Ohio State University Physicians, Inc. (A component unit of The Ohio State University)

Consolidated Financial Statements as of and
for the Years Ended June 30, 2014 and 2013,
Supplemental Consolidating Schedules as of and
for the Years Ended June 30, 2014 and 2013,
And Independent Auditor’s Report

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Ohio State University Physicians, Inc., Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

November 14, 2014

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OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A COMPONENT UNIT OF THE OHIO STATE UNIVERSITY)

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University, which comprise the consolidated statements of net position as of June 30, 2014 and June 30, 2013 and the related consolidated statements of revenue, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise OSUP's basic consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OSUP at June 30, 2014 and June 30, 2013, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers, LLP, 41 South High Street, Suite 2500 Columbus, OH 43215
T: (614) 225-8700, F: (614)224-1044, www.pwc.com/us

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 6 are required by accounting principles generally accepted in the United States of America to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise OSUP's consolidated basic financial statements. The consolidating information on pages 29 and 30 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014 on our consideration of OSUP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2014. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSUP's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Columbus, OH
October 17, 2014

Management's Discussion and Analysis for the Years Ended June 30, 2014, June 30, 2013, and June 30, 2012 (Unaudited)

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of Ohio State University Physicians, Inc. for the years ended June 30, 2014, June 30, 2013, and June 30, 2012. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

About Ohio State University Physicians

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

OSUP is the single member of 17 limited liability companies (LLCs). As of June 30, 2014, only 15 of the LLCs are active and included in the consolidated financial statements and the accompanying supplemental consolidating schedules. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no business activity within the OSUP structure through June 30, 2014.

OSUP is governed by a board of managers who are responsible for oversight of clinical programs, budgets, general administration, and employment of faculty and staff. Effective January 1, 2011 any new faculty members hired were employed through The Ohio State University Faculty Group Practice (FGP) and were leased back to OSUP. Physicians previously employed through OSUP began integrating to the FGP effective July 1, 2011. All physicians that were to be employed through the FGP were integrated by June 30, 2014 and are being leased back to OSUP in the same manner as new hires that started after January 1, 2011.

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

About the Financial Statements

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

The Statement of Net Position is OSUP's balance sheet. It reflects the total assets, liabilities and net position as of June 30, 2014 and June 30, 2013. Liabilities due within one year, and assets available to pay those liabilities are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at market value. Capital assets, which include land, buildings, improvements, and equipment, are shown net of accumulated depreciation.

The Statement of Revenues, Expenses and Other Changes in Net Position is OSUP's income statement. It details how net position has increased (or decreased) during the year ended June 30, 2014 and June 30, 2013. Patient care revenue is shown net of allowances for collectability, depreciation is provided for capital assets, and there are required subtotals for operating income (loss) and non-operating income (expense).

The Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2014 and June 30, 2013. It breaks out the sources and uses of OSUP cash into logical categories such as, operating activities, capital financing activities, and investing activities.

Management's Discussion and Analysis for the Years Ended June 30, 2014, June 30, 2013, and June 30, 2012 (Unaudited)

The Notes to the Financial Statements, which follow the financial statements, provide additional details on the numbers in the financial statements. Behind the notes is a section that provides supplemental consolidating information.

Financial Highlights and Key Trends

OSUP's net position increased $4.4 million to $82.8 million at June 30, 2014 as compared to prior years' growth in net position of $5.2 million. Net Patient Revenues grew by $22.6 million, and Other Revenue and Medical Center Investment increased by $2.1 million, while expenses grew by $26.7 million.

Condensed Consolidated Statements of Net Position (in thousands)

	June 30, 2014	June 30, 2013	June 30, 2012
ASSETS			
Current assets	109,122	107,268	98,697
Noncurrent assets	29,638	31,637	37,777
TOTAL ASSETS	138,760	138,905	136,474
LIABILITIES			
Current liabilities	34,320	39,145	36,394
Long term liabilities	21,606	21,311	26,798
TOTAL LIABILITIES	55,926	60,456	63,192
NET POSITION			
Total net position	82,834	78,449	73,282
TOTAL LIABILITES & NET POSITION	138,760	138,905	136,474

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

Cash and cash equivalents increased $5.2 million from June 30, 2013 to June 30, 2014 and $10.3 million from June 30, 2012 to June 30, 2013. The primary drivers for the increase from 2013 to 2014 were cash from operating activities of $6.2 million and cash from investing activities of $4.9 million, offset by cash used for capital financing activities of $6.0 million. The primary drivers for the increase from 2012 to 2013 were: the net position increase of $5.2 million from Operating and Nonoperating sources, the decrease of $4.0 million in net patient care accounts receivable, and $2.2 million issuance in long term debt to fund the loss on the interest rate swap on the refinancing of debt.

Net patient care accounts receivable increased by $413 thousand from June 30, 2013 to June 30, 2014 as the growth in physicians and thus patient billings exceeded the reductions in accounts receivables that were associated with process improvements in the new central business office. The consolidation of multiple business offices drove billing and cash collection efficiencies as a result of more standardized processes and procedures. Net patient care accounts receivable decreased by $4.0 million from June 30, 2012 to June 30, 2013 as the second year impact of the new electronic medical record system implementation and improvements associated with the preparation of a more centralized business office were experienced.

Property, plant, furniture, and equipment- net increased by $100 thousand from June 30, 2013 to June 30, 2014 as purchases of PP&E were approximately equal to depreciation expense taken on capital assets. Property, plant, furniture, and equipment – net decreased $0.9 million from June 30, 2012 to June 30, 2013 primarily based upon depreciation taken in excess of assets purchased. PP&E purchases were approximately $1.6 million for the year ended June 30, 2013. Depreciation expense on these assets was $2.5 million.

Long- term investments decreased by $517 thousand from June 30, 2013 to June 30, 2014. Long- term investments decreased by $3.6 million from June 30, 2012 to June 30, 2013. Both period changes relate to the organizational needs to invest shorter term based upon the expected needs for future cash flow requirements.

EPIC ambulatory electronic medical records use agreement reflects OSUP's cost of using the electronic medical records system implemented by OSU Health System, which is accounted for similar to a lease arrangement and depreciated over the useful life of the asset. The physicians of OSUP are funding approximately $11.3 million in total to this joint project with OSU Health System.

