,783
Family Medicine Foundation, LLC	246,543
OSU Emergency Medicine, LLC	71,503
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	425,173
OSU Internal Medicine, LLC	1,101,756
OSU Neuroscience Center, LLC	3,388
OSU Otolaryngology-Head and Neck Surgery, LLC	6,000
OSU Pathology, LLC	421,323
OSU Physical Medicine and Rehabilitation, LLC	
OSU Psychiatry, LLC	271,310
OSU Radiation Oncology, LLC	
OSU Radiology, LLC	181,751
OSU Surgery, LLC	87,150
OSU Urology, LLC	<u>26,786</u>
 Total	 <u><u>\$3,269,466</u></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 University. The balances due from the COMPH as of June 30, 2010, are as follows:

Practice Plan	Due From COMPH
OSUP — Corporate	\$ 35
Family Medicine Foundation, LLC	25,653
OSU Emergency Medicine, LLC	172,792
OSU Eye Physicians and Surgeons, LLC	
OSU GYN and OB Consultants, LLC	90,818
OSU Internal Medicine, LLC	970,088
OSU Neuroscience Center, LLC	
OSU Otolaryngology-Head and Neck Surgery, LLC	20,745
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	158,133
OSU Psychiatry, LLC	202,204
OSU Radiation Oncology, LLC	495,022
OSU Radiology, LLC	147,585
OSU Urology, LLC	159,076
OSU Surgery, LLC	<u>1,360,413</u>
 Total	 <u>\$3,802,564</u>

Due To:

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

Practice Plan	Due to Health System
OSUP — Corporate	\$ 329,131
Family Medicine Foundation, LLC	79,905
OSU Emergency Medicine, LLC	533,521
OSU Eye Physicians and Surgeons, LLC	518,179
OSU GYN and OB Consultants, LLC	453,053
OSU Internal Medicine, LLC	4,525,601
OSU Neuroscience Center, LLC	569,139
OSU Otolaryngology-Head and Neck Surgery, LLC	324,551
OSU Pathology, LLC	865,719
OSU Physical Medicine and Rehabilitation, LLC	411,117
OSU Psychiatry, LLC	443,522
OSU Radiation Oncology, LLC	99,391
OSU Radiology, LLC	584,686
OSU Urology, LLC	154,376
OSU Surgery, LLC	<u>1,262,756</u>
Total	<u>\$ 11,154,647</u>

COMPH — Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund (“Academic Enrichment”), and Strategic Initiative Fund. Academic Enrichment covers the salaries, benefits, and other operating expenses of the Department of Emergency Medicine. Academic Enrichment is paid to the Dean’s office for support of the academic, research, and clinical missions of the College. The Strategic Initiative Fund is comprised of various funds established by the College to support resident education. All of these funds are paid on a quarterly basis. Dean’s tax and strategic initiative expense as of June 30, 2010 and 2009, are \$6,707,378 and \$6,818,773, respectively.

Practice Plan	Due to COMPH
OSUP — Corporate	\$ 501,478
Family Medicine Foundation, LLC	183,302
OSU Emergency Medicine, LLC	215,876
OSU Eye Physicians and Surgeons, LLC	1,306,403
OSU GYN and OB Consultants, LLC	1,163,333
OSU Internal Medicine, LLC	291,848
OSU Neuroscience Center, LLC	656,205
OSU Otolaryngology-Head and Neck Surgery, LLC	981,132
OSU Pathology, LLC	145,401
OSU Physical Medicine and Rehabilitation, LLC	19,307
OSU Psychiatry, LLC	31,066
OSU Radiation Oncology, LLC	31,496
OSU Radiology, LLC	308,690
OSU Surgery, LLC	3,594,995
OSU Urology, LLC	<u>86,500</u>
 Total	 <u><u>\$9,517,032</u></u>

9. INVESTMENT IN OTHER LIMITED LIABILITY CORPORATIONS (LLC)

OSUP has a 40% ownership interest in Fresenius Medical Care-OSUIM Kidney Centers, LLC. At June 30, 2010, the total amount invested is \$2,866,012, an increase of \$35,236 from June 30, 2009, balance of \$2,830,776. Income and distributions of \$727,636 and \$692,400, respectively, were recognized in 2010. Income and distributions of \$467,125 and \$310,800, respectively, were recognized in 2009. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded in the consolidated balance sheets in other assets using the equity method of accounting.

