

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

Consolidated Financial Statements as of and  
for the Years Ended June 30, 2017 and 2016,  
Supplemental Consolidating Schedules as of and  
for the Years Ended June 30, 2017 and 2016,  
And Report of Independent Auditors





# Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Ohio State University Physicians, Inc., Franklin County, prepared by PricewaterhouseCoopers LLP, for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

December 4, 2017

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

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## **Report of Independent Auditors**

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

We have audited the consolidated financial statements of Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University, appearing on pages 8 to 28, which comprise the consolidated statements of net position as of June 30, 2017 and 2016, and the related consolidated statements of revenue, expenses, and changes in net position and of cash flows for the years then ended, and related notes to the financial statements, which collectively comprise OSUP's basic consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OSUP at June 30, 2017, and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matters***

*Required Supplemental Information*

The accompanying management's discussion and analysis on pages 3 through 7 are required by accounting principles generally accepted in the United States of America to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Supplemental Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise OSUP's basic consolidated financial statements. The supplemental consolidating schedules on pages 31 and 32 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 on our consideration of OSUP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSUP's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

Columbus, OH  
October 16, 2017

## **Management's Discussion and Analysis for the Years Ended June 30, 2017 and June 30, 2016 (Unaudited)**

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of Ohio State University Physicians, Inc. for the years ended June 30, 2017 and June 30, 2016. We encourage you to read this MD&A section in conjunction with the audited financial statements and the accompanying footnotes and supplemental consolidating schedules appearing in this report.

### **About Ohio State University Physicians**

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

OSUP is the single member of 18 limited liability companies ("LLCs"). As of June 30, 2017, only 16 of the LLCs are active and included in the consolidated financial statements and the accompanying supplemental consolidating schedules. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no operations within the OSUP structure through June 30, 2017. OSU Community Outreach LLC, a limited liability company created during fiscal year 2015, is utilized for community providers that do not wish to be included in the research and teaching missions of the University. This group is a small number of providers that wished to have a clinical relationship with The Ohio State University Wexner Medical Center ("OSUWMC") and OSUP. Additionally we have expanded our billing services for non-University related physician groups which is reported within the OSUP corporate function as presented in the accompanying supplemental consolidating schedules. OSUP is governed by a board of managers who are responsible for oversight of clinical programs, budgets, general administration, and employment of faculty and staff.

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

### **About the Financial Statements**

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

The Consolidated Statement of Net Position is OSUP's balance sheet. It reflects the total assets, liabilities and net position as of June 30, 2017 and June 30, 2016. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as noncurrent. Investment assets are carried at fair value or amortized cost depending on original maturity. Capital assets, which include land, buildings, improvements, and equipment, are shown net of accumulated depreciation.

The Consolidated Statement of Revenues, Expenses and Changes in Net Position is OSUP's income statement. It details how net position has increased (or decreased) during the years ended June 30, 2017 and June 30, 2016. Patient care revenue is shown net of allowances for collectability, depreciation is provided for capital assets, and there are required subtotals for operating income (loss) and non-operating income (expense).

The Consolidated Statement of Cash Flows details how cash has increased (or decreased) during the years ended June 30, 2017 and June 30, 2016. It breaks out the sources and uses of OSUP cash into logical categories such as, operating activities, capital financing activities, and investing activities.

## Management's Discussion and Analysis for the Years Ended June 30, 2017 and June 30, 2016 (Unaudited)

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

### Financial Highlights and Key Trends

OSUP's net position increased \$29.5 million to \$152.5 million at June 30, 2017 as compared to prior year's growth in net position of \$32.0 million. Net Patient Revenues grew by \$10.2 million, and Other Revenue, which includes Medical Center Investment, decreased by \$1.2 million, while operating expenses grew by \$2.4 million and Nonoperating Expenses increased by \$9.1 million.

#### Condensed Consolidated Statements of Net Position (in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
<b>ASSETS</b>			
Current assets	\$172,667	\$147,050	\$128,340
Capital assets	21,887	24,299	26,139
Noncurrent assets	4,045	4,972	999
<b>TOTAL ASSETS</b>	<b>\$198,599</b>	<b>\$176,321</b>	<b>\$155,478</b>
<b>LIABILITIES</b>			
Current liabilities	\$32,119	\$38,137	\$44,229
Long term liabilities	13,932	15,140	20,233
<b>TOTAL LIABILITIES</b>	<b>46,051</b>	<b>53,277</b>	<b>64,462</b>
<b>NET POSITION</b>			
Net investment in capital assets	9,640	6,217	2,768
Unrestricted	142,908	116,827	88,248
<b>Total net position</b>	<b>152,548</b>	<b>123,044</b>	<b>91,016</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$198,599</b>	<b>\$176,321</b>	<b>\$155,478</b>

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

Cash and cash equivalents increased \$35.9 million from June 30, 2016 to June 30, 2017 and \$11.6 million from June 30, 2015 to June 30, 2016. The primary drivers for the increase from 2016 to 2017 were cash from operating activities of \$48.3 million and cash from investing activities of \$0.1 million, offset by cash used for noncapital financing activities of \$8.4 million and cash used for capital financing activities of \$4.2 million. The primary drivers for the increase from 2015 to 2016 were cash from operating activities of \$20.9 million and cash from noncapital financing activities of \$0.4 million offset by cash used for investing activities of \$4.3 million and cash used for capital financing activities of \$5.4 million.

Net patient care accounts receivable decreased by \$3.5 million from June 30, 2016 to June 30, 2017 due primarily to Infusion charges and corresponding accounts receivable moving from Internal Medicine to the Ohio State University Health System ("OSU Health System") for fiscal year 2017. Net patient care accounts receivable increased by \$2.9 million from June 30, 2015 to June 30, 2016 due to the growth in physicians and thus encounters and productivity (WRVUs). Days in AR continued to improve as the revenue cycle processes and EPIC system changes over the prior three years mature.

## Management's Discussion and Analysis for the Years Ended June 30, 2017 and June 30, 2016 (Unaudited)

Property, plant, furniture, and equipment, net decreased by \$103 thousand from June 30, 2016 to June 30, 2017. Property, plant, furniture, and equipment, net increased \$8 thousand from June 30, 2015 to June 30, 2016. Purchases net of disposals in both years approximated depreciation expense for the respective year.

Long- term investments decreased by \$3.2 million from June 30, 2016 to June 30, 2017 and increased by \$4.0 million from June 30, 2015 to June 30, 2016. The decrease in fiscal year 2017 relates to the organizational needs to invest shorter term based upon the expected needs for future cash flow requirements. The increase in fiscal year 2016 relates to excess cash in certain LLCs that were seeking higher returns on invested dollars.

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

The decrease in current liabilities of \$6.0 million from June 30, 2016 to June 30, 2017 and the decrease of \$6.1 million from June 30, 2015 to June 30, 2016 are primarily due to the changes in amounts due to affiliated entities, primarily the University, and are based upon agreements between the LLC's and the University. These agreements are primarily related to the electronic medical record system and physician support agreements generally in the start-up period of new practices.

Long term liabilities decreased \$1.2 million from June 30, 2016 to June 30, 2017 and decreased \$5.1 million from June 30, 2015 to June 30, 2016 associated with payments made on long term notes payable and fluctuations in long term amounts related to affiliated organizations within the University, which includes the debt for the electronic medical record ("EMR") system. The remaining long term portion due to the OSU Health System for the EMR system was \$0 as of June 30, 2017 and June 30, 2016, and \$2.5 million as of June 30, 2015. The EMR debt was moved to current as of June 30, 2016 and was fully paid by June 30, 2017. The remaining long term debt associated with various building projects is \$13.8 million as of June 30, 2017 and \$14.7 million as of June 30, 2016.