The decrease in Current liabilities as of June 30, 2014 of $4.8 million and the increase of $2.8 million as of June 30, 2013 came primarily from the changes in amounts due to affiliated entities, primarily The Ohio State University, and are based upon agreements between the LLC's and the university. These agreements are primarily related to the electronic medical record system, and physician support agreements generally in the start-up period of new practices.

Long term liabilities increased $295 thousand for June 30, 2014 and decreased $5.5 million for June 30, 2013 associated with fluctuations in long term amounts related to affiliated organizations within The Ohio State University, which includes the debt for the electronic medical record system. The remaining long term portion due to the OSU Health System for the EMR system as of June 30, 2014 was $4.0 million and as of June 30, 2013 is approximately $4.9 million.

Statement of Revenue, Expenses, and Changes in Net Position

The statement of revenue, expenses, and changes in net position presents OSUP's results of operations. A comparison for the years ended June 30, 2014, 2013, and 2012 is summarized as follows.

Condensed Consolidated Statements of Revenue, Expenses, and Changes in Net Position (in thousands)

	2014	2013	2012
Net patient care revenue less provisions for bad debts	$ 271,678	$ 249,050	$ 226,776
Other revenue	84,825	82,766	76,026
Total operating expense	(355,699)	(329,003)	(296,843)
Operating income	$ 804	$ 2,813	$ 5,959
Nonoperating income	2,673	2,354	1,852
Other changes in net position	908	-	-
Increase in net position	$ 4,385	$ 5,167	$ 7,811

Average monthly patient volume was 162 thousand per month in fiscal year ended June 30, 2014, 154 thousand per month in the fiscal year ended June 30, 2013, and 141 thousand per month in the fiscal year ended June 30, 2012. This year over year increases were primarily related to the growth in the number of physicians and other providers providing patient services. The number of physicians have grown in 2014, 2013 and 2012 by 85, 92 and 18, respectively.

Increases in net patient care revenue are associated with volume changes noted above as well as changes in rates charged and payments received for services, including the change in mix of services rendered to patients, and the payer mix of patients seen. Net patient care revenue increased by $22.6 million from fiscal year 2013 to 2014, and $22.3 million from fiscal year 2012 to fiscal year 2013. Both years relate to growth in physician practitioners during the period.

A change in policy in 2014 changed the mix of adjustments that impact our gross revenue to net revenue calculations. OSUP instituted a Self Pay discount that approximates the discount given to our top 5 managed care contractual agreements and gave that discount up front to all Self Pay patients. This discount effectively reduced Bad Debts and Charity Care adjustments, however the purpose was to "level the playing field" for Self Pay patients with other payers.

Other revenue increased $2.1 million and represents both revenue associated with outside health related organizations, and support payments associated with funding of programs deemed important through The Ohio State University. The primary growth came from contractual arrangements with outside health related organizations.

Operating expenses increased by $26.7 million from fiscal year ended June 30, 2013 to June 30, 2014 and $32.2 million from fiscal year ended June 30 2012 to June 30, 2013. Approximately $16.6 million of the 2014 increase came in physician related costs, while $17.7M of the growth in 2013 came from physician related costs. New physicians entering the practice generally take 2-3 years of service to grow their clinical practice before they are considered a mature practice.

Nonoperating income /(expense) increased $319 thousand primarily related to an increase in the tax rebate with the City of Columbus for payroll growth incentives which accounted for $295 thousand of the increase.

Other changes in net position – capital contribution for the fiscal year ended June 30, 2014, relates to a donation of a building to OSU GYN and OB Consultants, LLC. The building was recorded at appraised value based upon a gift from a related company.

Economic Factors That Will Affect the Future

As in prior years the Medicare program has automatic cuts that if implemented would mean significant reductions of income for clinical services. Historically Congress has found support to eliminate these automatic cuts before they have become law. The potential impact of these cuts is not yet defined as of this date for OSUP for January 1, 2015. Based upon historical data these cuts would approximate $15 million annually.

Healthcare reform is a source of concern as estimates of payment reductions over time based upon all commercial payers moving to Medicare payment rates would result in more than $50 million negative annual impact. This would be phased in over a number of years which will allow time to adjust, however significant operational changes would be necessary to handle such change. OSUP is undergoing significant financial redesign of operations in order to offset expected revenue losses, which include projects associated with physician productivity, patient access improvements, federal upper payment limit and Medicaid expansion projects, and overhead cost reductions. In the current year, primary care physicians such as Family Medicine and Internal Medicine received incremental payments associated with Medicaid patients being paid Medicare rates which for FY 2014 was a positive $7 million impact, while the Medicare sequestration had a $1.7million negative impact. The Medicaid sight of service adjustment impact was a negative $1.4 million in 2014. The locations that saw significant self pay patient populations, such as our East locations, experienced a decrease in self pay volume and an increase in Medicaid volume.

Ongoing governmental funding for our investment in an electronic medical record system (EPIC) has and will continue to pay for OSUP's $11.3 million share of the system cost. The expectation is to recoup more than the $11.3 million in system cost over the next several years from the stimulus funding set by Congress in prior years. We have received approximately $9.9 million in payments as of June 30, 2014. Over the next year we are expecting an additional $2.7 million from the Centers for Medicare & Medicaid Services related to our year three funding, which began January 1, 2014.

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)
CONSOLIDATED STATEMENTS OF NET POSITION *(in thousands)*
AS OF JUNE 30, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 51,441	$ 46,285
Short-term investments	8,059	11,621
Accounts receivable — patient care — net of allowance	32,679	32,266
Accounts receivable — other	5,930	5,016
Due from affiliates	8,585	10,276
Inventories	1,389	994
Prepaid expenses	1,039	810
Total current assets	109,122	107,268
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation ($19,530 in 2014 and $17,259 in 2013)	22,468	22,368
Long-term investments	1,012	1,529
EPIC ambulatory electronic medical record use agreement	4,056	5,704
Other assets	2,102	2,036
Total noncurrent assets	29,638	31,637
TOTAL ASSETS	$ 138,760	$ 138,905
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 4,111	$ 3,210
Accrued expenses	202	741
Accrued salaries and wages	8,055	9,141
Due to affiliates-current portion	17,200	20,187
Notes payable and capital leases-current portion	892	895
Retirement and health plan accrual	433	439
Other current liabilities	3,427	4,532
Total current liabilities	34,320	39,145
LONG TERM LIABILITIES:		
Notes payable and capital leases-less current portion	16,362	17,180
Due to affiliaties - less current portion	4,200	2,674
Other long term liabilities	1,044	1,457
Total long term liabilities	21,606	21,311
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION:		
Invested in capital assets, net of related debt	$ 4,108	$ 3,016
Unrestricted	78,726	75,433
Total net position	82,834	78,449
TOTAL LIABILITIES AND NET POSITION	$ 138,760	$ 138,905

