OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Basic Financial Statements

Years Ended June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Trustees
Ohio State University Physician's Inc.
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We have reviewed the *Independent Auditors' Report* of the Ohio State University Physician's Inc., Franklin County, prepared by KPMG LLP, for the audit period July 1, 2021 through June 30, 2022. 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 Physician's Inc. is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

December 16, 2022

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

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KPMG LLP
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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022, OSUP adopted Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87). Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of OSUP as of and for the year ended June 30, 2021, were audited by other auditors, who expressed an unmodified opinion on those statements on October 26, 2021.

As part of our audit of the 2022 financial statements, we also audited the adjustments described in Note 6 that were applied to restate the 2021 financial statements for the adoption of GASB 87. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of OSUP other than with respect to the adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2022, on our consideration of OSUP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OSUP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSUP's internal control over financial reporting and compliance.

KPMG LLP

Columbus, Ohio
November 17, 2022

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, 2022, 2021, and 2020. Condensed financial information derived from the financial statements is provided for comparative purposes for these three years. We encourage you to read this MD&A section in conjunction with the audited financial statements and the accompanying footnotes included in this report.

About Ohio State University Physicians

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

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2022, only 16 of the LLCs are active and included in the financial statements. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no operations within the OSUP structure through June 30, 2022. OSUP is governed by a board of managers who are responsible for oversight of clinical programs, budgets, general administration, and employment of faculty and staff.

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

About the Financial Statements

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

The Statement of Net Position is OSUP's balance sheet. It reflects the total assets, liabilities and net position as of June 30, 2022 and 2021. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value or amortized cost depending on original maturity. Capital assets, which include land, buildings, improvements, and equipment, are shown net of accumulated depreciation.

The Statement of Revenue, Expenses and Changes in Net Position is OSUP's income statement. It details how net position has increased (or decreased) during the years ended June 30, 2022 and 2021. Patient care revenue is shown net of allowances for collectability, depreciation is provided for capital assets, and there are required subtotals for operating income (loss) and non-operating income (expense).

The Statement of Cash Flows details how cash has increased (or decreased) during the years ended June 30, 2022 and 2021. It breaks out the sources and uses of OSUP cash into logical categories such as, operating activities, capital financing activities, and investing activities.

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

In 2022, OSUP implemented GASB Statement No. 87, *Leases*. This standard establishes accounting and reporting for leases, based on the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. Lessees record an intangible lease asset and corresponding lease liability, based on the present value of the payments expected to be made during the lease term. Lessors record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a maximum possible term of 12 months or less.

The adoption of GASB 87 had no impact on OSUP's net position as of July 1, 2020. The accompanying financial statements and MD&A information for the year ended June 30, 2021 have been restated to reflect the new accounting standard. MD&A information for the year ended June 30, 2020 has not been restated.

Financial Highlights and Key Trends

OSUP's financial position remains strong, and the organization continues its mission to provide medical care and support medical research and medical education at The Ohio State University. OSUP opened Outpatient Care New Albany in August 2021 and prepared for the opening of Outpatient Care Dublin in fiscal year 2023. Outpatient Care New Albany contributed to an increase of 121,000 new patients to the Medical Center.

COVID-19 has had a lasting impact on OSUP's clinical operations. OSUP management remains ready to implement additional measures to protect the health of the community and promote the continuity of its mission.

In the year ended June 30, 2022, OSUP experienced growth in outpatient visits and procedures volumes. Total patient encounters increased 3.4% compared to the year ended June 30, 2021 leading to strong results in operations for the year.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, includes provisions to provide support to individuals, companies and non-profit institutions in the form of loans, grants, tax changes and other types of relief. Provider Relief Funds recognized as revenue totaled $11.7 million in fiscal year 2022. OSUP recorded $19.9 million as deferred revenue in other current liabilities at June 30, 2022. Provider Relief Funds were not received during the year ended June 30, 2021. OSUP received $11.8 million of Provider Relief Funds during the year ended June 30, 2020. Amounts provided to OSUP under CARES Act programs are recognized as non-operating revenues in the Statement of Revenues, Expenses and Changes in Net Position as eligibility requirements are met. OSUP received $12.6 million under the Medicare Accelerated and Advance Payment Program during the year ended June 30, 2020. Medicare recouped the entire advance by June 30, 2022.

OSUP's net position increased $5.8 million to $221.3 million at June 30, 2022 as compared to prior year's growth in net position of $9.8 million. Net Patient Revenues increased by $22.2 million, and Other Revenue, which includes Medical Center Investment, increased by $20.2 million, while operating expenses grew by $68.9 million and Nonoperating Income (Expense) decreased by $11.7 million.

