Budget Plan Fiscal 2014

The Ohio State University
Office of Business and Finance
Financial Planning and Analysis


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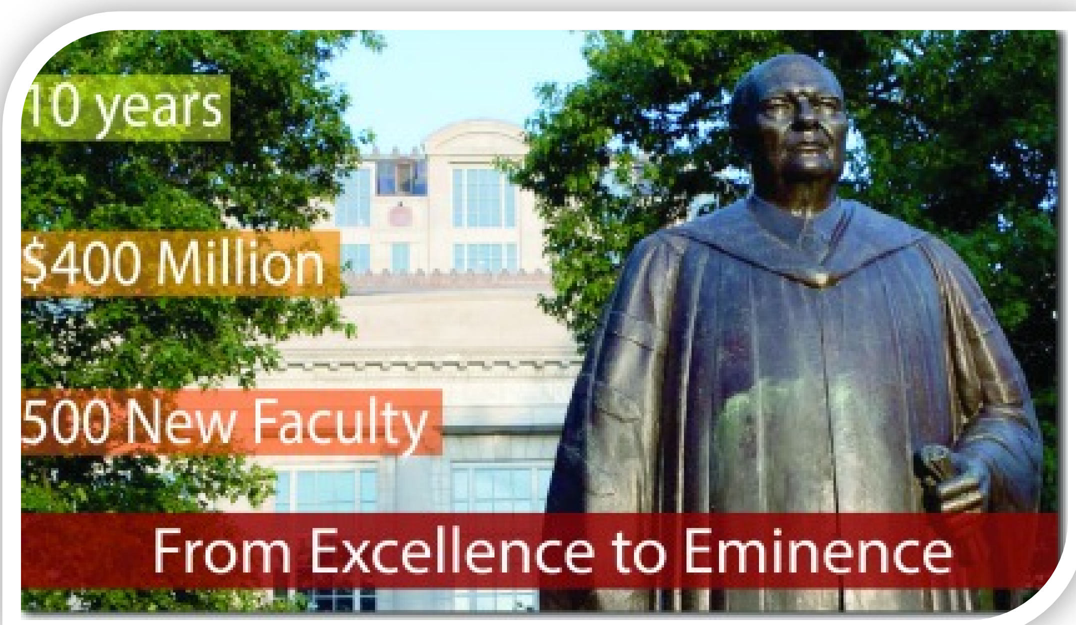

10 years
$400 Million
500 New Faculty
From Excellence to Eminence

Executive Summary

The Ohio State University continues to move forward to achieve its vision to be the world's preeminent public comprehensive university, solving problems of world-wide significance and to fulfill our mission to advance the wellbeing of the people of Ohio and the global community through the creation and dissemination of knowledge. In order to meet this vision the University has continued to work towards strengthening traditional revenue streams and streamlining expenses while seeking to expand its revenue base in new and unique ways.

Vision
The Ohio State University will be the world's preeminent public comprehensive university, solving problems of world-wide significance.

As fiscal 2013 comes to an end, the University remains financially strong. Tuition and subsidy revenue remains stable and student applications continue to grow. The OSU Health System continues to improve its financial position while nearing completion on the Critical Care Tower, and the auxiliary units continue to be self-supporting. Environmental factors including financial pressures on students and families, federal sequestration and health reform require that we build a more dynamic and adaptable approach in financing Ohio State. In fiscal 2013 we deposited $483 million into our long-term investment pool as a result of leasing our parking operations to a third party. From the investment yield, we will distribute $21 million per year to be used to fund faculty initiatives and research, transportation and sustainability, scholarships and an Arts District.

We also refinanced $117 million of debt at an average yield of 2.32%, saving $12 million in debt service payments. We continue to explore new revenue opportunities in addition to the leased parking funding, century bond funding, and current affinity contracts. We continue to focus on our financial investment strategies, streamlining activities and procurement strategies in order to maximize the funding available to advance our goals of Teaching and Learning, Research and Innovation, Outreach and Engagement, and Resource Stewardship.

Mission
We exist to advance the well-being of the people of Ohio and the global community through the creation and dissemination of knowledge.

This document presents The Ohio State University's fiscal 2014 Budget Plan for approval. The Budget Plan has two parts: The University Budget for Revenues, Expenses and Other Changes in Net Assets and the Health System Budget for Revenues Expenses and Other Changes in Net Assets. The document also presents details on the overall budget process, revenue and expenditure estimates and drivers.

STRATEGIC CONTEXT

The Fiscal 2014 Budget Plan is built around the fundamentals of our long range strategic plan which is founded on Ohio State's common vision, mission and values as well as four core goals and a focus on three discovery themes that will inform our decision making throughout the University.

Core Goals

Four institution wide goals are fundamental to Ohio State's mission and future success and must be reflected in all that we accomplish:

- Teaching and Learning: to provide an unsurpassed, student-centered learning experience led by engaged, world-class faculty and enhanced by a globally diverse student body.
- Research and Innovations: to create distinctive and internationally recognized contributions to the advancement of fundamental knowledge and scholarship and to solutions of the world's most pressing problems.
- Outreach and Engagement: to establish mutually beneficial partnerships with the citizens and institutions of Ohio, the nation, and the world so that our communities are actively engaged in the exciting work of The Ohio State University.
- Resource Stewardship: to become the model for an affordable public university recognized for financial sustainability, unsurpassed management of human and physical resources, and operational efficiency and effectiveness.

Discovery Themes at The Ohio State University

The University's move to eminence will be founded in the University's three discovery themes of Health and Wellness, Food Production and Security, and Energy and Environment. These themes are based on special, broad, and deep expertise across the University. Through these discovery themes, Ohio State will focus its resources and activities on finding durable solutions to issues of global as well as regional importance. The discovery themes are essential elements of Ohio State's strategic planning.

Discovery Themes

The **Health and Wellness** Discovery Theme will allow faculty from Ohio State's seven health sciences colleges and the Wexner Medical Center to work with partners across the university in nutrition, social work, health education, and public policy, to cite but a few examples. These experts will focus on such issues as disease prevention, community health, and health systems.

The Discovery Theme for **Energy and Environment** will create an unprecedented interdisciplinary collaboration of experts spanning the university and touching upon every specialization to fully address issues related to energy and environment. By working with experts beyond the university, Ohio State faculty will lead the way in developing scientific and policy responses to the global need for energy and the associated effects on the environment.

The Discovery Theme for **Food Production and Security** will draw on Ohio State's unique expertise in food, agricultural, and environmental sciences as well as the arts and sciences, health sciences, business, law, and beyond. Working with partners within and outside the university, these experts will focus on enhancing the quality of food and animal feed and ensuring an adequate, affordable and safe food supply for a global population.

Faculty from every college and all six campuses of the University will be encouraged to actively contribute to these discovery themes. Meanwhile, as these colleagues concentrate their efforts on the issues the discovery themes are meant to address, they and others will continue to advance our understanding of history and philosophy, languages and cultures, and the arts as they pursue excellence in our core goals. Our programs in medicine, agriculture, veterinary sciences, engineering, business and many other fields of study are rich and strong because they are grounded by excellence in the arts, humanities and physical as well as social sciences.

The University is positioned to make significant strategic investments over the next several years to advance our vision, mission and core goals. We have adjusted to the loss of the federal stimulus funding that occurred in fiscal 2011 and fiscal 2012 and continue to adjust to the impact of the conversion to semesters that occurred in fiscal 2013. As anticipated, the conversion to semesters did have a detrimental impact in fiscal 2013 on revenue due to increases in graduation rates in June 2012, credit hour fluctuations and enrollment numbers. We expect to be back to pre-conversion enrollment of students and credit hours by fiscal 2015 as our qualified application pool remains strong.

We continue to focus on improving our financial position and investing strategically through new ways of financing the University. We have implemented several new resource stewardship strategies, encompassing both innovative resource generation and resource savings strategies. Revenue generation strategies included the establishment of unique partnerships and collaborations, such as the affinity agreement with the Huntington Bank; innovative financing strategies such as the issuance of $500 million in century bonds; asset monetization strategies such as the 50-year parking concession agreement; and strengthening the endowment through diversification and value orientation strategies. Additionally, we will continue to build on several expense savings strategies that have included strategic procurement initiatives such as reducing the number of suppliers in our database; leveraging the buying power to negotiate more aggressively; implementing several eTools designed to improve operational efficiencies; lean process reengineering; and supporting the University's sustainability efforts by moving to paperless systems.

Moving forward, we will continue to build and diversify our revenue streams from traditional and innovative sources, including continued exploration of asset monetization opportunities, technology commercialization and endowment growth. And we will continue to reduce our expenses by leveraging our purchasing power and standardizing our processes. In addition, we are undertaking several financial transformation projects that will strengthen the ability to manage the University's resources in a more robust manner. These tools include a new planning and budgeting system, a long-range strategic planning system and a new reporting tool for monitoring and analyzing financial information in a timely manner.

The Fiscal 2014 Budget Plan also marks the beginning of investment in our Discovery Themes starting on our journey to hire 500 new tenure or tenured-track faculty by 2023. Start-up funding is also budgeted to assure that the University can hire the best faculty for our programs. These faculty will be working specifically on one of the Discovery Themes.

Fiscal 2014 will also be the first year of the State of Ohio's new funding model for higher education. The recommendations were developed by the Commission on Higher Education under the leadership of President Gee. The new model emphasizes degree completion as the main driver of funding along with course completion metrics. It will also reward the ability of the University to retain the best and brightest in Ohio after graduation. The state has increased its pool of funding allocated to state colleges and universities by 2% in fiscal 2014. The University as a whole will benefit from the increased State funding pool available to state higher education institutions as well as the shift in funding allocations driven by these new output based parameters.

The budget plan also focuses on additional compensation for faculty and staff, increasing the institutionally funded financial aid for undergraduate students, supporting colleges with additional revenue for the loss of increased tuition funding, funding priority requests for support operations and assuring that general funds are balanced.