OSUP has a 49% ownership interest in Children’s Hospital and OSU-Children’s Pediatrics, LLC. At June 30, 2010, the total amount invested is \$789,056, an increase of \$276,368 from the June 30, 2009, balance of \$512,688. Gain of \$276,368 and a loss of \$542,192 were recognized for 2010 and 2009, respectively. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded in the consolidated balance sheets in other assets using the equity method of accounting.

10. MEDICAL MALPRACTICE CLAIMS

OSUP purchases professional and general liability insurance to cover medical malpractice claims through The University. The University has established a trusteed self-insurance fund for professional liability claims. The University’s estimated liability and the related contributions to the University’s

self-insurance fund for professional liability claims are based upon an independent actuarial determination as of June 30, 2010. 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, 2010 and 2009, were \$5,442,706 and \$7,458,043, respectively.

11. RETIREMENT AND HEALTH PLANS

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) program administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some LLCs make an additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits were \$14,959,545 and \$15,598,214 for the years ended June 30, 2010 and 2009, respectively.

Practice Plan	401(a) Contributions	
	2010	2009
OSUP — Corporate	\$ 564,668	\$ 481,215
Family Medicine Foundation, LLC	401,102	399,061
OSU Children's Pediatrics, LLC		
OSU Emergency Medicine, LLC	790,499	743,327
OSU Eye Physicians and Surgeons, LLC	287,077	233,672
OSU GYN and OB Consultants, LLC	553,273	1,079,754
OSU Internal Medicine, LLC	4,239,599	3,852,133
OSU Neuroscience Center, LLC	458,085	476,919
OSU Otolaryngology-Head and Neck Surgery, LLC	871,367	792,368
OSU Pathology, LLC	1,761,144	1,568,122
OSU Physical Medicine and Rehabilitation, LLC	161,990	148,468
OSU Psychiatry, LLC	46,229	38,473
OSU Radiation Oncology, LLC	365,398	337,866
OSU Radiology, LLC	1,995,245	1,769,911
OSU Surgery, LLC	2,010,744	3,270,111
OSU Urology, LLC	453,125	406,814
Total	<u>\$ 14,959,545</u>	<u>\$ 15,598,214</u>

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

12. COMMITMENTS AND CONTINGENCIES

Operating Leases — OSUP leases various equipment and facilities under operating leases expiring at various dates through December 2018. Total rental expense in 2010 and 2009 for all operating leases was approximately \$7.1 million and \$6.3 million, respectively, which includes leases that operate on a month-to-month basis.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010, that have initial or remaining lease terms in excess of one year.

**Years Ending
June 30**

2011	\$ 5,436,588
2012	4,328,576
2013	3,751,761
2014	<u>3,430,417</u>
Total	<u>\$ 16,947,342</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 consolidated financial position or results from operations.

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

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

13. SUBSEQUENT EVENTS

OSUP evaluated events occurring between the end of our most recent fiscal year and December 14, 2010, the date the consolidated financial statements were issued.