The accompanying notes are an integral part of these consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)
CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
(in thousands)
AS OF JUNE 30, 2014 and 2013

	2014	2013
OPERATING REVENUE:		
Net patient care revenue	$ 281,899	$ 265,420
Provisions for bad debt	10,221	16,370
Net patient care revenue less provisions for bad debts	271,678	249,050
Other revenue	84,825	82,766
Total operating revenue	356,503	331,816
OPERATING EXPENSES:		
Salaries and benefits	272,187	251,428
Supplies and pharmaceuticals	26,627	24,020
Services	29,575	28,056
Malpractice	2,177	2,106
Dean's tax	7,889	7,892
Occupancy and utilities	8,175	7,220
Amortization and depreciation	4,561	4,317
Interest	684	713
Other expenses	3,824	3,251
Total operating expenses	355,699	329,003
Operating income	804	2,813
NONOPERATING INCOME (EXPENSES):		
Interest income	113	139
Nonoperating income	3,830	3,759
(Loss) Income from investments	(66)	99
Loss on sale of assets	(9)	(15)
Nonoperating expense	(1,195)	(1,628)
Total nonoperating income	2,673	2,354
Other changes in net position - capital contribution	908	-
INCREASE IN NET POSITION	4,385	5,167
NET POSITION- Beginning of year	78,449	73,282
NET POSITION- End of year	$ 82,834	$ 78,449

The accompanying notes are an integral part of these consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)
CONSOLIDATED STATEMENTS OF CASH FLOWS *(in thousands)*
AS OF JUNE 30, 2014 and 2013

	2014	2013
Cash flow from operating activites:		
Patient receipts-net	$ 271,271	$ 252,782
Other receipts	84,270	80,178
Payments to and on behalf of employees	(271,644)	(248,461)
Payments to vendors for supplies and services	(54,552)	(54,487)
Payments on malpractice and dean's tax	(11,072)	(9,291)
Payments on occupancy and utilities	(8,130)	(7,132)
Payments on other expenses	(3,913)	(3,134)
Net cash provided by operating activities	6,230	10,455
Cash flows from capital financing activities:		
Purchase of capital assets	(1,769)	(1,562)
Proceeds from sale of capital assets	306	48
Proceeds from debt	80	172
Payments on debts and capital leases	(3,899)	(1,787)
Payments on interest	(732)	(558)
Net cash used in capital financing activities	(6,014)	(3,687)
Cash flows from investing activities		
Purchase of other assets	(524)	(578)
Purchase of investments	(14,922)	(12,464)
Proceeds from sale of investments	19,003	15,816
Interest income	113	139
Rental income	2,330	2,299
Non operating expense	(1,195)	(1,628)
Other contributions	135	-
Net cash provided by investing activities	4,940	3,584
Net Increase in Cash	5,156	10,352
Cash and cash equivalents- Beginning of year	46,285	35,933
Cash and cash equivalents-End of year	$ 51,441	$ 46,285

The accompanying notes are an integral part of these consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)
CONSOLIDATED STATEMENTS OF CASH FLOWS *(in thousands)* (continued)
AS OF JUNE 30, 2014 and 2013

		2014		2013
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	$	804	$	2,813
Adjustments to reconcile net operating income to net cash				
Amortization and depreciation		4,561		4,317
Interest		684		713
Other		-		53
Changes in assets and liabilities:				
Accounts receivable-patient care - net of allowance		(413)		4,048
Accounts receivable- other		(914)		1,917
Due from affiliates		1,691		(3,836)
Inventories		(395)		(208)
Other Assets		(66)		88
Prepaid expenses		(229)		84
Accounts payable		901		217
Due to affiliates		2,755		3,577
Accrued salaries and wages		(1,086)		(73)
Retirement and health plans accrual		(6)		(159)
Accrued expenses		(539)		(935)
Other liabilities		(1,518)		(2,161)
Net cash provided by operating activities	$	6,230	$	10,455

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

OSUP is the single member of 17 limited liability companies (LLCs). As of June 30, 2014 and 2013, only 15 of the LLCs are active and included in the 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, 2014.

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

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

All LLCs listed above are included within OSUP’s consolidated financial statements on a blended basis. Additionally, OSUP has a corporate function that operates as a shared service center that supports all of the LLCs. Services offered include shared practice management services, clinical information systems, and certain financial management services. Given that this corporate function does not have any substantive activities on its own and exists only to provide the LLCs with these administrative services, the LLCs are displayed in a single column format in the consolidated financial statements.

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

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

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

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

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

Short Term and Long Term Investments — OSUP holds investments in money market funds and certificates of deposit extending beyond three months. Fair values for these investments are based on market quotes as applicable, in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Realized gains and losses are calculated based on the type of investment and are included in (loss) income from investments in non-operating income (expenses).
Investment income is recognized on an accrual basis. Interest and dividend income is recorded when earned.

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

OSUP utilizes the allowance method for providing for the possibility of uncollectible accounts. The allowance is provided based on management's estimate of the collectability of the accounts receivable as of June 30, 2014 and 2013. 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, Furniture, and Equipment, net— Property, plant, furniture, and equipment are stated at cost and include assets leased under capitalized lease obligations. Depreciation and amortization are calculated on the straight-line method. The depreciation and amortization methods are designed to amortize the assets over their estimated useful lives. Capitalized lease amortization is included in depreciation expense. Ranges for useful lives by fixed asset category are shown below:

Land	2-29 years
Buildings	5-40 years
Furniture and fixtures	5-15 years

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 non-operating income.

EPIC ambulatory electronic medical record use agreement- OSUP entered into a Software System Use agreement with OSU Medical Center for the purchase of an electronic medical records system (i.e. EPIC). The agreement, treated for accounting purposes similar to a capital lease, was between OSU Health System and OSUP. The total acquisition cost related to OSUP's share of the software and implementation was approximately $11.3 million; these costs were discounted using a rate of 2.5% as of June 30, 2014 and 2013, respectively. This cost is being amortized over no more than seven years, and amortization began upon effective implementation within a physician's group. At June 30, 2014 and 2013, accumulated amortization was $6.3 million and $4.6 million, respectively.