The Fiscal 2014 Budget Plan outlines important aspects of the University's financial strategy in the year ahead. The budget plan, coupled with our Annual Financial Report, presents our current financial state and our future opportunities and challenges. It illustrates our financial path for achieving our vision of being the world's preeminent public comprehensive university.

OVERVIEW OF THE CONSOLIDATED BUDGET FOR REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS

The budget as presented reflects the revenue and expense line items for the fiscal 2014 consolidated budget and compares those amounts to our current projection for fiscal 2013. The format is similar to the annual financial statements, with the exception that expenses are shown in categories (salaries, benefits, etc.) instead of functions (instructional and general, separately budgeted research, etc.).

Overall, fiscal 2014 is projected to end with a surplus of $258 million on $4.3 billion in operating revenues, $4.9 billion in operating expenses, and $843 million in net non-operating revenue and total other changes in net assets. Highlights of selected line items are discussed below.

Operating Revenues

Operating revenues are expected to increase $109 million, or 3%, to $4.3 billion in fiscal 2014. This increase is driven by the following items:

Sales and Services of the OSU Health System and OSU Physicians, Inc. – The largest increase in operating revenues is from the OSU Health System and OSU Physicians, Inc., which is expected to increase $124 million, or 5%, to $2.4 billion in fiscal 2014. Although there are no planned price increases in fiscal 2014, patient admissions at the OSU Health System are expected to increase by 2.5%, and outpatient visits and surgeries are expected to increase approximately 2%. OSU Physicians, Inc. is projecting a 13% net revenue increase on an 11% increase in work relative value units (wrvu), a method for measuring physician productivity.

Tuition and Fees – Although undergraduate instructional and mandatory fees were not increased for fiscal 2014, net tuition and student fees are budgeted to increase $15 million, or 2%, to $818 million in fiscal 2014. This is a result of expected increases in non-resident enrollment and 2% increases in the instructional fees for graduate and professional students and the non-resident surcharge.

Sales and Services of Auxiliary Enterprises – Revenues from sales and services of auxiliary enterprises are expected to increase $10 million, or 4%. The increase is primarily driven by additional revenue from room and board as Student Life brings more renovated rooms into service and continues to improve meal plan options in fiscal 2014. Revenues from other events held at the various campus venues (i.e. Schottenstein Center, Drake Union and Ohio Union) are also expected to increase.

Federal, State, Local and Private Grants and Contracts – Increases in most revenue line items are offset by a $40 million, or 6%, decrease in federal, state, local and private grants and contracts. The projected decreased revenues for sponsored research projects is the result of federal and state budget cuts and the uncertainty associated with grant funding during the federal sequestration.

Operating Expenses

Operating expenses are expected to increase $168 million, or 4%, to $5 billion in fiscal 2014. Of the total increase, $102 million is attributable to increases in operating expenses from the OSU Health System and OSU Physicians, Inc., driven predominantly by the increase in admission and outpatient volumes.

Salaries and Benefits – Salaries and benefits continue to be the largest expense at 61% of total operating expenses and account for $86 million of the expense increase. Salaries are expected to increase by $69 million, or 3%, to $2.3 billion in fiscal 2014. Contributing to this increase is a 2% salary guidelines increase for faculty and staff and a 2% increase in full-time equivalent employees from the OSU Health System. Benefits are expected to increase by $17 million, or 2%, to $760 million in fiscal 2014. Increases in benefits are driven by the 2% salary guideline increase, which directly affects retirement plan contribution expenses, a 7% increase in medical plan benefits, and a 1% average rate increase on all other benefit plans combined.

Supplies and Other – Supplies and other expenses are budgeted to increase $52 million, or 6% to $958 million. Increases at the OSU Health System account for $15 million of the increase and are driven by a 4% increase in costs for medical supplies and drugs related to the increase in admissions and procedures, and general drug cost increases. The non-health system portion of the increase is due to a combination of a $9 million increase in institutionally funded student financial aid, increases in startup expenses for new faculty and new and expanded services offered by Student Life.

Purchased Services – Purchased services are expected to increase $15 million, or 3%, to $621 million in fiscal 2014. Expenses for the health system and OSU Physicians, Inc., which include hospital physician fees and physician and faculty fees, account for $10 million of the increase. Other increases are attributed to increased contracted services for sponsored projects and consulting services at the University.

Non-Operating Revenues (Expenses)

Non-operating revenues (expenses) are expected to decrease $68 million, or 9%, to $725 million in fiscal 2014.

State Share of Instruction (SSI) and Line-Item Appropriations – SSI and line-item appropriations are expected to increase $10 million, or 2%, to $439 million in fiscal 2014. The increase is consistent with the state's total SSI pool increase of 2% for all higher education institutions in the state. Ohio State's share of the pool was driven by changes to the state funding model recommended by the Ohio Higher Education Funding Commission, which is focusing more on degree awards and course completions. State line item appropriations for the University are expected to remain flat in fiscal 2014.

Investment Income – Investment income is expected to decrease by $65 million, or 20%, to $262 million in fiscal 2014. The fiscal 2013 results are reflective of unusually strong investment performance during the period and reflect a 9.6% investment return on the long-term investment pool (LTIP), net of investment fees. The fiscal 2014 budget assumes an 8% return on the LTIP, net of investment fees.

Interest Expense on Plant Debt – Interest expense on plant debt is expected to increase by $22 million, or 22%, to $119 million in fiscal 2014, due to the financing of significant construction projects nearing completion such as the Medical Center expansion and dormitory renovations and construction.

Other Changes in Net Assets

Other changes in net assets are expected to increase $7 million, or 6%, over fiscal 2013 levels due to a budgeted increase in private capital gifts and endowment additions. Including current use gifts, which are classified as non-operating revenues, the University is budgeting $200 million in total gift revenue in fiscal 2014 under its multi-year $2.5 billion *But For Ohio State* fundraising campaign.

FISCAL 2014 CONSOLIDATED BUDGET FOR REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS

(IN THOUSANDS)	Fiscal 2014 Consolidated Budget	Fiscal 2013 Projected Actual	Increase/Decrease Dollars	%
Operating Revenues				
Tuition and Fees, net of Scholarship Allowance	$ 818,062	$ 803,544	$ 14,518	1.8%
Federal, State, Local and Private Grants and Contracts	618,423	658,081	(39,658)	(6.0%)
Sales and Services of Educational Departments	127,310	122,579	4,731	3.9%
Sales and Services of Auxiliary Enterprises, net of Scholarship Allowance	244,652	234,383	10,269	4.4%
Sales and Services of OSU Health System, including OSU Physicians, Inc.	2,438,450	2,314,518	123,932	5.4%
Other Operating Revenues	62,139	67,264	(5,125)	(7.6%)
Total Operating Revenues	**4,309,036**	**4,200,369**	**108,667**	**2.6%**
Operating Expenses				
Salaries	2,287,735	2,218,846	68,889	3.1%
Benefits	760,146	743,105	17,041	2.3%
Supplies and Other	958,086	906,410	51,676	5.7%
Purchased Services	621,205	606,276	14,929	2.5%
Depreciation	266,700	251,724	14,976	5.9%
Total Operating Expenses	**4,893,872**	**4,726,361**	**167,511**	**3.5%**
Operating Gain (Loss)	**(584,836)**	**(525,992)**	**(58,844)**	**11.2%**
Non-Operating Revenues (Expenses)				
State Share of Instruction and Line-Item Appropriations	439,046	428,868	10,178	2.4%
Federal Subsidies for Build America Bonds Interest	11,252	11,252	-	0.0%
Gifts	130,000	117,864	12,136	10.3%
Net Investment Income	261,780	326,396	(64,616)	(19.8%)
Interest Expense on Plant Debt	(118,556)	(96,939)	(21,617)	22.3%
Other Non-Operating Revenues (Expenses)	1,539	5,649	(4,110)	(72.8%)
Net Non-Operating Revenue	**725,061**	**793,090**	**(68,029)**	**(8.6%)**
Income Before Other Revenues, Expenses, Gains or Losses	**140,225**	**267,098**	**(126,873)**	**(47.5%)**
Other Changes in Net Assets				
State Capital Appropriations	48,100	49,100	(1,000)	(2.0%)
Private Capital Gifts	15,000	7,888	7,112	90.2%
Additions to Permanent Endowments	55,000	54,281	719	1.3%
Total Other Changes in Net Assets	**118,100**	**111,269**	**6,831**	**6.1%**
Increase in Net Assets	**$ 258,325**	**$ 378,367**	**$ (120,042)**	**(31.7%)**

FISCAL 2014 UNIVERSITY BUDGET FOR REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS

(IN THOUSANDS)	Fiscal 2014 Budget	Fiscal 2013 Projected Actual	Increase/Decrease Dollars	%
Operating Revenues				
Tuition and Fees, net of Scholarship Allowance	$ 818,062	$ 803,544	$ 14,518	1.8%
Federal, State, Local and Private Grants and Contracts	618,423	658,081	(39,658)	(6.0%)
Sales and Services of Educational Departments	127,310	122,579	4,731	3.9%
Sales and Services of Auxiliary Enterprises, net of Scholarship Allowance	244,652	234,383	10,269	4.4%
Other Operating Revenues	110,499	113,167	(2,668)	(2.4%)
Total Operating Revenues	**1,918,946**	**1,931,754**	**(12,808)**	**(0.7%)**
Operating Expenses				
Salaries	1,300,028	1,285,708	14,320	1.1%
Benefits	485,959	484,635	1,324	0.3%
Supplies and Other	509,852	477,409	32,443	6.8%
Purchased Services	209,369	205,519	3,850	1.9%
Depreciation	184,001	167,640	16,361	9.8%
Total Operating Expenses	**2,689,209**	**2,620,911**	**68,298**	**2.5%**
Operating Gain (Loss)	**(770,263)**	**(689,157)**	**(81,106)**	**11.8%**
Non-Operating Revenues (Expenses)				
State Share of Instruction and Line-Item Appropriations	439,046	428,868	10,178	2.4%
Federal Subsidies for Build America Bonds Interest	11,252	11,252	-	0.0%
Gifts	130,000	117,864	12,136	10.3%
Net Investment Income	260,460	325,097	(64,637)	(19.9%)
Interest Expense on Plant Debt	(106,749)	(87,269)	(19,480)	22.3%
Other Non-Operating Revenues (Expenses)	-	2,816	(2,816)	(100.0%)
Net Non-Operating Revenue	**734,009**	**798,628**	**(64,619)**	**(8.8%)**
Net Transfers from OSU Medical Center and OSU Physicians, Inc.	77,264	83,100	(5,836)	(7.0%)
Income Before Other Changes in Net Assets	**41,010**	**192,571**	**(151,561)**	(78.7%)
Other Changes in Net Assets				
State Capital Appropriations	48,100	49,100	(1,000)	(2.0%)
Private Capital Gifts	15,000	7,888	7,112	90.2%
Additions to Permanent Endowments	55,000	54,281	719	1.3%
Total Other Changes in Net Assets	**118,100**	**111,269**	**6,831**	**6.1%**
Change in Net Assets	**$ 159,110**	**$ 303,840**	**$ (144,730)**	(47.6%)

