

Ohio State University Physicians, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended June 30, 2008 and 2007, Supplemental
Consolidating Schedules as of and for the Year Ended
June 30, 2008, and Independent Auditors' Report



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Ohio State University Physicians, Inc. and subsidiaries, Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 17, 2008

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OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Ohio State University Physicians, Inc. (an Ohio not-for-profit corporation) and subsidiaries (OSUP) as of June 30, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of OSUP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OSUP as of June 30, 2008 and 2007, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating schedules listed on pages 19–22 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of Ohio State University Physicians, Inc. and its subsidiaries' management. Such schedules have been subjected to the auditing procedures applied by us in our audits of the consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 2008, on our consideration of OSUP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

November 25, 2008

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$23,094,910	\$23,186,348
Accounts receivable — patient care — net of allowance	30,537,555	26,762,781
Accounts receivable other — net of allowance	1,857,916	144,735
Due from affiliates	6,053,369	5,275,295
Inventories	855,511	865,852
Prepaid expenses	715,653	844,439
Notes receivable	53,286	22,087
Total current assets	<u>63,168,200</u>	<u>57,101,537</u>
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation (\$8,648,573 in 2008 and \$7,726,274 in 2007)	10,402,530	9,031,348
Other assets	<u>3,891,342</u>	<u>3,887,003</u>
Total noncurrent assets	<u>14,293,872</u>	<u>12,918,351</u>
TOTAL	<u>\$77,462,072</u>	<u>\$70,019,888</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,056,800	\$ 3,220,176
Accrued expenses	461,912	1,462,752
Accrued salaries and wages	10,435,315	11,857,520
Due to affiliates — current portion	4,646,335	6,489,207
Notes payable and capital leases — current portion	2,494,505	5,233,551
Other postretirement benefits obligation	1,613,130	1,460,130
Other current liabilities	<u>4,827,652</u>	<u>2,179,457</u>
Total current liabilities	<u>27,535,649</u>	<u>31,902,793</u>
LONG-TERM LIABILITIES:		
Notes payable and capital leases — less current portion	3,040,970	2,445,477
Due to affiliates and other — long-term	5,988,362	4,756,781
Other long-term liabilities	<u>1,900,838</u>	<u>1,703,744</u>
Total long-term liabilities	<u>10,930,170</u>	<u>8,906,002</u>
NET ASSETS — Unrestricted	<u>38,996,253</u>	<u>29,211,093</u>
TOTAL	<u>\$77,462,072</u>	<u>\$70,019,888</u>

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUE:		
Patient care revenue	\$ 482,770,145	\$ 451,413,578
Less — contractual adjustments	<u>(272,930,368)</u>	<u>(253,341,957)</u>
Net patient revenue	209,839,777	198,071,621
Other revenue	<u>53,278,411</u>	<u>46,780,905</u>
Total operating revenue	<u>263,118,188</u>	<u>244,852,526</u>
OPERATING EXPENSES:		
Salaries & benefits:		
Employee salaries — OSUP	24,026,320	22,064,569
Employee salaries — OSU	16,150,552	14,324,165
Employee benefits — OSUP	7,869,931	6,721,238
Employee benefits — OSU	<u>5,007,583</u>	<u>4,589,235</u>
Total salaries & benefits	<u>53,054,386</u>	<u>47,699,207</u>
Supplies & pharmaceuticals:		
Medical supplies	4,458,221	2,572,562
Drugs and pharmaceuticals	17,047,196	15,532,968
Office supplies	<u>2,660,020</u>	<u>2,656,289</u>
Total supplies & pharmaceuticals	<u>24,165,437</u>	<u>20,761,819</u>
Services:		
Malpractice	8,652,579	9,806,074
General and other insurance	116,595	129,022
Purchased services and management fees	5,404,522	5,292,177
Other	<u>6,915,483</u>	<u>8,170,260</u>
Total services	<u>21,089,179</u>	<u>23,397,533</u>
Occupancy & utilities	5,616,260	4,263,202
Depreciation	1,830,502	1,665,025
Bad debt	22,680,726	20,955,764
Interest	728,229	790,483
Taxes	<u>292</u>	<u>11,693</u>
Total other expenses	<u>30,856,009</u>	<u>27,686,167</u>
Total expense prior to general and administrative	<u>129,165,011</u>	<u>119,544,726</u>
EXCESS REVENUE OVER EXPENSE PRIOR TO GENERAL & ADMINISTRATIVE	<u>133,953,177</u>	<u>125,307,800</u>

(Continued)

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
GENERAL & ADMINISTRATIVE EXPENSES — Dean's tax and strategic initiative	\$ 5,594,084	\$ 6,491,743
EXCESS REVENUE OVER EXPENSE PRIOR TO PROVIDER EXPENSE	<u>128,359,093</u>	<u>118,816,057</u>
PROVIDER EXPENSES:		
Salaries & benefits:		
Provider salaries — OSUP	82,149,061	76,852,880
Provider salaries — OSU	17,122,576	14,376,224
Provider benefits — OSUP	13,289,693	12,091,019
Provider benefits — OSU	<u>4,493,923</u>	<u>3,462,067</u>
Total provider salaries & benefits	117,055,253	106,782,190
Other provider related expenses	<u>3,696,280</u>	<u>2,603,630</u>
Total provider related expenses	<u>120,751,533</u>	<u>109,385,820</u>
EXCESS REVENUE OVER EXPENSE AFTER PROVIDER EXPENSE	<u>7,607,560</u>	<u>9,430,237</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income	506,178	593,473
Non-operating income	771,264	733,710
Income from investments	586,049	921,114
Gain (loss) on sale of assets	245,986	(18,584)
Non-operating expense	68,124	(2,451,366)
Extraordinary items	<u> </u>	<u>489,973</u>
Total non-operating income (expense)	<u>2,177,601</u>	<u>268,320</u>
INCREASE IN NET ASSETS	9,785,161	9,698,557
NET ASSETS — Beginning of year	<u>29,211,092</u>	<u>19,512,536</u>
NET ASSETS — End of year	<u>\$ 38,996,253</u>	<u>\$ 29,211,093</u>

See notes to consolidated financial statements.