Condensed Statements of Net Position

		June 30		
		2022	**2021**	**2020**
			(in thousands)	
Assets				
Current assets	$	365,353	370,385	254,552
Capital assets		98,410	68,362	25,576
Noncurrent assets		4,326	5,112	27
Total assets	$	468,089	443,859	280,155
Liabilities				
Current liabilities	$	165,327	173,491	63,180
Long-term liabilities		76,061	48,442	11,314
Deferred inflows		5,417	6,443	—
Total liabilities		246,805	228,376	74,494
Net position				
Net investment in capital assets		14,897	13,750	13,400
Unrestricted		206,387	201,733	192,261
Total net position		221,284	215,483	205,661
Total liabilities and net position	$	468,089	443,859	280,155

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

Cash and cash equivalents decreased $85.8 million from June 30, 2021 to June 30, 2022 and increased $68.2 million from June 30, 2020 to June 30, 2021. The primary drivers for the decrease from 2021 to 2022 were purchases of short-term investments of $90.4 million, $9.1 million needed for operations, payments on lease liabilities of $5.1 million and interest of $3.2 million, as well as capital purchases of $4.7 million, which were partially offset by receipt of $31.6 million of Provider Relief Funds. The primary drivers for the increase from 2020 to 2021 were cash from operating activities of $77.4 million, cash from investing activities of $13.9 million, offset by cash used for noncapital financing activities of $15.1 million and cash used for capital financing activities of $8.0 million.

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

Net patient care accounts receivable decreased by $2.0 million from June 30, 2021 to June 30, 2022 due to implementation of improved processes, focused on reducing charge lag and increasing the use of automation. Net patient care accounts receivable increased by $9.9 million from June 30, 2020 to June 30, 2021 due to coronavirus restrictions being lifted and the growth in number of physicians and other providers, and thus encounters and productivity measured by work relative value units (WRVUs).

Capital assets, net increased by $30.0 million from June 30, 2021 to June 30, 2022 primarily related to $28.9 million of new and renewed leases executed during fiscal year 2022. Capital assets, net increased by $42.8 million from June 30, 2020 to June 30, 2021 related to the implementation of GASB 87 which added a net $43.6 million in lease assets.

The decrease in current liabilities of $8.2 million from June 30, 2021 to June 30, 2022 was primarily driven by the Medicare recoupment of $10.2 million of advance payments, partially offset by a decrease of $1.8 million in accounts payable. The increase in current liabilities of $110.3 million from June 30, 2020 to June 30, 2021 was primarily related to increases in Due to Affiliates of $102.9 million and $5.2 million of lease payables recognized due to the implementation of GASB 87. The Due to Affiliates increase was related to a change in processing of settlement of affiliate transactions that occurred in the second half of fiscal year 2021.

Long-term liabilities increased $27.6 million from June 30, 2021 to June 30, 2022 and increased $37.1 million from June 30, 2020 primarily related to the implementation of GASB 87 and new and renewed leases executed during fiscal year 2022, partially offset by payments made on long-term notes payable. The remaining long-term debt associated with various building projects is $9.1 million as of June 30, 2022, $10.5 million as of June 30, 2021 and $11.3 million as of June 30, 2020.

The Statement of Revenue, Expenses, and Changes in Net Position presents OSUP's results of operations. A comparison for the years ended June 30, 2022, 2021 and 2020 is summarized as follows.

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

		2022	2021	2020
			(in thousands)	
Net patient care revenue less provisions for bad debts	$	448,420	426,218	375,852
Other revenue		252,347	221,382	208,369
Total operating expense		(691,208)	(622,354)	(582,464)
Operating income		9,559	25,246	1,757
Nonoperating expense		(3,758)	(15,424)	6,539
Increase in net position		5,801	9,822	8,296
Net position – beginning of year		215,483	205,661	197,365
Net position – end of year	$	221,284	215,483	205,661

Patient encounters increased 4.0% in fiscal year ended June 30, 2022, compared to fiscal year ended June 30, 2021. The 2022 increase was primarily driven by the opening of Outpatient Care New Albany. The 2021 increase was primarily related to the increase in outpatient visits and elective procedures as a result of lifting of restrictions due to the coronavirus pandemic. In addition, the number of physicians increased by 35 in 2021, to 1,115 physicians and the number of midlevel providers increased by 42, to 657 midlevel providers.

Changes in net patient care revenue are associated with volume changes noted above as well as changes in rates charged and payments received for services, including the change in mix of services rendered to patients, and the payer mix of patients seen. Net patient care revenue increased by $22.2 million from fiscal year 2021 to fiscal year 2022 and increased by $50.4 million from fiscal year 2020 to fiscal year 2021. The 2022 increase was due to the opening of Outpatient Care New Albany. The 2021 increase related to the lifting of coronavirus restrictions and the resumption of services provided by OSUP.

