

**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, 2020 and 2019,
Supplemental Consolidating Schedules as of and
for the Years Ended June 30, 2020 and 2019,
And Report of Independent Auditors

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Ohio State University Physicians, Inc.
2040 Blankenship Hall
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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, 2019 through June 30, 2020. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

November 18, 2020

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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 accompanying consolidated financial statements of Ohio State University Physicians, Inc. (“OSUP”), a component unit of The Ohio State University, which comprise the consolidated statements of net position as of June 30 2020 and 2019, and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise OSUP’s basic consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to 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 Ohio State University Physicians, Inc. as of June 30, 2020 and 2019, and the changes in financial position and cash flows thereof 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 8, is required by accounting principles generally accepted in the United States of America to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise OSUP's basic consolidated financial statements. The supplemental consolidating schedules on pages 34 and 35 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 audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 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, 2020. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 19, 2020

OHIO STATE UNIVERSITY PHYSICIANS, INC.

(A component unit of The Ohio State University)

Management's Discussion and Analysis for the Years Ended June 30, 2020 and 2019 (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, 2020 and 2019. 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, 2020, 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, 2020. 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 Revenue, 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, 2020 and 2019. 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 Revenue, Expenses and Changes in Net Position is OSUP's income statement. It details how net position has increased (or decreased) during the years ended June 30, 2020 and 2019. 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, 2020 and 2019. It breaks out the sources and uses of OSUP cash into logical categories such as, operating activities, capital financing activities, and investing activities.

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(A component unit of The Ohio State University)

Management's Discussion and Analysis for the Years Ended June 30, 2020 and 2019 (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

As widely reported, the World Health Organization (WHO) declared the outbreak of a new strain of coronavirus (COVID-19) a global pandemic on March 11, 2020. In response to the public health crisis, the Governor of Ohio and the Director of the Ohio Department of Health took certain actions to limit the spread of the virus and its impact on the State's local communities and health care services. On March 17, 2020, the Director of the Ohio Department of Health (ODH) issued an order temporarily recommending that non-essential or elective surgeries and procedures be suspended. The recommendation from ODH to suspend non-essential or elective surgeries and procedures was withdrawn effective May 1, 2020.

Suspended operations due to the COVID-19 pandemic resulted in decreases in OSUP revenues and patient care volumes significantly below budget projections. Despite these challenges, however, OSUP's financial position remains strong and the organization continues its mission to provide medical care and support medical research and medical education at The Ohio State University.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted March 27, 2020 in response to the COVID-19 outbreak, includes provisions to provide support to individuals, companies and non-profit institutions in the form of loans, grants, tax changes and other types of relief. OSUP received \$11.8 million of Provider Relief Funds. Amounts provided to OSUP under CARES Act grant programs are recognized as non-operating revenues in the Consolidated Statement of Revenues, Expenses and Changes in Net Position as eligibility requirements are met. OSUP received \$12.6 million under the Medicare Accelerated and Advance Payment Program. These amounts are considered short-term loans and are reported as current liabilities in the Consolidated Statement of Net Position.

In response to the COVID-19 pandemic, OSUP is continuing to implement certain cost containment measures to address expected and potential revenue losses. These measures include a hiring pause with exceptions for essential services and key positions, a pause in merit-based compensation increases, restrictions on travel, and greater stringency on discretionary expenditures.

OSUP's net position increased \$8.3 million to \$205.7 million at June 30, 2020 as compared to prior year's growth in net position of \$28.0 million. Net Patient Revenues decreased by \$10.9 million, and Other Revenue, which includes Medical Center Investment, increased by \$34.8 million, while operating expenses grew by \$57.0 million and Nonoperating Income, which includes the Provider Relief Funds of \$11.8 million, increased by \$13.4 million.

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(A component unit of The Ohio State University)

Management's Discussion and Analysis for the Years Ended June 30, 2020 and 2019 (Unaudited)

Condensed Consolidated Statements of Net Position (in thousands)

	June 30, 2020	June 30, 2019	June 30, 2018
<u>ASSETS</u>			
Current assets	\$254,552	\$218,894	\$192,343
Capital assets	25,576	26,747	27,163
Noncurrent assets	27	62	1,527
TOTAL ASSETS	\$280,155	\$245,703	\$221,033
<u>LIABILITIES</u>			
Current liabilities	\$63,180	\$36,214	\$38,610
Long-term liabilities	11,314	12,124	13,046
TOTAL LIABILITIES	74,494	48,338	51,656
<u>NET POSITION</u>			
Net investment in capital assets	13,400	13,682	13,282
Unrestricted	192,261	183,683	156,095
Total net position	205,661	197,365	169,377
TOTAL LIABILITIES & NET POSITION	\$280,155	\$245,703	\$221,033

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 \$37.1 million from June 30, 2019 to June 30, 2020 and \$3.6 million from June 30, 2018 to June 30, 2019. The primary drivers for the increase from 2019 to 2020 were cash from operating activities of \$32.2 million, cash from investing activities of \$3.2 million and cash from noncapital financing activities of \$3.9 million, offset by cash used for capital financing activities of \$2.2 million. The primary drivers for the increase from 2018 to 2019 were cash from operating activities of \$24.7 million, offset by cash used for noncapital financing activities of \$10.8 million, cash used for capital financing activities of \$2.6 million and cash used for investing activities of \$7.7 million.

Short-term investments decreased by \$1.4 million from June 30, 2019 to June 30, 2020 and increased by \$11.6 million from June 30, 2018 to June 30, 2019. The changes in both years relates to the organizational needs to maintain cash reserves and invest shorter-term based upon the expected needs for future cash flow requirements.

Net patient care accounts receivable decreased by \$4.3 million from June 30, 2019 to June 30, 2020 due to the reduction in services provided beginning mid-March as a result of the coronavirus pandemic. Net patient care accounts receivable increased by \$5.6 million from June 30, 2018 to June 30, 2019 due to the growth in physicians and other providers, and thus encounters and productivity measured by work relative value units (WRVUs).

Property, plant, furniture, and equipment, net decreased by \$1.2 million from June 30, 2019 to June 30, 2020 as net additions of \$1.4 million were less than net retirements and reductions of \$2.6 million. Property, plant, furniture, and equipment, net decreased by \$416 thousand from June 30, 2018 to June 30, 2019 as assets purchased of \$3.5 million were less than depreciation expense of \$3.6 million taken for the year.