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

Professional and General Insurance — On July 1, 2003, OSUP joined with the Ohio State University Health System (OSU Health System) , a consolidating organization within The Ohio State University, to establish a self-insurance fund for professional and patient general liability claims (Fund II), covering the employed physicians of OSUP as well as the OSU Health System. The assets and liabilities of Fund II are consolidated in the University's financial statements, but are not included in OSUP's financial statements, as a result of the retained risk being held by the University. Annual insurance costs are allocated to OSUP by the University and reflected in the Consolidated Statements of Revenue, Expenses, and Changes in Net Position.

The University has also established a pure captive insurer (Oval Limited) that provides excess liability coverage over Fund II which retains $4 million per occurrence with various annual aggregate limits. Oval Limited covers up to $55 million per occurrence with a $55 million annual aggregate limit in excess of the Fund II limits. A portion of the risk written to date is reinsured by a combination of three reinsurance companies each of which has a minimum rating of A- by A. M. Best. Oval Limited's net retention is 50% of the first $15 million and 0% for the remaining $40 million per occurrence.

Oval Limited's assets and liabilities are consolidated in the University's financial statements, but are not included in OSUP's financial statements, as a result of the retained risk being held by the University.

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

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 position as a component of non-operating expense. At June 30, 2014 and 2013, OSUP did not hold any derivative instruments. There was interest rate swap activity in fiscal year 2013 which is further described in Note 5.

Net Patient Care Revenue- Net patient care revenue represents amounts received and estimated net realizable amounts due from patients and third-party payors for services rendered. OSUP provides care to patients under various reimbursement agreements, including governmental and commercial payers (third party payors). These arrangements provide for payment on covered services at agreed-upon rates, which may result in discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between customary charges and related reimbursements, and for administrative adjustments. In fiscal year 2014 OSUP began utilizing a self pay discount to approximate the average managed care discount for patients with commercial insurance and applied that percentage to self pay accounts for non-cosmetic services. Self pay discounts of $12.4 million are recorded in the contractual adjustments and other discounts line in the table below. Additionally, bad debts are recorded as a reduction of net patient care revenues to calculate net patient care revenues less provisions for bad debt. The self pay discount decreased the provisions for bad debts. Amounts recorded for fiscal year 2014 and fiscal year 2013 are as follows (in thousands):

	2014	2013
Gross patient care revenue	$ 713,874	$ 672,714
Contractual adjustments and other discounts	(427,093)	(401,677)
Administrative adjustments	(4,882)	(5,617)
Net patient care revenue	$ 281,899	$ 265,420
Provisions for bad debts	(10,221)	(16,370)
Net patient care revenue less provisions for bad debt	$ 271,678	$ 249,050

Additionally, net patient care revenue amounts recognized from major payor sources for fiscal year 2014 and fiscal year 2013 are as follows (in thousands):

	2014	2013
Third party payors	$ 263,465	$ 247,955
Self pay	18,434	17,465
	$ 281,899	$ 265,420

Non-Patient Care Revenue — Non-patient care revenue includes contract services, rent, salary recovery, educational and research revenue. This revenue is recognized in accordance with the underlying agreement when it is earned. OSUP acts as a principal in these types of transactions. As such, income is shown gross of related expenses in accordance with the applicable accounting guidance.

Charity Care — Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by OSUP. As collection of amounts determined to qualify as charity care are not pursued, such amounts are written off and not reported as gross patient care revenue. OSUP maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services furnished. Charity care provision costs as of June 30, 2014 and 2013 are $15.0 million and $19.9 million, respectively. The cost of charity care is calculated by taking the ratio of operating expenses divided by gross patient revenue.

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

Management Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets including estimated uncollectibles for accounts receivable and 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 — Carrying values of cash and cash equivalents, receivables, accounts payable, accrued liabilities, and other current liabilities are estimated at approximate fair value because of the short-term maturity. Carrying values of notes payable approximate the fair value due to their variable interest rates.

Meaningful Use- The America Recovery and Reinvestment Act of 2009 (“ARRA”) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (“EHR”) technology. OSUP recognizes its’ EHR incentive payments using a government grant recognition model. OSUP determined the EHR incentive payments are similar to grants that are related to income and recognizes the incentive payments when there is reasonable assurance that it will comply with the conditions attached to them and that the grants will be received. The recognition of the income related to the EHR incentive payments is based on management’s best estimates and the amounts are subject to change, with such changes impacting the operations in the period in which they occur. Any material changes would be disclosed by OSUP as a change in accounting estimate. OSUP recognized $4.2 million and $1.6 million in Other Revenue in the fiscal year ended June 30, 2014 and June 30, 2013, respectively.

Newly Issued Accounting Pronouncements –In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 requires mergers, which do not involve an exchange of consideration, to be accounted for using the carrying values of assets. Acquisitions are accounted for using acquisition values. The standard also provides guidance on reporting of disposals of government operations. It is effective for periods beginning after December 15, 2013.

OSUP management is currently assessing the impact that implementation of GASB Statement No. 69 will have on OSUP’s financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

During fiscal years 2014 and 2013, 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 thousand. As of June 30, 2014 and 2013, no losses have been experienced on these accounts. At June 30, 2014, the carrying amount of the primary institution’s cash and cash equivalents is $51.4 million as compared to bank balances of $54.6 million. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $42.3

million is covered by federal deposit insurance and $12.3 million is invested in interest bearing accounts spread among certificates of deposits primarily in amounts less than $250 thousand and money market funds.
OSUP Investments are grouped into three major categories for financial reporting purposes: Cash Equivalents, Short term investments and Long term investments. Instruments with original maturity of 0-90 days are treated as cash equivalents.

Short Term Investments are investments that have a maturity of 1 year or less. Long Term Investments have a maturity of greater than 1 year. All Long Term Investments held at June 30, 2014 and 2013 mature within five years.

Detail for fiscal years 2014 and 2013 follows (in thousands):

	Cash and Cash Equivalents	Short Term Investments	Long Term Investments
2014			
Demand Deposits & Cash	$ 39,108	$ -	$ -
Money Market Fund	10,964	-	-
Certificates of Deposits (maturing 2014-2015)	1,369	8,059	1,012
	$ 51,441	$ 8,059	$ 1,012
2013			
Demand Deposits & Cash	$ 37,296	$ -	$ -
Money Market Fund	7,099	-	-
Certificates of Deposits (maturing 2013-2015)	1,890	11,621	1,529
	$ 46,285	$ 11,621	$ 1,529

Additional Risk Disclosures for Investments

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

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

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

OSUP's interest-bearing investments at June 30, 2014 and 2013 are unrated.

