

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, 2016 and 2015,
Supplemental Consolidating Schedules as of and
for the Years Ended June 30, 2016 and 2015,
And Report of Independent Auditors



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 *Report of Independent Auditor's* of the Ohio State University Physicians, Inc., Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2015 through June 30, 2016. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 8, 2016

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

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Report of Independent Auditors

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

We have audited the consolidated financial statements of Ohio State University Physicians, Inc. (“OSUP”), a component unit of The Ohio State University, appearing on pages 8 to 28, which comprise the consolidated statements of net position as of June 30, 2016 and June 30, 2015, and the related consolidated statements of revenue, expenses, and changes in net position and of cash flows and related notes to the financial statements for the years then ended, which collectively comprise OSUP’s basic consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 OSUP’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 OSUP’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, 2016 and June 30, 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 7 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 opinions on the basic consolidated financial statements. The consolidating information on pages 31 and 32 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 20, 2016 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, 2016. 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 20, 2016

Management's Discussion and Analysis for the Years Ended June 30, 2016, June 30, 2015, and June 30, 2014 (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, 2016, June 30, 2015, and June 30, 2014. We encourage you to read this MD&A section in conjunction with the audited financial statements and the accompanying footnotes and supplemental consolidating schedules appearing in this report.

About Ohio State University Physicians

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

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2016, only 16 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 operations within the OSUP structure through June 30, 2016. OSU Community Outreach LLC, a limited liability company created during fiscal year 2015, is utilized for community providers that do not wish to be included in the research and teaching missions of the University. This group is a small number of providers that wished to have a clinical relationship with The Ohio State University Wexner Medical Center ("OSUWMC") and OSUP. Additionally we have expanded our billing services for non-University related physician groups which is reported within the OSUP corporate function as presented in the accompanying supplemental consolidating schedules. OSUP is governed by a board of managers who are responsible for oversight of clinical programs, budgets, general administration, and employment of faculty and staff.

The following financial statements reflect all assets, liabilities and net position (equity) of OSUP. The complete set of entities reflected in the financial statements is provided in the Basis of Presentation section of Note 1 to the 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 Consolidated Statements of Net Position, Consolidated Statements of Revenues, Expenses and Changes in Net Position, Consolidated Statements of Cash Flows and Notes to the Consolidated Financial Statements.

The Consolidated Statement of Net Position is OSUP's balance sheet. It reflects the total assets, liabilities and net position as of June 30, 2016 and June 30, 2015. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value or amortized cost depending on original maturity. Capital assets, which include land, buildings, improvements, and equipment, are shown net of accumulated depreciation.

The Consolidated Statement of Revenues, Expenses and Changes in Net Position is OSUP's income statement. It details how net position has increased (or decreased) during the years ended June 30, 2016 and June 30, 2015. 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 Consolidated Statement of Cash Flows details how cash has increased (or decreased) during the years ended June 30, 2016 and June 30, 2015. 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, 2016, June 30, 2015, and June 30, 2014 (Unaudited)

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

Financial Highlights and Key Trends

OSUP's net position increased \$32.0 million to \$123.0 million at June 30, 2016 as compared to prior year's growth in net position of \$8.2 million. Net Patient Revenues grew by \$34.6 million, and Other Revenue, which includes Medical Center Investment, increased by \$47.2 million, while operating expenses grew by \$59.8 million.

Condensed Consolidated Statements of Net Position (in thousands)

	June 30, 2016	June 30, 2015	June 30, 2014
ASSETS			
Current assets	\$147,050	\$128,340	\$109,122
Capital assets	24,299	26,139	28,294
Noncurrent assets	4,972	999	1,344
TOTAL ASSETS	\$176,321	\$155,478	\$138,760
LIABILITIES			
Current liabilities	\$38,137	\$44,229	\$34,320
Long term liabilities	15,140	20,233	21,606
TOTAL LIABILITIES	53,277	64,462	55,926
NET POSITION			
Net investment in capital assets	6,217	2,768	4,108
Unrestricted	116,827	88,248	78,726
Total net position	123,044	91,016	82,834
TOTAL LIABILITES & NET POSITION	\$176,321	\$155,478	\$138,760

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 \$11.6 million from June 30, 2015 to June 30, 2016 and \$16.7 million from June 30, 2014 to June 30, 2015. The primary drivers for the increase from 2015 to 2016 were cash from operating activities of \$20.9 million and cash from noncapital financing activities of \$0.4 million offset by cash used for investing activities of \$4.3 million and cash used for capital financing activities of \$5.4 million. The primary drivers for the increase from 2014 to 2015 were cash from operating activities of \$16.7 million and cash from investing activities of \$2.3 million, offset by cash used for noncapital financing activities of \$1.1 million and cash used for capital financing activities of \$1.2 million.

Net patient care accounts receivable increased by \$2.9 million from June 30, 2015 to June 30, 2016 due to the growth in physicians and thus encounters and productivity (WRVUs). Days in AR continued to improve as the revenue cycle processes and EPIC system changes over the prior two years mature.

Property, plant, furniture, and equipment, net increased \$8 thousand from June 30, 2015 to June 30, 2016. Property, plant, furniture, and equipment, net decreased by \$486 thousand from June 30, 2014 to

Management's Discussion and Analysis for the Years Ended June 30, 2016, June 30, 2015, and June 30, 2014 (Unaudited)

June 30, 2015. Purchases net of disposals in both years approximated depreciation expense for the respective year.

Long- term investments increased by \$4 million from June 30, 2015 to June 30, 2016 and decreased by \$276 thousand from June 30, 2014 to June 30, 2015. The increase relates to excess cash in certain LLCs that were seeking higher returns on invested dollars. The decrease relates to the organizational needs to invest shorter term based upon the expected needs for future cash flow requirements.

Ambulatory electronic medical records use agreement reflects OSUP's cost of using the electronic medical records system implemented by the Ohio State University Health System ("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 of \$6.1 million from June 30, 2015 to June 30, 2016 and the increase of \$9.9 million from June 30, 2014 to June 30, 2015 are primarily due to the changes in amounts due to affiliated entities, primarily the 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 decreased \$5.1 million from June 30, 2015 to June 30, 2016 and decreased \$1.4 million from June 30, 2014 to June 30, 2015 associated with fluctuations in long term amounts related to affiliated organizations within the University, which includes the debt for the electronic medical record ("EMR") system. The remaining long term portion due to the OSU Health System for the EMR system was \$0 as of June 30, 2016 and \$2.5 million as of June 30, 2015. The EMR debt was moved to current as of June 30, 2016 as it is expected to settle in the next year. The remaining long term debt associated with various building projects is \$14.7 million as of June 30, 2016 and \$15.6 million as of June 30, 2015.