(Concluded)

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 9,785,161	\$ 9,698,557
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,830,502	1,665,025
Gain (loss) on sale of assets	(245,986)	18,584
Forgiveness of payable to affiliate		(489,973)
(Increase) decrease in:		
Accounts receivable — patient care	(3,774,774)	(2,624,082)
Accounts receivable — other current	(1,713,181)	105,976
Due from affiliates	(778,074)	(2,301,632)
Note receivable — short term	(31,199)	5,121
Inventories	10,341	(379,007)
Prepaid expenses	128,786	(14,814)
Other assets	(4,339)	(794,748)
Accounts payable	(163,376)	(500,207)
Due to affiliates	(611,291)	(834,518)
Accrued salaries and wages	(1,422,205)	4,703,596
Other post-retirement benefits obligation	153,000	176,057
Accrued expenses	(1,000,840)	(666,515)
Other liabilities	2,845,289	(38,875)
	<u>5,007,814</u>	<u>7,728,545</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant, furniture, and equipment	(3,917,121)	(1,989,962)
Proceeds from sale of property, plant, furniture, equipment	961,422	
Contribution to investment in other LLC		(2,450,000)
	<u>(2,955,699)</u>	<u>(4,439,962)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	341,706	12,227,981
Payments on notes payable	(2,485,259)	(11,195,475)
	<u>(2,143,553)</u>	<u>1,032,506</u>
Net cash (used in) provided by financing activities		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(91,438)	4,321,089
CASH AND CASH EQUIVALENTS — Beginning of year	<u>23,186,348</u>	<u>18,865,259</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$23,094,910</u>	<u>\$23,186,348</u>
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION — Cash paid for interest	<u>\$ 728,229</u>	<u>\$ 762,531</u>

See notes to consolidated financial statements.

OHIO STATE UNIVERSITY PHYSICIANS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

OSUP is the single member of 17 limited liability companies (LLCs). As of June 30, 2008, only 15 of the LLCs are active and included in consolidated financial statements and the accompanying supplemental consolidating schedules. On July 1, 2006, the division of Urology split from OSU Surgery, LLC to become OSU Urology, LLC. Two of the LLCs (Anesthesiology and Orthopedics) have been created but had no business activity through June 30, 2008.

The table outlines the reporting of OSUP’s financial statements as of June 30, 2008 and 2007, is as follows:

Practice Plan	2008	2007
Family Medicine Foundation, LLC (FM)	X	X
OSU Anesthesiology, LLC (“Anesthesiology”)		
OSU Children’s Pediatrics, LLC (“Children’s Pediatrics”)	X	X
OSU Emergency Medicine, LLC (EM)	X	X
OSU Eye Physicians and Surgeons, LLC (“Eye”)	X	X
OSU GYN and OB Consultants, LLC (OBGYN)	X	X
OSU Internal Medicine, LLC (IM)	X	X
OSU Neuroscience Center, LLC (“Neurology”)	X	X
OSU Orthopedics, LLC (“Orthopedics”)		
OSU Otolaryngology-Head and Neck Surgery, LLC (“Otolaryngology”)	X	X
OSU Pathology, LLC (“Pathology”)	X	X
OSU Physical Medicine and Rehabilitation (“Phys Med”)	X	X
OSU Psychiatry, LLC (“Psychiatry”)	X	X
OSU Radiation Medicine, LLC (“Radiation Medicine”)	X	X
OSU Radiology, LLC (“Radiology”)	X	X
OSU Surgery, LLC (“Surgery”)	X	X
OSU Urology, LLC (“Urology”)	X	X

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

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

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

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

OSUP utilizes the allowance method for providing for the possibility of uncollectible accounts. The allowance is provided based on management's estimate of the collectibility of the accounts receivable as of June 30, 2008 and 2007. The estimates take into consideration historical trends, payment history, and current economic conditions. Actual results could vary from the estimate. Accounts are charged against the allowance when management deems them to be uncollectible. Interest is not charged by OSUP on past due accounts.

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

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

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

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

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

OSUP maintains professional and general liability insurance, underwritten by the University Self-Insurance Program (USIP). At June 30, 2008, management believes asserted and unasserted claims and assessments will not exceed the limits of insurance coverage. Coverage limits are \$5 million per incident with no aggregate layer. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at June 30, 2008 and 2007.

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

Temporarily Restricted Net Assets — Temporarily restricted net assets are cash and other assets whose use by OSUP has been limited by donors. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. As of June 30, 2008 and 2007, there are no temporarily restricted net assets.

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

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

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

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

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115*, to permit all entities to choose to elect to measure eligible financial instruments at fair value. FASB Statement No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of FASB Statement No. 157. An entity is prohibited from retrospectively applying FASB Statement No. 159, unless it chooses early adoption. OSUP is currently evaluating the impact of FASB Statement No. 159 on its consolidated financial statements.

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes*, to address the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in SFAS No. 109, *Accounting for Income Taxes*, on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2007. OSUP is evaluating the impact that FIN 48 will have on its consolidated financial statements.