On September 30, 2010 Otolaryngology entered into a term note of \$160,000 payable monthly in principal and interest of \$4,444 due October 1, 2013. The loan bears interest at LIBOR plus 3.85%

On October 13, 2010, OSUP and each LLC individually and collectively entered into an amendment number 2 revolving credit loan and security agreement reduced their line of credit limits to provided borrowing up to \$4 million collectively. Each individual LLC has changed their limited amount to borrow to as follows:

Practice Plan	Line of Credit
OSUP — Corporate	\$ 750,000
Family Medicine Foundation, LLC	150,000
OSU Children’s Pediatrics, LLC	
OSU Emergency Medicine, LLC	500,000
OSU Eye Physicians and Surgeons, LLC	400,000
OSU GYN and OB Consultants, LLC	500,000
OSU Internal Medicine, LLC	2,000,000
OSU Neuroscience Center, LLC	250,000
OSU Otolaryngology-Head and Neck Surgery, LLC	500,000
OSU Pathology, LLC	500,000
OSU Physical Medicine and Rehabilitation, LLC	100,000
OSU Psychiatry, LLC	100,000
OSU Radiation Oncology LLC	100,000
OSU Radiology, LLC	500,000
OSU Surgery, LLC	1,000,000
OSU Urology, LLC	350,000

* * * * *

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

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

Ms. Mary Taylor
Auditor of the State of Ohio

We have audited the consolidated financial statements of Ohio State University Physicians, Inc. and its subsidiaries (OSUP) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of OSUP in a separate letter dated December 14, 2010.

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

A handwritten signature in cursive script that reads "Deloitte + Touche LLP".