Management's Discussion and Analysis for the Years Ended June 30, 2016, June 30, 2015, and June 30, 2014 (Unaudited)

The Consolidated Statement of Revenue, Expenses, and Changes in Net Position presents OSUP's results of operations. A comparison for the years ended June 30, 2016, 2015, and 2014 is summarized as follows.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net patient care revenue less provisions for bad debts	\$ 343,334	\$ 308,724	\$ 271,678
Other revenue	144,095	96,896	84,825
Total operating expense	<u>(458,052)</u>	<u>(398,135)</u>	<u>(355,015)</u>
Operating income	\$ 29,377	\$ 7,485	\$ 1,488
Nonoperating income	2,651	697	1,989
Other changes in net position	-	-	908
Increase in net position	<u>\$ 32,028</u>	<u>\$ 8,182</u>	<u>\$ 4,385</u>
Net Position- Beginning of year	91,016	82,834	78,449
Net Position- End of year	<u><u>\$ 123,044</u></u>	<u><u>\$ 91,016</u></u>	<u><u>\$ 82,834</u></u>

Average monthly patient encounters was 203 thousand per month in fiscal year ended June 30, 2016, 187 thousand per month in the fiscal year ended June 30, 2015, and 162 thousand per month in the fiscal year ended June 30, 2014. These year over year increases were primarily related to the growth in the number of physicians and other providers rendering patient services. The number of physicians have grown in 2016, 2015 and 2014 by 45, 37 and 85, respectively, to 911 physicians in 2016. The change of billing systems to EPIC from IDX also impacted the way encounters were counted in several LLCs for fiscal year end June 30, 2015.

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. Provisions for bad debts increased by \$12.6 million from fiscal year 2015 to fiscal year 2016 as a result of changes in estimates of \$10.9 million due to declining expectations on collectability of amounts due from self-pay patients gross patient accounts receivable. Additionally the growth in volume of self-pay and self-pay after third party payment methodologies created \$1.7 million increase in provisions for bad debt. Net patient care revenue increased by \$34.6 million from fiscal year 2015 to 2016, and \$37.0 million from fiscal year 2014 to fiscal year 2015. \$10.6 million of the 2016 increase is associated with the upper payment limit funding received from the state of Ohio in 2016. Both years relate to growth in physician practitioners during the period. In the last two months of fiscal year 2014 and the full fiscal year of 2015, patients that used to be self-pay were signing up into Medicaid products under the Affordable Care Act ("ACA"). This positively impacted our practices that were in underserved or underinsured areas.

A change in policy during fiscal 2014 changed the mix of adjustments that impact our gross revenue to net revenue calculations. OSUP instituted an upfront Self Pay discount to all Self Pay patients that approximates the discount given to our top 5 managed care contractual agreements. 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 \$47.2 million and represents both revenue associated with outside health related organizations, and support payments associated with funding of programs deemed important through the University. Growth in 2016 was primarily driven by the review of funds assigned to OSUP by the College of Medicine, resulting in assignment of primary financial responsibility for several additional enrichment and FGP funds. This accounted for \$26.3 million in additional revenue. Medical Center Investment in specific programs accounted for an \$11.6 million additional source of income.

Management's Discussion and Analysis for the Years Ended June 30, 2016, June 30, 2015, and June 30, 2014 (Unaudited)

Operating expenses increased by \$59.9 million from fiscal year ended June 30, 2015 to June 30, 2016 and \$43.1 million from fiscal year ended June 30 2014 to June 30, 2015. Approximately \$45.2 million of the 2016 increase and \$27.1 million of the 2015 increase 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. A part of the 2016 cost increases in the June 30, 2016 fiscal year ended, included costs that were allocated to OSUP practice plans from the University for specific funds that were deemed practice plan in nature. The portion of these costs added as a result of the practice plan changes totaled \$28.3 million, including \$19.0 million in physician costs and \$6.9 million in employee staff salaries and benefits.

Nonoperating income (expense) increased \$2.0 million primarily related to an accrual of \$397 thousand for the tax rebate with the City of Columbus for payroll growth incentives, and the addition of beginning balances in the added practice plan funds that were allocated to OSUP from the University along with the responsibility for expenditures associated with those funds noted above.

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. There were no capital contributions in 2015 or 2016.

Economic Factors That Will Affect the Future

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

2016-2019 - .5% annual increase

2020-2025 – 0% annual increase

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

The new Centers for Medicare and Medicaid Services (CMS) proposals released April 27, 2016 outline two new payment tracks, Merit Based Incentive Payment System (MIPS) and APM. MIPS rolls quality programs into one budget neutral pay for performance program while APM creates more risk based quality measures and other requirements. The details of these programs are many but the implications for OSUP involve quality program penalties and incentives that are based upon our performance vs. our peers on various indicators. Baseline payment adjustments based upon low performance could mean as much as a 9% reduction on payments or \$7.6 million in years going out to 2022 to 2024. Adjustments for high performance could mean positive adjustments by as much as 27% in any one year going out to 2022 to 2024. This will be phased-in starting in 2019. As a result OSUP is preparing for this transition of payment models with significant resources that will track quality, cost/resource usage, clinical practice improvement, and advancing care information scored on participation and performance.

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. We have recouped more than the \$11.3 million in system cost over the last several years from the stimulus funding set by Congress. We have received approximately \$15.4 million in payments as of June 30, 2016. Over the next year we are expecting an additional \$1 million from the Centers for Medicare & Medicaid Services related to our year five funding, which began January 1, 2016. The excess received over the system cost is to cover operating costs not covered in the implementation of the software, but operating costs and initial utilization costs of the system. This program will end in 2018 FYE.