The Consolidated Statement of Revenue, Expenses, and Changes in Net Position presents OSUP's results of operations. A comparison for the years ended June 30, 2017, 2016, and 2015 is summarized as follows.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net patient care revenue less provisions for bad debts	\$ 353,491	\$ 343,334	\$ 308,724
Other revenue	142,873	144,095	96,896
Total operating expense	<u>(460,410)</u>	<u>(458,052)</u>	<u>(398,135)</u>
Operating income	\$ 35,954	\$ 29,377	\$ 7,485
Nonoperating (expense) income	(6,450)	2,651	697
Other changes in net position	-	-	-
Increase in net position	<u>\$ 29,504</u>	<u>\$ 32,028</u>	<u>\$ 8,182</u>
Net Position- Beginning of year	<u>123,044</u>	<u>91,016</u>	<u>82,834</u>
Net Position- End of year	<u>\$ 152,548</u>	<u>\$ 123,044</u>	<u>\$ 91,016</u>

Average monthly patient encounters was 221 thousand per month in fiscal year ended June, 2017, 203 thousand per month in fiscal year ended June 30, 2016, and 187 thousand per month in the fiscal year ended June 30, 2015. These year over year increases were primarily related to the growth in the number

## Management's Discussion and Analysis for the Years Ended June 30, 2017 and June 30, 2016 (Unaudited)

of physicians and other providers rendering patient services. While the total number of physicians decreased slightly in 2017 by 5 physicians, to 906 physicians, the number of midlevel providers grew by 38 providers, to 438 midlevel providers. The number of physicians grew in 2016 and 2015 by 45 and 37, respectively.

Increases in net patient care revenue are associated with volume changes noted above as well as changes in rates charged and payments received for services, including the change in mix of services rendered to patients, and the payer mix of patients seen. Provisions for bad debts decreased by \$17.9 million from fiscal year 2016 to fiscal year 2017 primarily as a result of changes in estimates of \$7.9 million related to additional information regarding the collectability of patient receivables, and a change in prior year estimate of \$10 million related to additional information regarding the collectability of amounts due from self pay patients. Provisions for bad debts increased by \$12.6 million from fiscal year 2015 to fiscal year 2016 as a result of changes in estimates of \$10.9 million due to declining expectations on collectability of amounts due from self-pay patients gross patient accounts receivable. Additionally the growth in volume of self-pay and self-pay after third party payment methodologies created \$1.7 million increase in provisions for bad debt. Net patient care revenue increased by \$10.2 million from fiscal year 2016 to 2017, and \$34.6 million from fiscal year 2015 to 2016. The 2017 increase is associated with \$25.5 million in upper payment limit funding received from the state of Ohio in 2017 which is a \$14.9 million increase from the \$10.6 million received in 2016. This increase was offset by the addition of \$2.6 million in allowance estimates for administrative adjustments and a \$2.6 million increase in charity care in fiscal year 2017. \$10.6 million of the 2016 increase is associated with the upper payment limit funding received from the state of Ohio in 2016. The remaining increase for fiscal year 2016 relates to growth in physician practitioners during the period. In the last two months of fiscal year 2014 and the full fiscal year of 2015, patients that used to be self-pay were signing up into Medicaid products under the Affordable Care Act ("ACA"). This positively impacted our practices that were in underserved or underinsured areas.

Other revenue decreased \$1.2 million from fiscal year ended June 30, 2016 to June 30, 2017, and increased \$47.2 million from fiscal year ended June 30, 2015 to June 30, 2016. Other revenue represents both revenue associated with outside health related organizations, and support payments associated with funding of programs deemed important through the University. The decrease in 2017 was primarily due to the \$0.8 million decrease in Meaningful use incentives earned. Growth in 2016 was primarily driven by the review of funds assigned to OSUP by the College of Medicine, resulting in assignment of primary financial responsibility for several additional enrichment and FGP funds. This accounted for \$26.3 million in additional revenue. Medical Center Investment in specific programs accounted for an \$11.6 million additional source of income.

Operating expenses increased by \$2.4 million from fiscal year ended June 30, 2016 to June 30, 2017 and \$59.9 million from fiscal year ended June 30, 2015 to June 30, 2016. Approximately \$14.0 million of the 2017 increase came from physician related costs. New physicians entering the practice generally take 2-3 years of service to grow their clinical practice before they are considered a mature practice. The 2017 increase was also impacted by an increase in staff salary and benefit costs of \$3.7 million. The 2017 physician and staff cost increases were offset by the \$16.2 million reduction of supplies and pharmaceuticals expenses related to infusion services. In fiscal year 2017 the procurement of infusion drugs and supplies was managed by the OSU Health System through the 340B prescription drug discount program. As a result, all activity of the Internal Medicine infusion program was reported through the OSU Health System. Approximately \$45.2 million of the 2016 increase came from physician related costs. Additionally, a part of the 2016 cost included costs that were allocated to OSUP practice plans from the University for specific funds that were deemed practice plan in nature. The portion of these costs added as a result of the practice plan changes totaled \$28.3 million, including \$19.0 million in physician costs and \$6.9 million in employee staff salaries and benefits.

Nonoperating income (expense) decreased \$9.1 million from fiscal year ended June 30, 2016 to June 30, 2017 and increased \$2.0 million from fiscal year ended June 30, 2015 to June 30, 2016. The 2017 decrease primarily related to \$7.7 million in contributions to OSU departments to fund endowments and

## **Management's Discussion and Analysis for the Years Ended June 30, 2017 and June 30, 2016 (Unaudited)**

support research funds. The 2016 increase primarily related to an accrual of \$397 thousand for the tax rebate with the City of Columbus for payroll growth incentives, and the addition of beginning balances in the added practice plan funds that were allocated to OSUP from the University along with the responsibility for expenditures associated with those funds noted above.

### **Economic Factors That Will Affect the Future**

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

2016-2019 - .5% annual increase

2020-2025 – 0% annual increase

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

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

Ongoing governmental funding for our investment in an electronic medical record system (EPIC) has paid for OSUP's \$11.3 million share of the system cost. We have recouped approximately \$16.1 million over the last several years from the stimulus funding set by Congress, which is more than the \$11.3 million in system cost. Over the next year we are expecting an additional \$756 thousand from the Centers for Medicare & Medicaid Services related to our year five funding, which began January 1, 2016. The excess received over the system cost is to cover operating costs not covered in the implementation of the software, but operating costs and initial utilization costs of the system. This program will end in fiscal year 2018.

