

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2024 Interim Financial Report – December 31, 2023

CONTEXT: The purpose of this report is to provide an update of financial results for the six months ending December 31, 2023.

FINANCIAL SUMMARY

The university's overall financial position remains strong. Operating revenues increased \$322 million in the first six months of fiscal year 2024 compared to the first six months of fiscal year 2023, driven primarily by strong growth in healthcare revenues, higher grant and contract revenues, increases in auxiliary enterprises, and increased tuition and fees. Specific impacts include:

- A \$232 million increase in healthcare revenues, reflecting strong growth in both oncology and non-oncology infusions and practice expansion.
- A \$56 million increase in grants and contracts, primarily due to increases in federal grants of \$36 million, private grants of \$11 million, state grants of \$5 million, and local grants of \$4 million.
- A \$33 million increase in auxiliary revenues, primarily due to more stadium shows for Schottenstein Center in the first six months of fiscal year 2024 compared to the first six months of fiscal year 2023.
- A \$17 million increase in student tuition, due primarily to resident and non-resident rate increases and a rate increase to those undergraduate students not in the Ohio State Tuition Guarantee.

The year-to-date increase in net position was \$419 million, which is \$237 million higher than the prior year's increase in net position of \$182 million. The \$237 million change relates primarily to a \$115 million increase in operating loss, a \$18 million decrease in gift revenues, and a \$371 million increase in net investment income. Out of the \$115 million increase in operating loss, \$48 million is related to the Student Life correction entry posted in the prior year, which lowered prior year's expenses. Excluding this prior year correction, the year-over-year increase in operating loss would be \$67 million. Additional details on university revenues, expenses, cash and investments, debt, and cash flows are provided below.

Revenues

Student tuition and fees, net - increased \$17 million or 3.2%, to \$556 million for the first six months of fiscal year 2024 compared to the first six months of fiscal year 2023, due primarily to an increase in gross tuition and other student fees of \$27 million, offset by an increase in scholarship allowances of \$10 million. The increase in gross tuition revenue is primarily driven by the increase in instructional and non-resident surcharge. Overall university Autumn enrollments declined by 0.6% due to a combination of factors, including smaller undergraduate freshman class sizes in Autumn 22 and Autumn 23, and declining transfer and campus change students due to demographic changes. Rate increases for the incoming (undergraduate) tuition guarantee cohort and graduate students, combined with an increasing share of non-resident students continue to help offset the declining revenues caused by the smaller enrollment.

Grants and contracts – increased \$56 million in the first six months of fiscal year 2024 compared to the first six months of fiscal year 2023 due primarily to increases in federal grants and contracts of \$36 million, private grants and contracts of \$11 million, state grants and contracts of \$5 million, and local grants and contracts of \$4 million. The increases from federal grants and contracts are primarily due to increases from the National Science Foundation of \$12 million, National Institutes of Health of \$12 million, and the Department of Defense of \$8 million.

Gifts – decreased \$18 million over the prior year due primarily to decreases in private capital gifts of \$13 million and additions to permanent endowments of \$5 million.

Sales and services of auxiliary enterprises - increased \$33 million over the prior year due primarily to a \$43 million increase in Schottenstein Center revenue due to more events in fiscal year 2024 and a \$3 million increase in Student Life due to higher housing and dining revenues. This increase was partially offset by a \$13 million decrease in Athletics revenue, mainly attributable to two fewer home football games and lack of premium games in fiscal year 2024.

Sales and services of the OSU Health System and OSU Physicians, Inc. - increased \$232 million to \$2,865 million. The Health System experienced growth in both oncology and non-oncology infusions contributing to the strong margin. Total Inpatient and Outpatient surgical volumes have also exceeded the budget for the first half of the year. OSU Physicians revenues increased \$40 million due to continued investment in primary care and community outreach services, growth of specialty services, expansion in regional outpatient clinics, and increased surgical capacity with the opening of James Outpatient Care on West Campus.

Other operating revenues – decreased \$12 million primarily due to the absence of one-time royalty revenues that were present in the prior year.