As of June 30, 2014, OSUP had no deposits or investments denominated in foreign currencies.

NOTE 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, 2014 and 2013 consist of the following (in thousands):

	2014	2013
Gross patient accounts receivable	$ 90,862	$ 87,074
Allowance for contractual adjustments	(50,147)	(44,550)
Allowance for bad debt	(8,036)	(10,258)
Total	$ 32,679	$ 32,266

Risk of loss for third party payors would be based upon contractual obligations, legislative changes, or bankruptcy of the payor. Risk of loss for the patient self-payors is related to economic factors of the individual, and thus has a higher reserve for loss based upon our historical indicators. The mix of receivables from patients and third-party payors as of June 30, 2014 and 2013 are as follows:

	2014	2013
Medicare	28%	25%
Medicaid	17%	13%
Commercial/other third party payors	39%	39%
Patient	16%	23%
	100%	100%

NOTE 4 - PROPERTY, PLANT, FURNITURES, AND EQUIPMENT

The composition of property, plant, furniture, and equipment as of June 30, 2014 is as follows (in thousands):

	Beginning Balance	Additions	Retirements/ Reductions	Ending Balance
Property, Plant, and Equipment not being depreciated:				
Land	$ 2,090	$ -	$ -	$ 2,090
Construction in progress	23	339	248	114
Total non-depreciable assets	2,113	339	248	2,204
Property, Plant, and Equipment being depreciated:				
Land improvements	$ 3,280	$ 533	$ 80	$ 3,733
Buildings	17,831	985	33	18,783
Equipment	13,657	915	121	14,451
Furniture and Fixtures	2,746	153	72	2,827
Total	$ 37,514	$ 2,586	$ 306	$ 39,794
Less: Accumulated Depreciation	(17,259)	(2,447)	(176)	(19,530)
Total depreciable assets, net	20,255	139	130	20,264
Property, Plant, and Equipment Net	**$ 22,368**	**$ 478**	**$ 378**	**$ 22,468**

Depreciation expense for the year ended June 30, 2014 was $2.4 million.

Additions to property, plant, furniture, and equipment, net of retirements and reductions, include $248 thousand of transfers from construction in progress.

The composition of property, plant, furniture, and equipment as of June 30, 2013 is as follows (in thousands):

	Beginning Balance	Additions	Retirements/ Reductions	Ending Balance
Property, Plant, and Equipment not being depreciated:				
Land	$ 2,090	$ -	$ -	$ 2,090
Construction in progress	-	133	110	23
Total non-depreciable assets	2,090	133	110	2,113
Property, Plant, and Equipment being depreciated:				
Land improvements	$ 3,227	$ 53	$ -	$ 3,280
Buildings	17,789	42	-	17,831
Equipment	13,116	1,113	572	13,657
Furniture and Fixtures	2,490	330	74	2,746
Total	36,622	1,538	646	37,514
Less: Accumulated Depreciation	(15,429)	(2,429)	(599)	(17,259)
Total depreciable assets, net	21,193	(891)	47	20,255
Property, Plant, and Equipment Net	**$ 23,283**	**$ (758)**	**$ 157**	**$ 22,368**

Depreciation expense for the year ended June 30, 2013 was $2.4 million.

Additions to property, plant, furniture, and equipment, net of retirements and reductions, include $110 thousand of transfers from construction in progress.

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

LINE OF CREDIT - On November 30, 2007, OSUP and each LLC existing at that time, individually and collectively entered into a line of credit agreement with a bank (the "Agreement"). Since the initiation of this Agreement, certain LLCs have been added and removed as parties to the Agreement, and the maturity date was extended through September 30, 2014. Management is in the process of renegotiating the maturity date extension of this Agreement.

Each individual LLC is limited to borrow as follows as of June 30, 2014 and June 30, 2013 (in thousands):

	June 30, 2014	June 30, 2013
Family Medicine Foundation, LLC	-	150
OSU Emergency Medicine, LLC	500	500
OSU Eye Physicians and Surgeons, LLC	400	400
OSU GYN and OB Consultants, LLC	500	500
OSU Internal Medicine, LLC	2,000	2,000
OSU Neuroscience Center, LLC	250	250
OSU Otolaryngology - Head and Neck Surgery, LLC	500	500
OSU Pathology, LLC	500	500
OSU Physical Medicine and Rehabilitation, LLC	100	100
OSU Plastic Surgery, LLC	500	-
OSU Psychiatry, LLC	100	100
OSU Radiation Oncology, LLC	100	100
OSU Radiology, LLC	500	500
OSU Surgery, LLC	1,000	1,000

Additionally, OSUP's corporate function is limited to borrow $750 thousand.

The Agreement requires monthly interest payments at the bank's prime rate, less 0.75% (1.10% at June 30, 2014 and 2013). This Agreement is secured by accounts receivable, inventory, deposits, and equipment (not including OSU Eye Physicians and Surgeons, LLC), and is subject to certain restrictive and financial covenants. The borrowings made on the line of credit were $70 thousand as of June 30, 2014. There were no borrowings on the line of credit as of June 30, 2013.

DEBT - A summary of debt as of June 30, 2014 and 2013 are as follows (in thousands):

June 30, 2014	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Series 2013 Health Care Facilities Revenue Bond payable to County of Franklin, Ohio. Monthly installments of principal and fixed interest of 2.103% annum. Bond due July, 2035	15,336	-	551	14,785	563
Line of credit	-	80	10	70	70
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	2,616	-	237	2,379	243
Note payable due in monthly installments of principal and interest (LIBOR plus 3.85%, 4.1% as of June 30, 2013) due October, 2013	22	-	22	-	-
Capital lease obligations	101	-	81	20	16
	$ 18,075	$ 80	$ 901	$ 17,254	$ 892

June 30, 2013	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Series 2010A and 2010B Adjustable Rate Demand Health Care Facilities Revenue Bonds payable to County of Franklin, Ohio. Semiannual installments of principal and interest based on Bond Market Association Index (BMA). Bonds were refinanced May 1, 2013	$ 16,030	$ -	$ 16,030	$ -	$ -
Series 2013 Health Care Facilities Revenue Bond payable to County of Franklin, Ohio. Monthly installments of principal and fixed interest of 2.103% annum. Bond due July, 2035	-	15,381	45	15,336	553
Line of credit	-	-	-	-	-
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	-	2,635	19	2,616	237
Note payable due in monthly installments of principal and interest (LIBOR plus 3.85%, 4.1% as of June 30, 2013) due October, 2013	76	-	54	22	22
Capital lease obligations	105	90	94	101	83
	$ 16,211	$ 18,106	$ 16,242	$ 18,075	$ 895

OSUP received cash of $80 thousand related to new borrowings and paid cash of $901 thousand related to repayments in fiscal year 2014. OSUP directly received cash of $172 thousand related to new borrowings and paid cash of $1,787 thousand related to repayments in fiscal year 2013. The balance of the borrowing and repayment activity in 2013 is due to the refinancing of the Series 2010A and 2010B bonds with the issuance of the Series 2013 health care facilities revenue bond, which represented a noncash financing activity.