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Long-term investments were not held at June 30, 2020 or June 30, 2019, however \$1.5 million was held at June 30, 2018. The lack of long-term investments in fiscal year 2020 and the decrease in fiscal year 2019 relates to the organizational needs to maintain cash reserves and invest shorter-term based upon the expected needs for future cash flow requirements.

The increase in current liabilities of \$27.0 million from June 30, 2019 to June 30, 2020 was primarily related to the receipt of \$12.6 in Medicare Advance payments and increases in Due to Affiliates of \$9.8 million, Due to Others of \$3.5 million, and Accrued Salaries and Benefits of \$1.2M. The Due to Affiliates increase was related to the decision to delay payments in order to maintain cash balances with the uncertainty of cash needs due to the coronavirus pandemic. The decrease in current liabilities of \$2.4 million from June 30, 2018 to June 30, 2019 was primarily related to a reduction in unidentified cash. Cash receipts not yet identified are reflected as a liability until they are identified and applied.

Long-term liabilities decreased \$0.8 million from June 30, 2019 to June 30, 2020 and decreased \$0.9 million from June 30, 2018 to June 30, 2019 associated with payments made on long-term notes payable. The remaining long-term debt associated with various building projects is \$11.3 million as of June 30, 2020 and \$12.1 million as of June 30, 2019.

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, 2020, 2019, and 2018 is summarized as follows.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net patient care revenue less provisions for bad debts	\$ 375,852	\$ 386,787	\$ 368,074
Other revenue	208,369	173,535	157,722
Total operating expense	<u>(582,464)</u>	<u>(525,423)</u>	<u>(502,003)</u>
Operating income	\$ 1,757	\$ 34,899	\$ 23,793
Nonoperating (expense) income	6,539	(6,911)	(6,964)
Increase in net position	\$ 8,296	\$ 27,988	\$ 16,829
Net Position- Beginning of year	197,365	169,377	152,548
Net Position- End of year	<u>\$ 205,661</u>	<u>\$ 197,365</u>	<u>\$ 169,377</u>

Average monthly patient encounters was 230 thousand per month in the fiscal year ended June 30, 2020, 236 thousand per month in fiscal year ended June, 2019, and 229 thousand per month in fiscal year ended June 30, 2018. The 2020 decrease was primarily related to the reduction in outpatient visits and elective procedures as a result of the coronavirus pandemic beginning in mid-March. Due to the coronavirus, the number of patient encounters decreased in 2020 even though the number of physicians increased by 101 in 2020, to 1,080 physicians and the number of midlevel providers increased by 46, to 615 midlevel providers. The 2019 increase in patient encounters was primarily related to the growth in the number of physicians and other providers rendering patient services. The number of physicians increased by 13 in 2019, to 979 physicians and the number of midlevel providers increased by 43, to 569 midlevel providers.

Changes in net patient care revenue are associated with volume changes noted above as well as changes in rates charged and payments received for services, including the change in mix of services rendered to patients, and the payer mix of patients seen. Net patient care revenue decreased by \$10.9 million from fiscal year 2019 to fiscal year 2020 and increased \$18.7 million from fiscal year 2018 to fiscal year 2019. The 2020 decrease related to the modifications of services provided by OSUP, including the

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Management's Discussion and Analysis for the Years Ended June 30, 2020 and 2019 (Unaudited)

temporary suspension of elective procedures, in response to the coronavirus pandemic which began in mid-March and had a significant impact on patient volumes and OSUP revenues. The estimated impact to OSUP revenues in fiscal year 2020 was \$33.0 million. The 2019 increase related to growth in physicians and other practitioners during this year.

Other revenue increased \$34.8 million from fiscal year ended June 30, 2019 to June 30, 2020 and \$15.8 million from fiscal year ended June 30, 2018 to June 30, 2019. 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 increases in 2020 and 2019 were primarily due to increases in operating support payments through the University.

Operating expenses increased by \$57.0 million from fiscal year ended June 30, 2019 to June 30, 2020 and \$23.4 million from fiscal year ended June 30, 2018 to June 30, 2019. Approximately \$42.8 million of the 2020 increase came from physician and other provider related costs which was primarily due to new physicians and other providers entering the practice during fiscal year 2020. The 2020 increase was also impacted by an increase in staff salary and benefit costs of \$10.7 million which was due to an increase in staff FTEs and compensation adjustments during fiscal year 2020. Approximately \$18.2 million of the 2019 increase came from physician and other provider related costs which was primarily due to new practitioners entering the practice and compensation adjustments during fiscal year 2019. The 2019 increase was also impacted by an increase in staff salary and benefit costs of \$6.1 million which was primarily due to compensation adjustments during the year.

Nonoperating income (expense) increased \$13.4 million from fiscal year ended June 30, 2019 to June 30, 2020 and increased \$53 thousand from fiscal year ended June 30, 2018 to June 30, 2019. The 2020 increase came primarily from \$11.8 million of Provider Relief Funds from Health and Human Services (HHS) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

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.

CMS Physician Fee Schedule:

- 2016-2018 - .5% annual increase
- 2019 - .25% increase
- 2020-2025 – 0% annual increase
- 2026 and beyond - .25% annual increase or .75% for Advanced Alternative Payment Model (APM) qualified participants

CMS finalized blended rates for levels of service 2-4 to start January 1, 2021, but retracted them in later rulemaking. CMS will retain five levels of coding under evaluation and management (E/M) for established patients and four levels (removing level 1 – 99201) for new patients. Additionally, CMS is proposing to lower the conversion factor significantly in 2021 from \$36.09 to \$32.29, which is decrease of approximately 11%. The law mandates any CMS changes to be budget neutral, so the cuts are required in order to increase spending in other places, such as telehealth and the revised outpatient E/M services.

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

The details of these programs are many but the implications for OSUP involve positive or negative payment adjustments that are based upon our performance vs. our peers on various indicators. Negative payment adjustments for low performance could mean as much as a 9% reduction on Medicare Part B reimbursements for physicians services in years going out to 2022 to 2026. Adjustments for high performance could mean positive adjustments ranging from 2-6% in any one year going out to 2022 to 2026. This is being phased-in starting this year 2019, based on 2017 performance.