FISCAL 2014 OSU HEALTH SYSTEM BUDGET FOR REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS

(IN THOUSANDS)	Fiscal 2014 Budget	Fiscal 2013 Projected Actual	Increase/Decrease Dollars	%
Revenues				
Total Patient Revenue	**$ 6,827,785**	**$ 6,674,092**	**$ 153,693**	**2.3%**
Charity	247,648	252,805	(5,157)	(2.0%)
Provision for Bad Debt	108,594	106,407	2,187	2.1%
HCAP and UPL	(29,331)	(28,677)	(654)	2.3%
Contractual Allowances	2,690,665	2,594,767	95,898	3.7%
Sales Discounts	1,721,311	1,731,997	(10,686)	(0.6%)
Administrative Adjustments	40,768	55,032	(14,264)	(25.9%)
Total Deductions	**4,779,655**	**4,712,331**	**67,324**	**1.4%**
Net Patient Revenue	**2,048,130**	**1,961,761**	**86,369**	**4.4%**
Related Operations	660	2,325	(1,665)	(71.6%)
Reference Lab Operations	4,969	4,969	-	0.0%
Other Revenue	59,365	56,992	2,373	4.2%
Total Operating Revenue	**2,113,124**	**2,026,047**	**87,077**	**4.3%**
Expenses				
Salaries	712,236	685,261	26,975	3.9%
Benefits	220,426	210,203	10,223	4.9%
Hospital Physician Fees	93,545	92,315	1,230	1.3%
Physician/Faculty Services	11,250	9,990	1,260	12.6%
Supplies	257,953	248,701	9,252	3.7%
Cost Of Drugs	150,207	144,342	5,865	4.1%
Services	271,593	265,711	5,882	2.2%
Resident Salaries and Benefits	48,873	46,011	2,862	6.2%
Depreciation	79,313	79,859	(546)	(0.7%)
Interest	11,251	8,873	2,378	26.8%
University Overhead	48,360	45,904	2,456	5.4%
Total Expense	**1,905,007**	**1,837,170**	**67,837**	**3.7%**
Gain (Loss) from Operations	**208,117**	**188,877**	**19,240**	**10.2%**
Operating Margin Percentage	9.8%	9.3%	22.1%	237.0%
Investment Income	1,321	1,299	22	1.7%
Gain/Loss On Sale of Assets	-	45	(45)	(100.0%)
Excess of Revenue over Expense	**209,438**	**190,221**	**19,217**	**10.1%**
Total Medical Center Investments	113,174	115,910	(2,736)	(2.4%)
Contributions For Property Acquisitions	33,594	31,183	2,411	7.7%
Change in Net Assets	**$ 129,858**	**$ 105,494**	**$ 24,364**	**23.1%**

FISCAL 2014 OSU PHYSICIANS, INC. BUDGET FOR REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS

(IN THOUSANDS)	Fiscal 2014 Budget	Fiscal 2013 Projected Actual	Increase/Decrease Dollars	%
Net Patient Revenue	$ 276,048	$ 245,016	$ 31,032	12.7%
Other Revenue	49,277	43,455	5,822	13.4%
Total Operating Revenue	**325,325**	**288,471**	**36,854**	**12.8%**
Expenses				
Salaries and Benefits	71,235	66,801	4,434	6.6%
Supplies and Pharmaceuticals	25,027	22,955	2,072	9.0%
Purchased Services and Management Fees	18,588	20,343	(1,755)	(8.6%)
Other	16,859	12,398	4,461	36.0%
Total Purchased Services	35,447	32,741	2,706	8.3%
Occupancy and Utilities	7,739	6,834	905	13.2%
Depreciation	3,386	4,225	(839)	(19.9%)
Interest	557	798	(241)	(30.2%)
Total Operating Expense	**143,391**	**134,354**	**9,037**	**6.7%**
Total General and Administrative	8,409	8,115	294	3.6%
Excess Revenues over Expenses Prior to Provider	**173,525**	**146,002**	**27,523**	**18.9%**
Total Provider Salaries and Benefits	204,122	178,331	25,791	14.5%
Total Provider Related Expenses	208,022	181,372	26,650	14.7%
Excess Revenues over Expenses After Provider	**(34,497)**	**(35,370)**	**873**	(2.5%)
Non-Operating Income	1,539	2,788	(1,249)	(44.8%)
Medical Center Investment	35,910	33,997	1,913	5.6%
Increase (Decrease) in Net Assets	$ 2,952	$ 1,415	$ 1,537	108.6%

The Budget Process at OSU

For the Fiscal 2014 Budget Plan, the University implemented a new budgeting process that encompasses all funds of the University.

While prior budgets focused exclusively on current funds and emphasized general funds, this revised approach affords a holistic view of all operations of the University. As the University's sources of funding continue to evolve, it has become evident that a consolidated view of all sources of funding received and monies spent is necessary to make informed strategic decisions in a timely manner.

"As the University's sources of funding continue to evolve, it has become evident that a consolidated view of all sources of funding received and monies spent is necessary to make informed decisions in a timely manner."

This all funds budget will provide the base framework for evaluating the activities of all academic and support units within the University, allowing proactive responses to changing economic issues as they arise.

Budget System

The University uses a budget system that is comprised of two components: a modified Responsibility Center Management (RCM) model and the strategic investment of central funds. This structure allows for decentralized decision making and control of financial resources at the colleges and support units. The modified RCM budget model assigns substantial control over resource decisions to individual colleges and support units. The underlying premise of the University's decentralized budget model is entrusting academic and support unit leaders with significant control over financial resources, leading to more informed decision making and better results and outcomes for the University as a whole. Through this decentralized model, colleges in particular are incentivized to increase resources by teaching more credit hours and increasing research activity.

The OSU Health System prepares its budget based on projected activity and associated costs. External factors, such as government regulations and reimbursements rates, as well as contractual agreements with health care payers also play an integral part in developing the health system's budget.

Fund Accounting

The University's budget is developed and managed according to the principles of fund accounting. We manage over 19,000 active expendable funds and over 4,800 endowment principal funds through a robust accounting system. Revenue is segregated into a variety of fund types, the use of which is governed by the restrictions of the fund. Some fund types are unrestricted, including general funds and some earnings funds. Others have restrictions derived from the source of the revenue, including grants and contracts received from government agencies, foundations, and other outside sponsors. Individual funds are set up to ensure strict adherence to the terms of the grant or contract that governs these funds.

Endowments are another type of restricted fund, where separate funds are set up to preserve the corpus or principal of the gifts. As those funds earn investment returns, annual income distributions are made out of the endowment fund and into a current fund for spending in accordance with the donors' restrictions. The segregation of each gift allows the University to ensure the funds are spent appropriately and to enable reporting to donors on the activities that their funds support.

Although emphasis was placed on including all University funds in the fiscal 2014 budget process, general funds continue to remain a key component of the budget. General funds can be used for any university purpose. These funds play a major role in the budget, as they cover many expenses in the colleges and support units for which it is difficult to raise money to cover. The main sources of general funds are tuition and other student fees, state support of instruction, indirect cost recovery, and overhead charged to earnings units.

Allocation of Funds

Each college and support unit receives a portion of general funds in support of both academic and administrative functions. The process for allocating the funds is administered through the Office of Financial Planning & Analysis under the guidance of the Chief Financial Officer and Provost. General funds are allocated to colleges and support units on a marginal basis under an established set of criteria. In other words, increases (or decreases) in the pool of general funds available each budget year are allocated back to colleges and support units as increases (or decreases) to their base general funds budgets.

Marginal changes in revenue are allocated to colleges based on three primary funding formulas. The first funding formula for colleges utilizes a 60/40 model to distribute undergraduate marginal tuition and state support. Sixty percent of the funding is allocated based on total credit hours taught, while 40% is allocated based on the type of course taught. This takes into account the fact that some courses have a higher cost for delivery and are, thus, allocated a greater share of the funding. The other two formulas allocate graduate tuition and state support based on credit hours in fee-paying categories (tuition) and type of course taught (state support). As a college teaches more of the share of total credit hours, it receives a larger share of the incremental funding. Conversely, if a college's share of the hours taught declines, the college's allotted share of the margin will correspondingly decline. Colleges also receive their pro rata share of the margin on indirect cost recoveries and learning technology, course and program fees.

Support units are funded through a central tax and assessments charged to colleges and an overhead rate charged to auxiliary and earnings units. The central tax, assessments and overhead charges are designed to provide the funds necessary to maintain support services such as payroll services, central human resource services, and student life services. Support units are generally ineligible for marginal revenue changes because the funding formulas rely on credit hours taught; instead, support units must request additional funding during the annual budget process to support new services or mandates.

Auxiliaries and earnings units are expected to operate at a break even or better margin and generally do not receive general fund support. One exception is the Office of Student Life which does receive general fund support via special Student Activity, Ohio Union and Recreational Facility fees that were enacted to specifically advance the student experience.