2. CASH AND CASH EQUIVALENTS

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

3. PATIENT ACCOUNTS RECEIVABLE AND CONCENTRATIONS OF CREDIT RISK

OSUP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable as of June 30, 2008 and 2007, consists of the following:

	2008	2007
Gross patient accounts receivable	\$ 82,107,194	\$ 69,673,488
Allowances for contractual and administrative adjustments and doubtful accounts	<u>(51,569,639)</u>	<u>(42,910,707)</u>
Total	<u>\$ 30,537,555</u>	<u>\$ 26,762,781</u>

The mix of receivables from patients and third-party payors as of June 30, 2008 and 2007, is as follows:

	2008	2007
Medicare	16 %	27 %
Medicaid	10	10
Commercial/other third-party payors	53	57
Patient	<u>21</u>	<u>6</u>
Total	<u>100 %</u>	<u>100 %</u>

4. PROPERTY, PLANT, FURNITURES, AND EQUIPMENT

The composition of property, plant, furnitures, and equipment as of June 30, 2008 and 2007, is as follows:

	2008	2007
Land and land improvements	\$ 2,232,837	\$ 1,962,732
Buildings	6,262,774	5,369,487
Equipment	8,361,026	7,850,878
Furniture and fixtures	1,675,540	1,475,510
CIP	<u>518,926</u>	<u>99,015</u>
Total property, plant, furnitures, and equipment	19,051,103	16,757,622
Allowances for depreciation and amortization	<u>(8,648,573)</u>	<u>(7,726,274)</u>
Total	<u>\$10,402,530</u>	<u>\$ 9,031,348</u>

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

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

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

The agreements require monthly interest payments at the bank's prime rate less 0.75% (4.25% at June 30, 2008. This agreement was secured by accounts receivable, inventory, deposits, equipment (not including OSU Eye Physicians), and is subject to certain restrictive and financial covenants. At June 30, 2008, \$34,110 was outstanding on this line of credit. OSUP had another line of credit available at June 30, 2007 which required monthly interest payments at the bank's prime rate less 0.75%(7.50% at June 30, 2007) which had an outstanding balance of \$5,000 at June 30, 2007. This line of credit expired in November 2007.

A summary of long-term debt (excluding capital lease obligations) at June 30, 2008 and 2007, are as follows:

	2008	2007
Mortgage note payable — due in monthly installments of principal and interest (5.4% fixed rate), due in August 2008	\$ 2,032,917	\$ 2,237,917
Notes payable — due in monthly installments of principal and interest (LIBOR plus 1.85%, 4.31% as of 6/30/08, 7.17% as of 6/30/07) due in Feb. 2012	1,960,600	2,118,700
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate, 4.75% as of 6/30/08, 8.0% as of 6/30/07) due in Nov. 2027	1,220,169	1,246,957
Notes payable — due in monthly installments of principal, due in 2009	10,906	
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate, 4.75% as of 6/30/08, 8.0% as of 6/30/07) due in Jan. 2009	27,900	68,200
Line of credit — due in monthly installments of interest (prime less 0.75%, 4.25% as of 6/30/08, 8.0% as of 6/30/07) due in June 2009	34,110	5,000
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate, 4.75% as of 6/30/08, 8.0% as of 6/30/07) due in Nov. 2007		700,473
Notes payable — due in monthly installments of principal and interest (4.53% fixed rate), due in Nov. 2010		309,886
Notes payable — due in monthly installments of principal and interest (prime less 0.25% rate, 4.75% as of 6/30/08, 8.0% as of 6/30/07) due in Nov. 2007		<u>76,813</u>
Total debt outstanding	5,286,602	6,763,946
Less current portion	<u>(2,330,171)</u>	<u>(4,771,451)</u>
Total	<u>\$ 2,956,431</u>	<u>\$ 1,992,495</u>

The agreements were secured by accounts receivable, equipment, and fixtures and were subject to certain restrictive and financial covenants.

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

Years Ending June 30	Long-Term Debt
2009	\$2,330,171
2010	240,636
2011	257,513
2012	1,479,572
2013 and forward	<u>978,710</u>
Total	<u>\$5,286,602</u>

The mortgage note payable of \$2.03M held by Internal Medicine was due in a balloon payment November 2008. However, OSUP is in process of refinancing the note with Fifth Third Bank. Until the refinancing agreement is in place, Internal Medicine is required to continue making monthly payments of \$12,800.

6. CAPITAL LEASE OBLIGATIONS

OSUP has \$248,873 in capital lease obligations that have varying maturity dates through 2011 and carry implicit interest rates ranging from 4.75% to 12.1%. Lease arrangements are being used to provide partial financing for certain movable equipment. Capital asset balances, net of depreciation, as of June 30, 2008 and 2007, that are financed under capital leases are \$441,515 and \$921,975, respectively.

The scheduled maturities of these leases as of June 30, 2008, are as follows:

Years Ending June 30	Capital Lease Obligations
2009	\$ 180,664
2010	66,723
2011	<u>17,816</u>
	265,203
Less amount representing interest under capital leases obligations	<u>(16,330)</u>
Total	<u>\$ 248,873</u>

7. RELATED-PARTY TRANSACTIONS AND INTERCOMPANY RECEIVABLES AND PAYABLES

OSUP is a supporting organization of the University.