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

OHIO STATE UNIVERSITY PHYSICIANS, INC.
(A component unit of The Ohio State University)
CONSOLIDATED STATEMENTS OF NET POSITION *(in thousands)*
AS OF JUNE 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 169,009	\$ 131,951
Short-term investments	13,852	15,290
Accounts receivable — patient care — net of allowance	40,889	45,178
Accounts receivable — other	5,001	4,857
Due from affiliates	22,532	18,355
Inventories	771	1,356
Prepaid expenses	2,498	1,907
Total current assets	<u>254,552</u>	<u>218,894</u>
NONCURRENT ASSETS:		
Property, plant, furniture, and equipment — net of accumulated depreciation (\$24,625 in 2020 and \$34,556 in 2019)	25,576	26,747
Other assets	27	62
Total noncurrent assets	<u>25,603</u>	<u>26,809</u>
TOTAL ASSETS	<u>\$ 280,155</u>	<u>\$ 245,703</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,433	\$ 2,666
Accrued expenses	115	84
Medicare Advance Payment Program	12,585	-
Accrued salaries and wages	7,450	6,129
Due to affiliates	29,349	19,569
Notes payable and capital leases	863	942
Retirement and health plan accrual	1,232	1,027
Other current liabilities	9,153	5,797
Total current liabilities	<u>63,180</u>	<u>36,214</u>
LONG-TERM LIABILITIES:		
Notes payable and capital leases	11,314	12,124
Total long-term liabilities	<u>11,314</u>	<u>12,124</u>
NET POSITION:		
Net investment in capital assets	\$ 13,400	\$ 13,682
Unrestricted	192,261	183,683
Total net position	<u>205,661</u>	<u>197,365</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 280,155</u>	<u>\$ 245,703</u>

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

OHIO STATE UNIVERSITY PHYSICIANS, INC.

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

YEARS ENDED JUNE 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE:		
Net patient care revenue	\$ 383,816	\$ 395,587
Provisions for bad debts	(7,964)	(8,800)
Net patient care revenue less provisions for bad debts	375,852	386,787
Other revenue	208,369	173,535
	<hr/>	<hr/>
Total operating revenue	584,221	560,322
OPERATING EXPENSES:		
Salaries and benefits	482,512	428,111
Supplies and pharmaceuticals	19,706	20,049
Services	43,708	40,818
Dean's tax	15,870	14,477
Occupancy and utilities	10,914	11,122
Amortization and depreciation	3,393	3,580
Other expenses	6,361	7,266
	<hr/>	<hr/>
Total operating expenses	582,464	525,423
	<hr/>	<hr/>
Operating income	1,757	34,899
NONOPERATING INCOME (EXPENSES):		
Interest income	1,668	2,311
Nonoperating income	1,893	2,011
Provider Relief Funds	11,805	-
Gain from investments	103	62
Loss on sale of assets	(734)	(132)
Interest expense	(279)	(376)
Nonoperating expense	(7,917)	(10,787)
	<hr/>	<hr/>
Total nonoperating income (expense)	6,539	(6,911)
INCREASE IN NET POSITION	8,296	27,988
NET POSITION- Beginning of year	197,365	169,377
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NET POSITION- End of year	\$ 205,661	\$ 197,365
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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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Patient receipts-net	\$ 396,082	\$ 378,560
Other receipts	204,048	167,926
Payments to and on behalf of employees	(471,206)	(427,915)
Payments to vendors for supplies and services	(63,031)	(61,188)
Payments on malpractice and dean's tax	(15,870)	(14,477)
Payments on occupancy and utilities	(11,505)	(10,937)
Payments on other expenses	(6,361)	(7,266)
Net cash provided by operating activities	<u>32,157</u>	<u>24,703</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(4,281)	(3,403)
Proceeds from sale of capital assets	1,325	
Payments on debts and capital leases	(889)	(815)
Cash paid for interest	(279)	(376)
Rental income	1,928	2,011
Net cash used in capital and related financing activities	<u>(2,196)</u>	<u>(2,583)</u>
Cash flows from noncapital financing activities:		
Non operating expense	(7,917)	(10,787)
Provider Relief Funds	11,805	-
Net cash provided by (used in) noncapital financing activities	<u>3,888</u>	<u>(10,787)</u>
Cash flows from investing activities		
Purchase of investments	(12,385)	(35,889)
Proceeds from sale of investments	13,926	25,862
Interest income	1,668	2,311
Net cash provided by (used in) provided by investing activities	<u>3,209</u>	<u>(7,716)</u>
Net Increase in Cash	37,058	3,617
Cash and cash equivalents- Beginning of year	<u>131,951</u>	<u>128,334</u>
Cash and cash equivalents- End of year	<u>\$ 169,009</u>	<u>\$ 131,951</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 1,757	\$ 34,899
Adjustments to reconcile net operating income to net cash		
Amortization and depreciation	3,393	3,580
Changes in assets and liabilities:		
Accounts receivable-patient care - net of allowance	4,289	(5,609)
Accounts receivable- other	(144)	(108)
Due from affiliates	(4,177)	(5,501)
Inventories	585	(331)
Prepaid expenses	(591)	185
Accounts payable	(233)	90
Medicare Advance Payment Program	12,585	-
Due to affiliates	9,780	(442)
Accrued salaries and wages	1,321	650
Retirement and health plans accrual	205	(12)
Accrued expenses	31	(80)
Other liabilities	3,356	(2,618)
Net cash provided by operating activities	<u>\$ 32,157</u>	<u>\$ 24,703</u>
Non Cash Transactions		
Unrealized gain on investments	(100)	(12)

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, 2020, 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, 2020.

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 2020 and 2019, 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 \$5.5 million for fiscal year 2020 and \$28 thousand for fiscal year 2019.

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, U.S. Government obligations and corporate 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, U.S. government obligations and corporate 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 and improvements	5-40 years
Furniture and fixtures	5-15 years
Equipment	5-15 years
Other Depreciable assets	3-20 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.

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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. The estimated liability and the related contributions are based upon an independent actuarial determination as of June 30, 2020. The medical liability expense is recorded as period expenses for OSUP. There was no medical liability expense for fiscal years 2020 and 2019.

The University has also established a pure captive insurer (“Oval Limited”) that provides excess liability coverage over Fund II which retains \$4 million per occurrence with various aggregate limits and a \$2 million buffer layer in excess of this retention. Effective July 1, 2019, Oval Limited provides coverage with limits of \$85 million per occurrence and in the aggregate. The risk written for fiscal years 2020 and 2019 are fully reinsured by a combination of five reinsurance companies each of which has a minimum A.M. Best rating of A (Berkley Hathaway Specialty Insurance Company: A++, Endurance Specialty Insurance Ltd: A+, Medical Protective: A++, Arch Specialty Insurance Company: A+, and Liberty Specialty Markets Bermuda Limited: A).

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. Annual contributions from OSUP are recorded as period expenses. There were no contributions to Oval in fiscal years 2020 and 2019.