Expenses

University – expenses increased \$148 million to \$1,880 million in the first six months of fiscal year 2024. Salaries increased \$47 million, or 6%, primarily due to a 3% increase in faculty and staff salary guidelines, approximately 2% increase for market adjustments, and additional investments in human capital related to strategic investments in academic excellence and research. Benefits increased \$19 million, or 8%, primarily due to the 6% increase in salaries. The remainder of the increase is due to increases in composite benefit rates. Supplies and services increased \$68 million, or 18%, primarily due to a \$48 million Student Life correction entry posted in prior year, which reduced expenses for fiscal year 2023, in addition to inflation. Depreciation increased \$5 million compared to prior year

primarily due to new assets being placed in service. Other University expense changes include a \$7 million increase in student aid, a \$3 million increase in graduate fee authorizations, and a \$1 million decrease in interest expense. The decrease in fixed-rate interest is attributable to the refunding of portions of the Series 2016A bonds.

OSU Health System and OSU Physicians – expenses, including depreciation and interest expenses, increased \$253 million to \$2,787 million in the first six months of fiscal year 2024. The Health System continues to focus on throughput, workforce retention, and recruiting. While not immune to the challenges that continue to face the healthcare industry, the Health System’s expense and labor management was strong and in line with volumes for the first half of fiscal year 2024. OSU Physicians increased \$41 million, primarily due to higher provider expenses associated with investment in patient care services growth and access improvement.

Auxiliary – expenses increased \$35 million to \$258 million in the first six months of fiscal year 2024, primarily due to increases in Schottenstein Center of \$30 million due to increased events and Athletics of \$5 million.

Cash and Investments

For the six months ending December 31, 2023, total university cash and investments increased \$343 million to \$11,133 million compared to June 30, 2023, primarily due to increases in Long-Term Investment Pool of \$217 million, temporary investments of \$198 million, unexpended bond proceeds of \$109 million, offset by decreases in cash and cash equivalents of \$163 million and other long-term investments of \$19 million. Additional details for the Long-Term Investment Pool and temporary investments are provided below.

Long-Term Investment Pool and Temporary Investments

For the six months ending December 31, 2023, the fair value of the university’s Long-Term Investment Pool increased by \$217 million to \$7,601 million. Changes in total valuation compared to the prior year are summarized below:

	2024	2023
Market Value at July 1	\$ 7,383,676	\$ 6,960,782
Net Principal Additions	39,568	179,594
Change in Market Value	279,464	5,178
Income Earned	103,686	101,807
Distributions	(151,985)	(143,615)
Expenses	(53,274)	(49,380)
Market Value at December 31	\$ 7,601,135	\$ 7,054,366

Net principal additions include new endowment gifts (\$35.0 million), reinvestment of unused endowment distributions (\$7.4 million), and other net transfers of university monies (-\$4.4 million). Change in fair value includes realized gains (losses) on the sale of investment assets and unrealized gains (losses) associated with assets held in the pool on December 31, 2023. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$39.3 million), University Development related expenses (\$12.0 million), and other administrative-related expenses (\$0.3 million).

LTIP Investment Returns

For the six months ending December 31, 2023, the LTIP earned a return, net of investment fees, of 4.72%. The comparable six months ending December 31, 2022 saw a net investment return of 1.01%.

Temporary Investments

For the six months ending December 31, 2023, the Tier 1 Investments (<1 year duration) earned a return of 2.85%, outperforming the blended benchmark of ICE Bofa 6m US Treasury Bill benchmark and Bank of America ML 91-day T-Bill (2.71%) by 0.14%. Tier 2 Investments (<5 year duration) earned 4.03%, outperforming the blended benchmark of ICE Bofa US Corp & Govt 1-3 Years, BBG US Govt/Credit 1-5 Years, and BBG US Ag Gvt/Cr Intrmd (3.55%) by 0.48%.

For the comparable six months ending December 31, 2022, the Tier 1 Investments earned a return of 1.37%. Tier 2 Investments returned 0.22% for the same time-period.

Other Assets and Liabilities

Accounts receivable increased by \$619 million, primarily reflecting a combination of increases in tuition and fee receivables of \$409 million, healthcare receivables of \$128 million, housing and dining receivables of \$60 million, and grants and contracts receivables of \$20 million. Prepaid expenses increased by \$40 million, primarily due to scholarships and fee authorizations for graduate associates. These are recognized as expenses over the course of the semester. Unexpended bond proceeds increased by \$109 million, reflecting new bond issuances offset by expenditures for capital projects. Deposits and advance payments for goods and services increased by \$620 million, primarily reflecting receipts for tuition, fees, and housing and dining for the spring semester. These amounts will be recognized as revenue over the course of the semester.