**OHIO STATE UNIVERSITY PHYSICIANS, INC.**  
(A component unit of The Ohio State University)  
**CONSOLIDATED STATEMENTS OF NET POSITION** *(in thousands)*  
**AS OF JUNE 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 115,621	\$ 79,695
Short-term investments	8,156	6,083
Accounts receivable — patient care — net of allowance	34,874	38,353
Accounts receivable — other	2,879	4,790
Due from affiliates	8,663	15,481
Inventories	1,098	1,323
Prepaid expenses	1,376	1,325
Total current assets	<u>172,667</u>	<u>147,050</u>
NONCURRENT ASSETS:		
Property, plant, furnitures, and equipment — net of accumulated depreciation (\$25,190 in 2017 and \$23,795 in 2016)	21,887	21,990
Long-term investments	1,550	4,766
Ambulatory electronic medical record use agreement	-	795
Other assets	2,495	1,720
Total noncurrent assets	<u>25,932</u>	<u>29,271</u>
<b>TOTAL ASSETS</b>	<u>\$ 198,599</u>	<u>\$ 176,321</u>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,597	\$ 1,608
Accrued expenses	278	250
Accrued salaries and wages	4,771	4,779
Due to affiliates	19,401	23,770
Notes payable and capital leases	862	811
Retirement and health plan accrual	761	877
Other current liabilities	3,449	6,042
Total current liabilities	<u>32,119</u>	<u>38,137</u>
LONG TERM LIABILITIES:		
Notes payable and capital leases	13,776	14,735
Other long term liabilities	156	405
Total long term liabilities	<u>13,932</u>	<u>15,140</u>
NET POSITION:		
Net investment in capital assets	\$ 9,640	\$ 6,217
Unrestricted	142,908	116,827
Total net position	<u>152,548</u>	<u>123,044</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 198,599</u>	<u>\$ 176,321</u>

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

# OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

## CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION *(in thousands)*

YEARS ENDED JUNE 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE:		
Net patient care revenue	\$ 354,597	\$ 362,375
Provisions for bad debts	1,106	19,041
Net patient care revenue less provisions for bad debts	353,491	343,334
Other revenue	142,873	144,095
Total operating revenue	496,364	487,429
OPERATING EXPENSES:		
Salaries and benefits	371,812	354,095
Supplies and pharmaceuticals	18,305	34,355
Services	38,908	38,022
Dean's tax	12,309	12,391
Occupancy and utilities	9,624	9,081
Amortization and depreciation	3,740	4,326
Other expenses	5,712	5,782
Total operating expenses	460,410	458,052
Operating income	35,954	29,377
NONOPERATING INCOME (EXPENSES):		
Interest income	328	89
Nonoperating income	2,342	4,157
Loss from investments	(113)	(13)
Loss on sale of assets	(205)	(15)
Interest expense	(369)	(395)
Nonoperating expense	(8,433)	(1,172)
Total nonoperating (expense) income	(6,450)	2,651
INCREASE IN NET POSITION	29,504	32,028
NET POSITION- Beginning of year	123,044	91,016
NET POSITION- End of year	\$ 152,548	\$ 123,044

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

**OHIO STATE UNIVERSITY PHYSICIANS, INC.**  
(A component unit of The Ohio State University)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS** (in thousands)  
**YEARS ENDED JUNE 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flow from operating activities:</b>		
Patient receipts-net	\$ 354,931	\$ 341,157
Other receipts	150,828	138,719
Payments to and on behalf of employees	(372,198)	(360,278)
Payments to vendors for supplies and services	(57,716)	(71,294)
Payments on malpractice and dean's tax	(12,215)	(12,563)
Payments on occupancy and utilities	(9,624)	(9,081)
Payments on other expenses	(5,712)	(5,770)
Net cash provided by operating activities	<u>48,294</u>	<u>20,890</u>
<b>Cash flows from capital financing activities:</b>		
Purchase of capital assets	(3,580)	(2,328)
Proceeds from sale of capital assets	955	34
Payments on debts and capital leases	(3,443)	(5,290)
Payments on interest	(369)	(395)
Rental income	2,272	2,535
Net cash used in capital financing activities	<u>(4,165)</u>	<u>(5,444)</u>
<b>Cash flows from noncapital financing activities:</b>		
Non operating expense	(8,433)	(1,172)
Other contributions	70	1,590
Net cash (used in) provided by noncapital financing activities	<u>(8,363)</u>	<u>418</u>
<b>Cash flows from investing activities</b>		
Purchase of other assets	(1,310)	(198)
Purchase of investments	(8,010)	(10,122)
Proceeds from sale of investments	9,152	5,955
Interest income	328	89
Net cash provided by (used in) investing activities	<u>160</u>	<u>(4,276)</u>
<b>Net Increase in Cash</b>	35,926	11,588
Cash and cash equivalents- Beginning of year	<u>79,695</u>	<u>68,107</u>
Cash and cash equivalents-End of year	<u>\$ 115,621</u>	<u>\$ 79,695</u>

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

**OHIO STATE UNIVERSITY PHYSICIANS, INC.**  
(A component unit of The Ohio State University)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS** (*in thousands*) (continued)  
**YEARS ENDED JUNE 30, 2017 and 2016**

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	<u>2017</u>	<u>2016</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 35,954	\$ 29,377
Adjustments to reconcile net operating income to net cash		
Amortization and depreciation	3,740	4,326
Changes in assets and liabilities:		
Accounts receivable-patient care - net of allowance	3,479	(2,945)
Accounts receivable- other	1,911	89
Due from affiliates	6,818	(4,947)
Inventories	225	675
Other Assets	-	92
Prepaid expenses	(51)	131
Accounts payable	989	(1,398)
Due to affiliates	(1,833)	(4,718)
Accrued salaries and wages	(8)	(363)
Retirement and health plans accrual	(116)	502
Accrued expenses	28	(3)
Other liabilities	(2,842)	72
Net cash provided by operating activities	<u>\$ 48,294</u>	<u>\$ 20,890</u>

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

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

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

OSUP is the single member of 18 limited liability companies (“LLCs”). As of June 30, 2017, only 16 of the LLCs are active and included in the consolidated financial statements and the accompanying supplemental consolidating schedules. Two of the LLCs (Anesthesiology and Orthopedics) have been created, but had no operations within the OSUP structure through June 30, 2017.

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

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

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

The accompanying supplemental consolidating schedules have been included for informational purposes only and are not considered required supplemental information. The first column, “OSUP Corporate,” represents information of the single member corporate function of OSUP, without consolidation of the LLCs. The respective LLC columns represent information of each respective legal entity, which provide medical care and supporting research and medical education at the University. The “Aggregated” column represents the combined financial information of the preceding columns, before eliminating adjustments. The “Eliminations” column represents consolidating adjustments, including those related to the elimination of intercompany transactions and balances between the first column and the LLC columns. The “Total” column represents the total of the “Aggregated” and “Eliminations” columns and agrees to the consolidated financial statements of OSUP.

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The schedules of supplemental consolidating financial information are prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures.

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

Faculty members are employed through The Ohio State University Faculty Group Practice (“FGP”) and are leased back to OSUP, with the exception of Community Outreach physicians. To support medical research and education, OSUP provides funding to the College of Medicine (“COM”). This funding takes a variety of forms. OSUP makes academic enrichment payments (which go into departmental COM funds) and Dean’s Tax payments (which go into a college-level COM fund). In the addition to these recurring sources of funding, OSUP also makes non-recurring transfers of funds to the College (for example, to pay for programs initiated by a new college dean). In managing these funding sources and related expenditures, the College assigns primary financial responsibility for certain enrichment and FGP funds, referred to internally as “practice funds”, to OSUP. OSUP recognizes the revenues and expenses in these funds in its financial statements as operating revenue and expense.

Periodically, the COM and OSUP review the funds assigned to OSUP. As a result of these reviews in fiscal year 2017 and 2016, OSUP was assigned primary financial responsibility for several additional enrichment and FGP funds. Additional expenses recognized in the years the funds were added total approximately \$144 thousand for fiscal year 2017 and \$28 million for fiscal year 2016.