Due From:

The Ohio State University Health System (the "Health System") — OSUP provides staffing, coding support, and medical directorships at The Ohio State University Hospital and The Ohio State University Hospital East. Also, the Health System has allocated costs for their share of OSUP administration and information services overhead and billed for physician billing services provided to Health System physicians by OSUP's billing services. The balances due from the Health System as of June 30, 2008, are as follows:

Practice Plan	Due From Health System
OSUP — Corporate	\$ 115,981
Family Medicine Foundation, LLC	266,868
OSU Emergency Medicine, LLC	75,589
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	44,620
OSU Internal Medicine, LLC	389,558
OSU Neuroscience Center, LLC	145,154
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	1,903,521
OSU Physical Medicine and Rehabilitation, LLC	
OSU Psychiatry, LLC	229,299
OSU Radiation Medicine, LLC	
OSU Radiology, LLC	50,325
OSU Surgery, LLC	<u>121,702</u>
Total	<u>\$3,342,617</u>

The Ohio State University and The Ohio State University College of Medicine and Public Health (COMPH) — OSUP provides staffing, coding support, and medical directorships at The Ohio State University. The balances due from the COMPH as of June 30, 2008, are as follows:

Practice Plan	Due From COMPH
OSUP — Corporate	\$ 18,436
Family Medicine Foundation, LLC	26,903
OSU Emergency Medicine, LLC	65,846
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	904
OSU Internal Medicine, LLC	1,271,861
OSU Neuroscience Center, LLC	1,986
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	1,670
OSU Psychiatry, LLC	
OSU Radiation Medicine, LLC	653,952
OSU Radiology, LLC	185,168
OSU Urology, LLC	278,774
OSU Surgery, LLC	<u>205,252</u>
Total	<u>\$2,710,752</u>

Due To:

Health System — OSUP pays premiums for the USIF (malpractice) and health insurance to the University Office of the Treasurer. The balances due to the Health System as of June 30, 2008, are as follows:

Practice Plan	Due to Health System
OSUP — Corporate	\$ 433,026
Family Medicine Foundation, LLC	
OSU Emergency Medicine, LLC	
OSU Eye Physicians & Surgeons, LLC	
OSU GYN and OB Consultants, LLC	
OSU Internal Medicine, LLC	4,511
OSU Neuroscience Center, LLC	125,174
OSU Otolaryngology-Head and Neck Surgery, LLC	
OSU Pathology, LLC	
OSU Physical Medicine and Rehabilitation, LLC	153,314
OSU Psychiatry, LLC	83,264
OSU Radiation Medicine, LLC	
OSU Radiology, LLC	
OSU Urology, LLC	31,570
OSU Surgery, LLC	<u></u>
Total	<u>\$ 830,859</u>

COMPH — Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund (“Academic Enrichment”), and Strategic Initiative Fund. Academic Enrichment covers the salaries, benefits, and other operating expenses of the Department of Emergency Medicine. Academic Enrichment is paid to the Dean’s office for support of the academic, research, and clinical missions of the College. The Strategic Initiative fund is comprised of various funds established by the College to support resident education. All of these funds are paid on a quarterly basis.

Practice Plan	Due to COMPH
OSUP — Corporate	\$ 28,070
Family Medicine Foundation, LLC	54,195
OSU Emergency Medicine, LLC	50,615
OSU Eye Physicians & Surgeons, LLC	1,324,922
OSU GYN and OB Consultants, LLC	803,271
OSU Internal Medicine, LLC	1,044,842
OSU Neuroscience Center, LLC	226,297
OSU Otolaryngology-Head and Neck Surgery, LLC	1,277,260
OSU Pathology, LLC	270,508
OSU Physical Medicine and Rehabilitation, LLC	292,070
OSU Psychiatry, LLC	241,599
OSU Radiation Medicine, LLC	69,097
OSU Radiology, LLC	480,861
OSU Surgery, LLC	3,491,641
OSU Urology, LLC	148,589
	<hr/>
Total	<u>\$9,803,838</u>

8. INVESTMENT IN OTHER LIMITED LIABILITY CORPORATIONS (LLC)

In March 2007, OSUP obtained a 40% ownership interest in Fresenius Medical Care-Osuim Kidney Centers, an LLC, by transferring \$2,450,000. At June 30, 2008, the total amount invested is \$2,674,451. Income and distributions of \$569,189 and \$686,000, respectively, was recognized in 2008. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded on the consolidated balance sheets in other assets using the cost method of accounting.

OSUP has a 49% ownership interest in Children’s Hospital and OSU-Children’s Pediatrics, LLC. At June 30, 2008, the total amount invested is \$1,054,880, an increase of \$957 from the June 30, 2007, balance of \$1,053,923. Income of \$957 and \$446,973 was recognized for 2008 and 2007, respectively. OSUP is required to make additional contributions to the LLC to satisfy working capital needs. This investment is recorded on the consolidated balance sheets in other assets using the equity method of accounting.

9. MEDICAL MALPRACTICE CLAIMS

OSUP purchases professional and general liability insurance to cover medical malpractice claims through The Ohio State University. The University has established a trustee self-insurance fund for professional liability claims. The University's estimated liability and the related contributions to the University's self-insurance fund for professional liability claims is based upon an independent actuarial determination as of June 30, 2008. Premiums are assessed to OSUP based on the physician's specialty and the types of surgery performed. Premiums paid for the years ended June 30, 2008 and 2007, were \$9,473,858 and \$10,251,998, respectively.

10. RETIREMENT AND HEALTH PLANS

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) program administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some LLCs make an additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was \$13,828,179 and \$12,772,182 for the years ended June 30, 2008 and 2007, respectively.

Practice Plan	401(a) Contributions	
	2008	2007
OSUP — Corporate	\$ 456,130	\$ 332,150
Family Medicine Foundation, LLC	411,251	396,791
OSU Children's Pediatrics, LLC		
OSU Emergency Medicine, LLC	767,877	905,561
OSU Eye Physicians & Surgeons, LLC	230,437	279,416
OSU GYN and OB Consultants, LLC	981,414	1,108,555
OSU Internal Medicine, LLC	3,441,923	2,966,867
OSU Neuroscience Center, LLC	424,452	357,523
OSU Otolaryngology-Head & Neck Surgery, LLC	590,810	403,733
OSU Pathology, LLC	1,463,567	1,384,412
OSU Physical Medicine and Rehabilitation, LLC	119,819	110,152
OSU Psychiatry, LLC	34,701	32,121
OSU Radiation Medicine, LLC	327,898	340,526
OSU Radiology, LLC	1,519,028	1,445,858
OSU Surgery, LLC	2,760,699	2,492,128
OSU Urology, LLC	298,173	216,389
Total	<u>\$13,828,179</u>	<u>\$12,772,182</u>

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

11. COMMITMENTS AND CONTINGENCIES

Operating Leases — OSUP leases various equipment and facilities under operating leases expiring at various dates through December 2018. Total rental expense in 2008 and 2007 for all operating leases was approximately \$2.9 million and \$1.9 million, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2008, that have initial or remaining lease terms in excess of one year.