There has not been a settlement in the past two fiscal years which exceeded the combined limits provided by Fund II and Oval Limited. OSUP has not made any additional contributions in the last two years beyond its actuarially determined and Self Insurance Board approved funding levels. No self-insurance premiums were required to be paid by OSUP for the years ended June 30, 2020 and June 30, 2019.

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. Administrative adjustments represent amounts that will not be received for provided services due to various reasons, such as non-covered services, untimely filing of claims, insufficient documentation or invalid patient registration. OSUP applies a self-pay discount to self-pay accounts for non-cosmetic services which approximates the average managed care discount for patients with commercial insurance. Self-pay discounts as of June 30, 2020 and 2019 are \$17.5 million and \$16.4 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 \$9.5 million and \$11.9 million for the years ended June 30, 2020 and 2019, 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

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paid in arrears based upon federal calculations and paid through the state Medicaid program. Future payments are not recognized until amounts are determined, as future payments may not be realizable. Amounts recorded for fiscal year 2020 and fiscal year 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Gross patient care revenue	\$ 1,035,106	\$ 1,055,874
Contractual adjustments and other discounts	(641,636)	(652,400)
Administrative adjustments	(9,654)	(7,887)
Net patient care revenue	<u>\$ 383,816</u>	<u>\$ 395,587</u>
Provisions for bad debts	(7,964)	(8,800)
Net patient care revenue less provisions for bad debt	<u>\$ 375,852</u>	<u>\$ 386,787</u>

Additionally, net patient care revenue amounts recognized from major payor sources for fiscal year 2020 and fiscal year 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Third party payors	\$ 375,802	\$ 388,290
Self pay	8,014	7,297
Net patient care revenue	<u>\$ 383,816</u>	<u>\$ 395,587</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, 2020 and 2019 are \$8.4 million and \$7.9 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. As of June 30, 2020 and 2019, OSUP had no investments classified as Level 3.

New Accounting Standards – In fiscal year 2019, OSUP implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement 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 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. There was no impact on OSUP's financial statements as there were no asset retirement obligations identified for OSUP assets.

In fiscal year 2019, OSUP implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is intended to improve note disclosures related to debt, including direct borrowings and private placements. It defines debt, for disclosure purposes, as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) to settle an amount that is fixed at the date the contractual obligation is

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established. The standard requires additional disclosures related to unused lines of credit, assets pledged as collateral and significant provisions related to default, termination events and acceleration clauses. In addition, it requires that disclosures for direct borrowings and private placements be shown separately from other debt. Additional disclosures have been added to Note 5.

Newly Issued Accounting Pronouncements – In order to provide temporary relief to governments in light of the COVID-19 pandemic, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement - which was issued in May 2020 and is effective immediately - extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The effective dates of the accounting pronouncements below have been updated in accordance with Statement No. 95.

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 that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2019 (FY2021).

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 June 15, 2021 (FY2022).

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This standard requires that interest cost incurred during the period of construction be recognized as an expense in the period in which the cost is incurred. These costs will no longer be included in the historical costs of capital assets. The standard is effective for periods beginning after December 15, 2020 (FY2022) and will be applied on a prospective basis.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. This standard establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The standard is effective for periods beginning after December 15, 2019 (FY2021).

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

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. This Statement clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units and modifies the applicability of certain component unit criteria as they relate to defined contribution

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pension plans, defined contribution OPEB plans, and other employee benefit plans. It also establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans and modifies the investment valuation requirements for all Section 457 plans. The provisions that limit the applicability of the "absence of a governing board" and "financial burden" criteria to arrangements other than defined contribution plans would be effective immediately; other provisions would be effective for reporting periods beginning after June 15, 2021 (FY2022).

OSUP management is currently assessing the impact that implementation of GASB Statements No. 84, 87, 89, 90, 95, 96 and 97 will have on OSUP's financial statements.

NOTE 2 – COVID-19 AND CARES ACT ASSISTANCE

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

Health Care Provider Relief Funds:

The CARES Act provided \$100 billion to establish a Provider Relief Fund for hospitals and other healthcare providers. These funds are to be used to prevent, prepare for, and respond to coronavirus, and further states these payments shall reimburse recipients only for healthcare related expenses or lost revenues that are attributable to coronavirus. Health and Human Services (HHS) distributed Provider Relief Funds totaling \$11.8 million to OSUP. The receipt of these funds is considered a voluntary nonexchange transaction and is accounted for using GASB 33, Nonexchange transactions. Accordingly, the full amount of Provider Relief Funds is recognized as non-exchange revenue for the year ended June 30, 2020. Refer to Note 11 -Subsequent Events for information related to changes in reporting requirements issued by HHS subsequent to the financial statement date.

Medicare Advance Payment Program:

The CARES Act expands the Medicare Accelerated and Advance Payment Program. An accelerated or advance payment is intended to provide necessary funds when there is a disruption in claims submission and/or claims processing. These expedited payments can also be offered in circumstances such as national emergencies or natural disasters to accelerate cash flow to the impacted healthcare providers and suppliers. OSUP received advance payments under this program totaling \$12.6 million. The advance payments represent interest-free loans to OSUP and will be recorded as a current liability. OSUP will repay the funds in fiscal 2021. Refer to Note 11 -Subsequent Events for information related to changes in the recoupment period.

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2020, the carrying amount of OSUP's cash and cash equivalents is \$169.0 million as compared to bank balances of \$169.4 million. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$3.6 million is covered by federal deposit insurance and \$7.6 million is invested in interest bearing accounts spread among various money market funds.

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At June 30, 2019, the carrying amount of OSUP's cash and cash equivalents is \$132.0 million as compared to bank balances of \$133.8 million. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$3.4 million is covered by federal deposit insurance and \$6.1 million is invested in interest bearing accounts spread among various 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.

OSUP had no Long-Term Investments at June 30, 2020 or June 30, 2019.