Other revenue increased $31.0 million from fiscal year ended June 30, 2021 to June 30, 2022 and increased $12.8 million from fiscal year ended June 30, 2020 to June 30, 2021. Other revenue represents both revenue associated with outside health related organizations and services purchased from physician departments by the Health System. The increases in 2022 and 2021 were primarily due to increases in purchased services payments from the Health System.

Operating expenses increased by $68.9 million from fiscal year ended June 30, 2021, to June 30, 2022 and increased by $39.9 million from fiscal year ended June 30, 2020 to June 30, 2021. Approximately $37.3 million of the 2022 increase came from physician and other provider related costs and $22.8 million in other salaries and benefits OSUP invested in personnel for Outpatient Care New Albany and Outpatient Care Dublin. The 2022 increase was also impacted by an increase in Dean's Tax and strategic initiative transfers of $2.5 million. Approximately $38.2 million of the 2021 increase came from physician and other provider related costs which was primarily due to new physicians and other providers entering the practice during fiscal year 2021. The 2021 increase was also impacted by an increase in Dean's Tax and strategic initiative of $2.4 million resulting from the increase in net patient payments. In addition, there was an increase in staff salary and benefit costs of $1.0 million which was due to an increase in staff FTEs.

Nonoperating income (expense) of ($15.4) million for the year ended June 30, 2021 decreased by $11.7 million to ($3.8) million for the year ended June 30, 2022, primarily due to $11.7 million in Provider Relief Funds received in fiscal year in 2022. Nonoperating income (expense) of $6.5 million for the year ended June 30, 2020 decreased by $21.9 million to ($15.4) million for the year ended June 30, 2021 primarily from $11.8 million of Provider Relief Funds received and recognized in 2020 from Health and Human Services (HHS) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and $7.1 million in research and endowment transfers to the University in 2021.

Subsequent Events

Effective July 1, 2022, several departments were transitioned from the COM to OSUP to create a more integrated and simplified structure and governance aligned with the University. The primary departments transitioned to OSUP as part of the integrated practice plan include Anesthesiology, Orthopedics and Sports Medicine, Maternal Fetal Medicine, Neurosurgery, and Family Medicine. The integrated practice will enhance quality, outcomes, and access metrics and maximize the ability to achieve Wexner Medical Center's ambition and strategic goals.

The integration of the new departments is not expected to impact the change in net assets in fiscal year 2023. Revenue and support are expected to increase by approximately $250 million, driven primarily by anticipated increases in net patient revenue of $150 million in fiscal year 2023. Expenses are budgeted to increase by approximately $250 million, driven primarily by anticipated increases in provider expenses of $170 million.

Economic Factors That Will Affect the Future

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

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

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

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

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

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

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

Statements of Net Position

June 30, 2022 and 2021

(In thousands)

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	151,453	237,247
Short-term investments		81,916	—
Accounts receivable - patient care - net of provisions for bad debts of $9,591 in 2022 and $8,700 in 2021		48,858	50,835
Accounts receivable – other		14,245	6,748
Due from affiliates		63,792	70,514
Lease receivables		908	1,092
Inventories		1,197	1,203
Prepaid expenses		2,984	2,746
Total current assets		365,353	370,385
Noncurrent assets:			
Capital assets, net		98,410	68,362
Lease receivable less current portion		4,177	5,085
Other assets		149	27
Total noncurrent assets		102,736	73,474
Total assets	$	468,089	443,859
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Accounts payable	$	2,949	4,757
Accrued expenses		48	103
Medicare Advance Payment Program		—	10,191
Accrued salaries and wages		8,506	7,119
Due to affiliates		107,771	132,276
Current portion of notes payable		947	936
Current portion of lease liability		6,505	5,234
Retirement and health plan accrual		1,142	1,074
Other current liabilities		37,459	11,801
Total current liabilities		165,327	173,491
Long-term liabilities:			
Notes payable less current portion		9,061	10,491
Lease liability less current portion		67,000	37,951
Total long-term liabilities		76,061	48,442
Total liabilities		241,388	221,933
Deferred inflows:			
Leases		5,417	6,443
Net position:			
Net investment in capital assets		14,897	13,750
Unrestricted		206,387	201,733
Total net position		221,284	215,483
Total liabilities, deferred inflows, and net position	$	468,089	443,859

See accompanying notes to financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Operating revenue:			
Net patient care revenue	$	452,856	435,469
Provisions for bad debts		(4,436)	(9,251)
Net patient care revenue less provisions for bad debts		448,420	426,218
Contract income		97,781	87,009
Other revenue		154,566	134,373
Total operating revenue		700,767	647,600
Operating expenses:			
Salaries and benefits		581,070	523,607
Supplies and pharmaceuticals		21,427	19,311
Purchased services		47,058	45,145
Dean’s tax		20,776	18,229
Occupancy and utilities		3,754	3,838
Amortization and depreciation		9,935	7,749
Other expenses		7,188	4,475
Total operating expenses		691,208	622,354
Operating income		9,559	25,246
Nonoperating revenue (expenses):			
Provider relief funds		11,686	—
Loss from investments		(8,899)	(2)
Other nonoperating activities, net		(6,545)	(15,422)
Total nonoperating expense		(3,758)	(15,424)
Increase in net position		5,801	9,822
Net position – beginning of year		215,483	205,661
Net position – end of year	$	221,284	215,483