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)
CONSOLIDATED STATEMENTS OF NET POSITION *(in thousands)*
AS OF JUNE 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 79,695	\$ 68,107
Short-term investments	6,083	5,958
Accounts receivable — patient care — net of allowance	38,353	35,408
Accounts receivable — other	4,790	4,879
Due from affiliates	15,481	10,534
Inventories	1,323	1,998
Prepaid expenses	1,325	1,456
Total current assets	<u>147,050</u>	<u>128,340</u>
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation (\$23,795 in 2016 and \$21,631 in 2015)	21,990	21,982
Long-term investments	4,766	736
Ambulatory electronic medical record use agreement	795	2,410
Other assets	1,720	2,010
Total noncurrent assets	<u>29,271</u>	<u>27,138</u>
TOTAL ASSETS	<u>\$ 176,321</u>	<u>\$ 155,478</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,608	\$ 3,006
Accrued expenses	250	253
Accrued salaries and wages	4,779	5,142
Due to affiliates-current portion	23,770	28,986
Notes payable and capital leases-current portion	811	816
Retirement and health plan accrual	877	375
Other current liabilities	6,042	5,651
Total current liabilities	<u>38,137</u>	<u>44,229</u>
LONG TERM LIABILITIES:		
Notes payable and capital leases-less current portion	14,735	15,553
Due to affiliates - less current portion	-	3,956
Other long term liabilities	405	724
Total long term liabilities	<u>15,140</u>	<u>20,233</u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION:		
Net investment in capital assets	\$ 6,217	\$ 2,768
Unrestricted	116,827	88,248
Total net position	<u>123,044</u>	<u>91,016</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 176,321</u>	<u>\$ 155,478</u>

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)*

YEARS ENDED JUNE 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE:		
Net patient care revenue	\$ 362,375	\$ 315,201
Provisions for bad debts	19,041	6,477
Net patient care revenue less provisions for bad debts	<u>343,334</u>	<u>308,724</u>
Other revenue	144,095	96,896
Total operating revenue	487,429	405,620
OPERATING EXPENSES:		
Salaries and benefits	354,095	303,796
Supplies and pharmaceuticals	34,355	32,889
Services	38,022	35,112
Malpractice	12	-
Dean's tax	12,391	10,236
Occupancy and utilities	9,081	8,479
Amortization and depreciation	4,326	4,395
Other expenses	5,770	3,228
Total operating expenses	<u>458,052</u>	<u>398,135</u>
Operating income	<u>29,377</u>	<u>7,485</u>
NONOPERATING INCOME (EXPENSES):		
Interest income	89	56
Nonoperating income	4,157	2,269
Loss from investments	(13)	(9)
Gain (Loss) on sale of assets	(15)	19
Interest expense	(395)	(477)
Nonoperating expense	<u>(1,172)</u>	<u>(1,161)</u>
Total nonoperating income	2,651	697
INCREASE IN NET POSITION	32,028	8,182
NET POSITION- Beginning of year	<u>91,016</u>	<u>82,834</u>
NET POSITION- End of year	<u>\$ 123,044</u>	<u>\$ 91,016</u>

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)
YEARS ENDED JUNE 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flow from operating activities:		
Patient receipts-net	\$ 341,157	\$ 308,280
Other receipts	138,719	95,799
Payments to and on behalf of employees	(360,278)	(299,088)
Payments to vendors for supplies and services	(71,294)	(67,490)
Payments on malpractice and dean's tax	(12,563)	(9,054)
Payments on occupancy and utilities	(9,081)	(8,479)
Payments on other expenses	(5,770)	(3,228)
Net cash provided by operating activities	<u>20,890</u>	<u>16,740</u>
Cash flows from capital financing activities:		
Purchase of capital assets	(2,328)	(1,834)
Proceeds from sale of capital assets	34	50
Proceeds from debt	-	-
Payments on debts and capital leases	(5,290)	(1,316)
Payments on interest	(395)	(477)
Rental income	2,535	2,348
Net cash used in capital financing activities	<u>(5,444)</u>	<u>(1,229)</u>
Cash flows from noncapital financing activities:		
Non operating expense	(1,172)	(1,123)
Other contributions	1,590	-
Net cash provided by (used in) noncapital financing activities	<u>418</u>	<u>(1,123)</u>
Cash flows from investing activities		
Purchase of other assets	(198)	(408)
Purchase of investments	(10,122)	(5,700)
Proceeds from sale of investments	5,955	8,295
Proceeds from sale of other assets	-	35
Interest income	89	56
Net cash (used in) provided by investing activities	<u>(4,276)</u>	<u>2,278</u>
Net Increase in Cash	11,588	16,666
Cash and cash equivalents- Beginning of year	<u>68,107</u>	<u>51,441</u>
Cash and cash equivalents-End of year	<u>\$ 79,695</u>	<u>\$ 68,107</u>

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)
YEARS ENDED JUNE 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 29,377	\$ 7,485
Adjustments to reconcile net operating income to net cash		
Amortization and depreciation	4,326	4,395
Changes in assets and liabilities:		
Accounts receivable-patient care - net of allowance	(2,945)	(2,729)
Accounts receivable- other	89	1,051
Due from affiliates	(4,947)	(1,949)
Inventories	675	(609)
Other Assets	92	92
Prepaid expenses	131	(417)
Accounts payable	(1,398)	(1,105)
Due to affiliates	(4,718)	11,542
Accrued salaries and wages	(363)	(2,913)
Retirement and health plans accrual	502	(58)
Accrued expenses	(3)	51
Other liabilities	72	1,904
Net cash provided by operating activities	<u>\$ 20,890</u>	<u>\$ 16,740</u>

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

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 and 2015

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 18 limited liability companies (“LLCs”). As of June 30, 2016, only 16 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 operations within the OSUP structure through June 30, 2016. OSU Community Outreach LLC, a LLC created during fiscal year 2015, is utilized for community providers that do not wish to be included in the research and teaching missions of the University. This group is a small number of providers that wish to have a clinical relationship with The Ohio State University Wexner Medical Center (“OSUWMC”) and OSUP.

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

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

All LLCs listed above are included within OSUP’s 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.

Faculty members are employed through The Ohio State University Faculty Group Practice (“FGP”) and are leased back to OSUP, with the exception of Community Outreach physicians.

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To support medical research and education, OSUP provides funding to the College of Medicine (“COM”). This funding takes a variety of forms. OSUP makes academic enrichment payments (which go into departmental COM funds) and Dean’s Tax payments (which go into a college-level COM fund). In the addition to these recurring sources of funding, OSUP also makes non-recurring transfers of funds to the College (for example, to pay for programs initiated by a new college dean).