Regional campuses develop their own individual campus budgets primarily based on the student tuition and fees received from the regional campus students, the State Share of Instruction they expect to collect and costs directly incurred to operate those campuses.

University-wide initiatives and special requests by colleges and support units are funded through the formal budget process or through central reserves established to fund campus-wide projects that benefit the entire population or advance the mission of the University.

Investing in Tools to Enhance the Budget Process

As the political and economic environments continue to change, affecting the funding and statutory requirements of higher education, the University recognizes it needs access to timely and relevant financial data to make informed decisions. As such, Ohio State is embarking on several finance transformation projects that will collect, maintain and report financial activity in a more concise and timely manner.

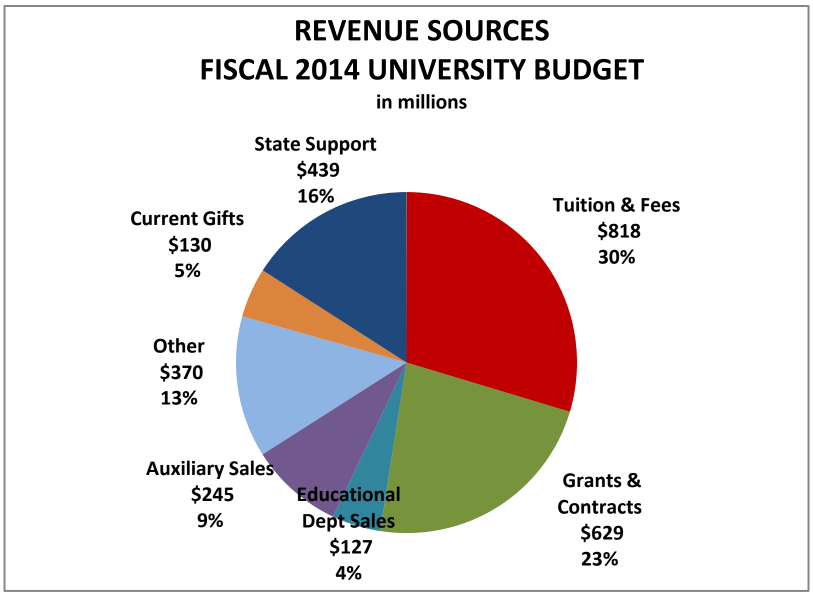
One project involves the implementation of a flexible web and Microsoft Office based planning application that will support the University's planning and budgeting process. The tool is expected to be deployed and available for use for the fiscal 2015 budget. Reporting through the new application will allow both colleges/units and central users to monitor and analyze data in a more consistent and timely manner.

In conjunction with the planning tool, the University is also implementing a long-term strategic planning tool that will connect data from the planning program into longer range planning scenarios. We believe these tools, along with business intelligence initiatives, such as financial data warehousing, data governance and reporting projects underway, will provide the administration with the financial data necessary to monitor progress against goals and provide the flexibility for developing "what if" scenarios on a more ad-hoc basis as external factors change.

The University's Budget Overview

The University's budget plan provides an overview of the estimated revenues, expenditures and other changes in net asset activity of the University for the 2014 fiscal year. This section of the budget plan addresses the University's core academic research and service operations and excludes the operations of the OSU Health System and OSU Physicians, Inc., which are discussed beginning on page 32. The University's budget is based on forecasts from the colleges and administrative units and includes the income statement impact of projected activity in the plant and endowment funds, including income distribution from the endowment funds for current use.

REVENUES



Total operating revenues are expected to decrease $13 million, or 1%, to $1.9 billion in fiscal 2014. The decrease is driven primarily by a $40 million, or 6%, expected decline in revenues from grants and contracts as a result of reduced funding from various governmental entities. The decline is offset by an increase in tuition and fee revenue driven by a 2% increase in non-mandatory fees and graduate and professional instructional fees and enrollment mix. Undergraduate instructional and mandatory fees for fiscal 2014 will remain unchanged. Sales and service revenues from auxiliary enterprises and educational departments are expected to increase $15 million primarily as a result of increases in room and board through Student Life and a projected increase in the number of events at the various venues on campus.

Net non-operating revenues, which include the University's State Share of Instruction (SSI), are expected to decline $65 million, or 9%, to $734 million. The decrease is primarily driven by an expected $65 million decline in investment income, which is reflective of an unusually strong fiscal 2013 investment performance and a $19 million increase in interest expense on plant debt. These decreases are offset by a $10 million increase for SSI and line item appropriations under the State of Ohio's new funding formula as proposed in the Governor's budget, and a $12 million budgeted increase in current use gifts.

Tuition and Fees

Gross tuition and fees, before scholarship allowance, are expected to increase by $17 million, or 2% in fiscal 2014 to $962 million. These increases are driven by changes in the mix of students shifting from resident to non-resident and a greater number of professional students. Undergraduate instructional and mandatory fees will not increase in fiscal 2014. Some fees, such as the non-resident surcharge and the instructional fees for graduate and professional students are scheduled to increase 2%. In addition, the number of international undergraduates who are assessed a per semester fee are also expected to increase. While tuition and fees represent only 30% of the University's total revenue, they make up 66% of general funds and are an important source of revenue for instruction.

On the Budget for Revenues, Expenses and Other Changes in Net Assets, tuition and fees are presented net of $144 million of student financial aid, which is a $3 million, or 2%, increase over fiscal 2013 projected actuals.

Enrollments - The University continues to implement the Enrollment Plan, which began in fiscal 2012 to increase the quantity, quality and diversity of the student body. The Plan has been successful and has been able to offset many of the effects of the conversion to semesters. While the semester conversion reduced the total enrollment in fiscal 2013, the fiscal 2014 budget expects the number of incoming freshmen and transfer students to be ahead of the Enrollment Plan schedule. The Plan also projects an additional 100 new freshmen by fiscal 2016.

STUDENT ENROLLMENT FOR AUTUMN TERM

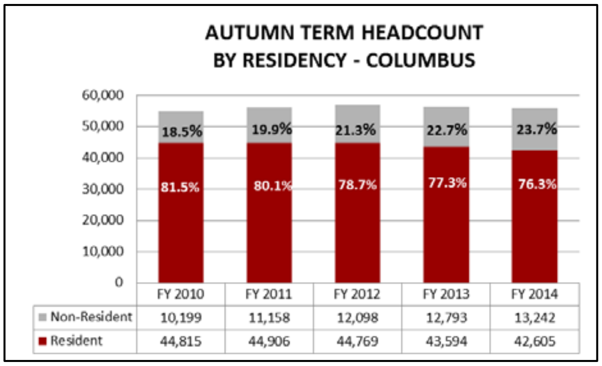
AUTUMN FY 2010 - FY 2014

Headcounts	2010	2011	2012	2013	2014	1 YR Chg	1 YR % Chg	5 YR % Chg
Columbus	55,014	56,064	56,867	56,387	**55,847**	(540)	(1.0%)	1.5%
Lima	1,508	1,530	1,306	1,131	**1,055**	(76)	(6.7%)	(30.0%)
Mansfield	1,647	1,405	1,388	1,265	**1,202**	(63)	(5.0%)	(27.0%)
Marion	1,828	1,816	1,525	1,273	**1,213**	(60)	(4.7%)	(33.6%)
Newark	2,515	2,562	2,677	2,390	**2,300**	(90)	(3.8%)	(8.5%)
ATI	705	700	666	612	**692**	80	13.1%	(1.8%)
Grand Total	**63,217**	**64,077**	**64,429**	**63,058**	**62,309**	**(749)**	**(1.2%)**	**(1.4%)**

The greatest impact from semester conversion was experienced in Summer 2012, the initial term under the semester plan, when head counts dropped 24% and credit hours dropped 55%. Although enrollment and credit hours partially rebounded during the subsequent Autumn and Spring semesters of fiscal 2013, we do not anticipate a full recovery to pre-conversion levels until fiscal 2015.

As a result of the semester conversion impact, fiscal 2014 enrollment is budgeted to decrease 1% over fiscal 2013 levels to 62,309 students. All campuses, except ATI, are planning for decreases, ranging from 1% at the main Columbus campus to 7% at the Lima campus.

Even with virtually the same number of entering students as last year, the enrollment level at Columbus is expected to decrease 1%, or 540 students, as a result of fewer continuing students. However, the change in mix of resident to non-resident students will increase the tuition and fees revenue.



The regional campuses, which account for 9% of the University's enrollment, continue to be negatively impacted by several factors including the semester conversion, continued poor economic conditions in the communities they serve, the decreasing number of high school graduates and the competition from community and technical colleges. As a result, fiscal 2014 enrollments are projected to decline an average of 3% over fiscal 2013 levels. The regional campus enrollment decline was driven by the loss of the nursing program in Ashland (Mansfield Campus) and the closing of the Delaware Center (Marion Campus).

Undergraduate Fees - In an effort to continue to remain affordable, resident instructional fees will not change (0% increase) in fiscal 2014 at any of the Ohio State campuses. The general and mandatory fees, including the recreation fee, student activity, student union facility fee, and COTA bus fee will also not increase in fiscal 2014.

Graduate and Professional Fees - Masters and PhD instructional fees will increase 2%. Some graduate and professional students pay a higher or differential instructional fee based principally on market demand and market pricing. Revenue generated from these increases is earmarked to support the graduate and professional programs that generate the fee income. Most differential fees are expected to increase 2%, while some are budgeted to increase between 3% and 5% in fiscal 2014.

Non-Resident Surcharges - Effective Autumn term fiscal 2014, the non-resident surcharge will increase 2% for all undergraduate, graduate, and most professional programs at each campus. Exceptions to this include the Colleges of Law and Optometry, which will see no increase, and three graduate business programs and an on-line FAES program that charge a flat non-resident surcharge.

Program, Technology and Other Fees - The University, several colleges and academic programs have established additional fees to support specific programs and initiatives. These include program fees designed to provide financial support for specific programs, technology fees, international student fees, course fees and distance education fees.