Years Ending June 30	
2009	\$ 1,978,271
2010	1,661,284
2011	1,621,597
2012	1,389,929
2013–2019	<u>7,371,528</u>
Total	<u>\$14,022,609</u>

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

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

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

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SUPPLEMENTAL CONSOLIDATING SCHEDULES

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

**CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2008**

ASSETS	OSUP — Corporate	FM	EM	Eye	OB/GYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	E/E	Total
CURRENT ASSETS:																		
Cash and cash equivalents	\$ 3,410,949	\$2,480,113	\$ 2,034,621	\$ 157,521	\$ 661,271	\$ 3,481,116	\$ 92,522	\$ 2,012,247	\$ 3,038,364	\$ -	\$ 743,067	\$ 802,074	\$ 585,784	\$ 1,796,881	\$ 1,794,330	\$ 23,090,860	\$ 4,050	\$ 23,094,910
Accounts receivable — patient:																		
Accounts receivable — patient care gross			6,231,785	2,397,883	7,843,692	21,930,799	2,431,372	3,025,949	7,244,367	1,388,478	676,031	1,337,902	10,136,239	15,294,858	2,167,839	82,107,194		82,107,194
Allowances			(4,486,694)	(1,350,329)	(4,802,178)	(11,611,480)	(1,676,458)	(1,844,671)	(4,836,663)	(713,617)	(482,335)	(831,514)	(6,895,142)	(10,583,385)	(1,455,173)	(51,569,639)		(51,569,639)
Accounts receivable — patient — net			1,745,091	1,047,554	3,041,514	10,319,319	754,914	1,181,278	2,407,704	674,861	193,696	506,388	3,241,097	4,711,473	712,666	30,537,555		30,537,555
Accounts receivable other — current	157,987	3,801	9,060	86,075	54,632	1,041,564	9,156	9,378	206,345	184,010		106	2,911	106,156	858	1,872,039	32,393	1,904,432
Allowance for uncollectible non-patient receivables					(46,516)											(46,516)		(46,516)
Accounts receivable — other — net	157,987	3,801	9,060	86,075	8,116	1,041,564	9,156	9,378	206,345	184,010		106	2,911	106,156	858	1,825,523	32,393	1,857,916
Due from affiliate	419,642	293,771	148,147	5,507	58,990	1,733,981	228,172	8,714	1,914,248	4,377	231,372	654,747	294,590	389,989	279,895	6,666,142	(612,773)	6,053,369
Inventories	6,296				352,900	311,943	80,252	1,038	12,192	103,082				29,573	2,036	855,511		855,511
Prepaid expenses	471,627	(3,527)	14,934		9,334	145,987	13,835	19,662	42,519							715,653		715,653
Notes receivable		10,767														53,286		53,286
Total current assets	4,466,501	2,784,925	3,951,853	1,296,657	4,132,125	17,033,910	1,178,851	3,232,317	7,621,372	966,330	1,168,135	1,963,315	4,124,382	7,034,072	2,789,785	63,744,530	(576,330)	63,168,200
NONCURRENT ASSETS:																		
Property, plant, furniture, and equipment:																		
Property, plant, furniture, and equipment	3,530,483		75,131	2,994,948	689,128	10,478,563	192,879	157,316	411,280	58,834		1,788	31,967	372,814	55,972	19,051,103		19,051,103
Accumulated depreciation	(1,481,912)		(59,360)	(275,776)	(314,751)	(5,919,219)	(53,915)	(51,597)	(186,385)	(40,542)		(1,252)	(28,990)	(233,171)	(1,703)	(8,648,573)		(8,648,573)
Property, plant, furniture, and equipment — net	2,048,571	-	15,771	2,719,172	374,377	4,559,344	138,964	105,719	224,895	18,292		536	2,977	139,643	54,269	10,402,530		10,402,530
Investments and long-term receivables	1,054,880	16,476	40,897	990	30,543	2,791,443	21,100	17,322	30,935	10,337	17,673	8,530	48,703	18,746	4,090,263		(432,643)	3,657,620
Other assets	175,878				17,232				18,800					3,800		233,722		233,722
Total noncurrent assets	3,279,329	16,476	56,668	2,720,162	422,152	7,350,787	160,064	123,041	274,330	28,629	17,673	9,066	51,680	162,189	54,269	14,726,515	(432,643)	14,293,872
TOTAL	\$ 7,745,830	\$2,801,401	\$ 4,008,521	\$ 4,016,819	\$ 4,554,277	\$24,384,697	\$ 1,338,915	\$ 3,355,358	\$ 7,895,702	\$ 994,959	\$1,185,808	\$1,972,381	\$ 4,176,062	\$ 7,196,261	\$ 2,844,054	\$ 78,471,045	\$ (1,008,973)	\$ 77,462,072
LIABILITIES AND NET ASSETS																		
CURRENT LIABILITIES:																		
Accounts payable	\$ 96,650	\$ 4,210	\$ 45,828	\$ 135,681	\$ 873,096	\$ 775,545	\$ 146,134	\$ 150,013	\$ 125,155	\$ 296,241	\$ 16,232	\$ 19,297	\$ 170,978	\$ 162,658	\$ 39,082	\$ 3,056,800	\$ -	\$ 3,056,800
Accrued expenses	6,543	47,964	36,939	14,485	246,317	9,152	28,627	92	1,593,843	38,501	58,110	43,631	144,338	43,631	319,560	461,912		461,912
Accrued salaries and wages	2,700,023	749,478	726,793	146,057	286,714	1,594,573	156,418	689,299	3,071,045	487,820	324,862	350,363	514,389	879,245	10,435,315	10,435,315		10,435,315
Due to affiliates and other — current portion	429,216	55,317	60,575	326,459	161,042	959,834	260,323	50,834	307,045	34,110	73,236	514,389	514,389	951,130	184,612	5,146,694	(500,359)	4,646,335
Notes payable and capital leases — current portion	73,938			55,530		2,292,119		27,900		34,110				10,908		2,494,505		2,494,505
Other postretirement benefits obligation	39,048	97,407	123,634	13,177	568,162	330,335	46,570	15,175	314,134	8,735	2,186	13,639	25,121	15,187	39,635	1,613,130		1,613,130
Other current liabilities	538,873	1,934	66,226	131,697	175,500	2,213,901	92,277	127,348	102,450	83,936	1,317	42,058	533,148	677,352		4,827,652		4,827,652
Total current liabilities	3,884,291	956,310	1,061,995	823,686	2,310,831	8,175,459	730,349	1,060,661	2,442,627	949,363	402,707	526,755	1,387,974	2,740,111	582,889	28,036,008	(500,359)	27,535,649
LONG-TERM LIABILITIES:																		
Notes payable and capital leases — less current portion	670,995			1,164,638		1,876,332	106,884	1,255,963								3,040,970		3,040,970
Due to affiliates and other — long-term	1,045,506			1,009,803	671,364	28,631	106,884	1,255,963								6,421,005	(432,643)	5,988,362
Other long-term liabilities						150,000										1,900,838		1,900,838
Total long-term liabilities	1,716,501	-	-	2,174,441	671,364	2,054,963	106,884	1,255,963	-	-	-	-	705,332	2,585,972	91,393	11,362,813	(432,643)	10,930,170
NET ASSETS — Unrestricted	2,145,038	1,845,091	2,946,526	1,018,692	1,572,082	14,154,275	501,682	1,038,734	5,453,075	45,596	783,101	1,445,626	2,082,756	1,870,178	2,169,772	39,072,224	(75,971)	38,996,253
TOTAL	\$ 7,745,830	\$2,801,401	\$ 4,008,521	\$ 4,016,819	\$ 4,554,277	\$24,384,697	\$ 1,338,915	\$ 3,355,358	\$ 7,895,702	\$ 994,959	\$1,185,808	\$1,972,381	\$ 4,176,062	\$ 7,196,261	\$ 2,844,054	\$ 78,471,045	\$ (1,008,973)	\$ 77,462,072

