

University of Cincinnati Physicians, Inc.

Auditors' Reports and Financial Statements

June 30, 2012





Dave Yost • Auditor of State

Board of Directors
University of Cincinnati Physicians, Inc.
222 Piedmont Avenue
Suite 1200
Cincinnati, OH 45219

We have reviewed the *Independent Auditors' Report* of the University of Cincinnati Physicians, Inc., Hamilton County, prepared by BKD, LLP, for the audit period July 1, 2011 through June 30, 2012. 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 University of Cincinnati Physicians, Inc. is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

December 31, 2012

This page intentionally left blank.

University of Cincinnati Physicians, Inc.
June 30, 2012

Contents

Independent Auditors' Report..... 1

Financial Statements

Balance Sheet 2
Statement of Operations and Changes in Net Assets..... 3
Statement of Cash Flows 4
Notes to Financial Statements 5

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards* 10**

This page intentionally left blank.

Independent Auditors' Report

Board of Directors
University of Cincinnati Physicians, Inc.
Cincinnati, Ohio

We have audited the accompanying balance sheet of University of Cincinnati Physicians, Inc. (UCP) as of June 30, 2012, and the related statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of UCP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Cincinnati Physicians, Inc. as of June 30, 2012 and the results of its operations and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of the UCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

October 15, 2012

University of Cincinnati Physicians, Inc.

Balance Sheet

June 30, 2012

Assets

Current Assets

Cash and cash equivalents	\$ 830,301
Interest in investment pool	3,230,058
Accounts receivable	12,257,242
Due from affiliates	18,364
Prepaid expenses	203,597
	<hr/>
Total current assets	16,539,562

Other Assets

Other receivables	568,881
Receivable from UC trust for medical malpractice self-insurance	12,570,541
	<hr/>
	13,139,422
	<hr/>
Total assets	\$ 29,678,984

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 1,439,612
Accrued expenses	13,080,358
	<hr/>
Total current liabilities	14,519,970

Estimated Self-insurance Medical Malpractice Costs

	12,570,541
	<hr/>
Total liabilities	27,090,511

Net Assets

	2,588,473
	<hr/>
Total liabilities and net assets	\$ 29,678,984

University of Cincinnati Physicians, Inc.
Statement of Operations and Changes in Net Assets
Year Ended June 30, 2012

Unrestricted Revenues, Gains and Other Support	
Contract revenue	\$ 206,635,536
Other operating revenue	<u>6,048,851</u>
Total unrestricted revenues, gains and other support	<u>212,684,387</u>
Expenses and Losses	
Salaries and wages	169,987,406
Employee benefits	36,551,278
Purchased services and professional fees	2,146,018
Other	<u>1,046,047</u>
Total expenses and losses	<u>209,730,749</u>
Operating Income	<u>2,953,638</u>
Other Expenses	
Investment loss	(284,367)
Other	<u>(80,798)</u>
Total other expenses	<u>(365,165)</u>
Excess of Revenues Over Expenses	2,588,473
Contribution of assets to UCPC	<u>(114,443,268)</u>
Change in Net Assets	(111,854,795)
Net Assets, Beginning of Year	<u>114,443,268</u>
Net Assets, End of Year	<u><u>\$ 2,588,473</u></u>

University of Cincinnati Physicians, Inc.
Statement of Cash Flows
Year Ended June 30, 2012

Operating Activities	
Change in net assets	\$ (111,854,795)
Items not requiring (providing) operating cash flow	
Net realized loss on interest in investment pool	284,367
Contribution of assets to UCPC	113,282,833
Changes in	
Accounts receivable	(12,257,242)
Accounts payable and accrued expenses	14,519,970
Other current assets and liabilities	<u>(790,842)</u>
Net cash provided by operating activities	<u>3,184,291</u>
Investing Activities	
Net change in interest in investment pool	<u>(3,514,425)</u>
Net cash used in investing activities	<u>(3,514,425)</u>
Decrease in Cash and Cash Equivalents	(330,134)
Cash and Cash Equivalents, Beginning of Year	<u>1,160,435</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 830,301</u></u>
Supplemental Cash Flows Information	
Noncash contribution of assets to UCPC	\$ 113,282,833

University of Cincinnati Physicians, Inc.
Notes to Financial Statements
June 30, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

University of Cincinnati Physicians, Inc. (UCP) is a 501(c)(3) tax-exempt corporation located in Cincinnati, Ohio. UCP is organized as a faculty practice plan that employs physician faculty of the University of Cincinnati College of Medicine (UCCOM), who provide clinical patient care services in furtherance of the UCCOM's mission. As part of its mission, UCP leases employees to University of Cincinnati Physician's Company (UCPC), a subsidiary of UC Health and an affiliate organization of the University of Cincinnati (University) and the UCCOM.

Effective July 1, 2011, UCP entered into an agreement with UC Health for the purposes of integrating the operations of UCP and UC Health. In connection with that integration, UCP transferred substantially all assets and liabilities of UCP to University of Cincinnati Physicians Company (UCPC), a subsidiary of UC Health. The transfer consisted of \$1,160,435 of cash and equivalents and \$113,282,833 of net assets, and is recorded as a contribution expense in the accompanying financial statements.