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

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

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

**Net Position** - Net position is categorized as:

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

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

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

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

Investment income is recognized on an accrual basis. Interest and dividend income is recorded when earned.

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

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

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

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

Maintenance and repairs are charged to expense as incurred. Upon retirement of equipment, the cost is removed from the asset accounts and the related depreciation allowance is adjusted with the difference being charged or credited to non-operating income.

**Ambulatory electronic medical record use agreement-** OSUP entered into a Software System Use agreement in fiscal year 2010 with OSU Medical Center for the purchase of an electronic medical records system. The agreement, treated for accounting purposes similar to a capital lease, was between The Ohio State University Health System (“OSU Health System”), a consolidating organization within the

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University, and OSUP. The total acquisition cost related to OSUP's share of the software and implementation was approximately \$11.3 million; these costs were discounted using a rate of 2.5% as of June 30, 2017 and 2016, respectively. This cost was being amortized over no more than seven years, and amortization began upon effective implementation within a physician's group, which occurred at different times. This cost was fully amortized during fiscal year 2017. At June 30, 2017 and 2016, accumulated amortization was \$10.4 million and \$9.6 million, respectively.

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

**Professional and General Insurance** — On July 1, 2003, OSUP joined with OSU Health System to establish a self-insurance fund for professional and patient general liability claims ("Fund II"), covering the employed physicians of OSUP as well as the OSU Health System. The assets and liabilities of Fund II are consolidated in the University's financial statements, but are not included in OSUP's financial statements, as a result of the retained risk being held by the University. Annual insurance costs are allocated to OSUP by the University and reflected in the Consolidated Statements of Revenue, Expenses, and Changes in Net Position. See Note 7 for information regarding related party amounts remaining unsettled at fiscal year end June 30, 2017 and June 30, 2016.

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 and \$18 million in the aggregate. Oval Limited covers up to \$85 million per occurrence with an \$85 million annual aggregate limit in excess of the Fund II limits. A portion of the risk written to date is reinsured by a combination of four reinsurance companies each of which has a minimum rating of A by A. M. Best. Oval Limited's net retention is 50% of the first \$15 million and 0% for the remaining \$70 million per occurrence.

Oval Limited's assets and liabilities 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.

There have been no settlements in the past three fiscal years which exceeded the combined limits provided by Fund II and Oval Limited. OSUP has not made any additional contributions in the last three years beyond its actuarially determined premiums. No self-insurance premiums were required to be paid for the years ended June 30, 2017 and June 30, 2016.

**Net Patient Care Revenue-** Net patient care revenue represents amounts received and estimated net realizable amounts due from patients and third-party payors for services rendered. OSUP provides care to patients under various reimbursement agreements, including governmental and commercial payers (third party payors). These arrangements provide for payment on covered services at agreed-upon rates, which may result in discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between customary charges and related reimbursements, and for administrative adjustments. OSUP applies a self-pay discount to self-pay accounts for non-cosmetic services which approximates the average managed care discount for patients with commercial insurance. Self-pay discounts as of June 30, 2017 and 2016 are \$13.0 million and \$11.7 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 \$25.5 million and \$10.6 million for the years ended June 30, 2017 and 2016, 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

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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 2017 and fiscal year 2016 are as follows (in thousands):

	<b>2017</b>	<b>2016</b>
Gross patient care revenue	\$ 925,541	\$ 924,697
Contractual adjustments and other discounts	(561,596)	(556,562)
Administrative adjustments	(9,348)	(5,760)
Net patient care revenue	<u>\$ 354,597</u>	<u>\$ 362,375</u>
Provisions for bad debts	(1,106)	(19,041)
Net patient care revenue less provisions for bad debt	<u>\$ 353,491</u>	<u>\$ 343,334</u>

Additionally, net patient care revenue amounts recognized from major payor sources for fiscal year 2017 and fiscal year 2016 are as follows (in thousands):

	<b>2017</b>	<b>2016</b>
Third party payors	\$ 348,501	\$ 354,185
Self pay	6,096	8,190
Net patient care revenue	<u>\$ 354,597</u>	<u>\$ 362,375</u>

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

**Charity Care** — Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by OSUP. As collection of amounts determined to qualify as charity care are not pursued, such amounts are written off and not reported as gross patient care revenue. OSUP maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services furnished. Charity care provision costs as of June 30, 2017 and 2016 are \$9.4 million and \$6.0 million, respectively. The cost of charity care is calculated by taking the ratio of operating expenses divided by gross patient revenue, applied to charity care dollars written off.

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

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

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**Estimated Fair Value of 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 2 investments include US government agencies and obligations, corporate bonds, municipal bonds, foreign government bonds, repurchase agreements, commercial paper, and other debt related investments. The evaluated prices may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities.

*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.

**Meaningful Use-** The America Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. OSUP recognizes its' EHR incentive payments as voluntary nonexchange transactions which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement. . The principle characteristics of voluntary nonexchange transactions are they are not imposed on the provider or the recipient and fulfillment of eligibility requirements is essential for a transaction to occur. OSUP recognizes the incentive payments when all applicable eligibility requirements are met. The recognition of the income related to the EHR incentive payments is based on management's best estimates and the amounts are subject to change, with such changes impacting the operations in the period in which they occur. Any material changes would be disclosed by OSUP as a change in accounting estimate. OSUP recognized \$1.2 million and \$2.0 million in Other Revenue in the fiscal year ended June 30, 2017 and June 30, 2016, respectively.

**Newly Issued Accounting Pronouncements** – In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This standard establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The deferred outflow is recognized as expense over the life of the related asset. The

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determination of when the liability is incurred is based on the existence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events include the occurrence of contamination, placing into use a tangible capital asset that is required to be retired, abandoning a tangible capital asset before use begins, or acquiring a tangible capital asset that has an existing asset retirement obligation. This standard is effective for periods beginning after June 15, 2018 (fiscal year 2019).

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This standard establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria are required to present these activities in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity entity that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2018 (fiscal year 2020).

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This standard addresses a variety of practice issues identified during implementation and application of certain GASB Statements. It provides guidance on blending of component units (confirming limited applicability of blended presentation for BTAs), accounting for goodwill acquired prior to the issuance of GASB 69, accounting for real estate held for investment by insurance entities, clarification of circumstances in which money-market investments may be valued at amortized cost, and various technical fixes related to the implementation of the new OPEB standards. This standard is effective for periods beginning after June 15, 2017 (fiscal year 2018).

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This standard provides guidance on in-substance defeasance of debt, in which a government uses its existing resources (not the proceeds of refunding debt) to establish an irrevocable trust for the sole purpose of extinguishing debt. The accounting, reporting and disclosures for defeasance transactions, including reporting of gains and losses, generally will be consistent, regardless of the source of the funds used to defease the debt. This standard is effective for periods beginning after June 15, 2017 (fiscal year 2018).

In June 2017, the GASB issued 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 right-of-use 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. This standard is effective for periods beginning after December 15, 2019 (fiscal year 2021).

OSUP management is currently assessing the impact that implementation of GASB Statements No. 83, 84, 85, 86 and 87 will have on OSUP's financial statements.

**NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS**

At June 30, 2017, the carrying amount of OSUP's cash and cash equivalents is \$115.6 million as compared to bank balances of \$123.7 million. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$3.8 million is covered by federal deposit insurance and \$11.3 million is invested in interest bearing accounts spread among certificates of deposits in amounts less than \$250 thousand and money market funds.