UNDERGRADUATE RESIDENT FRESHMEN TUITION & FEES - AY 2013 & AY 2014
FULL-TIME RATES FOR OHIO SELECTIVE PEER INSTITUTIONS

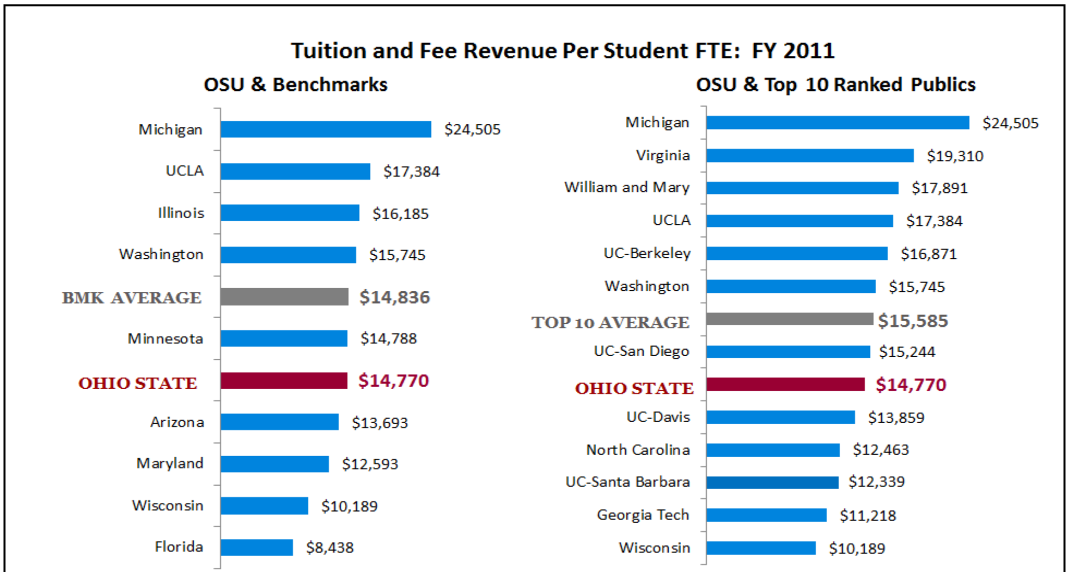
Ohio Peer	US News Rank*	AY 2013	AY 2014	% Change
Ohio State	**38**	**$10,037**	**$10,037**	**0%**
Miami	70	$13,523	TBD	TBD
Ohio University	94	$10,282	$10,380	1%
Cincinnati	118	$10,784	$10,784	0%
Bowling Green	171	$10,514	$10,721	2%
Kent State	171	$9,672	TBD	TBD
Average		$10,802	$10,480	1%

Sources: Ohio Board of Regents Fall Survey of Student Charges (AY 2013); campus representatives and campus websites (AY 2014). FY 2013 Tuition and Fees are the published institution rate for resident new freshmen. TBD = To be determined.

** UG Academic Reputation Rank (formerly known as the Peer Assessment Rank) is based on scores from the U.S. News and World Report's 2013 Best Colleges Rankings.*

Comparison with Selective Ohio Peers - Among Ohio's public universities, Ohio State ranks highest in academic reputation, yet has the second lowest undergraduate student fees among Ohio's six public four-year universities with selective admissions. Given the continued commitment to keep tuition affordable by not raising resident undergraduate rates in the 2013-14 academic year, Ohio State will continue to have one of the lowest student fees among the selective public institutions. This makes Ohio State an excellent value for students and taxpayers.

Comparison with Benchmarks and Top Public Schools - In comparing Ohio State with our peer institutions on tuition and fees (latest data available is fiscal 2011), revenues per student FTE were 0.4% below the average of OSU's benchmark institutions and 5% below the top 10 ranked public institutions' average. Again, even among other highly ranked institutions across the nation, Ohio State is an excellent value for students.



Source: IPEDS Finance Survey and Fall Enrollment Survey. Includes all tuition and fees assessed against students for education purposes, encompassing all levels of students, all residency types, as well as all technology, program, course, clinic, etc. fees. Benchmark institutions are considered OSU's peers or aspirational peers as they represent high quality institutions that most closely resemble OSU in organization and mission. Top ten ranked public schools are based on the U.S. News and World Report's 2013 Best Colleges rankings (National University) and incorporates the scoring for all indicators.

State Support

The State of Ohio continues to emerge from the recession of 2008. Unemployment in the state, once at 10.6% in February of 2010, has dropped to 7% in April 2013. The state finances appear to be strengthening and the state projects to have a surplus at the end of their fiscal year 2013.

SSI and State Line Item Support - Ohio is expected to appropriate $1.8 billion for SSI in fiscal 2014, a $33 million, or 2%, increase over fiscal 2013. Ohio State expects to receive $363 million of that SSI funding in fiscal 2014, an increase of $9 million, or 3%, over fiscal 2013 levels.

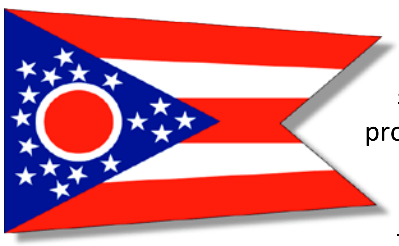
The SSI allocation is the State of Ohio's primary funding support for enrollments and degree completions at its colleges and universities. The SSI funds campuses based on several criteria including successful course completions, indexed by financially and academically at-risk students; degree completions with added funding for completions by at-risk students; research activity; and other criteria intended to advance the goals of the state. The state distributes SSI by campus. Of the $363 million, the main Columbus campus will receive $342 million, the Newark campus $6 million, the Marion and Mansfield campuses $4 million each, and the Lima and ATI campuses $3 million each.

In addition to SSI funding, the University also receives state line item support funding directed to specific purposes, such as support for the OSU Extension offices, Ohio Agricultural Research and Development

Centers (OARDC) and many of the clinical operations. In fiscal 2014, the University expects to receive $76 million in line item funding, which is flat over fiscal 2013 levels.

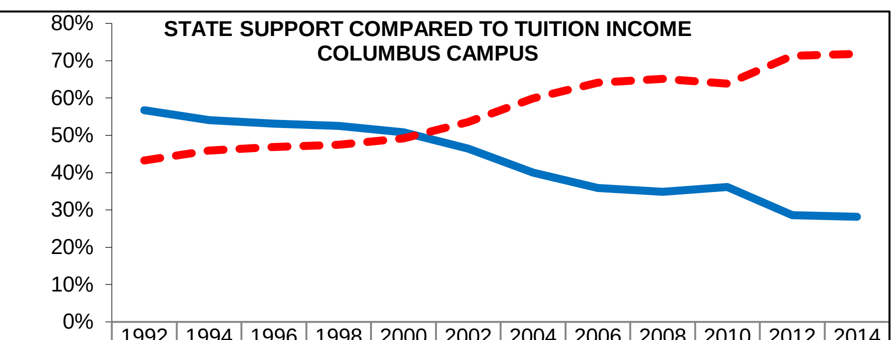
Note that these are preliminary figures based in part on estimated enrollment figures and the Governor's proposed budget and may change as the House and Senate consider the budget. The state budget is expected to be final on or before June 30, 2013.

Recommended Changes to State Funding Model - In the fall of 2012, Governor Kasich asked President Gee to chair the Ohio Higher Education Funding Commission comprised of the presidents from several Ohio public universities. The committee was charged with recommending changes to the State Share of Instruction (SSI) formula to better align it with the goals of the state. The committee was tasked with finding ways to use the formula to support several objectives, including: increase participation rates; encourage the best and brightest to attend; improve graduation rates; make higher education more affordable; graduate students with the skills they need; and encourage graduates to stay in Ohio.



The committee recommended that their changes be made over the course of three years. In 2014, they recommended 50% of the subsidy be allocated based on degree completions, the stop loss protection for a campus's subsidy be removed, the state use a three year average of FTE and degree awards for the subsidy allocation, and the STEM weights used for the course completion subsidy also be used for the degree completion subsidy. These changes are expected to provide an additional $9 million to Ohio State in fiscal 2014 under the Governor's proposed budget. For 2015 and 2016, the committee recommended the elimination of a separate funding formula for regional campuses, degree credit in the formula be awarded to non-residents degree recipients who remain in Ohio, proportional degree credit be awarded for transfer students, that at risk weightings be used in the formula be applied at the student level, and the elimination of the Access Challenge and plant, operations and maintenance (POM) earmarks currently in the formula. Governor Kasich incorporated the recommendations into his proposed 2014-2015 biennial budget.

The graph below illustrates the inverse relationship between decreases in state support and increases in tuition rates. The proportional share of state support in the Columbus campus budget is expected to fall to a historic low of 28% relative to the total of state funding and tuition and fees in fiscal 2013. The table below shows the continuing long-term decline in state support as a proportion of total income.



	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014
% State Support	57%	54%	53%	53%	51%	46%	40%	36%	35%	36%	29%	28%
$ State Supp. (millions)	$257	$254	$273	$298	$317	$315	$310	$317	$343	$392	$330	$342
% Tuition	43%	46%	47%	47%	49%	54%	60%	64%	65%	64%	71%	72%
$ Tuition (millions)	$196	$216	$241	$269	$307	$363	$464	$566	$640	$693	$822	$873

State Capital Appropriations – The University also receives capital appropriations from the state to improve the physical infrastructure of the University. The state capital budget process occurs in the off years from the state budget process. The fiscal 2013-14 capital process allocated approximately $83 million to the University, of which approximately $48 million is expected to be received in fiscal 2014 and used to fund such projects as construction of the Chemical and Biomolecular Engineering and Chemistry (CBEC) building, the Smith Lab renovation, renovations at the regional campuses and other infrastructure projects.

Sponsored Research Programs

The University secures funding for sponsored research programs from a variety of external sources. External grants are awarded by federal, state and local agencies along with private foundations and corporate sponsors.

Federal, State, Local and Private Grants and Contracts – Revenue from grants and contracts is expected to decrease $40 million, or 6%, due to decreased governmental funding.