Debt

In September 2023, the university closed on four bond issues, Series 2023B, Series 2023C, Series 2023D-1 and Series 2023D-2. The proceeds of the \$266 million of tax-exempt fixed-rate General Receipts Bonds, Series 2023B, will be used to fund construction

of the Wexner Medical Center's new Inpatient Hospital. The proceeds of the \$112 million of tax-exempt fixed rate General Receipts Refunding Bonds, Series 2023C, were used to refund portions of the Series 2016A bonds and to pay for costs of issuance. The proceeds of the \$125 million of tax-exempt Variable Rate Demand General Receipts Refunding bonds, Series 2023D-1, and the \$150 million of tax-exempt Variable Rate Demand General Receipts Refunding bonds, Series 2023D-2, were used to refund the Series 2010E bonds and Series 2014B bonds, respectively, and to pay for costs of issuance.

Cash Flows

University cash and cash equivalents decreased \$163 million in the first six months of fiscal year 2024 compared to June 30, 2023. Net cash used in operating activities was \$256 million, compared to net cash used by operating activities of \$156 million in the first six months of the prior year. The increase in cash usage relates primarily to increases in payments made to vendors and employees, partially offset by increases in receipts from sales and services. Net cash provided by noncapital financing activities was \$449 million in the first six months of fiscal year 2024, which is relatively flat compared to \$448 million for the prior year. Net cash used by capital financing activities was \$317 million in the first six months of fiscal year 2024 compared to \$641 million in the first six months of fiscal year 2023. The decrease is due primarily to proceeds from bond issuance. Net cash used by investing activities was \$281 million, primarily due to investment income.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
December 31, 2023 and June 30, 2023
(in thousands)

	<u>As of December</u> <u>2023</u>	<u>As of June</u> <u>2023</u>	<u>Increase/(Decrease)</u>	
			Dollars	%
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,076,542	\$ 1,239,560	\$ (163,018)	-13.2%
Temporary investments	1,923,457	1,725,226	198,231	11.5%
Accounts receivable, net	1,529,821	910,506	619,315	68.0%
Notes receivable - current portion, net	6,387	6,387	-	0.0%
Pledges receivable - current portion, net	73,247	73,297	(50)	-0.1%
Accrued interest receivable	22,943	22,065	878	4.0%
Inventories, prepaid expenses, and other assets	247,055	193,515	53,540	27.7%
Investments held under securities lending program	132	-	132	100.0%
Total Current Assets	<u>4,879,584</u>	<u>4,170,556</u>	<u>709,028</u>	<u>17.0%</u>
Noncurrent Assets:				
Unexpended bond proceeds	319,239	210,358	108,881	51.8%
Notes receivable, net	27,627	30,330	(2,703)	-8.9%
Pledges receivable, net	136,110	136,110	-	0.0%
Net other post-employment benefit asset	128,942	128,942	-	0.0%
Long-term investment pool	7,601,135	7,383,676	217,459	2.9%
Other long-term investments	212,760	231,885	(19,125)	-8.2%
Leases receivable, net	49,129	49,129	-	0.0%
Other noncurrent assets	268,713	268,713	-	0.0%
Capital assets, net	8,725,028	8,493,717	231,311	2.7%
Total Noncurrent Assets	<u>17,468,683</u>	<u>16,932,860</u>	<u>535,823</u>	<u>3.2%</u>
Total Assets	<u>22,348,267</u>	<u>21,103,416</u>	<u>1,244,851</u>	<u>5.9%</u>
Deferred Outflows:				
Pension	1,474,386	1,474,386	-	0.0%
Other post-employment benefits	213,518	213,518	-	0.0%
Other deferred outflows	20,654	21,271	(617)	-2.9%
Total Assets and Deferred Outflows	<u>\$ 24,056,825</u>	<u>\$ 22,812,591</u>	<u>\$ 1,244,234</u>	<u>5.5%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 775,845	\$ 783,124	\$ (7,279)	-0.9%
Deposits and advance payments for goods and services	1,069,695	449,707	619,988	137.9%
Current portion of bonds, notes and leases payable	121,967	121,951	16	0.0%
Long-term bonds payable, subject to remarketing	603,820	603,820	-	0.0%
Liability under securities lending program	132	-	132	100.0%
Other current liabilities	86,596	92,197	(5,601)	-6.1%
Total Current Liabilities	<u>2,658,055</u>	<u>2,050,799</u>	<u>607,256</u>	<u>29.6%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	3,212,353	2,989,009	223,344	7.5%
Concessionaire payable	420,022	431,608	(11,586)	-2.7%
Net pension liability	4,214,821	4,214,821	-	0.0%
Net other post-employment benefit liability	92,020	92,020	-	0.0%
Compensated absences	218,287	213,689	4,598	2.2%
Self-insurance accruals	82,994	84,980	(1,986)	-2.3%
Amounts due to third-party payors - Health System	74,697	74,697	-	0.0%
Irrevocable split-interest agreements	32,201	33,008	(807)	-2.4%
Refundable advances for Federal Perkins loans	20,821	20,821	-	0.0%
Advance from concessionaire	947,018	958,816	(11,798)	-1.2%
Other noncurrent liabilities	309,075	308,943	132	0.0%
Total Noncurrent Liabilities	<u>9,624,309</u>	<u>9,422,412</u>	<u>201,897</u>	<u>2.1%</u>
Total Liabilities	<u>12,282,364</u>	<u>11,473,211</u>	<u>809,153</u>	<u>7.1%</u>
Deferred Inflows:				
Parking service concession arrangement	373,205	378,021	(4,816)	-1.3%
Pension	109,418	109,418	-	0.0%
Other post-employment benefits	133,209	133,209	-	0.0%
Other deferred inflows	469,823	448,875	20,948	4.7%
Total Deferred Inflows	<u>1,085,655</u>	<u>1,069,523</u>	<u>16,132</u>	<u>1.5%</u>
Total Net Position	<u>10,688,806</u>	<u>10,269,857</u>	<u>418,949</u>	<u>4.1%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 24,056,825</u>	<u>\$ 22,812,591</u>	<u>\$ 1,244,234</u>	<u>5.5%</u>