Detail as of June 30, 2020 and 2019 follows (in thousands):

	<u>Cash and Cash Equivalents</u>	<u>Short-Term Investments</u>
2020		
Demand Deposits & Cash	\$ 161,371	\$ -
Money Market Funds	7,638	-
Certificates of Deposits (maturing 2020-2021)		502
U.S. Government Obligations (maturing 2020)	-	13,350
	<u>\$ 169,009</u>	<u>\$ 13,852</u>
2019		
Demand Deposits & Cash	\$ 125,845	\$ -
Money Market Funds	6,106	-
Certificates of Deposits (maturing 2019)		750
U.S. Government Obligations (maturing 2019)	-	13,042
Corporate Bonds (maturing 2019-2020)	-	1,498
	<u>\$ 131,951</u>	<u>\$ 15,290</u>

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Investments by fair value hierarchy summarized in Note 1 as of June 30, 2020 and June 30, 2019 are as follows:

	<u>Quoted Prices in Active Market (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Total Fair Value</u>
2020			
Certificates of Deposits	\$ 502	\$ -	\$ 502
U.S. Government Obligations	-	13,350	13,350
	<u>\$ 502</u>	<u>\$ 13,350</u>	<u>\$ 13,852</u>
2019			
Certificates of Deposits	\$ 750	\$ -	\$ 750
U.S. Government Obligations	-	13,042	13,042
Corporate Bonds and Notes	-	1,498	1,498
	<u>\$ 750</u>	<u>\$ 14,540</u>	<u>\$ 15,290</u>

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, 2020 and June 30, 2019 are as follows:

	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	<u>Investment Maturities (in years)</u>		<u>Investment Maturities (in years)</u>	
	<u>Fair Value</u>	<u>Less than 1</u>	<u>Fair Value</u>	<u>Less than 1</u>
U.S. Government Obligations	\$ 13,350	\$ 13,350	\$ 13,042	\$ 13,042
Corporate Bonds	-	-	1,498	1,498
	<u>\$ 13,350</u>	<u>\$ 13,350</u>	<u>\$ 14,540</u>	<u>\$ 14,540</u>

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.

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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, 2020 are as follows:

	Total	AA+	A+	AA-
U.S. Government Obligations	\$ 13,350	\$ 13,350	\$ -	\$ -
	\$ 13,350	\$ 13,350	\$ -	\$ -

The credit ratings of OSUP’s interest bearing investments at June 30, 2019 are as follows:

	Total	AA+	A+	AA-
U.S. Government Obligations	\$ 13,042	\$ 13,042	\$ -	\$ -
Corporate Bonds	1,498	-	999	499
	\$ 14,540	\$ 13,042	\$ 999	\$ 499

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, 2020 and 2019, OSUP had no investments in issuers that represent 5% or more of total investments, excluding US government.

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, 2020 and 2019, OSUP had no deposits or investments denominated in foreign currencies.

NOTE 4 - 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, 2020 and 2019 consist of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Gross patient accounts receivable	\$ 113,779	\$ 124,960
Allowance for contractual adjustments	(66,219)	(71,880)
Allowance for bad debt	(6,671)	(7,902)
Total	\$ 40,889	\$ 45,178

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Medicare	23%	22%
Medicaid	15%	14%
Commercial/other third party payors	43%	46%
Patient	19%	18%
	<u>100%</u>	<u>100%</u>

NOTE 5 - PROPERTY, PLANT, FURNITURES, AND EQUIPMENT

The composition of Property, plant, furniture, and equipment as of June 30, 2020 is as follows (in thousands):

	<u>Beginning</u>		<u>Retirements/</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Property, plant, furniture, and equipment not being depreciated:				
Land	\$ 2,090	\$ -	\$ -	\$ 2,090
Construction in progress	68	359	68	359
Total non-depreciable assets	<u>2,158</u>	<u>359</u>	<u>68</u>	<u>2,449</u>
Property, plant, furniture, and equipment being depreciated:				
Land improvements	\$ 8,566	\$ 499	\$ 2,886	\$ 6,179
Buildings	17,981	1,536	1,345	18,172
Equipment	20,185	968	8,799	12,354
Furniture and Fixtures	3,819	79	1,554	2,344
Other Depreciable Assets	8,594	1,376	1,267	8,703
Total	<u>\$ 59,145</u>	<u>\$ 4,458</u>	<u>\$ 15,851</u>	<u>\$ 47,752</u>
Less: Accumulated Depreciation	<u>(34,556)</u>	<u>(3,393)</u>	<u>(13,324)</u>	<u>(24,625)</u>
Total depreciable assets, net	<u>24,589</u>	<u>1,065</u>	<u>2,527</u>	<u>23,127</u>
Property, plant, furniture, and equipment, Net	<u>\$ 26,747</u>	<u>\$ 1,424</u>	<u>\$ 2,595</u>	<u>\$ 25,576</u>

Depreciation expense for the year ended June 30, 2020 was \$3.4 million, including \$0.8 million of depreciation expense for Other Depreciable Assets.

Additions to property, plant, furniture, and equipment, net of retirements and reductions, for the year ended June 30, 2020 do not include any transfers from construction in progress.

Disposals of property, plant, furniture, and equipment for the year ended June 30, 2020 included primarily assets retired as they were replaced by recent renovations, and assets which no longer met capitalization thresholds.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

The composition of property, plant, furniture, and equipment as of June 30, 2019 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, furniture, and equipment not being depreciated:				
Land	\$ 2,090	\$ -	\$ -	\$ 2,090
Construction in progress	2,585	338	2,855	68
Total non-depreciable assets	4,675	338	2,855	2,158
Property, plant, furniture, and equipment being depreciated:				
Land improvements	\$ 5,804	\$ 3,066	\$ 304	\$ 8,566
Buildings	17,981	-	-	17,981
Equipment	19,198	1,072	85	20,185
Furniture and Fixtures	3,511	308	-	3,819
Other Depreciable Assets	7,189	1,976	571	8,594
Total	\$ 53,683	\$ 6,422	\$ 960	\$ 59,145
Less: Accumulated Depreciation	(31,195)	(3,724)	(363)	(34,556)
Total depreciable assets, net	22,488	2,698	597	24,589
Property, plant, furniture, and equipment, Net	<u>\$ 27,163</u>	<u>\$ 3,036</u>	<u>\$ 3,452</u>	<u>\$ 26,747</u>

Depreciation expense for the year ended June 30, 2019 was \$3.6 million, including \$1.1 million of depreciation expense for Other Depreciable Assets.

Additions to property, plant, furniture, and equipment, net of retirements and reductions, for the year ended June 30, 2019 include \$2.86 million of transfers from construction in progress.