See accompanying notes to financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Patient receipts, net	$	445,985	416,526
Other receipts		251,572	171,435
Payments to and on behalf of employees		(604,120)	(421,169)
Payments to vendors for supplies and services		(70,342)	(55,822)
Payments on dean's tax		(20,776)	(18,229)
Payments on occupancy and utilities		(3,992)	(10,840)
Payments on other expenses		(7,420)	(4,475)
Net cash (used in) provided by operating activities		(9,093)	77,426
Cash flows from noncapital financing activities:			
Funding to affiliates		(6,498)	(15,060)
Provider Relief Funds		31,565	—
Net cash provided by (used in) noncapital financing activities		25,067	(15,060)
Cash flows from capital and related financing activities:			
Purchase of capital assets		(4,683)	(2,214)
Principal payments on debt		(1,419)	(903)
Payments on lease liabilities		(4,981)	(5,091)
Cash paid for interest		(3,186)	(2,003)
Payments received on lease receivables		2,856	2,178
Net cash used in capital and related financing activities		(11,413)	(8,033)
Cash flows from investing activities:			
Purchase of investments		(90,355)	—
Proceeds from sale of investments		—	13,850
Interest income		—	55
Net cash (used in) provided by investing activities		(90,355)	13,905
Net (decrease) increase in cash		(85,794)	68,238
Cash and cash equivalents – beginning of year		237,247	169,009
Cash and cash equivalents – end of year	$	151,453	237,247

(Continued)

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Reconciliation of net operating income to net cash provided by operating activities:			
Operating income	$	9,559	25,246
Adjustments to reconcile net operating income to net cash (used in) provided by:			
Amortization and depreciation		9,935	7,749
Changes in assets and liabilities:			
Accounts receivable-patient care – net of allowance		1,977	(9,946)
Accounts receivable – other		(7,497)	(1,747)
Due from affiliates		6,722	(47,982)
Inventories		6	(432)
Prepaid expenses		(238)	(248)
Other assets		(232)	—
Accounts payable and accrued expenses		(1,863)	2,312
Medicare Advance Payment Program		(10,191)	(2,394)
Due to affiliates		(24,505)	102,927
Accrued salaries and wages		1,387	(331)
Retirement and health plans accrual		68	(158)
Other liabilities		5,779	2,430
Net cash (used in) provided by operating activities	$	(9,093)	77,426
Non cash transactions:			
Unrealized loss on investments	$	(8,899)	—

See accompanying notes to financial statements.

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

(a) Organization

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

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2022, only 16 of the LLCs are active and included in these financial statements. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no operations within the OSUP structure through June 30, 2022.

(b) Basis of Presentation

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

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

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

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

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

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

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

(c) Basis of Accounting

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

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

(d) Net Position

Net position is categorized as:

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

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

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

(e) Cash and Cash Equivalents

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

(f) Short-Term Investments

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

(Continued)

(g) Accounts Receivable-Patient Care

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

(h) Inventories

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

(i) Capital assets, net

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

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

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

(j) Leases

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

(Continued)

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

(k) Loss Contingencies

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

(l) Professional and General Insurance

On July 1, 2003, OSUP joined with The Ohio State University Wexner Medical Center Health System (the "Health System") to establish a self-insurance fund for professional and patient general liability claims ("Fund II"), covering the employed physicians of OSUP as well as the Health System. The assets and liabilities of Fund II are included in the University's financial statements, but are not included in OSUP's financial statements, as a result of the retained risk being held by the University. The estimated liability and the related contributions are based upon an independent actuarial determination as of June 30, 2022 and 2021. The medical liability contribution expense is recorded as period expenses for OSUP. There was no medical liability contribution expense for fiscal years 2022 and 2021.

The University has also established a pure captive insurer ("Oval Limited") that provides excess liability coverage over Fund II which retains $4 million per occurrence with various aggregate limits and a $2 million buffer layer in excess of this retention. Effective July 1, 2020, Oval Limited provides coverage with limits of $80 million per occurrence and in the aggregate.