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - UNAUDITED
For the Six Months Ended December 31, 2023 and December 31, 2022
(in thousands)

	December		Increase/(Decrease)	
	2023	2022	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 555,696	\$ 538,290	\$ 17,406	3.2%
Federal grants and contracts	264,312	228,190	36,122	15.8%
State grants and contracts	43,135	37,944	5,191	13.7%
Local grants and contracts	14,173	10,408	3,765	36.2%
Private grants and contracts	199,482	188,442	11,040	5.9%
Sales and services of educational departments	100,455	103,838	(3,383)	-3.3%
Sales and services of auxiliary enterprises	289,132	256,632	32,500	12.7%
Sales and services of the OSU Health System, net	2,333,606	2,142,067	191,539	8.9%
Sales and services of OSU Physicians, Inc., net	531,088	491,116	39,972	8.1%
Other operating revenues	40,112	51,981	(11,869)	-22.8%
Total Operating Revenues	4,371,191	4,048,908	322,283	8.0%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	652,671	622,070	30,601	4.9%
Separately budgeted research	328,834	308,683	20,151	6.5%
Public service	99,009	93,684	5,325	5.7%
Academic support	162,178	139,320	22,858	16.4%
Student services	62,504	56,451	6,053	10.7%
Institutional support	207,073	160,096	46,977	29.3%
Operation and maintenance of plant	73,905	68,643	5,262	7.7%
Scholarships and fellowships	85,346	78,922	6,424	8.1%
Auxiliary enterprises	258,147	223,414	34,733	15.5%
OSU Health System	2,130,089	1,927,288	202,801	10.5%
OSU Physicians, Inc.	514,656	473,350	41,306	8.7%
Depreciation	270,130	255,247	14,883	5.8%
Total Operating Expenses	4,844,542	4,407,168	437,374	9.9%
Operating Loss	(473,351)	(358,260)	(115,091)	-32.1%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	261,431	254,134	7,297	2.9%
Federal subsidies for Build America Bonds interest	5,661	5,693	(32)	-0.6%
Federal non-exchange grants	41,505	37,016	4,489	12.1%
Federal COVID-19 assistance programs	8,998	17,222	(8,224)	-47.8%
State non-exchange grants	16,713	13,596	3,117	22.9%
Gifts	82,737	82,999	(262)	-0.3%
Net investment income	468,022	97,361	370,661	380.7%
Interest expense	(79,738)	(81,954)	2,216	2.7%
Other non-operating revenues (expenses)	(4,708)	10,102	(14,810)	-146.6%
Net Non-operating Revenues (Expenses)	800,621	436,169	364,452	83.6%
Income (loss) before changes in net position	327,270	77,909	249,361	320.1%
Changes in Net Position				
State capital appropriations	28,906	23,138	5,768	24.9%
Private capital gifts	27,733	41,012	(13,279)	-32.4%
Additions to permanent endowments	35,040	39,798	(4,758)	-12.0%
Total Changes in Net Position	91,679	103,948	(12,269)	-11.8%
Increase (decrease) in Net Position	418,949	181,857	\$ 237,092	130.4%
Net Position - Beginning of Year	10,269,857	9,597,656		
Net Position - End of Period	\$ 10,688,806	\$ 9,779,513		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
For the Six Months Ended December 31, 2023 and December 31, 2022
(in thousands)