Disposals of property, plant, furniture, and equipment for the year ended June 30, 2019 included primarily assets retired due to relocations of patient care sites, and additional routine asset retirements.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

Note 6 - NOTE PAYABLE — LONG TERM DEBT

DEBT – Changes in long-term obligations as of June 30, 2020 and 2019 are as follows (in thousands):

June 30, 2020	<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 interest of 2.556% annum. Bond due July, 2035	\$ 11,910	\$ -	\$ 570	\$ 11,340	\$ 586
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	1,109	-	272	837	277
Capital Lease Obligations	47	-	47	-	-
	<u>\$ 13,066</u>	<u>\$ -</u>	<u>\$ 889</u>	<u>\$ 12,177</u>	<u>\$ 863</u>

June 30, 2019	<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 interest of 2.556% annum. Bond due July, 2035	\$ 12,437	\$ -	\$ 527	\$ 11,910	\$ 625
Term loan payable in monthly installments of principal and fixed interest of 2.30% annum. Loan due May, 2023	1,346	-	237	1,109	270
Capital Lease Obligations	98	-	51	47	47
	<u>\$ 13,881</u>	<u>\$ -</u>	<u>\$ 815</u>	<u>\$ 13,066</u>	<u>\$ 942</u>

There were no new borrowings in 2020 or 2019 and OSUP paid cash of \$889 thousand and \$815 thousand related to repayments in fiscal year 2020 and 2019, respectively.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

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 2020 and 2019.

The Series 2013 healthcare facilities revenue bond is to be paid monthly with payments of principal and interest to be made until July 1, 2035. An interest rate of 2.103% per annum was used to calculate payments through December 31, 2017. The interest rate increased to 2.556% per annum effective January 1, 2018. The interest rate increased as the terms of the bonds state that in the event of a decrease in the corporate tax rate, the interest rate on the bonds shall be increased to the Adjusted Tax Exempt Rate. The annual interest expense was \$298 thousand for fiscal year 2020 and \$316 thousand for fiscal year 2019.

On May 1, 2013, at the same time the 2013 healthcare facilities revenue bonds were issued, a term loan was issued in the amount of \$2.6 million. Included in the term loan is the taxable portion of OBGYN's build out for their Mill Run location. Monthly payments of principal and fixed interest on the term loan are to be made until May 1, 2023. An interest rate of 2.3% per annum was used to calculate payments. The annual interest expense was \$23 thousand for fiscal year 2020 and \$27 thousand for fiscal year 2019.

Debt service requirements on long-term debt as of June 30, 2020, are as follows (in thousands):

	<u>Bonds</u>		<u>Term Loan</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2021	586	283	277	18	1,164
2022	601	268	284	11	1,164
2023	616	252	276	4	1,148
2024	632	236			868
2025	649	220			869
2026-2030	3,503	840			4,343
2031-2035	3,981	363			4,344
2036	772	2			774
	<u>\$ 11,340</u>	<u>\$ 2,464</u>	<u>\$ 837</u>	<u>\$ 33</u>	<u>\$ 14,674</u>

CAPITAL LEASE OBLIGATIONS

OSUP will sometimes finance certain movable equipment as capital leases. The final payment on the outstanding capital leases was paid in June, 2020. The original cost, accumulated amortization and lease obligations related to these capital leases as of June 30, 2019 are \$153 thousand, \$107 thousand and \$47 thousand, respectively.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

NOTE 7 – 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, 2020 and 2019, 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>
2020					
Unearned Revenue	\$ 138	\$ -	\$ 138	\$ -	\$ -
Due to Others	5,659	108,782	105,288	9,153	9,153
	<u>\$ 5,797</u>	<u>\$ 108,782</u>	<u>\$ 105,426</u>	<u>\$ 9,153</u>	<u>\$ 9,153</u>
2019					
Unearned Revenue	\$ 542	\$ 4,676	\$ 5,080	\$ 138	\$ 138
Due to Others	7,964	96,230	98,535	5,659	5,659
	<u>\$ 8,506</u>	<u>\$ 100,906</u>	<u>\$ 103,615</u>	<u>\$ 5,797</u>	<u>\$ 5,797</u>

NOTE 8 - 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, 2020 and 2019, 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 \$31.8 million for these healthcare services in fiscal year 2020 and \$31.2 million in fiscal year 2019 and is reflected in Net patient care revenue.

Balances due from each affiliate as of June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Due from OSU Health System	\$ 21,102	\$ 10,829
Due from COMPH	1,430	7,526
	<u>\$ 22,532</u>	<u>\$ 18,355</u>

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

Due to:

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

COMPH- Under the College of Medicine Medical Practice Plan, OSUP is obligated to contribute to the OSU College of Medicine Academic Enrichment Fund, Teaching and Research Fund ("Academic Enrichment"), and Strategic Initiative Fund. Academic Enrichment is paid to the Dean's office for support of the academic, research, and clinical missions of the 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 \$3.2 million and \$5.9 million in contributions to OSU departments to fund endowments and support research funds during fiscal years 2020 and 2019 respectively. Dean's tax and strategic initiative expenses as of June 30, 2020 and 2019 are \$15.9 million and \$14.5 million respectively. OSUP has operating leases for various facility spaces with the University. The lease expenses paid to the University as of June 30, 2020 and 2019 are \$5.7 million and \$5.8 million respectively.

Balances due to each affiliate as of June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Due to OSU Health System	\$ 11,659	\$ 10,756
Due to COMPH	17,690	8,813
	<u>\$ 29,349</u>	<u>\$ 19,569</u>

NOTE 9 - RETIREMENT AND HEALTH PLANS

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) defined contribution plan administered by an insurance company. OSUP is required to make nondiscretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, a small number of current employees receive additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Three employees were grandfathered into the additional contributions due to their years of service at the time of a nondiscretionary contribution rate change effective July 1, 2009. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was \$6.4 million and \$5.8 million for the years ended June 30, 2020 and 2019, respectively. Employee contributions were \$2.5 million and \$2.1 million for the years ended June 30, 2020 and 2019, respectively.

OSUP participates in a health insurance plan covering substantially all non-physician employees. All physician employees and certain non-physician employees receive benefits through the health care plan sponsored by the University. Covered services under both plans include medical, dental, and vision benefits, life insurance, and long term disability. Health Insurance premium payments to the University as of June 30, 2020 and 2019 are \$13.6 million and \$12.9 million respectively. There were no outstanding premiums due at the end of both years.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases — OSUP leases various equipment and facilities under operating leases expiring at various dates through 2028. Total rental expense in 2020 and 2019 for all operating leases was approximately \$7.9 million for both years, 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, 2020, that have initial or remaining lease terms in excess of one year.