At June 30, 2016, the carrying amount of OSUP's cash and cash equivalents is \$79.7 million as compared to bank balances of \$82.4 million. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$3.9 million is covered by

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federal deposit insurance and \$10.1 million is invested in interest bearing accounts spread among certificates of deposits in amounts less than \$250 thousand and money market funds.

OSUP Investments are grouped into three major categories for financial reporting purposes: Cash Equivalents, Short term investments and Long term investments. Instruments with original maturity of 0-90 days are treated as cash equivalents.

Short Term Investments are investments that have a maturity of 1 year or less. Long Term Investments have a maturity of greater than 1 year. All Long Term Investments held at June 30, 2017 and 2016 mature within five years.

Detail for fiscal years 2017 and 2016 follows (in thousands):

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Short Term</u> <u>Investments</u>	<u>Long Term</u> <u>Investments</u>
<b>2017</b>			
Demand Deposits & Cash	\$ 104,356	\$ -	\$ -
Money Market Funds	8,765	-	-
Certificates of Deposits (maturing 2017-2018)	2,500	7,655	-
Corporate Bonds (maturing 2017-2018)	-	501	1,550
	<u>\$ 115,621</u>	<u>\$ 8,156</u>	<u>\$ 1,550</u>
<b>2016</b>			
Demand Deposits & Cash	\$ 69,635	\$ -	\$ -
Money Market Funds	7,560	-	-
Certificates of Deposits (maturing 2016-2018)	2,500	6,083	969
Corporate Bonds (maturing 2017-2019)	-	-	3,797
	<u>\$ 79,695</u>	<u>\$ 6,083</u>	<u>\$ 4,766</u>

Investments in Corporate Bonds listed above are classified as Level 1 of the fair value hierarchy summarized in Note 1, and are valued using prices quoted in active markets for those securities.

**Additional Risk Disclosures for Investments**

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

**Liquidity risk** – OSUP does not have any illiquid investments.

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

The maturities of OSUP's interest-bearing investments at June 30, 2017 are as follows:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>	
		<u>Less than 1</u>	<u>1 to 5</u>
Corporate Bonds	\$ 2,051	\$ 501	\$ 1,550

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

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

**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.

**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 at June 30, 2017 are as follows:

	Total	A+	AA-	A
Corporate Bonds	\$ 2,051	\$ 537	\$ 501	\$ 1,013

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

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

**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, 2017 OSUP had the following investments in issuers that represent 5% or more of total investments, excluding US government:

	Corporate Bonds
Chevron Corp	\$ 506
Deere John Cap	513
International Business Machines	575
Wachovia Corp	538
Total	<u>\$ 2,132</u>

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

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

**Foreign currency risk** – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

As of June 30, 2017 and 2016, OSUP had no deposits or investments denominated in foreign currencies.

**NOTE 3 - PATIENT ACCOUNTS RECEIVABLE AND CONCENTRATIONS OF CREDIT RISK**

OSUP grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable as of June 30, 2017 and 2016 consist of the following (in thousands):

	<u>2017</u>	<u>2016</u>
Gross patient accounts receivable	\$ 101,787	\$ 116,489
Allowance for contractual adjustments	(59,525)	(62,760)
Allowance for bad debt	(7,388)	(15,376)
Total	<u>\$ 34,874</u>	<u>\$ 38,353</u>

Risk of loss for third party payors is based upon contractual obligations, legislative changes, or bankruptcy of the payor. Risk of loss for the patient self-payors is related to economic factors of the individual, and thus has a higher reserve for loss based upon our historical indicators. The mix of gross receivables from patients and third-party payors as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Medicare	23%	23%
Medicaid	12%	13%
Commercial/other third party payors	45%	44%
Patient	20%	20%
	<u>100%</u>	<u>100%</u>

**OHIO STATE UNIVERSITY PHYSICIANS, Inc.**  
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**AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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**NOTE 4 - PROPERTY, PLANT, FURNITURES, AND EQUIPMENT**

The composition of property, plant, furniture, and equipment as of June 30, 2017 is as follows (in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements/ Reductions</u>	<u>Ending</u> <u>Balance</u>
Property, Plant, and Equipment not being depreciated:				
Land	\$ 2,090	\$ -	\$ -	\$ 2,090
Construction in progress	261	1,080	448	893
Total non-depreciable assets	2,351	1,080	448	2,983
Property, Plant, and Equipment being depreciated:				
Land improvements	\$ 4,644	\$ 433	\$ 262	\$ 4,815
Buildings	18,787	3	913	17,877
Equipment	17,021	1,931	946	18,006
Furniture and Fixtures	2,982	581	167	3,396
Total	\$ 43,434	\$ 2,948	\$ 2,288	\$ 44,094
Less: Accumulated Depreciation	(23,795)	(2,457)	(1,062)	(25,190)
Total depreciable assets, net	19,639	491	1,226	18,904
<b>Property, Plant, and Equipment, Net</b>	<b><u>\$ 21,990</u></b>	<b><u>\$ 1,571</u></b>	<b><u>\$ 1,674</u></b>	<b><u>\$ 21,887</u></b>

Depreciation expense for the year ended June 30, 2017 was \$2.5 million.

Additions to property, plant, furniture, and equipment, net of retirements and reductions, include \$448 thousand of transfers from construction in progress.

**OHIO STATE UNIVERSITY PHYSICIANS, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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

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

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

**OHIO STATE UNIVERSITY PHYSICIANS, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

**NOTE 5 - NOTE PAYABLE — LONG TERM DEBT**

**DEBT** - A summary of debt as of June 30, 2017 and 2016 are as follows (in thousands):

June 30, 2017	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Series 2013 Health Care Facilities Revenue Bond payable to County of Franklin, Ohio. Monthly installments of principal and fixed interest of 2.103% annum. Bond due July, 2035	\$ 13,660	\$ -	\$ 635	\$ 13,025	\$ 601
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	1,886	-	273	1,613	261
	<u>\$ 15,546</u>	<u>\$ -</u>	<u>\$ 908</u>	<u>\$ 14,638</u>	<u>\$ 862</u>

June 30, 2016	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Series 2013 Health Care Facilities Revenue Bond payable to County of Franklin, Ohio. Monthly installments of principal and fixed interest of 2.103% annum. Bond due July, 2035	\$ 14,228	\$ -	\$ 568	\$ 13,660	\$ 567
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	2,136	-	250	1,886	244
Capital lease obligations	5	-	5	-	-
	<u>\$ 16,369</u>	<u>\$ -</u>	<u>\$ 823</u>	<u>\$ 15,546</u>	<u>\$ 811</u>

**OHIO STATE UNIVERSITY PHYSICIANS, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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There were no new borrowings in 2017 and OSUP paid cash of \$908 thousand related to repayments in fiscal year 2017. There were no new borrowings in 2016 and OSUP paid cash of \$823 thousand related to repayments in fiscal year 2016.

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 2017 and 2016.

The Series 2013 healthcare facilities revenue bond is to be paid monthly with payments of principal and fixed interest to be made until July 1, 2035. An interest rate of 2.103% per annum is used to calculate payments. The annual interest expense was \$309 thousand for fiscal year 2017 and \$299 thousand for fiscal year 2016.

On May 1, 2013, at the same time the 2013 healthcare facilities revenue bonds were issued, a term loan was issued in the amount of \$2.6 million. Included in the term loan is the taxable portion of OBGYN's build out for their Mill Run location. Monthly payments of principal and fixed interest on the term loan are to be made until May 1, 2023. An interest rate of 2.3% per annum will be used to calculate payments. The annual interest expense was \$44 thousand for fiscal year 2017 and \$47 thousand for fiscal year 2016.