December 14, 2010

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

SUPPLEMENTAL CONSOLIDATING SCHEDULES

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET AS OF JUNE 30, 2010

	OSUP — Corporate	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Radiation Oncology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
ASSETS																		
CURRENT ASSETS:																		
Cash and cash equivalents	\$ 4,616,749	\$ 1,798,402	\$ 3,789,451	\$ 311,253	\$ 1,642	\$ 7,034,710	\$ 110,806	\$ 1,467,916	\$ 5,144,214	\$ 267,847	\$ 899,079	\$ 2,528,928	\$ 827,559	\$ 2,635,496	\$ 2,477,628	\$ 33,911,680	\$ 2,805	\$ 33,914,485
Short-term investments		735,000	800,000						814,928					484,000	1,200,000	4,033,928		4,033,928
Accounts receivable — patient care:																		
Accounts receivable — patient care			9,258,080	2,482,240	6,281,946	27,026,009	2,635,963	7,228,114	8,372,067	1,798,238	724,847	1,340,854	7,659,305	16,063,243	2,852,452	93,723,358		93,723,358
Allowances			(7,061,491)	(1,351,070)	(3,861,796)	(14,447,490)	(1,649,827)	(4,844,434)	(5,712,051)	(1,062,036)	(425,590)	(797,244)	(5,255,348)	(10,920,083)	(1,974,751)	(59,363,211)		(59,363,211)
Accounts receivable — patient care — net	-	-	2,196,589	1,131,170	2,420,150	12,578,519	986,136	2,383,680	2,660,016	736,202	299,257	543,610	2,403,957	5,143,160	877,701	34,360,147	-	34,360,147
Accounts receivable — other	312,683	7,396	6,202	392,058	16,438	142,005	20,057	107,290	436,444	187,117	344,093			267,720		2,239,503		2,239,503
Allowance for uncollectible non-patient receivables									(336,508)							(336,508)		(336,508)
Accounts receivable — other — net	312,683	7,396	6,202	392,058	16,438	142,005	20,057	107,290	99,936	187,117	344,093	-	-	267,720	-	1,902,995	-	1,902,995
Due from affiliates	947,264	272,196	277,818	52,807	568,807	2,221,543	6,907	54,992	457,785	165,792	475,917	506,177	397,158	1,502,989	189,403	8,097,555	(1,025,525)	7,072,030
Inventories	48,235				309,413	500,940	120,534			84,724						1,063,846		1,063,846
Prepaid expenses	554,411	1,014	1,237	1,518	34,840	138,238	12,414	49,022	18,048	4,189	112	384	2,541	43,944	679	862,591	(25,121)	837,470
Notes receivable									7,862							7,862		7,862
Total current assets	<u>6,479,342</u>	<u>2,814,008</u>	<u>7,071,297</u>	<u>1,888,806</u>	<u>3,351,290</u>	<u>22,615,955</u>	<u>1,256,854</u>	<u>4,062,900</u>	<u>9,202,789</u>	<u>1,445,871</u>	<u>2,018,458</u>	<u>3,579,099</u>	<u>3,631,215</u>	<u>10,077,309</u>	<u>4,745,411</u>	<u>84,240,604</u>	<u>(1,047,841)</u>	<u>83,192,763</u>
NONCURRENT ASSETS:																		
Property, plant, furnishings, and equipment:																		
Property, plant, furnishings, and equipment	17,538,410		78,505	3,270,626	2,467,234	11,492,312	133,418	679,216	530,495	85,919		1,788	31,967	758,555	162,439	37,230,884		37,230,884
Accumulated depreciation	(2,751,570)		(69,881)	(746,447)	(683,918)	(6,218,171)	(50,167)	(189,821)	(309,662)	(60,419)		(1,788)	(31,544)	(341,560)	(16,199)	(11,471,147)		(11,471,147)
Property, plant, furnishings, and equipment — net	14,786,840	-	8,624	2,524,179	1,783,316	5,274,141	83,251	489,395	220,833	25,500	-	-	423	416,995	146,240	25,759,737	-	25,759,737
Long term investments		490,000							750,000							242,049		1,482,049
EPIC EMR			533,521	444,153	453,053	4,009,796	528,486	289,778	865,719	295,261	404,906	99,391	584,686	1,155,401	154,376	9,818,527		9,818,527
Other assets	4,053,527	16,476	40,897	22,175	96,199	3,055,361	80,883	315,125	480,354	13,119	17,674	8,530	49,702	83,103		8,333,125	(3,389,807)	4,943,318