	December 2023	December 2022	Increase/(Decrease)	
			Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 609,975	\$ 579,420	\$ 30,555	5.3%
Grant and contract receipts	493,956	444,003	49,953	11.3%
Receipts for sales and services	3,125,134	2,891,105	234,029	8.1%
Payments to or on behalf of employees	(2,163,645)	(2,047,584)	(116,061)	-5.7%
University employee benefit payments	(526,874)	(514,338)	(12,536)	-2.4%
Payments to vendors for supplies and services	(1,758,128)	(1,522,624)	(235,504)	-15.5%
Payments to students and fellows	(77,409)	(70,815)	(6,594)	-9.3%
Student loans issued	(1,053)	(2,046)	993	48.5%
Student loans collected	10,256	9,351	905	9.7%
Student loan interest and fees collected	830	719	111	15.4%
Other receipts	31,003	76,877	(45,874)	-59.7%
Net cash used by operating activities	<u>(255,955)</u>	<u>(155,932)</u>	<u>(100,023)</u>	<u>-64.1%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	261,431	254,134	7,297	2.9%
Non-exchange grant receipts	58,218	57,612	606	1.1%
Federal COVID-19 assistance programs	8,998	17,222	(8,224)	-47.8%
Gift receipts for current use	82,787	74,499	8,288	11.1%
Additions to permanent endowments	35,040	39,798	(4,758)	-12.0%
Drawdowns of federal direct loan proceeds	143,150	146,602	(3,452)	-2.4%
Disbursements of federal direct loans to students	(141,259)	(143,149)	1,890	1.3%
Repayment of loans from related organization	-	719	(719)	-100.0%
Amounts received for annuity and life income funds	257	1,182	(925)	-78.3%
Amounts paid to annuitants and life beneficiaries	(1,064)	(1,644)	580	35.3%
Agency funds receipts	6,256	6,544	(288)	-4.4%
Agency funds disbursements	(5,279)	(5,588)	309	5.5%
Other receipts (payments)	85	(19)	104	100.0%
Net cash provided by noncapital financing activities	<u>448,620</u>	<u>447,912</u>	<u>708</u>	<u>0.2%</u>
Cash Flows from Capital Financing Activities:				
Proceeds from capital debt and leases	301,736	-	301,736	100.0%
Gift receipts for capital projects	27,733	41,012	(13,279)	-32.4%
Payments for purchase or construction of capital assets	(506,920)	(535,430)	28,510	5.3%
Principal payments on capital debt and leases	(61,085)	(63,779)	2,694	4.2%
Interest payments on capital debt and leases	(84,480)	(88,177)	3,697	4.2%
Federal subsidies for Build America Bonds interest	5,635	5,305	330	6.2%
Net cash used by capital financing activities	<u>(317,381)</u>	<u>(641,069)</u>	<u>323,688</u>	<u>50.5%</u>
Cash Flows from Investing Activities:				
Purchases of investments	(2,598,770)	(4,954,433)	2,355,663	47.5%
Proceeds from sales and maturities of investments	2,655,294	5,875,953	(3,220,659)	-54.8%
Investment income	224,413	77,799	146,614	188.5%
Net cash provided by investing activities	<u>280,937</u>	<u>999,319</u>	<u>(718,382)</u>	<u>-71.9%</u>
Net Increase (Decrease) in Cash	156,221	650,230	\$ (494,009)	-76.0%
Cash and Cash Equivalents - Beginning of Year	<u>1,239,560</u>	<u>479,601</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 1,395,781</u>	<u>\$ 1,129,831</u>		