Year ended June 30	
2021	\$ 7,180
2022	4,573
2023	4,095
2024	3,379
2025	2,666
2026-2028	4,488
TOTAL	<u><u>\$ 26,381</u></u>

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

COVID-19 — The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets. The outbreak and related actions taken by federal and state governments may materially impact the OSUP's financial position and its results of operations. While the impacts of COVID-19 may materially affect financial results for 2021 and potentially beyond, OSUP management believes that the OSUP has sufficient liquidity to meet its operating and financial needs in fiscal year 2021. However, given the difficulty in predicting the duration and severity of the COVID-19 pandemic and its effects on OSUP, the economy and financial markets, the ultimate impact is unknown. OSUP management continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the community and promote the continuity of OSUP's mission.

OHIO STATE UNIVERSITY PHYSICIANS, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 and 2019

NOTE 11 – SUBSEQUENT EVENTS

OSUP evaluated subsequent events through October 19, 2020, the date the financial statements were issued. All material matters are disclosed in the footnotes to the financial statements except for the new reporting requirements described below.

Provider Relief Funds - OSUP received \$11.8 million and recognized \$11.8 million of nonoperating income during fiscal 2020 related to the CARES Act Provider Relief Funds taking into consideration information available at June 30, 2020 based upon laws and regulations governing the funding as well as interpretations issued by the U.S. Department of Health and Human Services (HHS). In September 2020, HHS issued new reporting requirements for the Provider Relief Funds (PRF). The new requirements first require the OSUP to identify healthcare related expenses attributable to coronavirus that another source has not reimbursed. If those expenses do not exceed the funding received, OSUP will need to demonstrate that the remaining provider relief funds were used for a negative change in calendar year 2020 patient care operating income compared to calendar year 2019. HHS is entitled to recoup amounts in excess of the negative change in patient care operating income reported net of healthcare related expenses. Due to these new reporting requirements there is at least a reasonable possibility that amounts recorded under CARES Act Provider Relief Funds may change in future periods.

Medicare Advance Payment Program - OSUP received advance payments under the Medicare Accelerated and Advance Payment Program totaling \$12.6 million. Amounts provided are considered short-term loans and are reported as current liabilities in the Statement of Net Position as the Health System had previously planned to repay the funds in fiscal 2021. The Continuing Appropriations Act, 2021 and Other Extensions Act was signed into law on October 1, 2020 and as part of the legislation, the recoupment period was extended up to 29 months after the initial payments were issued.

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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, which comprise the consolidated statement of net position as of June 30, 2020, and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 19, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 19, 2020

SUPPLEMENTAL CONSOLIDATING SCHEDULES

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES

(A component unit of The Ohio State University)

CONSOLIDATING STATEMENT OF NET POSITION

AS OF JUNE 30, 2020

(IN THOUSANDS)

	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
ASSETS																				
CURRENT ASSETS:																				
Cash and cash equivalents	\$ 79,885	\$ 5	\$ 5,903	\$ 8,626	\$ 120	\$ 809	\$ 8,535	\$ 279	\$ 3,060	\$ 22,495	\$ 191	\$ 3,020	\$ 1,233	\$ 3,933	\$ 27,482	\$ 3,221	\$ 212	\$ 169,009	\$ -	\$ 169,009
Short-term investments	3,100	-	-	502	1,525	-	4,425	-	-	-	-	-	-	-	4,300	-	-	13,852	-	13,852
Accounts receivable — patient care - net of allowance	(250)	427	2,440	1,431	-	1,918	13,006	1,279	2,241	3,140	1,072	1,092	623	2,400	3,784	5,352	934	40,889	-	40,889
Accounts receivable — other	(2,043)	3,769	36	869	-	202	564	78	389	89	178	28	546	18	(99)	417	(40)	5,001	-	5,001
Due from affiliates	25,692	185	658	1,239	-	1,384	9,471	1,125	443	688	296	300	1,471	368	883	3,518	255	47,976	25,444	22,532
Inventories	26	16	-	276	-	234	-	13	-	-	146	38	-	-	-	-	22	771	-	771
Prepaid expenses	473	38	-	4	-	81	935	1	54	216	17	67	39	-	4	533	36	2,498	-	2,498
Total current assets	106,883	4,440	9,037	12,947	1,645	4,628	36,936	2,775	6,187	26,628	1,900	4,545	3,912	6,719	32,054	17,341	1,419	279,996	25,444	254,552
NONCURRENT ASSETS:																				
Property, plant, furnishings, and equipment-net of accumulated depreciation	9,865	10	4	2,534	-	2,021	7,798	129	1,197	884	53	139	138	-	-	670	134	25,576	-	25,576
Long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	536	-	-	1	-	-	12	0	6	8	-	-	-	-	-	0	-	563	536	27
Total noncurrent assets	10,401	10	4	2,535	-	2,021	7,810	129	1,203	892	53	139	138	-	-	670	134	26,139	536	25,603
TOTAL ASSETS	\$ 117,284	\$ 4,450	\$ 9,041	\$ 15,482	\$ 1,645	\$ 6,649	\$ 44,746	\$ 2,904	\$ 7,390	\$ 27,520	\$ 1,953	\$ 4,684	\$ 4,050	\$ 6,719	\$ 32,054	\$ 18,011	\$ 1,553	\$ 306,135	\$ 25,980	\$ 280,155
LIABILITIES AND NET POSITION																				
CURRENT LIABILITIES:																				
Accounts payable	\$ 1,835	\$ 38	\$ -	\$ 41	\$ -	\$ 34	\$ 91	\$ 83	\$ 31	\$ 180	\$ 88	\$ 8	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ 2,433	\$ -	\$ 2,433
Accrued expenses	80	4	-	-	14	1	-	-	-	16	-	-	-	-	-	-	-	115	-	115
Medicare Advance Payment Program	12,985	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,985	-	12,985
Accrued salaries and wages	2496	289	4	270	4	337	1,966	78	235	1,544	40	38	-	23	-	75	51	7,450	-	7,450
Due to affiliates — current portion	23,150	5,742	1,984	332	(1)	(124)	9,659	1,914	343	257	1,577	1,311	968	1,435	5,180	440	596	54,793	25,444	29,349
Notes payable and capital leases — current portion	863	-	-	-	-	-	-	-	0	-	-	-	-	-	-	-	-	863	-	863
Retirement and health plan accrual	305	-	1	52	-	49	369	18	30	361	11	9	-	2	-	13	12	1,232	-	1,232
Other current liabilities	6097	17	288	97	-	89	1,439	55	99	137	61	60	109	79	327	168	31	9153	-	9153
Total current liabilities	47,441	6,090	2,277	792	17	386	13,524	2,148	738	2,495	1,777	1,426	1,077	1,539	5,507	700	690	88,624	25,444	63,180
LONG-TERM LIABILITIES:																				
Notes payable and capital leases — less current portion	11,314	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,314	-	11,314
Due to affiliates and other — less current portion	-	-	-	536	-	-	-	-	-	-	-	-	-	-	-	-	-	536	536	-
Other long term liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total long term liabilities	11,314	-	-	536	-	-	-	-	-	-	-	-	-	-	-	-	-	11,850	536	11,314
COMMITMENTS AND CONTINGENCIES (Note 10)																				
NET POSITION:																				
Net investment in capital assets	(2,311)	10	4	2,534	-	2,021	7,798	129	1,197	884	54	139	138	-	-	670	133	13,400	-	13,400
Unrestricted	60,840	(1,650)	6,760	11,620	1,628	4,242	23,424	627	5,455	24,141	122	3,119	2,835	5,180	26,547	16,641	730	192,261	-	192,261
Total net position	58,529	(1,640)	6,764	14,154	1,628	6,263	31,222	756	6,652	25,025	176	3,258	2,973	5,180	26,547	17,311	863	205,661	-	205,661
TOTAL LIABILITIES AND NET POSITION	\$ 117,284	\$ 4,450	\$ 9,041	\$ 15,482	\$ 1,645	\$ 6,649	\$ 44,746	\$ 2,904	\$ 7,390	\$ 27,520	\$ 1,953	\$ 4,684	\$ 4,050	\$ 6,719	\$ 32,054	\$ 18,011	\$ 1,553	\$ 306,135	\$ 25,980	\$ 280,155