Total noncurrent assets	<u>18,840,367</u>	<u>506,476</u>	<u>583,042</u>	<u>2,990,507</u>	<u>2,332,568</u>	<u>12,339,298</u>	<u>692,620</u>	<u>1,094,298</u>	<u>2,316,906</u>	<u>333,880</u>	<u>422,580</u>	<u>107,921</u>	<u>634,811</u>	<u>1,655,499</u>	<u>542,665</u>	<u>45,393,438</u>	<u>(3,389,807)</u>	<u>42,003,631</u>
TOTAL	<u>\$25,319,709</u>	<u>\$3,320,484</u>	<u>\$ 7,654,339</u>	<u>\$ 4,879,313</u>	<u>\$ 5,683,858</u>	<u>\$ 34,955,253</u>	<u>\$ 1,949,474</u>	<u>\$ 5,157,198</u>	<u>\$11,519,695</u>	<u>\$ 1,779,751</u>	<u>\$2,441,038</u>	<u>\$3,687,020</u>	<u>\$ 4,266,026</u>	<u>\$ 11,732,808</u>	<u>\$ 5,288,076</u>	<u>\$129,634,042</u>	<u>\$(4,437,648)</u>	<u>\$125,196,394</u>
LIABILITIES AND NET ASSETS																		
CURRENT LIABILITIES:																		
Accounts payable	\$ 234,870	\$ 1,618	\$ 31,306	\$ 246,064	\$ 646,319	\$ 937,021	\$ 164,395	\$ 107,353	\$ 296,340	\$ 294,296	\$ 18,226	\$ 12,418	\$ 93,114	\$ 83,760	\$ 6,236	\$ 3,173,336	\$ -	\$ 3,173,336
Accrued expenses	6,553	73,902	6,487	52,285	42,258	71,520	12,742	3,946	29,981	3,590	4,923	1,208	7,109	83,964	8,877	409,345		409,345
Accrued salaries and wages	2,925,730	909,223	1,196,300	172,478	361,155	2,894,541	186,137	1,241,568	1,826,106	68,506	73,480	16,990	83,225	1,038,778	673,273	13,667,490		13,667,490
Due to affiliates — current portion	1,040,592	263,260	325,826	749,240	879,396	1,621,514	822,545	1,048,072	330,850	212,880	151,099	57,439	444,845	2,049,135	176,049	10,172,742	(1,022,718)	9,150,024
Notes payable and capital leases — current portion	410,000					253,028										663,028		663,028
Retirement and health plans accrual	41,746	91,043	228,364	16,139	14,669	314,324	45,436		375,950	10,910	3,380	8,200	176,983	823,060	322	2,150,526		2,150,526
Other current liabilities	550,591	3,339	704,143	154,652	167,216	735,186	136,730	200,816	318,970	72,388	45,168	36,181	191,617	231,685	24,933	3,573,615	(25,121)	3,548,494
Total current liabilities	<u>5,210,082</u>	<u>1,342,385</u>	<u>2,492,426</u>	<u>1,390,858</u>	<u>2,111,013</u>	<u>6,827,134</u>	<u>1,367,985</u>	<u>2,601,755</u>	<u>3,178,197</u>	<u>662,570</u>	<u>296,276</u>	<u>132,436</u>	<u>996,893</u>	<u>4,310,382</u>	<u>889,690</u>	<u>33,810,082</u>	<u>(1,047,839)</u>	<u>32,762,243</u>
LONG-TERM LIABILITIES:																		
Notes payable and capital leases — less current portion	17,030,000					1,579,065										18,609,065		18,609,065
Due to affiliates and other — long term	670,995		426,913	2,231,499	1,159,300	4,971,322	417,977	259,699	692,731	236,262	323,998	79,531	467,853	2,838,920	134,464	14,911,464	(3,389,809)	11,521,655
Other long term liabilities	2,713,411				566,167	112,358							569,642		774,000	4,735,578		4,735,578
Total long term liabilities	20,414,406	-	426,913	2,231,499	1,725,467	6,662,745	417,977	259,699	692,731	236,262	323,998	79,531	1,037,495	2,838,920	908,464	38,256,107	(3,389,809)	34,866,298
NET ASSETS — Unrestricted	<u>(304,779)</u>	<u>1,978,099</u>	<u>4,735,000</u>	<u>1,256,956</u>	<u>1,847,378</u>	<u>21,465,374</u>	<u>163,512</u>	<u>2,295,744</u>	<u>7,648,767</u>	<u>880,919</u>	<u>1,820,764</u>	<u>3,475,053</u>	<u>2,231,638</u>	<u>4,583,506</u>	<u>3,489,922</u>	<u>57,567,853</u>		<u>57,567,853</u>
TOTAL	<u>\$25,319,709</u>	<u>\$3,320,484</u>	<u>\$ 7,654,339</u>	<u>\$ 4,879,313</u>	<u>\$ 5,683,858</u>	<u>\$ 34,955,253</u>	<u>\$ 1,949,474</u>	<u>\$ 5,157,198</u>	<u>\$11,519,695</u>	<u>\$ 1,779,751</u>	<u>\$2,441,038</u>	<u>\$3,687,020</u>	<u>\$ 4,266,026</u>	<u>\$ 11,732,808</u>	<u>\$ 5,288,076</u>	<u>\$129,634,042</u>	<u>\$(4,437,648)</u>	<u>\$125,196,394</u>