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

Periodically, the COM and OSUP review the funds assigned to OSUP. As a result of this review in FY2016, OSUP was assigned primary financial responsibility for several additional enrichment and FGP funds. Revenues and expenses from these funds, which total approximately \$28 million, have been recognized in OSUP’s FY2016 financial statements.

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 discretely presented component unit of the University for reporting purposes, in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 61. All significant LLC intercompany balances and transactions have been eliminated 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 Consolidated 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.

Net Position - Net position is categorized as:

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

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

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, certificates of deposit and bonds extending beyond three months. The money market funds and certificates of deposit with remaining maturities at time purchase of one year or less are measured at amortized cost and the money market funds, certificates of deposit and bonds with remaining maturities at time of purchase over one year are measured at fair value, in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Realized gains and losses are calculated based on the type of investment and are included in loss from investments in nonoperating income (expenses).

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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. Actual results could vary from the estimate.

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 fixtures, and equipment are stated at cost and include assets leased under capitalized lease obligations. Depreciation and amortization are calculated on the straight-line method. The depreciation and amortization methods are designed to amortize the assets over their estimated useful lives. Capitalized lease amortization is included in depreciation expense. Ranges for useful lives by fixed asset category are shown below:

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

Ambulatory electronic medical record use agreement- OSUP entered into a Software System Use agreement in fiscal year 2010 with OSU Medical Center for the purchase of an electronic medical records system. The agreement, treated for accounting purposes similar to a capital lease, was between The Ohio State University Health System (“OSU Health System”), a consolidating organization within the University, 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, 2016 and 2015, respectively. This cost is being amortized over no more than seven years, and amortization began upon effective implementation within a physician’s group, which occurred at different times. At June 30, 2016 and 2015, accumulated amortization was \$9.6 million and \$7.9 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

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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 OSU Health System to establish a self-insurance fund for professional and patient general liability claims (“Fund II”), covering the employed physicians of OSUP as well as the 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 \$75 million per occurrence with a \$75 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 four 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 \$60 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 premiums.

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. OSUP applies a self-pay discount to self-pay accounts for non-cosmetic services which approximates the average managed care discount for patients with commercial insurance. Self-pay discounts as of June 30, 2016 and 2015 are \$11.7 million and \$13.0 million, respectively, and are recorded in the contractual adjustments and other discounts line in the table below. Additionally, bad debts are recorded as a reduction of net patient care revenues to calculate net patient care revenues less provisions for bad debts. Upper Payment Limit (UPL) supplemental payments amounting to \$10.6 million in FY2016 were recorded as a reduction of contractual adjustments. UPL is a federal matching program which allows for payments of services associated with Medicaid patients to be brought up to levels more closely representing Medicare rates. These dollars are paid in arrears based upon federal calculations and paid through the state Medicaid program. Future payments are not recognized until amounts are determined, as future payments may not be realizable.

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Amounts recorded for fiscal year 2016 and fiscal year 2015 are as follows (in thousands):

	2016	2015
Gross patient care revenue	\$ 924,697	\$ 847,452
Contractual adjustments and other discounts	(556,562)	(528,069)
Administrative adjustments	(5,760)	(4,182)
Net patient care revenue	<u>\$ 362,375</u>	<u>\$ 315,201</u>
Provisions for bad debts	(19,041)	(6,477)
Net patient care revenue less provisions for bad debt	<u>\$ 343,334</u>	<u>\$ 308,724</u>

Additionally, net patient care revenue amounts recognized from major payor sources for fiscal year 2016 and fiscal year 2015 are as follows (in thousands):

	2016	2015
Third party payors	\$ 354,185	\$ 309,969
Self pay	8,190	5,232
Net patient care revenue	<u>\$ 362,375</u>	<u>\$ 315,201</u>

Non-Patient Care Revenue — Non-patient care revenue, which is classified as other revenue in the consolidated statements of revenue, expenses, and changes in net position, 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, 2016 and 2015 are \$6.0 million and \$6.7 million, respectively. The cost of charity care is calculated by taking the ratio of operating expenses divided by gross patient revenue, applied to charity care dollars written off.

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.

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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 \$2.0 million and \$3.6 million in Other Revenue in the fiscal year ended June 30, 2016 and June 30, 2015, respectively.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year presentation.

Newly Issued Accounting Pronouncements – In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (“Statement No. 73”). Statement No. 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement No. 73 for reporting pensions generally are the same as in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for fiscal years beginning after June 15, 2016.

In June 2015, the GASB issued Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“Statement No. 74”), and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“Statement No. 75”). Statements No. 74 and 75 establish new accounting and reporting standards for other postemployment benefits (“OPEB”), such as health insurance provided to retirees. Under the new standards, governments that participate in OPEB plans will be required to report in their statement of net position a net OPEB liability, which is the difference between the total OPEB liability and the assets set aside to pay OPEB. Statement No. 74, which applies to plans (such as OPERS and STRS-Ohio), is effective for periods beginning after June 15, 2016. Statement No. 75, which applies to plan participants (including the University), is effective for periods beginning after June 15, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This standard addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The standard is effective for financial statements for fiscal years beginning after June 15, 2016 (FY2017).

OSUP management is currently assessing the impact that implementation of GASB Statements No. 73, 74, 75 and 82 will have on OSUP’s financial statements.

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NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

During fiscal years 2016 and 2015, 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, 2016 and 2015, no losses have been experienced on these accounts. At June 30, 2016, the carrying amount of OSUP’s cash and cash equivalents is \$79.7 million as compared to bank balances of \$82.4 million. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$72.3 million is covered by federal deposit insurance and \$10.1 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, 2016 and 2015 mature within five years.

Detail for fiscal years 2016 and 2015 follows (in thousands):

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Short Term</u> <u>Investments</u>	<u>Long Term</u> <u>Investments</u>
2016			
Demand Deposits & Cash	\$ 69,635	\$ -	\$ -
Money Market Funds	7,560	-	-
Certificates of Deposits (maturing 2016-2018)	2,500	6,083	969
Corporate Bonds (maturing 2017-2019)	-	-	3,797
	<u>\$ 79,695</u>	<u>\$ 6,083</u>	<u>\$ 4,766</u>
2015			
Demand Deposits & Cash	\$ 53,646	\$ -	\$ -
Money Market Funds	13,211	-	-
Certificates of Deposits (maturing 2015-2017)	1,250	5,958	736
	<u>\$ 68,107</u>	<u>\$ 5,958</u>	<u>\$ 736</u>

Investments measured at fair value are classified as Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those securities.