(m) Operating and Non-Operating Revenues and Expenses

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

(n) Net Patient Care Revenue

Net patient care revenue represents amounts received and estimated net realizable amounts due from patients and third-party payors for services rendered. OSUP provides care to patients under various reimbursement agreements, including governmental and commercial payers (third-party payors). These arrangements provide for payment on covered services at agreed-upon rates, which may result in discounts from charges. Provisions have been made in the financial statements for estimated contractual adjustments, representing the difference between customary charges and related reimbursements, and for administrative adjustments. Administrative adjustments represent amounts that will not be received for provided services due to various reasons, such as noncovered services, untimely filing of claims, insufficient documentation or invalid patient registration. OSUP applies a self-pay discount to self-pay accounts for non-cosmetic services which approximates the average managed care discount for patients with commercial insurance. Self-pay discounts as of June 30, 2022 and 2021 are $16.8 million and $16.9 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 $10.7 million and $10.4 million for the years ended June 30, 2022 and 2021, respectively were recorded as a reduction of contractual adjustments. UPL is a federal matching program which allows for payments of services associated with Medicaid patients to be brought up to levels more closely representing Medicare rates. These dollars are paid in arrears based upon federal calculations and paid through the state Medicaid program. Future payments are not recognized until amounts are determined, as future payments may not be realizable. Amounts recorded for fiscal year 2022 and fiscal year 2021 are as follows (in thousands):

		2022	2021
Gross patient care revenue	$	1,233,978	1,176,501
Contractual adjustments and other discounts		(763,340)	(730,592)
Administrative adjustments		(17,782)	(10,440)
Net patient care revenue		452,856	435,469
Provisions for bad debts		(4,436)	(9,251)
Net patient care revenue less provisions for bad debt	$	448,420	426,218

Additionally, net patient care revenue amounts recognized from major payor sources for fiscal year 2022 and fiscal year 2021 are as follows (in thousands):

		2022	2021
Medicare	$	128,287	125,374
Medicaid		39,576	38,921
Commercial/other third party payors		273,017	261,408
Patient		11,976	9,766
Net patient care revenue		452,856	435,469
Provisions for bad debts		(4,436)	(9,251)
Net patient care revenue less provisions for bad debt	$	448,420	426,218

(o) Non-Patient Care Revenue

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

Non-patient care revenue, which is classified as other revenue in the 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.

(p) Charity Care

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by OSUP. As collection of amounts determined to qualify as charity care are not pursued, such amounts are written off and not reported as gross patient care revenue. OSUP maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services furnished. Charity care costs as of June 30, 2022 and 2021 totaled $14.6 million and $14.2 million, respectively. The cost of charity care is calculated by taking the ratio of operating expenses divided by gross patient revenue, applied to charity care dollars written off.

(q) Federal Income Taxes

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

(r) Use of Estimates

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

(s) Estimated Fair Value of Investments

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

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

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

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

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

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. As of June 30, 2021, OSUP had no investments classified as Level 3.

(t) Recently Adopted Accounting Standards

In fiscal year 2022, OSUP implemented GASB Statement No. 87, *Leases*. This standard establishes accounting and reporting for leases, based on the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. Lessees will record an intangible lease asset and corresponding lease liability. Lessors will record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a maximum possible term of 12 months or less. The effects of adopting Statement No. 87 in OSUP's financial statements for the year ended June 30, 2021 were as follows:

	As Previously Reported	Effect of Adoption of Statement No. 87	As Restated
Statement of Net Position			
Lease receivables current portion	$ -	$ 1,092	$ 1,092
Lease receivables less current portion	-	5,085	5,085
Capital assets, net	24,753	43,609	68,362
Total assets	24,753	49,786	74,539
Current portion of lease liability	-	5,234	5,234
Lease liability less current portion	-	37,951	37,951
Total liabilities	-	43,185	43,185
Deferred inflows - leases	-	6,443	6,443
Net investment in capital assets	13,326	424	13,750
Unrestricted net position	201,999	(266)	201,733
Total net position	215,325	158	215,483

	As Previously Reported	Effect of Adoption of Statement No. 87	As Restated
Statement of Revenues, Expenses and Changes in Net Position			
Occupancy and utilities	$ 10,592	$ (6,754)	$ 3,838
Depreciation and amortization	3,122	4,627	7,749
Other nonoperating activities, net	13,454	1,968	15,422
Increase in net position	27,168	(159)	27,009

	As Previously Reported	Effect of Adoption of Statement No. 87	As Restated
Statement of Cash Flows			
Payments to vendors for supplies and services	$ (62,576)	$ 6,754	$ (55,822)
Payments lease liabilities	-	(5,091)	(5,091)
Cash paid for interest	(300)	(1,703)	(2,003)
Capital and related financing activities	(300)	(6,794)	(7,094)

(u) Newly Issued Accounting Pronouncements

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*

(IBOR). This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The Statement is effective for periods beginning after December 31, 2021 (FY2023).