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

	OSUP	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Radiation Oncology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
OPERATING REVENUE																		
Patient care revenue:																		
Patient care revenue	\$ -	\$ 261	\$ 43,214,062	\$ 19,923,554	\$ 47,437,727	\$ 175,115,792	\$ 18,194,247	\$ 39,550,766	\$ 67,802,701	\$ 12,309,629	\$ 3,837,464	\$ 9,082,835	\$ 63,659,495	\$ 85,034,330	\$ 19,299,494	\$ 604,462,357	\$ -	\$ 604,462,357
Less — contractual adjustments		(68)	(22,231,387)	(9,663,670)	(27,769,942)	(95,221,064)	(10,437,368)	(24,636,519)	(44,618,104)	(7,539,230)	(1,873,451)	(4,786,764)	(38,950,894)	(54,102,746)	(12,564,312)	(354,395,519)		(354,395,519)
Net patient care revenue	-	193	20,982,675	10,259,884	19,667,785	79,894,728	7,756,879	14,914,247	23,184,597	4,770,399	1,964,013	4,296,071	24,708,601	30,931,584	6,735,182	250,066,838	-	250,066,838
Other revenue	14,172,962	7,763,214	3,225,835	2,110,332	2,461,581	11,122,293	1,830,344	2,790,215	8,128,158	2,654,459	4,615,014	1,470,230	1,099,295	13,419,987	1,430,252	78,294,171	(11,474,323)	66,819,848
Total operating revenue	14,172,962	7,763,407	24,208,510	12,370,216	22,129,366	91,017,021	9,587,223	17,704,462	31,312,755	7,424,858	6,579,027	5,766,301	25,807,896	44,351,571	8,165,434	328,361,009	(11,474,323)	316,886,686
OPERATING EXPENSES:																		
Salaries and benefits:																		
Employee salaries — OSUP	6,493,314		145,230	1,160,804	1,993,280	10,975,446	1,216,474	1,637,519	1,638,167	547,663		143,287	603,840	3,359,175	50,619	29,964,818	(69,539)	29,895,279
Employee salaries — OSU	67,145		444,901	1,126,145	1,750,548	2,968,132	500,043	706,154	5,025,622	267,194	587,738	414,588	553,987	3,360,606	507,433	18,280,236	(67,145)	18,213,091
Employee benefits — OSUP	1,772,849		29,710	454,817	702,936	3,347,886	374,852	509,407	557,127	188,973		52,265	222,831	1,109,402	17,387	9,340,442	(45,327)	9,295,115
Employee benefits — OSU	21,064		152,761	345,445	556,702	672,495	181,503	215,370	1,572,856	83,450	195,858	143,829	180,240	1,168,806	175,895	5,666,274	(21,064)	5,645,210
Total salaries and benefits	8,354,372	-	772,602	3,087,211	5,003,466	17,963,959	2,272,872	3,068,450	8,793,772	1,087,280	783,596	753,969	1,560,898	8,997,989	751,334	63,251,770	(203,075)	63,048,695
Supplies and pharmaceuticals:																		
Medical supplies			1,479	169,191	536,753	791,076	89,940	627,609	2,470,482	29,987				665,833	41,455	5,423,805	(3,460)	5,420,345
Drugs and pharmaceuticals				1,233,479	5,811,080	7,157,662	1,461,942	60,430	1,651,003	1,651,003						17,375,596	(2,720)	17,372,876
Office supplies	661,828		64,008	68,275	194,624	501,986	88,691	276,832	134,630	17,533	36,644	20,669	75,100	433,007	50,194	2,624,021	(1,276)	2,622,745