Scheduled principal repayments on long term debt as of June 30, 2017, are as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	860	304	1,164
2019	879	285	1,164
2020	898	266	1,164
2021	918	246	1,164
2022	938	243	1,181
2023-2027	3,744	871	4,615
2028-2032	3,861	482	4,343
2033-2036	2,539	87	2,626
	<u>\$ 14,637</u>	<u>\$ 2,784</u>	<u>\$ 17,421</u>

**CAPITAL LEASE OBLIGATIONS**

OSUP had capital lease obligations that matured during 2016 and carried implicit interest rates of 1.10%. Lease arrangements were being used to provide partial financing for certain movable equipment. Capital asset balances, net of accumulated amortization, of \$30 thousand as of June 30, 2016 were financed under capital leases. These capital assets were fully depreciated as of June 30, 2017.

**OHIO STATE UNIVERSITY PHYSICIANS, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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**NOTE 6 – OTHER CURRENT AND LONG TERM LIABILITIES**

Other liabilities primarily include unearned revenue (unearned rent and tenant allowances), retention bonuses and amounts due to others (patient credit balances prior to refunding). Other current and long term liability activity as of June 30, 2017 and 2016, respectively, is as follows (in thousands):

	<u>Beginning</u>			<u>Ending</u> <u>Current</u>	
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
<b>2017</b>					
Unearned Revenue	\$ 1,134	\$ 282	\$ 1,057	\$ 359	\$ 203
Retention Bonuses	28	-	28	-	-
Due to Others	5,285	76,103	78,142	3,246	3,246
	<u>\$ 6,447</u>	<u>\$ 76,385</u>	<u>\$ 79,227</u>	<u>\$ 3,605</u>	<u>\$ 3,449</u>
<b>2016</b>					
Unearned Revenue	\$ 1,731	\$ 86	\$ 683	\$ 1,134	\$ 757
Retention Bonuses	127	-	99	28	-
Due to Others	4,517	42,328	41,560	5,285	5,285
	<u>\$ 6,375</u>	<u>\$ 42,414</u>	<u>\$ 42,342</u>	<u>\$ 6,447</u>	<u>\$ 6,042</u>

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

OSUP is a component unit of the University. Due to this relationship with the University, related-party transactions are pervasive throughout the consolidated statements of revenue, expenses and changes in net position. A summary of the nature of these transactions and related due to/from affiliate balances reported in the consolidated statements of net position as of June 30, 2017 and 2016, are as follows (in thousands):

**Due From:**

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

*The Ohio State University and The Ohio State University College of Medicine and Public Health (“COMPH”)* — OSUP provides staffing, coding support, facility space and medical directorships to the COMPH. OSUP provides healthcare services to OSU employees enrolled in OSU sponsored health insurance programs. OSUP collected \$26.4 million for these healthcare services in fiscal year 2017 and \$28.4 million in fiscal year 2016 and is reflected in Net patient care revenue.

**OHIO STATE UNIVERSITY PHYSICIANS, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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Balances due from each affiliate as of June 30, 2017 and 2016 are as follows (in thousands):

	<b>2017</b>	<b>2016</b>
Due from OSU Health System	\$ 2,503	\$ 6,205
Due from COMPH	6,160	9,276
	<u>\$ 8,663</u>	<u>\$ 15,481</u>

**Due to:**

*OSU Health System*- OSUP is responsible for certain costs of the Ambulatory electronic medical record ("EMR") implementation coordinated through OSU Health System. As of June 30, 2016, OSUP had \$ 3.3 million payable to OSU Health System for the EMR implementation. OSUP paid this entire balance to the OSU Health System before June 30, 2017.

*COMPH*-Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund ("Academic Enrichment"), and Strategic Initiative Fund. Academic Enrichment is paid to the Dean's office for support of the academic, research, and clinical missions of the College. The Strategic Initiative Fund is comprised of various funds established by the College to support resident education. These funds are paid periodically during the year. OSUP paid \$7.7 million in contributions to OSU departments to fund endowments and support research funds during fiscal year 2017. Dean's tax and strategic initiative expenses as of June 30, 2017 and 2016 are \$12.3 million and \$12.4 million respectively. OSUP has operating leases for various facility spaces with the University. The lease expenses paid to the University as of June 30, 2017 and 2016 are \$5.2 million and \$3.1 million respectively. Additionally, OSUP pays premiums for the USIF (malpractice) and health insurance to the University Office of the Treasurer. There were no outstanding balances as of June 30, 2017 and 2016.

Balances due to each affiliate as of June 30, 2017 and 2016 are as follows (in thousands):

	<b>2017</b>	<b>2016</b>
Due to OSU Health System	\$ 6,209	\$ 10,437
Due to COMPH	13,192	13,333
	<u>\$ 19,401</u>	<u>\$ 23,770</u>

**NOTE 8 - RETIREMENT AND HEALTH PLANS**

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) defined contribution plan administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some LLCs make an additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was \$4.6 million and \$4.0 million for the years ended June 30, 2017 and 2016, respectively. Employee contributions were \$1.7 million and \$1.6 million for the years ended June 30, 2017 and 2016, 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

**OHIO STATE UNIVERSITY PHYSICIANS, Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 and 2016**

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sponsored by the University. Covered services under both plans include medical, dental, and vision benefits, life insurance, and long term disability.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

**Operating Leases** — OSUP leases various equipment and facilities under operating leases expiring at various dates through September 2033. Total rental expense in 2017 and 2016 for all operating leases was approximately \$7.3 million and \$6.2 million, respectively, which includes leases that operate on a month-to-month basis.

The following is a schedule by year of future minimum lease payments (in thousands) under operating leases as of June 30, 2017, that have initial or remaining lease terms in excess of one year.

<b>Year ended June 30</b>	
2018	\$ 5,680
2019	4,001
2020	3,357
2021	2,991
2022	2,439
2023-2033	8,545
<b>TOTAL</b>	<b>\$ 27,013</b>

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

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

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

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Ohio State University Physicians, Inc. ("OSUP"), a component unit of The Ohio State University, appearing on pages 8 to 28, which comprise the consolidated statement of net position as of June 30, 2017, and the related consolidated statements of revenue, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether OSUP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we



do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*PricewaterhouseCoopers LLP*

Columbus, OH  
October 16, 2017

**SUPPLEMENTAL CONSOLIDATING SCHEDULES**

**OHIO STATE UNIVERSITY PHYSICIANS INC. AND SUBSIDIARIES**  
**(A component unit of The Ohio State University)**  
**CONSOLIDATING STATEMENT OF NET POSITION (UNAUDITED)**  
**AS OF JUNE 30, 2017**  
**(000)**