The Series 2010A and 2010B bonds, which were secured by accounts receivable, equipment, and fixtures, were refinanced on May 1, 2013 with the issuance of the Series 2013 health care facilities revenue bond for $15.4 million. The Series 2013 bonds are subject to certain restrictive and financial covenants, requiring minimum debt service coverage ratios of 1.25 to 1.50 quarterly and minimum tangible net worth, as defined by the agreement, of $48 million. All covenants were in compliance for all applicable quarters during 2013 and 2014.

The Series 2013 healthcare facilities revenue bond is to be paid monthly with payments of principal and fixed interest to be made until July 1, 2035. An interest rate of 2.103% per annum is used to calculate payments.

On January 6, 2009, OSUP entered into an interest rate swap (the “swap”) agreement. The swap was used to offset the variable interest rate on a portion of the 2010 bond financing obtained for the ambulatory facility in the amount of $16 million. On May 1, 2013, at the same time the 2010 bond financing was refinanced, the swap was paid off with the proceeds from a term loan issuance in the amount of $2.6 million.

OSUP recorded changes in fair value of the swap in the nonoperating expense section of the statement of revenue, expenses, and changes in net position. For fiscal year 2013 a gain of $167 thousand was recorded. The swap was settled monthly with net payments or receipts under the agreement being reflected as interest expense.

Also included in the term loan is the taxable portion of OBGYN's build out for their Mill Run location. Monthly payments of principal and fixed interest on the term loan are to be made until May 1, 2023. An interest rate of 2.3% per annum will be used to calculate payments.

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

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

Scheduled principal repayments on long term debt as of June 30, 2014, are as follows (in thousands):

	Principal	Interest	Total
2015	$ 876	$ 358	$ 1,234
2016	824	340	1,164
2017	842	322	1,164
2018	860	304	1,164
2019	879	285	1,164
2020-2024	4,368	1,131	5,499
2025-2029	3,625	718	4,343
2030-2034	4,027	317	4,344
2035-2036	933	11	944
	$ 17,234	$ 3,786	$ 21,020

CAPITAL LEASE OBLIGATIONS

OSUP has capital lease obligations that have varying maturity dates through 2016 and carry implicit interest rates ranging from 1.10% to 12.1%. Lease arrangements are being used to provide partial financing for certain movable equipment. Capital asset balances, net of accumulated amortization, of $64 thousand and $115 thousand as of June 30, 2014 and 2013, respectively, are financed under capital leases.

The scheduled maturities of these leases as of June 30, 2014, are as follows (in thousands):

Years Ending June 30	Capital Lease Obligations
2015	$ 16
2016	4
Capital lease obligations	$ 20
Less amount representing interest under capital lease obligations	(1)
Total	$ 19

NOTE 6 – OTHER CURRENT AND LONG TERM LIABILITIES

Other liabilities primarily include deferred rent, tenant allowances, retention bonuses and patient credit balances prior to refunding. Other current and long term liability activity as of June 30, 2014 and 2013, respectively, is as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2014					
Deferred Revenue	$ 3,344	$ 2,415	$ 3,747	$ 2,012	$ 1,194
Retention Bonuses	418	-	192	226	-
Due to Others	2,227	4,398	4,392	2,233	2,233
	$ 5,989	$ 6,813	$ 8,331	$ 4,471	$ 3,427
2013					
Deferred Revenue	$ 3,680	$ 2,992	$ 3,328	$ 3,344	$ 2,305
Interest Rate Swap	2,370	-	2,370	-	-
Retention Bonuses	1,658	429	1,669	418	-
Due to Others	2,875	5,478	6,126	2,227	2,227
	$ 10,583	$ 8,899	$ 13,493	$ 5,989	$ 4,532

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

OSUP is a component unit of the University. Due to this relationship with the University, related-party transactions are pervasive throughout the statements of revenue, expenses and changes in net position. A summary of the nature of these transactions and related due to/from affiliate balances reported in the statement of net position as of June 30, 2014 and 2013, are as follows (in thousands):

Due From:

OSU Health System— OSUP provides staffing, coding support, and medical directorships to The Ohio State University Hospital and The Ohio State University Hospital East. OSU Health System reimburses OSUP for its share of administration and information service overhead, and physician billing services provided to them.

The Ohio State University and The Ohio State University College of Medicine and Public Health (COMPH) — OSUP provides staffing, coding support, and medical directorships to The University. Balances due from each affiliate as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Due from the Health System	$ 3,913	$ 5,234
Due from COMPH	4,672	5,013
Due from Other Affiliates	-	29
	$ 8,585	$ 10,276

Due to:
OSU 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 medical record (EMR) implementation coordinated through the Health System. As of June 30, 2014 and 2013, OSUP has $7.0 million and $8.7 million payable, respectively, to the Health System for the EPIC EMR implementation.

COMPH-Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund (“Academic Enrichment”), and Strategic Initiative Fund. Academic Enrichment is paid to the Dean’s office for support of the academic, research, and clinical missions of the College. The Strategic Initiative Fund is comprised of various funds established by the College to support resident education. These funds are paid periodically during the year. Dean’s tax and strategic initiative expenses as of June 30, 2014 and 2013 are $7.9 million for each respective year.

Balances due to each affiliate as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Due to Health System	$ 10,381	$ 11,500
Due to COMPH	11,019	11,273
Due to Other Affiliates	-	88
	$ 21,400	$ 22,861

NOTE 8 - 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, 2014 and 2013. Premiums are assessed to OSUP based on the physician's specialty and the types of procedures performed. Premiums paid for the years ended June 30, 2014 and 2013 were $2.2 million and $2.1 million, respectively, net of rebates received.