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement addresses P3s and APAs and amends current guidance in GASB 60, Accounting and Financial Reporting for Service Concession Arrangements. In general, the Statement applies the right-of-use model set forth in GASB 87 to P3 arrangements and provides accounting and disclosure guidance for both transferors and operators of governmental assets. The Statement is effective for periods beginning after June 15, 2022 (FY2023).

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement requires recognition of a right-to-use subscription asset, initially measured as the sum of the initial subscription liability amount, payments made to the vendor before commencement of the subscription term, and capitalizable implementation costs. The subscription asset is then amortized over the subscription term. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (FY2023).

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

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

In June 2022, the GASB issued Statement No. 101, Compensated Absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The Statement is effective for fiscal years beginning after December 15, 2023 (FY2025).

OSUP management is currently assessing the impact that implementation of GASB Statements No. 93, 94, 96, 99, 100 and 101 will have on the OSUP's financial statements.

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(2) COVID-19 and Cares Act Assistance

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

(a) Health Care Provider Relief Funds

The CARES Act provided $100 billion to establish a Provider Relief Fund for hospitals and other healthcare providers. These funds are to be used to prevent, prepare for, and respond to coronavirus, and further states these payments shall reimburse recipients only for healthcare related expenses or lost revenues that are attributable to coronavirus. OSUP received $31.6 million in Provider Relief Fund grants, with $11.7 million recognized as revenue, recorded in nonoperating revenue in the Statements of Revenue, Expenses, and Changes in Net Position and $19.9 million recorded as deferred revenue in other current liabilities in the Statements of Net Position at June 30, 2022. The receipt of these funds is considered a voluntary nonexchange transaction. Provider Relief Funds were not received during the year ended June 30, 2021.

(b) Medicare Advance Payment Program

The CARES Act expanded the Medicare Accelerated and Advance Payment Program. An accelerated or advance payment is intended to provide necessary funds when there is a disruption in claims submission and/or claims processing. These expedited payments can also be offered in circumstances such as national emergencies or natural disasters to accelerate cash flow to the impacted healthcare providers and suppliers. OSUP received advance payments under this program totaling $12.6 million during the year ended June 30, 2020. As of June 30, 2022, Medicare has recouped the entire $12.6 million of the advance payments. The advance payments outstanding at June 30, 2021 of $10.2 million were reported as current liabilities in the Statement of Net Position.

(3) Cash and Cash Equivalents and Investments

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

OSUP had no long-term investments at June 30, 2022 or June 30, 2021.

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

		Short-term investments
Cash equivalents	$	20,162
Equity mutual funds		29,475
Bond mutual funds		31,799
Investment in partnership		480
	$	81,916

There were no investments held at June 30, 2021.

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

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

Additional Risk Disclosures for Investments

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

(a) Interest-rate risk

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

(b) Custodial credit risk

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

(c) Credit risk

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

(d) Concentration of credit risk

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

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

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

OSUP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable as of June 30, 2022 and 2021 consist of the following (in thousands):

		2022	2021
Gross accounts receivable - patient care	$	144,049	144,054
Allowance for contractual adjustments		(85,600)	(84,519)
Allowance for bad debt		(9,591)	(8,700)
Total	$	48,858	50,835

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, 2022 and 2021 are as follows:

		2022	2021
Medicare	$	24 %	24 %
Medicaid		15	15
Commercial/other third party payors		44	45
Patient		17	16
	$	100 %	100 %

(Continued)

(5) Capital Assets

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

		Beginning balance	Additions	Retirements/ reductions	Ending balance
Capital assets not being depreciated:					
Land	$	2,090	—	—	2,090
Total non-depreciable capital assets		2,090	—	—	2,090
Capital assets being depreciated:					
Leasehold improvements		9,293	—	—	9,293
Buildings		18,553	2	—	18,555
Equipment		21,617	4,690	33	26,274
Total		49,463	4,692	33	54,122
Less accumulated depreciation					
Leasehold improvements		(4,046)	(774)	—	(4,820)
Buildings		(8,755)	(456)	—	(9,211)
Equipment		(13,999)	(2,263)	24	(16,238)
Total		(26,800)	(3,493)	24	(30,269)
Total depreciable capital assets, net		22,663	1,199	9	23,853
Lease assets, net		43,609	28,858	—	72,467
Capital assets, net	$	68,362	30,057	9	98,410

Depreciation expense for the year ended June 30, 2022 was $3.5 million.