	OSUP Corporate	Community Outreach	EM	Eye	Family Med	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Plastic Surgery	Psychiatry	Radiation Oncology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total	
<b>ASSETS</b>																					
<b>CURRENT ASSETS:</b>																					
Cash and cash equivalents	\$ 38,737	\$ 55	\$ 6,944	\$ 7,063	\$ 110	\$ 2,665	\$ 14,892	\$ 133	\$ 3,517	\$ 13,167	\$ 206	\$ 2,432	\$ 822	\$ 4,970	\$ 12,412	\$ 7,210	\$ 286	\$ 115,621	\$ -	\$ 115,621	
Short-term investments	2,449	-	-	500	1,713	-	-	-	-	501	-	-	-	250	-	2,743	-	8,156	-	8,156	
Accounts receivable — patient care - net of allowance	-	373	2,148	1,503	-	1,699	10,514	1,547	2,135	2,380	677	1,746	399	1,368	3,650	4,000	735	34,874	-	34,874	
Accounts receivable — other	(264)	646	(67)	293	1	244	775	41	636	87	25	53	408	18	(99)	121	(39)	2,879	-	2,879	
Due from affiliates	12,501	581	539	317	-	721	3,700	353	508	612	158	256	433	240	751	764	116	22,550	13,887	8,663	
Inventories	392	-	-	126	-	125	27	355	-	-	73	-	-	-	-	-	-	-	1,098	-	1,098
Prepaid expenses	552	32	-	-	-	94	325	24	51	24	11	24	41	-	4	160	34	1,376	-	1,376	
<b>Total current assets</b>	<b>54,367</b>	<b>1,687</b>	<b>9,564</b>	<b>9,802</b>	<b>1,824</b>	<b>5,548</b>	<b>30,233</b>	<b>2,453</b>	<b>6,847</b>	<b>16,771</b>	<b>1,150</b>	<b>4,511</b>	<b>2,103</b>	<b>6,846</b>	<b>16,718</b>	<b>14,998</b>	<b>1,132</b>	<b>186,554</b>	<b>13,887</b>	<b>172,667</b>	
<b>NONCURRENT ASSETS:</b>																					
Property, plant, furnishings, and equipment-net of accumulated depreciation	11,276	175	-	1,537	-	789	6,482	125	511	121	8	33	-	-	-	545	285	21,887	-	21,887	
Long-term investments	-	-	-	-	-	-	-	-	-	1,550	-	-	-	-	-	-	-	1,550	-	1,550	
EPIC ambulatory electronic medical record use agreement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other assets	985	3	8	-	-	185	695	68	789	544	90	45	36	-	-	-	-	3,448	953	2,495	
<b>Total noncurrent assets</b>	<b>12,261</b>	<b>178</b>	<b>8</b>	<b>1,537</b>	<b>-</b>	<b>974</b>	<b>7,177</b>	<b>193</b>	<b>1,300</b>	<b>2,215</b>	<b>98</b>	<b>78</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>545</b>	<b>285</b>	<b>26,885</b>	<b>953</b>	<b>25,932</b>	
<b>TOTAL ASSETS</b>	<b>\$ 66,628</b>	<b>\$ 1,865</b>	<b>\$ 9,572</b>	<b>\$ 11,339</b>	<b>\$ 1,824</b>	<b>\$ 6,522</b>	<b>\$ 37,410</b>	<b>\$ 2,646</b>	<b>\$ 8,147</b>	<b>\$ 18,986</b>	<b>\$ 1,248</b>	<b>\$ 4,589</b>	<b>\$ 2,139</b>	<b>\$ 6,846</b>	<b>\$ 16,718</b>	<b>\$ 15,543</b>	<b>\$ 1,417</b>	<b>\$ 213,439</b>	<b>\$ 14,840</b>	<b>\$ 198,599</b>	
<b>LIABILITIES AND NET POSITION</b>																					
<b>CURRENT LIABILITIES:</b>																					
Accounts payable	\$ 2,006	\$ 78	\$ 3	\$ 2	\$ -	\$ 7	\$ 316	\$ 1	\$ 21	\$ 143	\$ 2	\$ 1	\$ 2	\$ -	\$ 15	\$ -	\$ -	\$ 2,597	\$ -	\$ 2,597	
Accrued expenses	209	-	-	-	-	38	-	-	-	-	-	-	-	-	-	-	31	278	-	278	
Accrued salaries and wages	1,546	202	7	66	5	226	1,195	75	172	1,073	57	22	-	26	-	68	31	4,771	-	4,771	
Due to affiliates — current portion	10,561	3,425	1,574	832	(1)	880	6,513	1,549	1,615	442	519	613	(159)	607	588	3,380	350	33,288	13,887	19,401	
Notes payable and capital leases — current portion	862	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	862	-	862	
Retirement and health plan accrual	203	-	1	19	-	35	267	15	19	168	8	7	-	2	-	8	9	761	-	761	
Other current liabilities	824	48	224	79	-	179	1,045	65	83	171	41	23	26	70	334	218	19	3,449	-	3,449	
<b>Total current liabilities</b>	<b>16,211</b>	<b>3,753</b>	<b>1,809</b>	<b>998</b>	<b>4</b>	<b>1,365</b>	<b>9,336</b>	<b>1,705</b>	<b>1,910</b>	<b>1,997</b>	<b>627</b>	<b>666</b>	<b>(131)</b>	<b>705</b>	<b>937</b>	<b>3,674</b>	<b>440</b>	<b>46,006</b>	<b>13,887</b>	<b>32,119</b>	
<b>LONG-TERM LIABILITIES:</b>																					
Notes payable and capital leases — less current portion	13,776	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,776	-	13,776	
Due to affiliates and other — less current portion	-	-	-	757	-	91	105	-	-	-	-	-	-	-	-	-	-	953	-	953	
Other long term liabilities	38	-	-	-	-	118	-	-	-	-	-	-	-	-	-	-	-	156	-	156	
<b>Total long term liabilities</b>	<b>13,814</b>	<b>-</b>	<b>-</b>	<b>757</b>	<b>-</b>	<b>209</b>	<b>105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,885</b>	<b>953</b>	<b>13,932</b>	
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>																					
<b>NET POSITION :</b>																					
Net investment in capital assets	(3,362)	175	8	1,537	-	922	7,175	193	1,291	658	98	78	36	-	-	545	286	9,640	-	9,640	
Unrestricted	39,962	(2,063)	7,758	8,047	1,820	4,027	20,787	749	4,948	16,332	523	3,845	2,236	6,142	15,781	11,323	691	142,908	-	142,908	
<b>Total net position</b>	<b>36,600</b>	<b>(1,888)</b>	<b>7,766</b>	<b>9,584</b>	<b>1,820</b>	<b>4,949</b>	<b>27,962</b>	<b>942</b>	<b>6,239</b>	<b>16,990</b>	<b>621</b>	<b>3,923</b>	<b>2,272</b>	<b>6,142</b>	<b>15,781</b>	<b>11,868</b>	<b>977</b>	<b>152,548</b>	<b>-</b>	<b>152,548</b>	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 66,625</b>	<b>\$ 1,865</b>	<b>\$ 9,575</b>	<b>\$ 11,339</b>	<b>\$ 1,824</b>	<b>\$ 6,523</b>	<b>\$ 37,403</b>	<b>\$ 2,647</b>	<b>\$ 8,149</b>	<b>\$ 18,987</b>	<b>\$ 1,248</b>	<b>\$ 4,589</b>	<b>\$ 2,141</b>	<b>\$ 6,847</b>	<b>\$ 16,718</b>	<b>\$ 15,542</b>	<b>\$ 1,417</b>	<b>\$ 213,439</b>	<b>\$ 14,840</b>	<b>\$ 198,599</b>	

**OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES**  
(A component unit of The Ohio State University)  
**CONSOLIDATING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION (UNAUDITED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(000)**