NOTE 9 - RETIREMENT AND HEALTH PLANS

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) defined contribution plan administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, 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 $4.0 million and $3.9 million for the years ended June 30, 2014 and 2013, respectively. Employee contributions were $1.2 million and $1.1 million for the years ended June 30, 2014 and 2013, respectively.

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases — OSUP leases various equipment and facilities under operating leases expiring at various dates through September 2029. Total rental expense in 2014 and 2013 for all operating leases was approximately $6.8 million and $6.9 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 (in thousands) under operating leases as of June 30, 2014, that have initial or remaining lease terms in excess of one year.

Year ended June 30		
2015	$	4,549
2016		4,015
2017		3,002
2018		1,969
2019		871
2020-2030		3,560
TOTAL	$	17,966

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, results from operations, or cash flows.

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.

Independent Auditor's 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.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University, which comprise the statement of net position as of June 30, 2014, and the related consolidated statements of revenue, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSUP's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

Purpose of this Report

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

PricewaterhouseCoopers LLP

Columbus, OH
October 17, 2014

SUPPLEMENTAL CONSOLIDATING SCHEDULES

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES
(A component unit of The Ohio State University)
CONSOLIDATING STATEMENT OF NET POSITION
AS OF JUNE 30, 2014
(IN THOUSANDS)

	OSUP Corporate	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Plastic Surgery	Psychiatry	Radiation Oncology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
ASSETS																			
CURRENT ASSETS:																			
Cash and cash equivalents	$ 7,144	$ 197	$ 8,269	$ 2,711	$ 1,588	$ 8,079	$ 562	$ 1,305	$ 5,682	$ 701	$ 578	$ 1,350	$ 5,015	$ 4,215	$ 3,551	$ 494	$ 51,441	$ -	**$ 51,441**
Short-term investments	2,672	1,469	440	-	-	1,000	-	-	-	-	500	-	-	-	1,499	479	8,059	-	**8,059**
Accounts receivable — patient care - net of allowance	-	-	1,879	1,125	1,522	11,689	1,584	2,630	2,938	816	773	568	769	2,365	3,297	724	32,679	-	**32,679**
Accounts receivable — other	3,450	2	27	264	272	463	90	358	145	340	43	186	-	5	304	(19)	5,930	-	**5,930**
Due from affiliates	8,105	-	617	291	596	3,291	960	184	284	461	1,553	839	544	368	1,071	157	19,321	10,736	**8,585**
Inventories	197	-	-	129	143	587	242	-	-	91	-	-	-	-		-	1,389	-	**1,389**
Prepaid expenses	519	-	-	-	55	220	2	37	29	-	37	-	-	-	76	64	1,039	-	**1,039**
Total current assets	**22,087**	**1,668**	**11,232**	**4,520**	**4,176**	**25,329**	**3,440**	**4,514**	**9,078**	**2,409**	**3,484**	**2,943**	**6,328**	**6,953**	**9,798**	**1,899**	**119,858**	**10,736**	**109,122**
NONCURRENT ASSETS:																			
Property, plant, furniture, and equipment-net of accumulated depreciation	12,664	-	1	1,673	1,928	4,500	189	583	74	10	86	-	-	-	322	438	22,468	-	**22,468**
Long-term investments	-	490	-	-	-	-	-	-	522	-	-	-	-	-	-	-	1,012	-	**1,012**
EPIC ambulatory electronic medical record use agreement	-	-	254	148	184	1,553	203	104	393	117	67	276	39	281	401	36	4,056	-	**4,056**
Other assets	3,504	-	12	1	590	205	26	275	826	48	117	-	-	-	17	-	5,621	3,519	**2,102**
Total noncurrent assets	**16,168**	**490**	**267**	**1,822**	**2,702**	**6,258**	**418**	**962**	**1,815**	**175**	**270**	**276**	**39**	**281**	**740**	**474**	**33,157**	**3,519**	**29,638**
TOTAL ASSETS	**$ 38,255**	**$ 2,158**	**$ 11,499**	**$ 6,342**	**$ 6,878**	**$ 31,587**	**$ 3,858**	**$ 5,476**	**$ 10,893**	**$ 2,584**	**$ 3,754**	**$ 3,219**	**$ 6,367**	**$ 7,234**	**$ 10,538**	**$ 2,373**	**$ 153,015**	**$ 14,255**	**$ 138,760**
LIABILITIES AND NET POSITION																			
CURRENT LIABILITIES:																			
Accounts payable	$ 4,106	$ -	$ -	$ 10	$ 4	$ (152)	$ -	$ 43	$ 2	$ 41	$ 10	$ -	$ -	$ 45	$ -	$ 2	$ 4,111	$ -	**$ 4,111**
Accrued expenses	80	29	21	-	71	2	(2)	-	-	-	1	-	-	-	-	-	202	-	**202**
Accrued salaries and wages	1,220	5	347	359	217	2,302	361	1,044	864	242	84	34	20	18	916	22	8,055	-	**8,055**
Due to affiliates — current portion	7,058	-	1,811	1,590	1,094	6,027	5,977	297	784	384	246	347	187	612	1,299	223	27,936	10,736	**17,200**
Notes payable and capital leases — current portion	806	-	-	-	-	-	70	16	-	-	-	-	-	-	-	-	892	-	**892**
Retirement and health plan accrual	56	-	1	-	9	186	12	7	138	2	5	-	1	1	12	3	433	-	**433**
Other current liabilities	224	-	71	70	1,175	768	98	308	119	30	125	43	53	121	177	45	3,427	-	**3,427**
Total current liabilities	**13,550**	**34**	**2,251**	**2,029**	**2,570**	**9,133**	**6,516**	**1,715**	**1,907**	**699**	**471**	**424**	**261**	**797**	**2,404**	**295**	**45,056**	**10,736**	**34,320**
LONG-TERM LIABILITIES:																			
Notes payable and capital leases — less current portion	16,358	-	-	-	-	-	-	4	-	-	-	-	-	-	-	-	16,362	-	**16,362**
Due to affiliates and other — less current portion	3,956	-	158	1,045	431	1,115	271	-	257	66	35	120	-	173	92	-	7,719	3,519	**4,200**
Other long term liabilities	509	-	-	-	310	-	-	-	-	-	-	-	-	-	-	225	1,044	-	**1,044**
Total long term liabilities	**20,823**	**-**	**158**	**1,045**	**741**	**1,115**	**271**	**4**	**257**	**66**	**35**	**120**	**-**	**173**	**92**	**225**	**25,125**	**3,519**	**21,606**
COMMITMENTS AND CONTINGENCIES (Note 10)																			
NET POSITION :																			
Invested in capital assets, net of related debt	(11,502)	-	266	1,821	2,408	6,257	419	921	1,279	174	271	276	39	281	723	475	4,108	-	**4,108**
Unrestricted	15,384	2,124	8,824	1,447	1,159	15,082	(3,348)	2,836	7,450	1,645	2,977	2,399	6,067	5,983	7,319	1,378	78,726	**-**	**78,726**
Total net position	**3,882**	**2,124**	**9,090**	**3,268**	**3,567**	**21,339**	**(2,929)**	**3,757**	**8,729**	**1,819**	**3,248**	**2,675**	**6,106**	**6,264**	**8,042**	**1,853**	**82,834**	**-**	**82,834**
TOTAL LIABILITIES AND NET POSITION	**$ 38,255**	**$ 2,158**	**$ 11,499**	**$ 6,342**	**$ 6,878**	**$ 31,587**	**$ 3,858**	**$ 5,476**	**$ 10,893**	**$ 2,584**	**$ 3,754**	**$ 3,219**	**$ 6,367**	**$ 7,234**	**$ 10,538**	**$ 2,373**	**$ 153,015**	**$ 14,255**	**$ 138,760**