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

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subject to more variability in their values as a result of future changes in interest rates. The maturities of OSUP's interest-bearing investments at June 30, 2016 are as follows:

	Fair Value	Investment Maturities (in years)	
		Less than 1	1 to 5
Corporate Bonds	\$ 3,797	\$ 1,014	\$ 2,783

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.

At June 30, 2016 OSUP had the following investments in issuers that represent 5% or more of total investments, excluding US government:

	Corporate Bonds
Abbott Labs	\$ 549
International Business Machines	575
Simon Property Group	615
Total	<u>\$ 1,739</u>

At June 30, 2015 OSUP had no investments in issuers that represent 5% or more of total investments, excluding US government.

The credit ratings of OSUP's interest bearing investments at June 30, 2016 are as follows:

	Total	A+	AA-	A
Corporate Bonds	\$ 3,797	\$ 549	\$ 1,582	\$ 1,666

At June 30, 2015 OSUP had no interest-bearing investments that were rated.

As of June 30, 2016 and 2015, OSUP had no deposits or investments denominated in foreign currencies.

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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, 2016 and 2015 consist of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Gross patient accounts receivable	\$ 116,489	\$ 105,218
Allowance for contractual adjustments	(62,760)	(60,983)
Allowance for bad debt	(15,376)	(8,827)
Total	<u>\$ 38,353</u>	<u>\$ 35,408</u>

Risk of loss for third party payors is based upon contractual obligations, legislative changes, or bankruptcy of the payor. Risk of loss for the patient self-payors is related to economic factors of the individual, and thus has a higher reserve for loss based upon our historical indicators. The mix of gross receivables from patients and third-party payors as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Medicare	23%	23%
Medicaid	13%	18%
Commercial/other third party payors	44%	41%
Patient	20%	18%
	<u>100%</u>	<u>100%</u>

NOTE 4 - PROPERTY, PLANT, FURNITURES, AND EQUIPMENT

The composition of property, plant, furniture, and equipment as of June 30, 2016 is as follows (in thousands):

	<u>Beginning</u>		<u>Retirements/</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Property, Plant, and Equipment not being depreciated:				
Land	\$ 2,090	\$ -	\$ -	\$ 2,090
Construction in progress	28	233	-	261
Total non-depreciable assets	<u>2,118</u>	<u>233</u>	<u>-</u>	<u>2,351</u>
Property, Plant, and Equipment being depreciated:				
Land improvements	\$ 4,534	\$ 120	\$ 10	\$ 4,644
Buildings	18,787	-	-	18,787
Equipment	15,128	1,951	58	17,021
Furniture and Fixtures	3,046	24	88	2,982
Total	<u>\$ 41,495</u>	<u>\$ 2,095</u>	<u>\$ 156</u>	<u>\$ 43,434</u>
Less: Accumulated Depreciation	(21,631)	(2,267)	(103)	(23,795)
Total depreciable assets, net	<u>19,864</u>	<u>(172)</u>	<u>53</u>	<u>19,639</u>
Property, Plant, and Equipment, Net	<u>\$ 21,982</u>	<u>\$ 61</u>	<u>\$ 53</u>	<u>\$ 21,990</u>

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Depreciation expense for the year ended June 30, 2016 was \$2.3 million.

The composition of property, plant, furniture, and equipment as of June 30, 2015 is as follows (in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements/ Reductions</u>	<u>Ending</u> <u>Balance</u>
Property, Plant, and Equipment not being depreciated:				
Land	\$ 2,090	\$ -	\$ -	\$ 2,090
Construction in progress	114	657	743	28
Total non-depreciable assets	<u>2,204</u>	<u>657</u>	<u>743</u>	<u>2,118</u>
Property, Plant, and Equipment being depreciated:				
Land improvements	\$ 3,733	\$ 809	\$ 8	\$ 4,534
Buildings	18,783	4	-	18,787
Equipment	14,451	863	186	15,128
Furniture and Fixtures	2,827	244	25	3,046
Total	<u>39,794</u>	<u>1,920</u>	<u>219</u>	<u>41,495</u>
Less: Accumulated Depreciation	<u>(19,530)</u>	<u>(2,270)</u>	<u>(169)</u>	<u>(21,631)</u>
Total depreciable assets, net	<u>20,264</u>	<u>(350)</u>	<u>50</u>	<u>19,864</u>
Property, Plant, and Equipment, Net	<u>\$ 22,468</u>	<u>\$ 307</u>	<u>\$ 793</u>	<u>\$ 21,982</u>

Depreciation expense for the year ended June 30, 2015 was \$2.3 million.

Additions to property, plant, furniture, and equipment, net of retirements and reductions, include \$743 thousand of transfers from construction in progress.

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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 December 31, 2015. Management did not extend the maturity date of this Agreement past that date, therefore it terminated on December 31, 2015.

Each individual LLC was limited to borrow as follows as of June 30, 2015 (in thousands):

	June 30, 2015
OSU Emergency Medicine, LLC	500
OSU Eye Physicians and Surgeons, LLC	400
OSU GYN and OB Consultants, LLC	500
OSU Internal Medicine, LLC	2,000
OSU Neuroscience Center, LLC	250
OSU Otolaryngology - Head and Neck Surgery, LLC	500
OSU Pathology, LLC	500
OSU Physical Medicine and Rehabilitation, LLC	100
OSU Plastic Surgery, LLC	500
OSU Psychiatry, LLC	100
OSU Radiation Oncology, LLC	100
OSU Radiology, LLC	500
OSU Surgery, LLC	1,000
OSU Urology, LLC	500

Additionally, OSUP's corporate function was limited to borrow \$750 thousand. The total limit to borrow under this agreement was \$4 million and the amounts by LLC above were sub-limits within the Agreement.

The Agreement required monthly interest payments at the bank's prime rate, less 0.75%, which was 1.10% during fiscal year 2015. This Agreement was secured by accounts receivable, inventory, deposits, and equipment (not including OSU Eye Physicians and Surgeons, LLC). There were no borrowings on the line of credit as of June 30, 2016 and June 30, 2015.