Total supplies and pharmaceuticals	661,828	-	65,487	1,470,945	6,542,457	8,450,724	1,640,573	964,871	2,605,112	1,698,523	36,644	20,669	75,100	1,098,840	91,649	25,423,422	(7,456)	25,415,966
Services:																		
Malpractice		290,608	351,809	96,908	303,005	1,860,273	192,597	172,200	128,501	93,103	68,027	66,347	345,125	1,357,468	116,735	5,442,706		5,442,706
General and other insurance	179,359															179,359		179,359
Purchased services and management fees	1,199,661	13,903	144,549	185,321	316,410	1,392,126	86,436	134,337	1,960,005	143,280	406,879	32,818	845,525	357,797	151,048	7,370,095	(1,367,694)	6,002,401
Other	2,271,393	11,285	158,780	342,257	702,193	2,888,846	142,837	396,465	748,696	48,927	91,400	42,864	263,133	777,530	84,074	8,970,680	(8,481)	8,962,199
Total services	3,650,413	315,796	655,138	624,486	1,321,608	6,141,245	421,870	703,002	2,837,202	285,310	566,306	142,029	1,453,783	2,492,795	351,857	21,962,840	(1,376,175)	20,586,665
Occupancy and utilities	1,807,224	479	22,924	975,043	1,046,617	1,710,476	299,571	727,736	219,042	64,546	146,658	6,039	82,214	893,236	99,976	8,101,781	(762,774)	7,339,007
Amortization and depreciation	698,965		4,785	314,226	274,392	1,185,608	73,321	116,564	128,506	10,324		179	453	82,054	9,696	2,899,073	(138)	2,898,935
Bad debt			9,564,260	895,531	1,041,166	7,004,632	391,655	1,230,715	3,268,090	227,927	138,942	255,093	3,864,377	3,365,171	776,627	32,024,186		32,024,186
Interest	851,283		6,487	119,536	36,199	304,684	2,733	21,944		11,014	4,974	1,208	7,109	38,210	3,752	1,409,133		1,409,133
Taxes	200			297				46	68							611		611
Total other expenses	3,357,672	479	9,598,456	2,304,633	2,398,374	10,205,400	767,280	2,097,005	3,615,706	313,811	290,574	262,519	3,954,153	4,378,671	890,051	44,434,784	(762,912)	43,671,872
Total expense before general and administrative	16,024,285	316,275	11,091,683	7,487,275	15,265,905	42,761,328	5,102,595	6,833,328	17,851,792	3,384,924	1,677,120	1,179,186	7,043,934	16,968,295	2,084,891	155,072,816	(2,349,618)	152,723,198
GENERAL AND ADMINISTRATIVE EXPENSES:																		
Allocated overhead (OSUP)	227,268	135,901	886,195	502,272	982,222	2,257,929	640,355	547,193	565,656	381,050	224,501	144,310	729,750	1,013,172	134,564	9,372,338	(9,372,338)	-
Allocated overhead (practice plan)															422,511	422,511	(422,511)	-
Contingency/corporate reserve																		-
Dean's tax and strategic initiative		204,244	821,876	240,977	281,830	1,636,556	150,043	366,832	614,000	72,905	107,812	117,016	1,119,822	793,517	179,948	6,707,378		6,707,378
Total general and administrative expenses	227,268	340,145	1,708,071	743,249	1,264,052	3,894,485	790,398	914,025	1,179,656	453,955	332,313	261,326	1,849,572	1,806,689	737,023	16,502,227	(9,794,849)	6,707,378