The composition of capital assets as of June 30, 2021 is as follows (in thousands):

		Beginning balance	Additions	Retirements/ reductions	Ending balance
Capital assets not being depreciated:					
Land	$	2,090	—	—	2,090
Construction in progress		359	—	359	—
Total non-depreciable capital assets		2,449	—	359	2,090
Capital assets being depreciated:					
Leasehold improvements		9,280	22	9	9,293
Buildings		18,172	381	—	18,553
Equipment		20,300	2,414	1,097	21,617
Total		47,752	2,817	1,106	49,463
Less accumulated depreciation					
Leasehold improvements		(2,176)	(1,870)	—	(4,046)
Buildings		(8,304)	(451)	—	(8,755)
Equipment		(14,145)	(802)	948	(13,999)
Total		(24,625)	(3,123)	948	(26,800)
Total depreciable capital assets, net		23,127	(306)	158	22,663
Lease assets, net		32,592	11,017	—	43,609
Capital assets, net	$	58,168	10,711	517	68,362

Depreciation expense for the year ended June 30, 2021 was $3.1 million.

Additions to capital assets, net of retirements and reductions, for the year ended June 30, 2021 include $359 thousand of transfers from construction in progress.

(6) Leases

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

		Beginning balance	Additions	Retirements	Ending balance
Lease assets					
Real estate	$	48,236	35,301	229	83,308
Less accumulated amortization:					
Real estate		(4,627)	(6,443)	(229)	(10,841)
Total lease assets, net	$	43,609	28,858	—	72,467

The composition of lease assets as of June 30, 2021 is as follows (in thousands):

		Beginning balance	Additions	Retirements	Ending balance
Lease assets:					
Real estate	$	32,592	15,644	—	48,236
Less accumulated amortization:					
Real estate		—	(4,627)		(4,627)
Total lease assets, net	$	32,592	11,017	—	43,609

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

		Beginning balance	Additions	Reductions	Ending balance	Current portion
Lease liability	$	43,185	35,301	4,981	73,505	6,505

The composition of lease liabilities as of June 30, 2021 is as follows (in thousands):

		Beginning balance	Additions	Reductions	Ending balance	Current portion
Lease liability	$	32,592	15,684	5,091	43,185	5,234

The following is a schedule by year of future minimum lease payments (in thousands) as of June 30, 2022, that have initial or remaining lease terms in excess of one year.

Year ended June 30:		Principal	Interest	Total
2023	$	6,505	3,046	9,551
2024		5,642	2,803	8,445
2025		5,594	2,570	8,164
2026		5,895	2,327	8,222
2027		4,531	2,105	6,636
2028-2032		17,582	8,015	25,597
2033-2037		16,884	4,264	21,148
2038-2042		10,872	917	11,789
Total	$	73,505	26,047	99,552

OSUP is lessor for various noncancellable leases of real estate. Lease-related revenues recognized for the years ended June 30, 2022 and 2021 are as follows (in thousands):

		2022	2021
Lease revenue	$	1,024	1,030
Interest revenue		213	255
	$	1,237	1,285

(7) Note Payable — Long Term Debt

(a) Debt

Changes in long-term obligations as of June 30, 2022 and 2021 are as follows (in thousands):

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

		Beginning balance	Additions	Reductions	Ending balance	Current portion
June 30, 2021:						
Series 2013 Health Care Facilities Revenue Bond	$	11,340	—	586	10,754	601
Term loan		837	—	279	558	284
Other obligations		—	153	38	115	51
	$	12,177	153	903	11,427	936

There were no new borrowings in 2022 and 2021 and OSUP paid cash of $1.4 million and $903 thousand related to repayments in fiscal year 2022 and 2021, respectively.

The Series 2013 healthcare facilities revenue bonds, which were issued on May 1, 2013 for $15.4 million, are subject to certain restrictive and financial covenants, requiring minimum debt service coverage ratios of 1.25 to 1.50 quarterly and minimum tangible net worth semi-annually, as defined by the agreement, of $48 million. OSUP was in compliance with all covenants for all applicable quarters during 2022 and 2021.

The Series 2013 healthcare facilities revenue bond is to be paid monthly with payments of principal and interest to be made until July 1, 2035. The interest rate increased to 2.556% per annum effective January 1, 2018. The interest rate increased as the terms of the bonds state that in the event of a decrease in the corporate tax rate, the interest rate on the bonds shall be increased to the Adjusted Tax Exempt Rate. The annual interest expense was $255 thousand for fiscal year 2022 and $283 thousand for fiscal year 2021.

On May 1, 2013, at the same time the 2013 healthcare facilities revenue bonds were issued, a term loan was issued in the amount of $2.6 million. Included in the term loan is the taxable portion of OBGYN's build out for their Mill Run location. Monthly payments of principal and fixed interest on the term loan are to be made until May 1, 2023. An interest rate of 2.3% per annum was used to calculate payments. The annual interest expense was $10 thousand for fiscal year 2022 and $17 thousand for fiscal year 2021.