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DEBT - A summary of debt as of June 30, 2016 and 2015 are as follows (in thousands):

June 30, 2016	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
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	\$ 14,228	\$ -	\$ 569	\$ 13,659	\$ 567
Line of credit	-	-	-	-	-
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	2,136	-	250	1,886	244
Capital lease obligations	5	-	5	-	-
	<u>\$ 16,369</u>	<u>\$ -</u>	<u>\$ 824</u>	<u>\$ 15,545</u>	<u>\$ 811</u>

June 30, 2015	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
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	\$ 14,785	\$ -	\$ 557	\$ 14,228	\$ 567
Line of credit	70	-	70	-	-
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	2,379	-	243	2,136	244
Capital lease obligations	20	-	15	5	5
	<u>\$ 17,254</u>	<u>\$ -</u>	<u>\$ 885</u>	<u>\$ 16,369</u>	<u>\$ 816</u>

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 and 2015

There were no new borrowings in 2016 and OSUP paid cash of \$824 thousand related to repayments in fiscal year 2016. There were no new borrowings in 2015 and OSUP paid cash of \$885 thousand related to repayments in fiscal year 2015.

The Series 2013 healthcare facilities revenue bonds, which were issued on May 1, 2013 for \$15.4 million, are subject to certain restrictive and financial covenants, requiring minimum debt service coverage ratios of 1.25 to 1.50 quarterly and minimum tangible net worth semi-annually, as defined by the agreement, of \$48 million. OSUP was in compliance with all covenants for all applicable quarters during 2015 and 2016.

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. The annual interest expense was \$299 thousand for fiscal year 2016 and \$308 thousand for fiscal year 2015.

On May 1, 2013, at the same time the 2013 healthcare facilities revenue bonds were issued, a term loan was issued in the amount of \$2.6 million. Included in the term loan is the taxable portion of OBGYN's build out for their Mill Run location. Monthly payments of principal and fixed interest on the term loan are to be made until May 1, 2023. An interest rate of 2.3% per annum will be used to calculate payments. The annual interest expense was \$47 thousand for fiscal year 2016 and \$53 thousand for fiscal year 2015.

Scheduled principal repayments on long term debt as of June 30, 2016, are as follows (in thousands):

	Principal	Interest	Total
2017	\$ 842	\$ 322	\$ 1,164
2018	860	304	1,164
2019	879	285	1,164
2020	898	266	1,164
2021	918	246	1,164
2022-2026	3,957	953	4,910
2027-2031	3,781	563	4,344
2032-2036	3,410	151	3,561
	<u>\$ 15,545</u>	<u>\$ 3,090</u>	<u>\$ 18,635</u>

CAPITAL LEASE OBLIGATIONS

OSUP had capital lease obligations that matured during 2016 and carried implicit interest rates of 1.10%. Lease arrangements were being used to provide partial financing for certain movable equipment. Capital asset balances, net of accumulated amortization, of \$30 thousand and \$52 thousand as of June 30, 2016 and 2015, respectively, were financed under capital leases.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 and 2015

NOTE 6 – OTHER CURRENT AND LONG TERM LIABILITIES

Other liabilities primarily include unearned rent, tenant allowances, retention bonuses and patient credit balances prior to refunding. Other current and long term liability activity as of June 30, 2016 and 2015, respectively, is as follows (in thousands):

	<u>Beginning</u>			<u>Ending</u>	<u>Current</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
<u>2016</u>					
Unearned Revenue	\$ 1,731	\$ 86	\$ 683	\$ 1,134	\$ 757
Retention Bonuses	127	-	99	28	-
Due to Others	4,517	42,328	41,560	5,285	5,285
	<u>\$ 6,375</u>	<u>\$ 42,414</u>	<u>\$ 42,342</u>	<u>\$ 6,447</u>	<u>\$ 6,042</u>
<u>2015</u>					
Unearned Revenue	\$ 2,012	\$ 1,231	\$ 1,512	\$ 1,731	\$ 1,134
Retention Bonuses	226	-	99	127	-
Due to Others	2,233	17,670	15,386	4,517	4,517
	<u>\$ 4,471</u>	<u>\$ 18,901</u>	<u>\$ 16,997</u>	<u>\$ 6,375</u>	<u>\$ 5,651</u>

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 and 2015

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 consolidated 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 consolidated statements of net position as of June 30, 2016 and 2015, 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, facility space and medical directorships to the University.

Balances due from each affiliate as of June 30, 2016 and 2015 are as follows (in thousands):

	2016		2015
Due from OSU Health System	\$ 6,205	\$	4,591
Due from COMPH	9,276		5,943
	<u>\$ 15,481</u>	\$	<u>10,534</u>

Due to:

OSU Health System- OSUP is responsible for certain costs of the Ambulatory electronic medical record (“EMR”) implementation coordinated through OSU Health System. As of June 30, 2016 and 2015, OSUP has \$ 3.3 million and \$7.0 million payable, respectively, to OSU Health System for the 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, 2016 and 2015 are \$12.4 million and \$10.2 million respectively. OSUP has operating leases for various facility spaces with the University. The lease expenses paid to the University as of June 30, 2016 and 2015 are \$3.1 million and \$3.0 million respectively. Additionally, OSUP pays premiums for the USIF (malpractice) and health insurance to the University Office of the Treasurer. There were no outstanding balances as of June 30, 2016 and 2015.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 and 2015

Balances due to each affiliate as of June 30, 2016 and 2015 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Due to OSU Health System	\$ 10,437	\$ 13,226
Due to COMPH	13,333	19,716
	<u>\$ 23,770</u>	<u>\$ 32,942</u>

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 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, 2016 and 2015. Premiums are assessed to OSUP based on the physician's specialty and the types of procedures performed. 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. No self-insurance premiums were required to be paid for the years ended June 30, 2016 and June 30, 2015.

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 \$4.4 million for the years ended June 30, 2016 and 2015, respectively. Employee contributions were \$1.6 million and \$1.5 million for the years ended June 30, 2016 and 2015, 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 2030. Total rental expense in 2016 and 2015 for all operating leases was approximately \$6.2 million and \$6.4 million, respectively, which includes leases that operate on a month-to-month basis.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 and 2015

The following is a schedule by year of future minimum lease payments (in thousands) under operating leases as of June 30, 2016, that have initial or remaining lease terms in excess of one year.