(Continued)

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	OSUP	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Radiation Oncology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
EXCESS REVENUE OVER EXPENSE BEFORE PROVIDER EXPENSE	<u>\$(2,078,591)</u>	<u>\$7,106,987</u>	<u>\$11,408,756</u>	<u>\$4,139,692</u>	<u>\$5,599,409</u>	<u>\$44,361,208</u>	<u>\$3,694,230</u>	<u>\$9,957,109</u>	<u>\$12,281,307</u>	<u>\$3,585,979</u>	<u>\$4,569,594</u>	<u>\$4,325,789</u>	<u>\$16,914,390</u>	<u>\$25,576,587</u>	<u>\$5,343,520</u>	<u>\$ 156,785,966</u>	<u>\$ 670,144</u>	<u>\$ 157,456,110</u>
PROVIDER EXPENSES:																		
Salaries and benefits:																		
Provider salaries — OSUP		4,797,958	6,133,805	2,610,490	4,418,264	34,261,938	2,078,481	5,997,475	6,749,868	1,489,839	737,041	1,605,723	12,793,292	15,354,753	3,408,755	102,437,682	(68,880)	102,368,802
Provider salaries — OSU		1,143,453	2,329,836	808,578	597,809	3,115,564	1,131,283	819,665	2,079,478	483,869	2,559,638	491,860	1,114,760	4,201,506	454,386	21,331,685		21,331,685
Provider benefits — OSUP		552,199	995,841	276,354	561,055	4,269,179	409,676	1,040,450	1,737,377	172,787	57,255	381,436	2,266,361	2,819,418	531,078	16,070,466	(2,298)	16,068,168
Provider benefits — OSU		302,265	641,478	211,123	157,185	756,531	296,922	219,298	549,650	129,562	713,386	127,148	297,857	1,120,253	121,086	5,643,744		5,643,744
Total provider salaries and benefits	-	6,795,875	10,100,960	3,906,545	5,734,313	42,403,212	3,916,362	8,076,888	11,116,373	2,276,057	4,067,320	2,606,167	16,472,270	23,495,930	4,515,305	145,483,577	(71,178)	145,412,399
Other provider related expenses		145,784	268,927	70,550	99,159	637,157	121,713	227,740	413,122	68,356	2,524	166,747	368,468	752,266	26,800	3,369,313	(18,750)	3,350,563
Total provider related expenses	-	6,941,659	10,369,887	3,977,095	5,833,472	43,040,369	4,038,075	8,304,628	11,529,495	2,344,413	4,069,844	2,772,914	16,840,738	24,248,196	4,542,105	148,852,890	(89,928)	148,762,962
EXCESS REVENUE OVER EXPENSE AFTER PROVIDER EXPENSE	<u>(2,078,591)</u>	<u>165,328</u>	<u>1,038,869</u>	<u>162,597</u>	<u>(234,063)</u>	<u>1,320,839</u>	<u>(343,845)</u>	<u>1,652,481</u>	<u>751,812</u>	<u>1,241,566</u>	<u>499,750</u>	<u>1,552,875</u>	<u>73,652</u>	<u>1,328,391</u>	<u>801,415</u>	<u>7,933,076</u>	<u>760,072</u>	<u>8,693,148</u>
NON-OPERATING INCOME (EXPENSE):																		
Interest income	26,822	13,627	3,800	254		13,197			38,779	91	1,560	942		12,136	13,812	125,020		125,020
Nonoperating income	1,885,819					395,402										2,281,221	(760,072)	1,521,149
Income (loss) from investments	276,368					727,636	(293)		18,666					120,855		1,143,232		1,143,232
Gain (loss) on sale of assets			50	(4,443)		3,359	(4,818)		(1,496)							(7,348)		(7,348)
Loss on change in value of interest rate swap	(517,534)					(112,358)										(629,892)		(629,892)
Nonoperating expense	3,331	(158,443)	(640)	(2,475)	(15,850)	(4,795)	(21,090)	(15,218)	(22,605)			(3,500)	(8,449)	43,629	(234,089)	(440,194)		(440,194)
Total nonoperating income (expense)	1,674,806	(144,816)	3,210	(6,664)	(15,850)	1,022,441	(26,201)	(15,218)	33,344	91	1,560	(2,558)	(8,449)	176,620	(220,277)	2,472,039	(760,072)	1,711,967
(DECREASE) INCREASE IN NET ASSETS	(403,785)	20,512	1,042,079	155,933	(249,913)	2,343,280	(370,046)	1,637,263	785,156	1,241,657	501,310	1,550,317	65,203	1,505,011	581,138	10,405,115	-	10,405,115
NET ASSETS — Beginning of year	99,006	1,957,587	3,692,921	1,101,023	2,097,291	19,122,094	533,558	658,481	6,863,611	(360,738)	1,319,454	1,924,736	2,166,435	3,078,495	2,908,784	47,162,738		47,162,738
NET ASSETS — End of year	<u>\$ (304,779)</u>	<u>\$1,978,099</u>	<u>\$ 4,735,000</u>	<u>\$1,256,956</u>	<u>\$1,847,378</u>	<u>\$21,465,374</u>	<u>\$ 163,512</u>	<u>\$2,295,744</u>	<u>\$ 7,648,767</u>	<u>\$ 880,919</u>	<u>\$1,820,764</u>	<u>\$3,475,053</u>	<u>\$ 2,231,638</u>	<u>\$ 4,583,506</u>	<u>\$3,489,922</u>	<u>\$ 57,567,853</u>	<u>\$ -</u>	<u>\$ 57,567,853</u>

(Concluded)



Dave Yost • Auditor of State

OSU PHYSICIANS INC. AND SUBSIDIARIES

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 25, 2011**