OHIO STATE UNIVERSITY PHYSICIANS INC., AND SUBSIDIARIES
(A component unit of The Ohio State University)
CONSOLIDATING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

	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
OPERATING REVENUE:																				
Net Patient Care Revenue	\$ 6,876	\$ 4,074	\$ 23,359	\$ 15,909	\$ -	\$ 19,427	\$ 140,963	\$ 12,633	\$ 20,113	\$ 24,040	\$ 8,470	\$ 7,646	\$ 6,609	\$ 12,733	\$ 38,584	\$ 33,948	\$ 8,432	\$ 383,816	\$ -	\$ 383,816
Provisions for bad debt	-	120	1,928	294	-	304	2,729	267	340	515	160	76	204	34	653	189	151	7,964	-	7,964
Net patient care revenue less provisions for bad debts	6,876	3,954	21,431	15,615	-	19,123	138,234	12,366	19,773	23,525	8,310	7,570	6,405	12,699	37,931	33,759	8,281	375,852	-	375,852
Other revenue	62,550	3,568	8,273	7,524	-	5,372	112,570	8,581	1,840	13,776	2,738	2,815	9,250	20	2,857	17,665	2,362	261,761	53,392	208,369
Total operating revenue	69,426	7,522	29,704	23,139	-	24,495	250,804	20,947	21,613	37,301	11,048	10,385	15,655	12,719	40,788	51,424	10,643	637,613	53,392	584,221
OPERATING EXPENSES:																				
Salaries and benefits	32,100	6,322	25,035	16,228	-	17,129	205,571	15,188	15,725	27,355	7,252	7,839	12,957	11,142	32,759	42,383	7,546	482,531	19	482,512
Supplies and pharmaceuticals	1,320	447	54	569	-	2,016	5,451	1,865	1,413	2,695	2,397	262	39	9	89	429	651	19,706	-	19,706
Services	12,334	358	2,623	3,976	-	1,326	20,653	1,305	1,637	3,637	572	860	775	578	2,645	3,645	997	57,921	14,213	43,708
Dean's tax	17,844	(466)	839	538	-	676	5,967	427	832	1,263	253	379	252	544	1,524	2,034	342	33,248	17,378	15,870
Occupancy and utilities	2,045	229	27	58	-	1,274	5,144	330	667	280	189	326	477	-	-	132	423	11,601	687	10,914
Amortization and depreciation	419	27	1	248	-	352	1,490	46	380	136	18	21	19	-	-	172	64	3,393	-	3,393
Other expenses	(18)	201	1,179	1,371	-	1,867	12,302	1,653	1,337	1,116	699	558	1,106	715	1,299	2,034	709	28,128	21,767	6,361
Total operating expenses	66,044	7,118	29,758	22,988	-	24,640	256,578	20,814	21,991	36,482	11,380	10,245	15,625	12,988	38,316	50,829	10,732	636,528	54,064	582,464
Operating income	3,382	404	(54)	151	-	(145)	(5,774)	133	(378)	819	(332)	140	30	(269)	2,472	595	(89)	1,082	(672)	1,757
NONOPERATING INCOME (EXPENSES):																				
Interest income	474	-	79	125	16	22	151	5	46	253	3	28	4	44	289	123	6	1,668	-	1,668
Nonoperating income	2,132	-	-	-	-	14	414	-	-	-	5	-	-	-	-	892	950	220	11,805	672
Provider Relief Funds	-	116	610	429	-	295	5541	564	369	606	346	159	451	257	892	950	220	11,805	-	11,805
(Loss) income from investments	24	-	-	4	12	-	34	-	-	(3)	-	-	-	-	-	32	-	103	-	103
Loss on sale of assets	(421)	-	-	(51)	-	(40)	(154)	(42)	(11)	-	-	(4)	-	-	-	(1)	(10)	(734)	-	(734)
Interest	(306)	44	-	(17)	-	-	-	-	-	-	-	-	-	-	-	-	-	(279)	-	(279)
Nonoperating expense	(5,315)	-	(263)	-	(14)	(46)	(1,097)	(23)	(23)	(20)	-	(25)	(19)	(2)	(676)	(394)	-	(7,917)	-	(7,917)
Total nonoperating income (expense)	(3,412)	160	426	490	14	245	4,889	504	381	836	354	158	436	299	505	710	216	7,211	672	6,539
Other changes in net position - capital contribution	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INCREASE IN NET POSITION	(30)	564	372	641	14	100	(885)	637	3	1,655	22	298	466	30	2,977	1,305	127	8,296	-	8,296
NET POSITION — Beginning of year	58,559	(2,204)	6,392	13,513	1,614	6,163	32,107	119	6,649	23,370	154	2,960	2,507	5,150	23,570	16,006	736	197,365	-	197,365
NET POSITION — End of year	58,529	(1,640)	6,764	14,154	1,628	6,263	31,222	756	6,652	25,025	176	3,258	2,973	5,180	26,547	17,311	863	205,661	-	205,661

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OHIO AUDITOR OF STATE KEITH FABER



THE OHIO STATE UNIVERSITY PHYSICIANS INC.

FRANKLIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/1/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

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