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2008

	OSUP	FM	EM	Eye	OB/GYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	EJE	Total
REVENUE																		
Patient care revenues:																		
Gross patient care revenue	-	190	\$ 31,599,975	\$18,608,350	\$ 47,608,711	\$138,517,329	\$ 17,266,580	\$ 20,930,868	\$ 43,390,921	\$ 8,762,019	\$ 4,251,038	\$ 7,172,105	\$ 61,904,852	\$ 70,253,687	\$12,503,520	\$ 482,770,145	-	\$ 482,770,145
Less — contractual adjustments	-	(235)	(15,839,898)	(9,753,890)	(26,601,823)	(69,358,568)	(10,136,088)	(11,884,008)	(27,171,338)	(4,989,163)	(2,322,250)	(4,134,060)	(38,356,892)	(44,419,430)	(7,960,725)	(272,930,368)	-	(272,930,368)
Net patient care revenues	-	(45)	15,760,077	8,852,460	21,006,888	69,158,761	7,130,492	9,046,860	16,219,583	3,772,856	1,928,788	3,038,045	23,547,960	25,834,257	4,542,795	209,839,777	-	209,839,777
Other revenue	11,984,867	7,709,249	1,961,803	621,019	2,266,842	7,870,177	1,260,780	869,049	8,779,351	1,096,902	3,685,235	1,164,275	1,652,580	10,967,610	699,602	62,589,341	(9,310,930)	53,278,411
Total operating revenues	11,984,867	7,709,249	17,721,880	9,473,479	23,273,730	77,028,938	8,391,272	9,915,909	24,998,934	4,869,758	5,614,023	4,202,320	25,200,540	36,801,867	5,242,397	272,429,118	(9,310,930)	263,118,188
OPERATING EXPENSES:																		
Salaries and benefits:																		
Employee salaries — OSUP	5,543,938	6,311	117,900	947,949	1,961,340	8,217,765	836,461	1,153,120	1,485,150	499,708	21,516	237,339	552,202	2,573,207	7,240	24,161,146	(134,826)	24,026,320
Employee salaries — OSU	62,139	60,175	416,495	1,011,769	1,649,774	3,312,534	465,785	462,438	4,494,813	171,331	500,564	175,985	516,058	2,569,415	369,358	16,238,633	(88,081)	16,150,552
Employee benefits — OSUP	1,398,530	3,559	36,187	316,030	864,338	2,497,568	281,732	461,311	528,619	179,492	1,952	79,217	245,253	1,011,211	7,904,999	7,904,931	(35,068)	7,869,931
Employee benefits — OSU	19,614	18,977	137,537	328,068	539,645	763,400	156,736	158,361	1,426,820	60,766	173,057	52,407	171,626	906,018	125,613	5,038,645	(31,062)	5,007,583
Total salaries and benefits	7,024,221	89,022	708,119	2,603,816	5,015,097	14,791,267	1,740,714	2,225,230	7,935,402	911,297	697,089	544,948	1,485,139	7,059,851	502,211	53,343,423	(289,037)	53,054,386
Supplies and pharmaceuticals:																		
Medical supplies	-	-	434	111,518	438,207	578,392	94,183	534,961	2,146,494	16,844	4,309	2,589	1,395	532,305	6,832	4,464,154	(5,933)	4,458,221
Drugs and pharmaceuticals	696,249	40	52,433	706,489	7,537,145	6,296,721	1,133,953	55,798	236,938	1,315,445	44,292	10,604	79,371	498,085	39,162	17,050,322	(3,126)	17,047,196
Office supplies	-	-	-	65,983	225,299	476,343	97,572	107,102	-	36,370	-	-	-	-	-	2,665,843	(5,823)	2,660,020
Total supplies and pharmaceuticals	696,249	40	52,867	883,990	8,200,651	7,351,456	1,325,708	697,861	2,383,432	1,368,659	48,601	13,193	80,766	1,030,852	45,994	24,180,319	(14,882)	24,165,437
Services:																		