Noncontrolling Interest

Changes in unrestricted net assets attributable to the controlling financial interest of UCP and the noncontrolling interest are as follows:

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interest</u>
Balance, July 1, 2011	\$ 100,691,116	\$ 99,062,521	\$ 1,628,595
Excess of revenues over expenses	2,588,473	2,588,473	-
Contribution of assets to UCPC	<u>(100,691,116)</u>	<u>(99,062,521)</u>	<u>(1,628,595)</u>
Change in net assets	<u>(98,102,643)</u>	<u>(96,474,048)</u>	<u>(1,628,595)</u>
Balance, June 30, 2012	<u>\$ 2,588,473</u>	<u>\$ 2,588,473</u>	<u>\$ -</u>

Use of Estimates

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

University of Cincinnati Physicians, Inc.
Notes to Financial Statements
June 30, 2012

Cash and Cash Equivalents

UCP considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012, cash equivalents consisted primarily of money market accounts with brokers.

Pursuant to legislation enacted in 2010, the FDIC fully insures all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Interest in Investment Pool and Investment Return

At June 30, 2012, interest in investment pool consisted of funds held in the Medical Center Fund of Cincinnati, Inc. (Fund) pooled funds account. The Fund's pooled account includes investments in U.S. government agency issues, U.S. Treasury obligations, common stocks and mutual funds.

Investment return in the statement of operations and changes in net assets reflects the change in the value of UCP's interest in the pooled funds account.

Accounts Receivable

Accounts receivable consists primarily of employee wages, benefits and unemployment obligations associated with the contract revenues stipulated by the underlying agreement between UCP and UCPC.

Income Taxes

UCP has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, UCP is subject to federal income tax on any unrelated business taxable income.

UCP files tax returns in the U.S. federal jurisdiction. With a few exceptions, UCP is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the contribution of assets to UCPC.

Contract Revenue

Contract revenue is derived from clinician services provided by employees of UCP at various health care facilities associated with UCPC. Revenue amounts are based on the cost of the employee compensation, which consists primarily of employee wages, benefits and unemployment obligations and is recorded in accordance with the underlying agreements when earned.

University of Cincinnati Physicians, Inc.
Notes to Financial Statements
June 30, 2012

Note 2: Pension Plans

UCP has a defined contribution pension plan covering substantially all employees. UCP contributes 8.5% of taxable compensation to the 401(a) plan for each employee. The 403(b) and 457(b) plans are voluntary and employees contribute to these plans up to a maximum limit per year. Pension expense for UCP was approximately \$17,814,000 for the year ended June 30, 2012.

UCP has a noncontributory defined benefit pension plan (Plan) covering certain highly compensated employees. Effective December 31, 2010, the Plan was frozen and all participants in the Plan entered into supplemental distribution agreements with UCP. Under these agreements and as part of the Plan's pending termination, benefits paid for the year ended June 30, 2012 were approximately \$2,772,000. As a result of these payments, there was no additional liability associated with the Plan at June 30, 2012.

Note 3: Related Party Transactions

UCP is affiliated with the University of Cincinnati in its role to employ the physicians who manage and deliver the clinical and professional medical services of the UCCOM faculty and the University. UCP paid \$339,434 in practice plan reimbursements to the University for the year ended June 30, 2012. UCPC also pays UCP an annual assessment fee for the administrative portion of UCP's operations, which was \$4,102,793 for the year ended June 30, 2012 and is included in other operating revenue on the accompanying statement of operations and changes in net assets. During 2012, the University reimbursed UCP for various expenditures totaling \$514,561.

Note 4: Medical Malpractice Claims

UCP is covered under a risk pool (Pool) currently operating as a common risk management and insurance program for the University of Cincinnati and its affiliates. UCP has rights to medical malpractice and general liability insurance from the Pool. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents.

The University currently provides for medical professional and general liability insurance through a combination of an actuarially funded self-insurance program sponsored by the University and has purchased commercial insurance in excess of the self-insurance amount. The medical professional liability insurance program also includes several qualified not-for-profit departmental (physician) practice corporations. Medical professional self-insurance limits were \$4 million per occurrence for 2012. An additional \$30 million in commercial excess professional liability insurance was provided above the self-insured retention.

University of Cincinnati Physicians, Inc.
Notes to Financial Statements
June 30, 2012

The University's self-insurance program is based on calculations by independent actuaries and funds are deposited directly into two irrevocable self-insurance trust funds, one for medical and professional liability, and one for general liability. In the opinion of management, trust assets totaling approximately \$29,108,000 are adequate to cover estimated liabilities resulting from known claims and incidents and incurred-but-not-reported incidents as of June 30, 2012. During the year ended June 30, 2012, UCP made no contributions to the trust. The estimated self-medical malpractice insurance liability at June 30, 2012 was \$12,570,541.

UCP has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred. UCP has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$200,000.

Note 5: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Concentrations

Substantially all revenue and accounts receivable are derived from leasing employees to UCPC.

Litigation

In the normal course of business, UCP is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by UCP's self-insurance program (discussed elsewhere in the notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. UCP evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Current Economic Conditions

The current economic situation continues to present healthcare organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the value of assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to UCP.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to assets and liabilities that could negatively impact the UCP's ability to maintain sufficient liquidity.

University of Cincinnati Physicians, Inc.

Notes to Financial Statements

June 30, 2012

Note 6: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

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

Board of Directors
University of Cincinnati Physicians, Inc.
Cincinnati, Ohio

We have audited the financial statements of University of Cincinnati Physicians, Inc. (UCP) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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 UCP's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the UCP's management in a separate letter dated October 15, 2012.

This report is intended solely for the information and use of the governing body, management and others within UCP and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 15, 2012

This page intentionally left blank.



Dave Yost • Auditor of State

UNIVERSITY OF CINCINNATI PHYSICIANS, INC

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 10, 2013