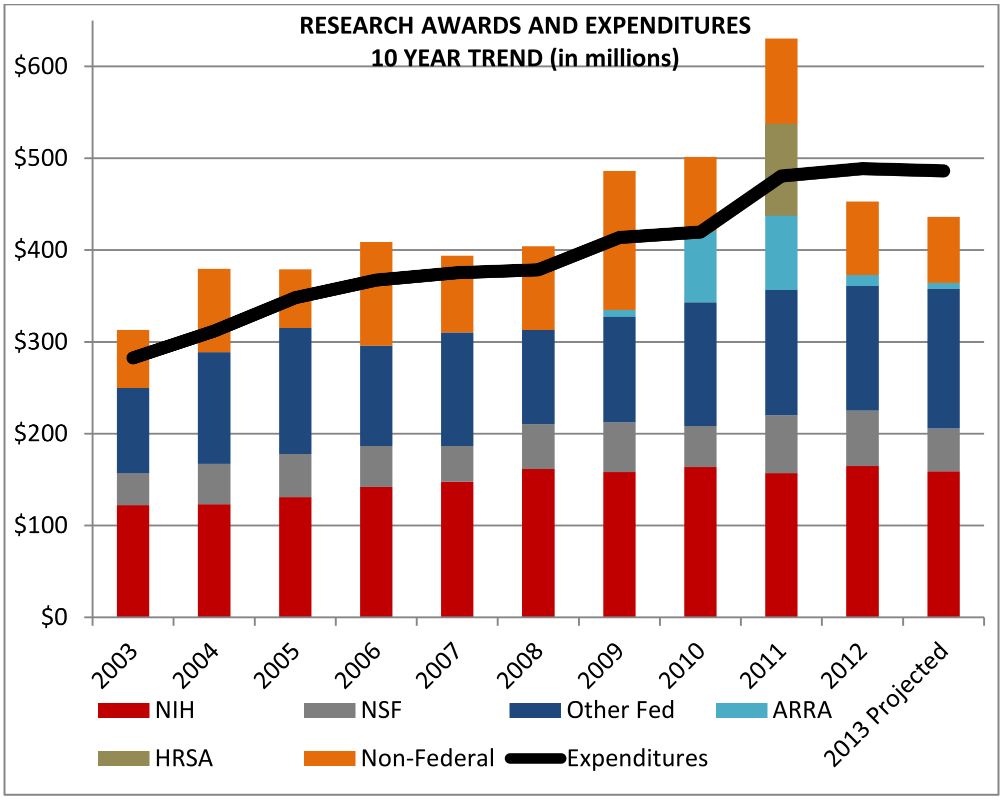
The grant and contract revenue is primarily used for sponsored research projects. A reduction in total research expenditures, which are budgeted at $442 million for fiscal 2014, account for $35 million of the grant and contract decrease. The expected decline is primarily due to the projected decrease in federal and state funding.

Research expenditures include facilities and administrative (F&A) recovery which is projected to be $91 million, a $3 million, or 3%, decrease from fiscal 2013 levels. F&A costs are recovered from most sponsored programs to offset the cost of maintaining the physical and administrative infrastructure that supports the research enterprise at the University. Because some direct cost expenditures do not recover F&A, direct and indirect cost expenditures do not necessarily align when comparing expected revenue streams.

Agencies differ in how they award funds to the University. Some sponsors will provide all spending authority at the beginning of a multi-year award whereas others tend to fund in annual increments; therefore, awards and expenditures do not necessarily track together. This is illustrated in the graph on page 25.

In fiscal 2009 through 2011, three extraordinary research awards were received. In fiscal 2009 there was a large increase in state awards for the Ohio Research Scholars program; in fiscal 2010 and 2011 we received American Recovery and Reinvestment Act (ARRA) funding from the federal government; and in fiscal 2011 we received a Health Resources and Services Administration (HRSA) award for the construction of the critical care tower at the Wexner Medical Center. In fiscal 2012 all of these additional sources of funding were absent and awards were down. With the impact of sequestration and on top of flat federal budgets, we expect fiscal 2013 awards to be down even further, and have already seen a 20% reduction in NSF awards.

Expenditures are significantly lower than awards from fiscal 2009 through 2011. However, in fiscal 2012 expenditures exceeded awards because spending is in arrears. We anticipate fiscal 2013 projected actual expenditures will be about the same as fiscal 2012 but in fiscal 2014 expenditures will start to follow awards downward.



Not unexpectedly, awards from not-for-profit entities that provide grants from funds they raise from charitable donations (e.g. American Cancer Society) are also trending downward. State funding is also being redirected toward private enterprises and not toward research development at universities.

The University is working to mitigate potential damage using two primary strategies. First, we are actively focusing on increasing the competitiveness of researchers through activities internal to the University, including facilitating multidisciplinary research to take advantage of the breadth of expertise at the University; establishing new centers focused on current and emerging research challenges; creating a proposal development center; and establishing and maintaining cutting edge core facilities to support our growing community of research-intensive faculty. The second strategy involves building external relationships that will help grow the University's portfolio of federally-funded research, expand strategic partnerships with industry and promote and develop the Ohio Technology Consortium (OH-Tech).

Sales and Service Revenues

Sales and Services of Educational Departments – Sales and services of educational departments are expected to increase $5 million, or 4%, over fiscal 2013 levels due to increased services at the instructional clinics (Dentistry, Optometry and Veterinary Medicine) and the opening of the Veterinary Medical Center of Dublin.

Sales and Services of Auxiliary Enterprises - Student Life and Athletics comprise the majority of sales and services of auxiliary enterprises. Revenues for the group are projected to increase $10 million, or

4%, to $245 million in fiscal 2014. These increases are driven by a combination of factors including increased revenue from room and board through Student Life as they bring more rooms on-line with the re-opening of Smith-Steeb Hall and continue to expand on dining options. Room and board fees are expected to increase by an average of 3.7% to 3.8% on most services in fiscal 2014. The Room Rate II and the Unlimited 4 meal plan for a student choosing to live on campus will be $9,850 in fiscal 2014.

In addition, more events are planned at the various venues on campus and Athletic revenues are expected to increase slightly as a result of increased ticket sales, offset by the fact that the University will host one less home football game in fiscal 2014 compared to fiscal 2013.

EXPENSES

Salaries and Benefits

Salaries and benefits are expected to increase by $16 million, or 1%, in fiscal 2014 to $1.8 billion. Salaries and benefits continue to be the single largest expense accounting for 66% of total operating expenses.

Salaries - Salaries are expected to grow $14 million, or 1% over fiscal 2013 projected actuals. Faculty and staff salary guideline increases of 2% have been approved for fiscal 2014. Under the University's policy, most salary increases will be effective September 1, 2013. Consistent with prior years, the approved salary guidelines take into consideration the financial condition of the University as well as statistics of the current labor market. The University continues to employ its philosophy of setting faculty salaries at a level that will maintain or advance Ohio State's position nationally for the highest quality faculty, and to set staff salaries to be competitive with the local employment markets.

Benefits - Benefit costs are expected to remain flat for fiscal 2014 at $486 million. Benefits include the University's contribution to employee retirement plans, various medical, dental, vision, life and disability plans, employee and dependent tuition plans, graduate fee authorizations and University's expense related to compulsory plans, such as workers' compensation and unemployment compensation. Benefits are driven by the 2% salary guideline increase, which directly affects the retirement plan contribution expenses and a 1% average rate increase on other benefit plans combined.

<u>Retirement Plans</u> - University employees are covered by one of three retirement systems. The university faculty is covered by the State Teachers Retirement System of Ohio (STRS Ohio). Substantially all other employees are covered by the Public Employees Retirement System of Ohio (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements. Under each of the plans, the University contributes 14% of the employee's pay to the plan annually, while the employees contribute 10%. Vesting varies by plan.

<u>Medical Plan</u> - The University is self-insured for employee health insurance. Fiscal 2014 medical plan costs are budgeted based on historical cost trend data, projected employee eligibility, and expected plan changes associated with governmental regulations. These factors resulted in a projected increase of 7% for fiscal 2014 across all medical plans. The University will continue to monitor the impact the new health care laws will have on the University as an employer as legislation and regulations evolve.

To account for the volatile nature of benefit plan costs, the University maintains cash reserves for certain benefit accounts. Reserve minimums are set to cover the full accrual of related liabilities and a medical plan reserve for Incurred But Not Recorded (IBNR) claims. A general reserve is also maintained to cover costs associated with other University provided benefits, such as tuition assistance and support of the Your Plan For Health (YP4H) and related initiatives.

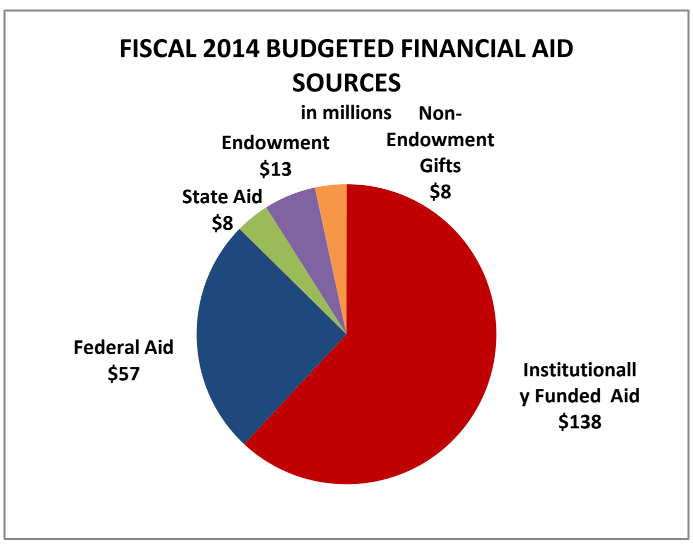
Fee Authorizations - Offsetting the increase in benefit plan costs is a reduction in fee authorizations, which are included in benefits. Graduate fee authorizations are expected to decrease $6 million, or 6% to $96 million in fiscal 2014. Fee authorizations are granted to graduate and professional students who perform services, generally teaching, while enrolled in classes, and cover the cost of graduate tuition.