Year ended June 30	
2017	\$ 5,205
2018	3,432
2019	1,987
2020	1,387
2021	1,004
2022-2030	3,050
TOTAL	<u>\$ 16,065</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, 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 changes in net position and cash flows.

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



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 financial audits contained in *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, appearing on pages 8 to 28, which comprise the consolidated statement of net position as of June 30, 2016, and the related consolidated statements of revenue, expense, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses on page 33 as Finding 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSUP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,



contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

OSUP's Response to Findings

OSUP's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses on page 33. OSUP's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 20, 2016

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, 2016
(IN THOUSANDS)

	OSUP		Community		FM	EM	Eye	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Plastic		Radiation				Urology	Aggregated	Eliminations	Total
	Corporate	Outreach												Surgery	Psychiatry	Oncology	Radiology	Surgery					
ASSETS																							
CURRENT ASSETS:																							
Cash and cash equivalents	\$ 14,979	\$ 59	\$ 103	\$ 7,890	\$ 5,915	\$ 2,438	\$ 14,735	\$ 872	\$ 2,693	\$ 9,875	\$ 614	\$ 1,643	\$ 1,187	\$ 5,670	\$ 7,037	\$ 3,654	\$ 331	\$ 79,695	\$ 0	\$ 79,695			
Short-term investments	850	0	981	0	250	0	0	0	0	0	0	0	0	0	0	4,002	0	6,083	0	6,083			
Accounts receivable — patient care - net of allowance	0	419	0	2,268	1,520	1,376	12,802	1,428	2,451	3,015	692	1,131	473	1,322	5,294	3,609	553	38,353	0	38,353			
Accounts receivable — other	1,164	401	2	-102	268	275	920	30	633	121	94	70	658	24	-93	365	-39	4,790	0	4,790			
Due from affiliates	15,714	480	0	874	305	495	5,826	850	145	749	177	806	343	256	664	561	299	28,544	13,062	15,481			
Inventories	282	0	0	0	176	165	493	132	0	75	0	0	0	0	0	0	0	1,323	0	1,323			
Prepaid expenses	417	45	0	0	0	58	313	24	98	21	9	40	0	0	7	230	64	1,325	0	1,325			
Total current assets	33,405	1,403	1,086	10,931	8,434	4,806	35,088	3,335	6,020	13,781	1,661	3,690	2,662	7,272	12,908	12,420	1,208	160,112	13,062	147,050			
NONCURRENT ASSETS:																							
Property, plant, furniture, and equipment-net of accumulated depreciation	11,615	196	0	0	1,760	1,555	5,453	152	493	129	8	50	0	0	251	327	21,990	0	21,990				
Long-term investments	0	0	983	0	0	0	0	0	0	3,783	0	0	0	0	0	0	0	4,766	0	4,766			
EPIC ambulatory electronic medical record use agreement	0	0	0	51	0	37	303	41	12	79	23	13	55	8	56	118	0	795	0	795			
Other assets	1,346	3	0	9	0	313	302	69	301	561	66	59	8	0	0	1	0	3,037	1,317	1,720			
Total noncurrent assets	12,961	199	983	60	1,760	1,905	6,058	262	806	4,552	97	122	63	8	56	370	327	30,588	1,317	29,271			
TOTAL ASSETS	\$ 46,366	\$ 1,602	\$ 2,069	\$ 10,991	\$ 10,194	\$ 6,711	\$ 41,146	\$ 3,597	\$ 6,826	\$ 18,333	\$ 1,758	\$ 3,812	\$ 2,725	\$ 7,280	\$ 12,964	\$ 12,790	\$ 1,535	\$ 190,700	\$ 14,379	\$ 176,321			
LIABILITIES AND NET POSITION																							
CURRENT LIABILITIES:																							
Accounts payable	\$ 1,216	\$ 32	\$ -	\$ -	\$ -	\$ -	\$ 90	\$ -	\$ 50	\$ 183	\$ 11	\$ -	\$ -	\$ -	\$ 26	\$ -	\$ -	\$ 1,608	\$ 0	\$ 1,608			
Accrued expenses	202	0	0	0	0	47	1	0	0	0	0	0	0	0	0	0	0	250	0	250			
Accrued salaries and wages	1,454	158	4	6	41	202	1,109	70	89	1,352	63	54	0	22	0	132	23	4,779	0	4,779			
Due to affiliates — current portion	14,443	2,563	-1	1,882	1,384	838	8,064	639	1,312	1,079	386	171	324	600	1,114	1,857	176	36,832	13,062	23,770			
Notes payable and capital leases — current portion	811	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	811	0	811			
Retirement and health plan accrual	203	3	0	2	16	39	335	18	8	210	10	11	0	2	12	9	877	0	877				
Other current liabilities	3,356	144	0	105	66	714	894	294	75	161	49	13	23	76	-182	187	65	6,042	0	6,042			
Total current liabilities	21,685	2,900	3	1,995	1,507	1,840	10,493	1,021	1,534	2,985	519	249	347	700	958	2,188	273	51,199	13,062	38,137			
LONG-TERM LIABILITIES:																							
Notes payable and capital leases — less current portion	14,735	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	14,735	0	14,735			
Due to affiliates and other — less current portion	0	0	0	0	825	196	297	0	0	0	0	0	0	0	0	0	0	1,317	1,317	-			
Other long term liabilities	195	0	0	0	0	182	0	0	0	0	0	0	0	0	0	0	28	405	0	405			
Total long term liabilities	14,930	0	0	0	825	378	297	0	0	0	0	0	0	0	0	0	28	16,457	1,317	15,140			
COMMITMENTS AND CONTINGENCIES (Note 10)																							
NET POSITION :																							
Net investment in capital assets	-6,466	196	0	60	1,760	1,778	6,057	262	773	754	98	122	63	8	56	369	327	6,217	0	6,217			
Unrestricted	16,218	-1,494	2,065	8,936	6,103	2,716	24,300	2,313	4,518	14,593	1,143	3,441	2,314	6,571	11,951	10,232	908	116,827	0	116,827			
Total net position	9,752	-1,298	2,065	8,996	7,863	4,494	30,357	2,575	5,291	15,347	1,241	3,563	2,377	6,579	12,007	10,601	1,235	123,044	0	123,044			
TOTAL LIABILITIES AND NET POSITION	\$ 46,367	\$ 1,602	\$ 2,068	\$ 10,991	\$ 10,195	\$ 6,712	\$ 41,147	\$ 3,596	\$ 6,825	\$ 18,332	\$ 1,760	\$ 3,812	\$ 2,724	\$ 7,279	\$ 12,965	\$ 12,789	\$ 1,536	\$ 190,700	\$ 14,379	\$ 176,321			