	OSUP Corporate	Community Outreach	EM	Eye	Family Med	OBGYN	IM	Neurology	Otolaryngology	Pathology	Phys Med	Plastic Surgery	Psychiatry	Radiation Oncology	Radiology	Surgery	Urology	Aggregated	Eliminations	Total
<b>OPERATING REVENUE:</b>																				
Net Patient Care Revenue	\$ 24,972	\$ 3,930	\$ 21,130	\$ 13,527	\$ -	\$ 15,474	\$ 121,954	\$ 14,257	\$ 18,449	\$ 21,330	\$ 6,782	\$ 7,941	\$ 4,723	\$ 9,617	\$ 33,419	\$ 31,126	\$ 5,966	\$ 354,597	\$ -	\$ 354,597
Provisions for bad debt	-	103	1,329	(26)	-	(75)	(739)	318	32	(88)	(36)	114	43	(178)	29	302	(22)	1,106	-	1,106
Net patient care revenue less provisions for bad debts	24,972	3,827	19,801	13,553	-	15,549	122,693	13,939	18,417	21,418	6,818	7,827	4,680	9,795	33,390	30,824	5,988	353,491	-	353,491
Other revenue	31,219	1,841	5,885	2,336	-	4,472	78,521	1,606	2,788	11,834	1,654	2,984	7,686	901	2,825	10,640	1,800	168,992	26,119	142,873
<b>Total operating revenue</b>	<b>56,191</b>	<b>5,668</b>	<b>25,686</b>	<b>15,889</b>	<b>-</b>	<b>20,021</b>	<b>201,214</b>	<b>15,545</b>	<b>21,205</b>	<b>33,252</b>	<b>8,472</b>	<b>10,811</b>	<b>12,366</b>	<b>10,696</b>	<b>36,215</b>	<b>41,464</b>	<b>7,788</b>	<b>522,483</b>	<b>26,119</b>	<b>496,364</b>
<b>OPERATING EXPENSES:</b>																				
Salaries and benefits	21,488	4,642	20,959	10,092	-	13,546	155,638	10,510	14,714	21,879	5,948	8,281	10,939	8,082	26,480	32,754	5,886	371,838	26	371,812
Supplies and pharmaceuticals	295	500	79	309	-	1,564	5,821	3,262	1,173	2,185	2,031	213	51	29	3	356	434	18,305	-	18,305
Services	6,961	571	2,958	2,381	12	1,463	23,626	1,663	1,455	2,586	412	843	670	549	3,006	3,484	658	53,298	14,390	38,908
Dean's tax	-	7	827	482	-	574	4,290	376	1,193	892	181	277	188	388	1,198	1,210	226	12,309	-	12,309
Occupancy and utilities	1,769	367	28	74	-	1,235	4,200	564	633	233	123	334	183	-	5	223	438	10,409	785	9,624
Amortization and depreciation	771	81	52	223	-	311	1,267	90	154	292	44	44	70	8	56	220	57	3,740	-	3,740
Other expenses	11	81	1,068	595	-	846	6,399	613	932	1,105	353	434	370	716	1,686	1,823	347	17,379	11,667	5,712
<b>Total operating expenses</b>	<b>31,295</b>	<b>6,249</b>	<b>25,971</b>	<b>14,156</b>	<b>12</b>	<b>19,539</b>	<b>201,241</b>	<b>17,078</b>	<b>20,254</b>	<b>29,172</b>	<b>9,092</b>	<b>10,426</b>	<b>12,471</b>	<b>9,772</b>	<b>32,434</b>	<b>40,070</b>	<b>8,046</b>	<b>487,278</b>	<b>26,868</b>	<b>460,410</b>
<b>Operating income</b>	<b>24,896</b>	<b>(581)</b>	<b>(285)</b>	<b>1,733</b>	<b>(12)</b>	<b>482</b>	<b>(27)</b>	<b>(1,533)</b>	<b>951</b>	<b>4,080</b>	<b>(620)</b>	<b>385</b>	<b>(105)</b>	<b>924</b>	<b>3,781</b>	<b>1,394</b>	<b>(258)</b>	<b>35,205</b>	<b>(749)</b>	<b>35,954</b>
<b>NONOPERATING INCOME (EXPENSES):</b>																				
Interest Income	72	-	5	5	14	-	20	-	8	176	-	1	-	1	1	25	-	328	-	328
Nonoperating income	2,209	-	-	-	-	301	559	-	-	-	-	12	-	-	-	10	-	3,091	749	2,342
(Loss) Income from investments	(2)	-	-	-	(5)	-	-	-	-	(102)	-	-	-	-	-	(4)	-	(113)	-	(113)
Loss on sale of assets	-	-	-	-	-	(276)	71	-	-	-	-	-	-	-	-	-	-	(205)	-	(205)
Interest	(326)	(9)	-	(17)	-	(5)	(11)	-	-	-	-	-	-	-	-	(1)	-	(369)	-	(369)
Nonoperating expense	-	-	(950)	-	(242)	(47)	(3,007)	(100)	(11)	(2,511)	-	(38)	-	(1,362)	(8)	(157)	-	(8,433)	-	(8,433)
<b>Total nonoperating income (expense)</b>	<b>1,953</b>	<b>(9)</b>	<b>(945)</b>	<b>(12)</b>	<b>(233)</b>	<b>(27)</b>	<b>(2,368)</b>	<b>(100)</b>	<b>(3)</b>	<b>(2,437)</b>	<b>-</b>	<b>(25)</b>	<b>-</b>	<b>(1,361)</b>	<b>(7)</b>	<b>(127)</b>	<b>-</b>	<b>(5,701)</b>	<b>749</b>	<b>(6,450)</b>
<b>INCREASE IN NET POSITION</b>	<b>26,849</b>	<b>(590)</b>	<b>(1,230)</b>	<b>1,721</b>	<b>(245)</b>	<b>455</b>	<b>(2,395)</b>	<b>(1,633)</b>	<b>948</b>	<b>1,643</b>	<b>(620)</b>	<b>360</b>	<b>(105)</b>	<b>(437)</b>	<b>3,774</b>	<b>1,267</b>	<b>(258)</b>	<b>29,504</b>	<b>-</b>	<b>29,504</b>
<b>NET POSITION — Beginning of year</b>	<b>9,751</b>	<b>(1,298)</b>	<b>8,996</b>	<b>7,863</b>	<b>2,065</b>	<b>4,494</b>	<b>30,357</b>	<b>2,575</b>	<b>5,291</b>	<b>15,347</b>	<b>1,241</b>	<b>3,563</b>	<b>2,377</b>	<b>6,579</b>	<b>12,007</b>	<b>10,601</b>	<b>1,235</b>	<b>123,044</b>	<b>-</b>	<b>123,044</b>
<b>NET POSITION— End of year</b>	<b>\$ 36,600</b>	<b>\$ (1,888)</b>	<b>\$ 7,766</b>	<b>\$ 9,584</b>	<b>\$ 1,820</b>	<b>\$ 4,949</b>	<b>\$ 27,962</b>	<b>\$ 942</b>	<b>\$ 6,239</b>	<b>\$ 16,990</b>	<b>\$ 621</b>	<b>\$ 3,923</b>	<b>\$ 2,272</b>	<b>\$ 6,142</b>	<b>\$ 15,781</b>	<b>\$ 11,868</b>	<b>\$ 977</b>	<b>\$ 152,548</b>	<b>\$ -</b>	<b>\$ 152,548</b>

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# Dave Yost • Auditor of State

**THE OHIO STATE UNIVERSITY PHYSICIANS, INC**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 14, 2017**