Student Financial Aid

Financial Aid is a critical investment of resources that keeps the cost of education manageable for students. The Ohio State University engages both the federal and state governments in conversations to stress the importance of financial aid and reasonable loan programs for students. Interactions with donors also stress the importance of gifts that support financial aid.

The financial aid budget seeks to advance two specific goals for the University: to invest in the quality, quantity and diversity of students in order to continue to move Ohio State towards its goal of being in the top ten public universities in the country; and to invest in students to fulfill our role as the land grant university for the State of Ohio, whereby access to college is afforded to those students with limited resources. The University continues to work to support both goals and continues to develop the appropriate balance in moving the University towards eminence. Fundraising efforts are also underway via the Ohio Challenge in which all 88 Ohio counties are raising funds to recruit students from each county to attend Ohio State.

Ohio State expects to distribute a total of $223 million of financial aid to students in fiscal 2014. Sources for the aid include institutionally funded aid, federal and state programs, and gifts and endowments.



Institutionally funded financial aid is expected to increase by $ 9 million, or 7%, in fiscal 2014 to a total of $138 million. These increases are driven by further investments in financial aid to support the Enrollment Plan, funding for need-based financial aid, funding for the Eminence Financial Aid program for high-performing students, and for the inflationary costs of room and board. In addition, as the University's share of SSI has decreased from 40% of tuition income ten years ago to an estimated 28% in fiscal 2014, Ohio State has more than doubled its budget for internally funded financial aid.

Federal financial aid, which consists primarily of Pell and some Supplemental Educational Opportunity Grant (SEOG) grants, is expected to increase $1 million, or 2%, to $57 million in fiscal 2014. State financial aid is expected to hold steady at approximately $8 million in fiscal 2014 and is driven by funding levels for programs such as the Ohio College Opportunity Grant (OCOG).

Donor and other funds are also expected to remain flat in fiscal 2014 at $20 million. This funding level is driven by the focus of student financial aid in our current fund-raising campaign.

In the operating budget, financial aid is presented under two categories. Approximately $144 million of the $223 million expected to be awarded is included as an allowance against tuition and fees in the operating revenue section and the remainder is included as an operating expense in supplies and other.

Supplies & Other

Supplies and other are projected to increase $32 million, or 7%, to $510 million in fiscal 2014. The increase is driven by a $9 million increase in institutional student financial aid, $4 million of increased costs associated with the additional student housing and food costs through Student Life, $5 million of increased costs associated with the continued ramp up of new graduate programs, $6 million of increased costs associated with faculty start-ups in several colleges, and increases in general support office costs.

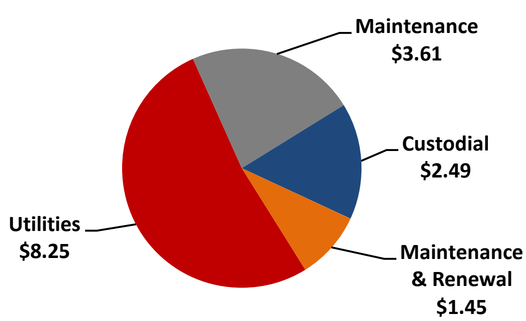
Purchased Services

Purchased services are expected to total $209 million in fiscal 2014, a $4 million, or 2% increase over fiscal 2013 levels. Purchased services include costs associated with contracted services for sponsored research projects, as well as outside services, such as housekeeping and consulting.

Plant Operations and Maintenance

The cost of utilities, maintenance, and a basic level of custodial services are allocated on a uniform campus-wide average, based on the square feet of space assigned to units. The total plant operations and maintenance (POM) charge is based on four separate cost pools: utilities, maintenance, custodial, and maintenance and renewal. For fiscal 2014, the total rate for all components is $15.80/ASF which is a 2% increase over fiscal 2013 rates. Expenses related to POM are spread through all operating expense categories in the fiscal 2014 budget.

Components of Total POM Rate, $/ASF
Total Rate - $15.80/ASF



Utilities - Columbus campus utilities expenses including commodities are expected to increase by $4 million, or 4%, in fiscal 2014 to $100 million. The increase is driven primarily by increases in debt service associated with utilities projects undertaken as part of the infrastructure master plan and the construction of two chilled water plants on campus. The increase in debt service was partially offset by decreases in expenses for natural gas, purchased power, and water and sewage.

The delivery of utilities to the Columbus campus involves three significant components: 1) 61% for purchased utilities and commodities including electricity, natural gas, fuel oil, and water; 2) 31% for debt service for utilities capital projects; and 3) 8% for other expenditures, which include maintenance for central systems, supplies and staff labor costs. Maintenance for building-based utilities systems is covered in the maintenance cost pool.

The Wexner Medical Center and major auxiliaries such as Student Life and Athletics are not charged for utilities by the assignable square foot but are directly billed for specific utilities based on meter data. This direct billed revenue is deducted from the total utilities expenses in calculating the rate per assignable square foot paid by other units.

The University has contracted with Johnson Controls for a pilot project to install energy conservation measures in five energy-intensive buildings: Biomedical Research Tower, RPAC/McCorkle Aquatics Pavilion, Scott Lab, Physics Research Building, and the Veterinary Hospital. The total minimum guaranteed energy savings for these buildings will be $1 million annually after the project is completed.

Building Maintenance and Custodial Services - Maintenance expenses are expected to increase by $1 million, or 2 %, in fiscal 2014 to $32 million. The increase was driven by increases in salaries and benefits for University maintenance staff. Services provided include repairs resulting from normal wear and tear, including plumbing, central HVAC and electrical systems, elevator repair and maintenance, and maintenance of the building envelope, including windows, foundations, walls, and floors.

In addition, custodial expenses are expected to decrease by $1 million, or 4%, in fiscal 2014 to $17 million. This decrease was driven by the conversion of a number of buildings from custodial services provided by University employees to external custodial services contracts. For fiscal 2014, contract services will provide custodial services for approximately 56% of Columbus campus buildings. A basic level of cleaning services is provided, including floors, restrooms, and public and private spaces. Units can choose to voluntarily contract for a higher level of services.

Certain auxiliary units, such as Athletics and Student Life, do not participate in the building maintenance and custodial service pools due to their unique nature (stadium, arenas, dormitories, etc.). Instead, they provide their own building maintenance and custodial services.

Maintenance and Renewal - In an effort to keep pace with maintenance needs for newer buildings and prevent additions to the deferred maintenance backlog, the POM rates provide annual funding for a preventative maintenance pool and a second fund for a deferred maintenance endowment.

The annual funding for the preventative maintenance pool will increase by $1 million, or 35%, in fiscal 2014 to $4 million. All $4 million expected to be collected is budgeted to be spent on scheduled maintenance in fiscal 2014.

The deferred maintenance endowment was established to provide funding for future maintenance on buildings constructed after 2000. $6 million will be added to the endowment during fiscal 2014, bringing the principal balance to $33 million. Although no income from the fund will be distributed or spent in fiscal 2014, the endowment is expected to begin income distributions in 2015 and should generate approximately $2 million per year.

University Overhead

Overhead is charged to non-general funds units to help fund centrally-provided services. In fiscal 2014, $71 million is expected to be transferred via overhead to fund centrally-provided services, an increase from $67 million in fiscal 2013. Since overhead is an intra-university transfer, it is eliminated in consolidation.

Specific expense categories comprising the overhead rates include Facilities Support, Administrative Support, and Specialized Support (Health Administration and Student Services). Different overhead rates are calculated based on participation in the different expense categories. The base rate includes all expense categories; other rates are calculated to include only those expenses applicable to those units. For example, the regional campus rate includes only the insurance, academic administration, and central support expense categories. For fiscal 2014, the rates ranged from 2.7% for the Wexner Medical Center to 5.7% for most earnings operations.

For all units except the Wexner Medical Center, overhead is calculated based on the overhead percentage times net revenue. Net revenue is defined as revenue less direct pass through costs. The Wexner Medical Center's overhead is charged a dollar amount based on actual prior year expenses, in order to be compliant with federal Medicare reimbursement policies. The rates are stable compared with fiscal 2013 rates, reflecting moderate growth in both revenues and allocated overhead costs.

NON-OPERATING ACTIVITIES

Advancement

The University launched the public phase of its $2.5 billion *But For Ohio State* campaign in October 2012. The fundraising campaign invites those who believe in Ohio State to invest in our students, our faculty, and our potential. By supporting Ohio's land-grant institution, alumni, friends, parents and partners can help us secure educational opportunities for futures generations of students and meet the enormous challenges we face as a society. Campaign proceeds will be used to fund scholarships to attract the most promising students, elevate faculty, create modern learning environments, promote multidisciplinary research, and drive high-impact innovation.

In fiscal 2014, the University expects to recognize aggregate fundraising revenue of $200 million by engaging a variety of constituents, including students, faculty and staff, alumni, friends, corporate partners and private foundations. The Office of Advancement, which oversees all fundraising activities, is undergoing reorganization under new leadership. The Advancement strategic plan currently under design will focus on aligning fundraising with communications and alumni engagement to use innovative funding approaches with Ohio State's partners across all facets of the University.

Financial Services and Investments

The Office of Financial Services manages cash, short and intermediate term investments, and debt for all departments within the University. In performing these functions, the office serves as bank to the University departments, taking deposits, issuing debt, investing operating funds and distributing loans. The internal bank is a framework for coordinating these activities and providing a consolidated view of the associated assets, liabilities, revenues and expenses.

In addition, the Office of Investments manages the Long Term Investment Pool (LTIP), which totals over $3 billion and includes gifted endowment funds, designated funds and a portion of the operating funds. Through a partnership with external managers, the Office of Investments has adopted an asset allocation model for the LTIP that groups assets into four broad categories. This model enables the investment team to build a portfolio of specialized investment teams around the world to implement our strategic allocation and to be responsive to changing market conditions.