Malpractice	-	-	498,453	560,173	147,774	2,489,039	360,345	179,012	214,992	126,775	101,700	115,247	559,492	2,598,748	193,201	8,652,579	(48,623)	8,603,956
General and other insurance	121,004	(259)	312	5,788	5,788	6,395	342	(14)	3,715	2,046	312	312	1,157	6,634	580	165,218	(83,163)	155,055
Purchased services and management fees	923,668	162,225	133,758	216,966	511,226	795,472	72,033	167,839	707,996	169,655	460,030	16,259	1,161,330	508,450	80,798	6,087,682	(56,439)	5,401,242
Other	1,446,638	25,176	192,560	305,950	606,820	1,562,754	100,710	264,891	809,968	58,328	65,970	77,244	361,261	1,063,885	29,747	6,971,922	-	6,915,483
Total services	2,491,310	685,595	886,803	676,478	1,632,069	4,864,471	533,430	611,728	1,736,671	356,804	627,700	209,062	2,083,240	4,177,717	304,326	21,877,404	(788,225)	21,089,179
Occupancy and utilities	1,330,939	581	18,882	624,297	620,397	1,640,657	231,710	353,499	249,127	87,385	146,539	8,949	65,040	623,883	59,815	6,061,720	(445,460)	5,616,260
Depreciation	537,297	-	9,403	223,169	86,143	786,609	28,240	30,038	72,535	6,668	159,814	358	6,109	42,685	1,304	1,830,558	(56)	1,830,502
Bad debt	-	-	5,683,190	683,776	891,192	5,356,692	575,284	414,485	1,198,905	140,928	-	-	4,063,388	3,018,316	333,254	22,680,726	-	22,680,726
Interest	550	-	240	162,360	37,673	320,623	5,934	33,301	-	16,016	-	342	-	143,334	7,856	728,229	-	728,229
Taxes	200	-	-	-	92	-	-	92	-	-	-	-	-	-	292	-	292	
Total other expenses	1,868,986	581	5,711,715	1,693,602	1,635,405	8,104,581	841,168	831,415	1,520,567	250,997	306,373	171,151	4,134,537	3,828,218	402,229	31,301,525	(445,516)	30,856,009
Total expense prior to general and administrative	12,080,766	775,238	7,359,504	5,857,886	16,483,222	35,111,775	4,441,020	4,376,234	13,576,072	2,887,757	1,679,763	938,354	7,783,682	16,096,638	1,254,760	130,702,671	(1,537,660)	129,165,011
EXCESS REVENUE OVER EXPENSE PRIOR TO GENERAL AND ADMINISTRATIVE EXPENSE	(95,899)	6,933,966	10,362,376	3,615,593	6,790,508	41,917,163	3,950,252	5,539,675	11,422,862	1,982,001	3,934,260	3,263,966	17,416,858	20,705,229	3,987,637	141,726,447	(7,773,270)	133,953,177
GENERAL AND ADMINISTRATIVE EXPENSES:																		
Allocated overhead (OSUP)																		
Allocated overhead (practice plan)	69,331	111,426	837,404	367,356	628,717	2,114,429	331,094	249,826	486,257	192,847	222,492	84,421	626,695	968,860	108,958	7,400,113	(7,400,113)	7,400,113
Contingency/corporate reserve	-	182,497	893,549	224,626	287,059	585,474	55,661	240,619	478,188	71,989	106,866	66,199	1,577,571	700,797	122,989	5,594,084	-	5,594,084
Dean's tax and strategic initiative	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total general and administrative expenses	69,331	293,923	1,730,953	591,982	915,776	2,699,903	386,755	490,445	964,445	264,836	329,358	150,620	2,204,266	1,669,657	539,665	13,301,915	(7,707,831)	5,594,084
EXCESS REVENUE OVER EXPENSE PRIOR TO PROVIDER EXPENSE	(165,230)	6,640,043	8,631,423	3,023,611	5,874,732	39,217,260	3,563,497	5,049,230	10,458,417	1,717,165	3,604,902	3,113,346	15,212,592	19,035,572	3,447,972	128,424,532	(65,439)	128,359,093