Debt service requirements on long-term debt as of June 30, 2022, are as follows (in thousands):

		Bonds		Term and other loan		
		Principal	Interest	Principal	Interest	Total
2023	$	622	239	325	4	1,190
2024		646	223	47	—	916
2025		662	206	—	—	868
2026		680	189	—	—	869
2027–2031		3,671	673	—	—	4,344
2032–2036		3,355	181	—	—	3,536
	$	9,636	1,711	372	4	11,723

(8) Other Current Liabilities

Other liabilities include provider relief funds that have been deferred until eligibility criteria has been verified, amounts due to others (patient credit balances prior to refunding), and unearned revenue (prepayments for services). Other current liability activity for the years ended June 30, 2022 and 2021, respectively, is as follows (in thousands):

		Beginning balance	Additions	Reductions	Ending balance
2022:					
Unearned revenue	$	34	44	—	78
Deferred provider relief funds		—	19,879	—	19,879
Due to others		11,767	31,791	26,056	17,502
	$	11,801	51,714	26,056	37,459
2021:					
Unearned revenue	$	—	62	28	34
Due to others		9,153	34,062	31,448	11,767
	$	9,153	34,124	31,476	11,801

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

OSUP is a component unit of the University. Due to this relationship with the University, related-party transactions are pervasive throughout the statements of revenue, expenses and changes in net position. All amounts are settled after period end through payments to or from the affiliated entity. A summary of the nature of these transactions and related due to/from affiliate balances reported in the statements of net position as of June 30, 2022 and 2021, are as follows (in thousands):

Due From:

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

The Ohio State University and The Ohio State University College of Medicine and Public Health ("COMPH") — OSUP provides staffing, coding support, facility space and medical directorships to the COMPH. OSUP provides healthcare services to University employees enrolled in University sponsored health insurance programs. OSUP collected $39.1 million for these healthcare services in fiscal year 2022 and $34.7 million in fiscal year 2021, which is reflected in net patient care revenue.

Balances due from each affiliate as of June 30, 2022 and 2021 are as follows (in thousands):

		2022	2021
Due from the Health System	$	19,601	42,669
Due from COMPH		44,191	27,845
	$	63,792	70,514

Due to:

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

COMPH — Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund ("Academic Enrichment"), and Strategic Initiative Fund. Academic Enrichment is paid to the Dean's office for support of the academic, research, and clinical missions of the COM. The Strategic Initiative Fund is comprised of various funds established by the COM to support resident education. These funds are paid periodically during the year. OSUP paid $11.8 million and $7.8 million in contributions to OSU departments to fund endowments and support research funds during fiscal years 2022 and 2021, respectively. Dean's tax and strategic initiative expenses as of June 30, 2022 and 2021 are $20.1 million and $18.3 million, respectively. OSUP has leases for various facility spaces with the University. The amount paid to the University for leases during the fiscal years ended June 30, 2022 and 2021 was $4.6 million and $5.4 million respectively.

Balances due to each affiliate as of June 30, 2022 and 2021 are as follows (in thousands):

		2022	2021
Due to the Health System	$	23,124	48,990
Due to COMPH		84,647	83,286
	$	107,771	132,276

(10) Retirement and Health Plans

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

$6.6 million for the years ended June 30, 2022 and 2021, respectively. Employee contributions were $3.5 million and $2.7 million for the years ended June 30, 2022 and 2021, respectively.

OSUP participates in a health insurance plan covering substantially all non-physician employees. All physician employees and certain non-physician employees receive benefits through the health care plan sponsored by the University. Covered services under both plans include medical, dental, and vision benefits, life insurance, and long term disability. Health Insurance premium payments to the University for the years ended June 30, 2022 and 2021 were $17.3 million and $13.4 million, respectively. There were no outstanding premiums due at the end of both years.

(11) Commitments and Contingencies

(a) Litigation

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

(b) Health Care Legislation and Regulation

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

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

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

(12) Subsequent Events

Effective July 1, 2022, several departments were transitioned from the COM to OSUP to create a more integrated and simplified structure and governance aligned with the University. The primary departments transitioned to OSUP as part of the integrated practice plan include Anesthesiology, Orthopedics and Sports Medicine, Maternal Fetal Medicine, Neurosurgery, and Family Medicine. The integrated practice will enhance quality, outcomes, and access metrics and maximize the ability to achieve Wexner Medical Center's ambition and strategic goals.

The integration of the new departments is not expected to impact the change in net assets in fiscal year 2023. Revenue and support are expected to increase by approximately $250 million, driven primarily by anticipated increases in net patient revenue of $150 million in fiscal year 2023. Expenses are budgeted to increase by approximately $250 million, driven primarily by anticipated increases in provider expenses of $170 million.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 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, 2022,and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2022, which included an emphasis of matter paragraph concerning the scope of the OSUP's financial statement presentation as discussed in Note 1 of the financial statements.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

KPMG LLP

Columbus, Ohio
November 17, 2022

OHIO AUDITOR OF STATE
KEITH FABER

THE OHIO STATE UNIVERSITY PHYSICIANS, INC.

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 12/29/2022

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