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, 2016

(IN THOUSANDS)

	OSUP		Community		Radiation							Plastic				Aggregate	Eliminat	Total		
	Corporate	Outreach	OBGYN	Oncology	Radiology	Surgery	IM	EM	Neurology	Pathology	Phys Med	Psychiatry	FM	Eye	Otolaryngology				Urology	Surgery
OPERATING REVENUE:																				
Net Patient Care Revenue	7,136	2,929	15,852	9,262	33,432	29,538	149,819	21,775	12,175	23,101	7,874	4,767	0	14,910	17,446	6,344	6,016	362,375	0	362,375
Provisions for bad debt	0	193	756	274	1,842	1,596	7,874	2,191	451	1,186	424	251	0	573	708	299	423	19,041	0	19,041
Net patient care revenue less provisions for bad debts	7,136	2,737	15,095	8,988	31,589	27,942	141,945	19,583	11,723	21,915	7,450	4,516	0	14,337	16,738	6,045	5,593	343,334	0	343,334
Other revenue	27,669	986	4,558	2,209	2,045	9,675	74,944	4,470	11,322	11,551	1,549	7,545		2,382	1,899	1,048	3,532	167,384	23,289	144,095
Total operating revenue	34,805	3,723	19,653	11,197	33,635	37,617	216,889	24,054	23,045	33,466	8,999	12,061		16,718	18,638	7,092	9,126	510,717	23,289	487,429
OPERATING EXPENSES:																				
Salaries and benefits	19,711	3,556	13,574	8,451	27,002	30,189	148,829	19,304	9,205	22,399	6,689	10,883	0	9,403	12,772	5,237	7,010	354,214	119	354,095
Supplies and pharmaceuticals	175	320	1,097	38	19	337	23,266	126	2,845	2,087	1,995	26	0	317	999	498	210	34,355	0	34,355
Services	6,322	327	1,535	400	1,855	2,863	22,944	2,555	1,420	2,556	262	625	3	4,010	1,198	606	921	50,403	12,381	38,022
Malpractice	0	12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12	0	12
Dean's tax	0	0	573	345	1,275	1,111	4,405	901	333	876	194	177	0	452	1,294	239	216	12,391	0	12,391
Occupancy and utilities	2,002	246	1,046	6	301	3,640	25	560	263	125	138	0	17	685	459	321	9,835	754	9,081	
Amortization and depreciation	734	24	364	16	112	198	1,406	104	127	428	65	111	0	330	179	58	71	4,326	0	4,326
Other expenses	45	28	753	607	1,357	1,563	6,747	1,069	745	728	302	155	137	559	990	344	420	16,550	10,783	5,770
Total operating expenses	28,989	4,513	18,942	9,857	31,626	36,562	211,237	24,084	15,235	29,337	9,632	12,115	140	15,088	18,117	7,441	9,169	482,088	24,038	458,052
Operating income	5,816	-790	711	1,340	2,009	1,055	5,652	-30	7,810	4,129	-633	-54	-140	1,630	521	-349	-43	28,633	-749	29,377
NONOPERATING INCOME (EXPENSES):																				
Interest Income	4		-1	1	2	17	12	1		22			14	2	5	8	2	89	0	89
Nonoperating income	-7	0	453	68	264	554	2,043	234	88	167	494	61	80	82	202	66	56	4,906	749	4,157
(Loss) Income from investments		0	0	0	0	10		0	0	-18	0	0	2	0	0	-8		-13	0	-13
Loss on sale of assets	0	0	0	0	0	0	-15	0	0	0	0	0	0	0	0	0	0	-15	0	-15
Interest	-310	-5	-7		-2	-4	-31	-2	-2	-3	-1	-2	0	-21	-2	-1	-1	-395	0	-395
Nonoperating expense	-1		-1	-1,017	-7	-8	-6	-51	-46	-16	0	-5	-3	0	-12	0	0	-1,172	0	-1,172
Total nonoperating income (expense)	-314	-5	444	-948	257	569	2,003	182	40	152	493	54	93	63	193	65	57	3,400	749	2,651
INCREASE IN NET POSITION																				
	5,502	-795	1,155	393	2,266	1,624	7,655	152	7,850	4,280	-139		-47	1,693	714	-284	14	32,028	0	32,028
NET POSITION — Beginning of year	4,249	-502	3,340	6,188	9,742	8,978	22,703	8,843	-5,274	11,065	1,381	2,377	2,113	6,169	4,577	1,518	3,550	91,016	0	91,016
NET POSITION— End of year	\$ 9,751	\$ -1,297	\$ 4,495	\$ 6,581	\$ 12,008	\$ 10,601	\$ 30,358	\$ 8,996	\$ 2,576	\$ 15,346	\$ 1,242	\$ 2,377	\$ 2,065	\$ 7,862	\$ 5,291	\$ 1,234	\$ 3,564	\$ 123,044	\$ 0	\$ 123,044

Schedule of Audit Findings and Responses

2016-001 - Preparation and review of bad debt allowance

Observation: Based on audit procedures performed on the valuation of patient accounts receivable, a misclassification between bad debt and contractual allowances (and related expenses) for aged patient care accounts receivable was identified. OSUP's allowance model calculated contractual allowances for self-pay patients; however these allowances should have been presented as bad debt allowances as the amounts are earned and billed, but collection is doubtful.

Recommendation: Although processes are in place to review and compare subsequent evidence to estimates, we recommend a more disaggregated review of the calculation to include the reasonableness of the bifurcation of contractual and bad debt allowances (and related expenses) and reconciliation of reports used in this analysis.

Management Response: We agree with the recommendation. For future periods we will perform our hindsight review separately for bad debt allowances and contractual allowances in addition to the current methodology of reconciling net patient accounts receivable to subsequent collections. While there is no net impact to the revenues and expenses or changes in net position as a result of these adjustments, these modifications will improve the review process over the accounts receivable allowances.



Dave Yost • Auditor of State

THE OHIO STATE UNIVERSITY PHYSICIANS INC
FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 20, 2016