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

	PROVIDER EXPENSES:																	Total
	OSUP	FM	EM	Eye	OB/GYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Psychiatry	Rad Med	Radiology	Surgery	Urology	Aggregated	EJE	
Salaries and benefits:																		
Provider salaries — OSUP	200,000	4,477,317	4,989,949	2,391,860	3,893,774	27,507,292	1,874,609	3,187,555	5,743,465	1,169,876	536,868	2,049,417	10,947,846	11,788,738	1,390,495	82,149,061		82,149,061
Provider salaries — OSU	1,040,661	1,040,661	1,442,333	593,731	503,753	2,736,570	864,674	596,453	1,708,486	362,024	2,159,286	2,111,942	1,522,821	3,025,769	354,073	17,122,576		17,122,576
Provider benefits — OSUP	24,850	510,441	824,898	226,080	743,653	3,513,746	383,647	366,980	1,547,969	128,925	40,532	329,726	1,696,929	2,613,253	338,064	13,289,693		13,289,693
Provider benefits — OSU	—	287,537	388,050	162,246	137,542	648,006	231,107	154,400	460,862	96,747	611,384	70,108	317,033	838,055	90,846	4,493,923		4,493,923
Total provider salaries and benefits	224,850	6,315,956	7,645,230	3,373,917	5,278,722	34,405,614	3,354,037	4,305,388	9,460,782	1,757,572	3,348,070	2,661,193	14,484,629	18,265,815	2,173,478	117,055,253		117,055,253
Other provider related expenses	—	190,503	308,553	84,057	99,207	1,188,999	121,747	142,145	306,354	106,878	4,111	81,728	359,067	668,744	34,187	3,696,280		3,696,280
Total provider related expenses	224,850	6,506,459	7,953,783	3,457,974	5,377,929	35,594,613	3,475,784	4,447,533	9,767,136	1,864,450	3,352,181	2,742,921	14,843,696	18,934,559	2,207,665	120,751,533		120,751,533
EXCESS REVENUE OVER EXPENSE AFTER PROVIDER EXPENSE	(390,080)	133,584	677,640	(434,363)	496,803	3,622,647	87,713	601,697	691,281	(147,285)	252,721	370,425	368,896	101,013	1,240,307	7,672,999	(65,439)	7,607,560
NON-OPERATING INCOME (EXPENSE):																		
Interest income	\$ 38,493	\$ 118,302	\$ 27,223	\$ 197	\$ 64	\$ 66,107	\$ 6,311	\$ 17,153	\$ 124,434	\$ -	\$ 8,656	\$ 16,632	\$ 16,752	\$ 23,968	\$ 41,886	\$ 506,178	\$ -	\$ 506,178
Non-operating income	324,896	1,201	—	342,415	—	176,867	—	200	(63,783)	—	—	—	—	15,904	—	781,796	—	771,264
Income from investments	956	—	—	—	—	569,189	—	—	—	—	—	—	—	—	—	586,049	—	586,049
Gain (loss) on sale of assets	(22,200)	(122,456)	(1,812)	(4,748)	(15,366)	(10,099)	(24,767)	(5,862)	(248,803)	(298)	(2)	(4,699)	(1,637)	537,439	15,940	245,986	—	245,986
Non-operating expense	(546)	—	—	—	—	(5,274)	(38,568)	—	—	—	—	—	(36,821)	—	—	68,124	—	68,124
Extraordinary items	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total non-operating income (expense)	341,599	(2,953)	25,411	642,553	(15,302)	796,790	(57,024)	11,491	(188,152)	(298)	8,654	11,933	(21,706)	577,311	57,826	2,188,133	(10,532)	2,177,601
INCREASE (DECREASE) IN NET ASSETS	(48,481)	130,631	703,051	208,190	481,501	4,419,437	30,689	613,188	503,129	(147,583)	261,375	382,358	347,190	678,324	1,298,133	9,861,132	(75,971)	9,785,161
NET ASSETS — Beginning of year	2,193,519	1,714,460	2,243,475	810,502	1,090,581	9,734,838	470,993	425,546	4,949,946	193,179	521,726	1,063,268	1,735,566	1,191,854	871,639	29,211,092		29,211,092
NET ASSETS — End of year	\$ 2,145,038	\$ 1,845,091	\$ 2,946,526	\$ 1,018,692	\$ 1,572,082	\$ 14,154,275	\$ 501,682	\$ 1,038,734	\$ 5,453,075	\$ 45,596	\$ 783,101	\$ 1,445,626	\$ 2,082,756	\$ 1,870,178	\$ 2,169,772	\$ 39,072,224	\$ (75,971)	\$ 38,996,253

(Continued)

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

To the Audit Committee of
Ohio State University Physicians, Inc.
Columbus, Ohio

We have audited the financial statements of Ohio State University Physicians, Inc. and its subsidiaries (OSUP) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

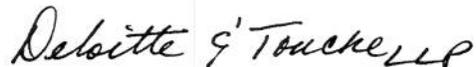
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of OSUP in a separate letter dated November 25, 2008.

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



November 25, 2008

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

SUMMARY OF SIGNIFICANT DEFICIENCY
Ohio State University Physicians, Inc.
Year Ended June 30, 2008

Management's Estimation of Accrued Revenue

The unbilled revenue accrual is an accounting estimate requiring management's judgment based on knowledge and experience about past and current events. The unbilled revenue accrual represents revenue earned on or before fiscal year end, which has not been billed due to the lag period between the performance of services and the billing of services. In order to capture revenue in the appropriate period, OSUP estimated the unbilled revenue at June 30, 2008, based on the actual lag period for the previous quarter. During our audit procedures, we determined the unbilled revenue accrual was understated by approximately \$2.2 million. Management recorded an audit adjustment to correct this understatement. To assess the appropriateness of all balances that are deemed to be significant estimates, management should review the pertinent assumptions used in computing accounting estimates for relevance and accuracy. We identified and previously communicated this significant deficiency in OSUP's internal control over financial reporting during our audit of the financial statements of OSUP for the year ended June 30, 2007. As of the date of this report, we believe this significant deficiency has not yet been remediated by OSUP.

Management's Response

Management recognizes that the best solution is to assure that charges are entered into the system in a more timely manner. Management has reviewed the process surrounding revenue recognition and is proposing holding open the closing of revenue for a longer period of time to account for late charge items at year end. The interim months will utilize a charge lag process to approximate late charges.



Mary Taylor, CPA
Auditor of State

OHIO STATE UNIVERSITY PHYSICIANS, INC.

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2008**