Investment Income - Investment income is projected to total $260 million, a 20% decrease over fiscal 2013 projected actual totals. The fiscal 2013 projected income is reflective of the unusually strong investment performance in fiscal 2013. Of this total, the LTIP is expected to produce an 8% return, or $249 million in fiscal 2014, net of investment expenses. The remaining short and intermediate term investments, are expected to produce an $11 million return on an approximately $2 billion asset base.

Debt - The Office of Financial Services manages over $2.5 billion of outstanding debt. The proceeds of debt issuances have been utilized to fund major construction projects like the Wexner Medical Center addition and dormitory refurbishments, as well as several university-wide initiatives.

The debt is comprised of a mix of tax exempt and taxable bonds. Over 80% of the outstanding balance is under fixed rate obligations ranging between 3% and 5.25%. The reminder is held under variable rate agreements. The variable rates, which are subject to changes every seven days, averaged 0.11% through the first ten months of fiscal 2013 and have a 15 year history of not exceeding 1.84%. Under the terms of the variable rate agreements, the rates cannot exceed between 8% and 12%.

In fiscal 2014, we plan to issue approximately $300 million of new debt to assist in funding the Medical Center expansion. The University expects to incur approximately $107 million of interest expense on plant debt in fiscal 2014, an increase of $19 million, or 22%, over fiscal 2013 projected actual levels.

The Health System's Budget Overview

The 2014 OSU Wexner Medical Center Health System (Health System) operating budget generates margins and cash flows sufficient to meet or exceed the Health System's three strategic financial targets. The first goal is to earn an EBIDA margin of at least 10%. The fiscal 2014 budget generates a 14% EBIDA margin. The second goal is the increase the days cash on hand by three days. The fiscal 2014 budget results in a three day increase from $307 million to $334 million. The final target is to achieve a debt service coverage ratio of 4:1. The budget results in a 6:1 debt service coverage ratio.

Revenue and Expense Drivers

The rate of revenue and expense growth in the fiscal 2014 budget is less than previous years. Lower reimbursements, state and federal budget reductions, the status of Medicaid expansion and the impact of health care reform, combined with no new bed capacity until fiscal 2015 will cause operating revenue to grow 4.3%. Ongoing efforts to improve operating efficiencies are expected to hold expense growth to 3.7%, our lowest increase in many years. Excluding ramp-up expenses for the new hospitals, the New Albany Wellness Center, and the Jameson Crane Sports Medicine Center, core expense growth is 3%. Supplies, pharmacy and purchased service expenses, adjusted for volumes, are planned to grow between 2% to 4%. Salary expense is planned to grow by 4%, reflecting a 2% growth in FTE's and a 3% increase in wages and benefits.

Should revenue fall short of these estimates, expenses, capital or medical center investments will be adjusted to meet targets. Approximately two-thirds of the revenue increase is attributable to volume with the balance attributable to rate increases. Rate increases for major managed care payers of between 3% and 5% have been negotiated through 2014/2015 and are included in this budget. There are no planned price increases in 2014. Admissions are projected to grow 2.5%, outpatient visits by 2%, and surgeries by 2%. Growth is limited by the availability of new inpatient, ambulatory, and faculty office space which should be addressed when the new hospitals are opened in fiscal year 2015.

Estimating the Impact of Reimbursement Changes

The budget assumes federal sequestration throughout 2014 and beyond, with a negative revenue impact of $9 million. Proposed state budget reductions of approximately $16 million are also included. These reductions include a 5% rate cut for inpatient and outpatient services, a reduction of up to 10% for the James cost reimbursement and capital reductions. The Medicaid reductions are to be implemented January 1, 2014 and will represent only 6 months of fiscal 2014 impact. The full year impact of these proposals in 2015 will be in excess of $30 million. Both Medicare and Medicaid reductions were made in anticipation of Medicaid expansion, which while reducing rates, would greatly expand coverage of currently uninsured patients. At this writing, the ultimate resolution of Medicaid expansion in Ohio is uncertain. This budget assumes that Medicaid rate reductions will continue as currently proposed, but that the shift of payment from self-pay to Medicaid will not materialize to any significant extent.

The impact of insurance exchanges scheduled to begin January 2014 are difficult to estimate. The number and type of managed care organizations participating in exchanges is uncertain, and the composition of the plans' networks is still to be determined. Insurance exchanges may pose a particular challenge for academic medical centers such as our Health System as the insurance market may not maintain historic support of the teaching mission. Key issues related to exchanges are the impact of consumerism on provider choice, small business migration to exchanges, provider bed capacity, and the outcome of Medicaid expansion. The Health System has run various financial models to predict the impact of both Medicaid expansion and exchanges. Since these items will begin January 2014 and will affect only six months, we have assumed limited impact for this fiscal 2014 budget. We have included a reduction in revenue of approximately $5 million in 2014 which combines the generally favorable impact of uninsured individuals obtaining coverage with the anticipated negative rate pressure brought about by exchanges.

New Facilities

The new James Cancer Hospital/Solove Research Institute is scheduled to open in late 2014/early 2015. The new Critical Care Center will also come on line in the same timeframe. The activities necessary for the opening and transition of patients to the new building will begin in 2014. Facility planners and outfitters, building technicians, trainers and clinical staff will begin the process of preparing the building for occupancy. There is approximately $6 million planned in this budget for these transition expenses in the fiscal 2014 budget.

Debt is budgeted to grow as construction on the new hospitals continues. Interest paid on the construction is approximately $33 million, almost all of which is capitalized as a cost of the building. Substantially all of the debt on the Health System books represents either debt issued by the University or loans from the University's internal bank on behalf of the Health System. This debt is covered under memorandums of understanding with the University at various rates and terms. Principal and interest on all debt, including the tower, capital leases, and existing bonds totals approximately $86 million in 2014. Of note, once the new James opens and as a result of the PPS exemption, the amount of additional capital cost recovery that can be claimed by the James is estimated at between $10 and $13 million in CMS reimbursement (on average, per year) over approximately 30 years, which represents the average useful life of the new James building and equipment. This reimbursement would begin in mid fiscal 2015.

In addition to the construction, the servicing of debt and cash growth, the Health System has budgeted $68 million for medical equipment, renovations, infrastructure and technology capital expenditures. Medical Center Investments of $113 million are planned for 2014. These investment support strategic programs, new recruits, research and provide clinical support. These capital and program investments are subject to the Health System achieving debt service and cash growth goals.

2014 will provide the multiple challenges of navigating the impact health care reform, moving forward on opening the cancer and critical care tower, and managing limited bed capacity until the new hospital opening. The budget attempts to incorporate these uncertainties by planning for conservative rate of growth, minimal increases in cost, activities necessary to open the tower, and flexibility to reduce expenses further if revenue does not meet expectations.

OSU Physician, Inc.'s Operating Budget Overview

OSU Physicians, Inc. is a multi-specialty faculty practice bringing outpatient care to Central Ohio communities with physicians focusing on personalized healthcare, patient satisfaction, research and education.

The fiscal 2014 budget for OSU Physicians, Inc. includes an increase in operating revenue of $37 million, or 13%, based on an expected 14% increase in volume, measured by work relative value units (wrvus), a system for measuring physician productivity. Provider related expenses are budgeted to increase $27 million, or 15%, due to 71 new physicians that have either recently started in fiscal 2013 or will start in fiscal 2014.

Appendices

COLUMBUS CAMPUS TUITION AND STATE SHARE OF INSTRUCTION HISTORY

Year	Resident Undergraduate Tuition (1)	Percent Change	State Share of Instruction (000's) (2)	Percent Change
1989	$2,040	7.9%	$238,111	3.1%
1990	$2,190	7.4%	$251,658	5.7%
1991	$2,343	7.0%	$262,311	4.2%
1992	$2,568	9.6%	$246,306	-6.1%
1993	$2,799	9.0%	$240,881	-2.2%
1994	$2,940	5.0%	$251,406	4.4%
1995	$3,087	5.0%	$264,759	5.3%
1996	$3,273	6.0%	$273,327	3.2%
1997	$3,468	6.0%	$283,012	3.5%
1998	$3,687	6.3%	$297,551	5.1%
1999	$3,906	5.9%	$305,161	2.6%
2000	$4,137	5.9%	$312,839	2.5%
2001	$4,383	5.9%	$317,721	1.6%
2002	$4,788	9.2%	$305,389	-3.9%
2003	$5,691	18.9%	$300,064	-1.7%
2004	$6,651	16.9%	$299,998	0.0%
2005	$7,542	13.4%	$301,898	0.6%
2006	$8,082	7.2%	$305,588	1.2%
2007	$8,667	7.2%	$314,597	2.9%
2008	$8,676	0.1%	$330,269	5.0%
2009	$8,679	0.0%	$362,682	9.8%
2010	$8,726	0.5%	$391,658	8.0%
2011	$9,420	8.0%	$390,830	-0.2%
2012	$9,735	3.3%	$329,548	-15.7%
2013	$10,037	3.1%	$331,829	0.7%
2014	$10,037	0.0%	$342,083	3.1%

(1) Resident Undergraduate Tuition includes instructional, general, and mandatory fees.

UNDERGRADUATE TUITION & FEES - AUTUMN 2013

FULL-TIME RATE BY CAMPUS AND RESIDENCY

Campus	Resident*	Non-Resident	Non-Resident**	Resident % Chg	Non-Res % Chg
Columbus	$10,036.80	$25,756.80	$25,756.80	0.0%	1.2%
Lima	$7,140.00	$15,720.00	$22,860.00	0.0%	1.4%
Mansfield	$7,140.00	$15,720.00	$22,860.00	0.0%	1.4%
Marion	$7,140.00	$15,720.00	$22,860.00	0.0%	1.4%
Newark	$7,140.00	$15,720.00	$22,860.00	0.0%	1.4%
ATI	$7,104.00	$15,720.00	$22,824.00	0.0%	1.4%

**Resident=instructional + mandatory fees.*

***Non-Resident=instructional + non-resident surcharge (2% increase) + mandatory fees.*

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