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES
(A component unit of The Ohio State University)
CONSOLIDATING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
(000)

	OSUP Corporate	FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Plastic Surgery	Psychiatry	Radiation Onocology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
OPERATING REVENUE:																			
Net patient care revenue	$ -	$ -	$ 16,419	$ 11,679	$ 13,286	$ 109,636	$ 12,662	$ 17,492	$ 20,121	$ 5,395	$ 5,586	$ 4,210	$ 6,434	$ 25,634	$ 26,257	$ 7,088	$ 281,899	$ -	$ 281,899
Provisions for bad debt	-	-	2,404	362	252	3,958	125	514	382	104	140	264	123	1,090	347	156	10,221	-	10,221
Net patient care revenue less provisions for bad debts	-	-	14,015	11,317	13,034	105,678	12,537	16,978	19,739	5,291	5,446	3,946	6,311	24,544	25,910	6,932	271,678	-	271,678
Other revenue	25,737	-	6,051	2,803	4,409	22,360	1,626	1,455	9,768	3,920	4,953	6,421	1,483	2,183	12,627	423	106,219	21,394	84,825
Total operating revenue	25,737	-	20,066	14,120	17,443	128,038	14,163	18,433	29,507	9,211	10,399	10,367	7,794	26,727	38,537	7,355	377,897	21,394	356,503
OPERATING EXPENSES:																			
Salaries and benefits	16,420	6	14,413	6,690	12,639	88,325	11,836	13,620	21,254	5,958	6,664	9,949	6,401	21,943	30,671	5,525	272,314	127	272,187
Supplies and pharmaceuticals	678	-	147	297	1,028	14,372	3,632	1,130	2,136	1,785	474	8	23	42	319	556	26,627	-	26,627
Services	6,063	41	1,677	5,303	1,701	14,618	910	1,336	2,811	233	874	432	295	2,266	2,537	354	41,451	11,876	29,575
Malpractice	-	12	244	53	296	578	60	11	74	55	53	53	(7)	133	513	49	2,177	-	2,177
Dean's tax	-	-	523	284	355	2,203	250	929	654	86	153	171	188	1,110	780	203	7,889		7,889
Occupancy and utilities	1,944	-	22	2	1,030	3,000	528	658	239	106	390	175	-	17	468	390	8,969	794	8,175
Amortization and depreciation	983	-	103	311	397	1,353	128	210	420	66	65	110	16	114	195	90	4,561	-	4,561
Interest	328	-	6	28	12	72	9	4	10	3	2	5	1	7	195	2	684	-	684
Other expenses	347	-	843	454	478	3,314	694	664	1,262	317	370	285	466	1,189	1,756	777	13,216	9,392	3,824
Total operating expenses	26,763	59	17,978	13,422	17,936	127,835	18,047	18,562	28,860	8,609	9,045	11,188	7,383	26,821	37,434	7,946	377,888	22,189	355,699
Operating income	(1,026)	(59)	2,088	698	(493)	203	(3,884)	(129)	647	602	1,354	(821)	411	(94)	1,103	(591)	9	(795)	804
NONOPERATING INCOME (EXPENSES):																			
Interest Income	10	12	2	1	-	7	-	1	67	-	1	-	2	-	7	3	113	-	113
Nonoperating income	3,484	-	-	-	440	423	-	-	-	-	-	-	-	64	214	-	4,625	795	3,830
(Loss) Income from investments	-	-	1	-	-	(1)	-	-	(64)	-	-	-	(1)	-	(1)	-	(66)	-	(66)
Loss on sale of assets	-	-	-	(4)	-	(5)	-	-	-	-	-	-	-	-	-	-	(9)	-	(9)
Nonoperating expense	(9)	-	-	-	-	(311)	-	(14)	(14)	131	(500)	(5)	(308)	(3)	(106)	(56)	(1,195)	-	(1,195)
Total nonoperating income (expense)	3,485	12	3	(3)	440	113	-	(13)	(11)	131	(499)	(5)	(307)	61	114	(53)	3,468	795	2,673
Other changes in net position - capital contribution	-	-	-	-	908	-	-	-	-	-	-	-	-	-	-	-	908	-	908
INCREASE IN NET POSITION	2,459	(47)	2,091	695	855	316	(3,884)	(142)	636	733	855	(826)	104	(33)	1,217	(644)	4,385	-	4,385
NET POSITION — Beginning of year	1,423	2,171	6,999	2,573	2,712	21,023	955	3,899	8,093	1,086	2,393	3,501	6,002	6,297	6,825	2,497	78,449	-	78,449
NET POSITION— End of year	$ 3,882	$ 2,124	$ 9,090	$ 3,268	$ 3,567	$ 21,339	$ (2,929)	$ 3,757	$ 8,729	$ 1,819	$ 3,248	$ 2,675	$ 6,106	$ 6,264	$ 8,042	$ 1,853	$ 82,834	$ -	$ 82,834

Dave Yost • 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 2, 2014

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