

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2023 Interim Financial Report – March 31, 2023

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

FINANCIAL SUMMARY

The university's overall financial position remains strong, driven by the post-pandemic rebound. The year-to-date financial results reflect a return to normal university operations and a full college experience for our students. Operating revenues increased \$651 million in the first nine months of fiscal year 2023 compared to the first nine months of fiscal year 2022, driven primarily by strong growth in healthcare revenues, increases in all major auxiliary enterprises, higher grant and contract revenues, and increased tuition and fees. Specific impacts include:

- A \$424 million increase in healthcare revenues, reflecting strong outpatient surgical activity, service mix and practice expansion.
- A \$62 million increase in auxiliary revenues, primarily due to the return to normal operations for Business Advancement, housing and dining rate increases for new first-year students, an additional home football game and one additional premium game, and increased revenues from on-campus events.
- A \$60 million increase in grants and contracts, primarily due to increases in private grants of \$29 million, federal grants of \$24 million, and state grants of \$14 million, offset by decreases in local grants of \$7 million.
- A \$53 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 \$517 million, up \$133 million compared to the prior year. The increase is primarily due to a \$255 million increase in net investment income and an \$11 million increase in state share of instruction and appropriations, offset by a \$94 million decrease in federal COVID-19 assistance programs, \$17 million increase in net operating loss, and an \$18 million increase in interest expense. Additional details on university revenues, expenses, cash and investments and cash flows are provided below.

Revenues

Student tuition and fees, net - increased \$53 million or 6.6%, to \$865 million for the first nine months of fiscal year 2023, compared to the first nine months of fiscal year 2022, due primarily to an increase in gross tuition and other student fees of \$36 million and a decrease in scholarship allowances of \$17 million. Gross tuition and other student fees increased by \$19 million for autumn semester, \$19 million for spring semester, and decreased by \$2 million for summer semester. Autumn and spring tuition increased primarily due to resident and non-resident rate increases and a rate increase to those undergraduate students not in the Ohio State Tuition Guarantee. Summer tuition decreased \$2 million primarily due to a two-day shift in academic calendars. Scholarship allowances decreased \$17 million due primarily to decreases in HEERF financial aid to students.

Grants and contracts – increased \$60 million in the first nine months of fiscal year 2023 compared to the first nine months of fiscal year 2022 due primarily to increases in private grants of \$29 million, federal grants of \$24 million, and state grants of \$14 million, offset by decreases in local grants of \$7 million.

Gifts – decreased \$23 million over the prior year due primarily to decreases in current use gifts of \$15 million, decreases in additions to permanent endowments of \$4 million, and decreases in private capital gifts of \$4 million.

Sales and services of auxiliary enterprises - increased \$62 million over the prior year due primarily to a \$23 million increase in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center), a \$19 million increase in Student Life housing and dining revenues, and an \$18 million increase in Athletics revenues due to an additional home football game and one additional premium game.

Federal COVID-19 assistance programs – decreased \$94 million from the prior year primarily due to decreases in HEERF grants to students of \$57 million; HEERF institutional grants of \$47 million; Shuttered Venue Operators Grant for the Schottenstein Center of \$10 million; and Payroll Protection Program grants of \$1 million; offset by increases in Ohio Governor's Emergency Education Relief of \$12 million; and FEMA funding of \$9 million. This trend will continue as we return to normal business operations post-pandemic as COVID financial assistance programs dissipate.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$424 million to \$4,004 million. The Health System has had strong outpatient surgical activity and service mix. The Health System also experienced growth in oncology and non-oncology infusion volume and increased nuclear medicine treatments. OSU Physicians revenues increased \$225 million due primarily to practice expansion and integration of the departments from the Health System to OSU Physicians.

Sales and services of educational departments – increased \$5 million to \$144 million reflecting the return to normal operations.

Expenses

University – expenses increased \$157 million to \$2,739 million in the first nine months of fiscal year 2023. Salaries increased \$82 million, or 7%, primarily due to a 3% increase in faculty and staff salary guidelines and additional investments in human capital related to research growth, faculty investment, staffing support returning to normal operations, and equity adjustments due to the current competitive workforce marketplace. Benefits increased \$35 million, or 11%, primarily due to increases in salary guidelines and

composite benefit rates as well as strategic hiring. Graduate fee authorizations increased \$7 million, or 8%. Supplies and services increased \$32 million, primarily due to inflation, increased travel activity and related expenses, fees paid to Ohio State Energy Partners, and increases due to the resumption of normal operations and research growth, offset by a reduction in COVID-19-related expenses. Student aid decreased \$11 million primarily due to decreases in Federal assistance from HEERF III funding. Depreciation increased \$12 million compared to prior year.

OSU Health System and OSU Physicians - expenses increased \$449 million to \$3,623 million. The Health System experienced increased expenses due to growth in outpatient surgery and pharmaceutical volumes. The Health System continues to experience high agency spend due to the hiring and staffing challenges that continue to impact the healthcare industry.

Auxiliary – expenses increased \$62 million to \$337 million in the first nine months of fiscal year 2023. The increase is primarily due to increases in Athletics of \$20 million, Student Life housing and dining of \$20 million, and Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) of \$18 million due primarily to increased number of events and labor and supply costs.

Cash and Investments

For the nine months ending March 31, 2023, total university cash and investments decreased \$313 million to \$10,941 million compared to June 30, 2022, primarily due to decreases in temporary investments (including unexpended bond proceeds) of \$1,162 million, investments held under securities lending program of \$179 million, and other long-term investments of \$3 million, offset by increases in cash and cash equivalents of \$729 million and Long-Term Investment Pool of \$302 million. Additional details are provided below.

Long-Term Investment Pool and Temporary Investments

For the nine months ending March 31, 2023, the fair value of the university's Long-Term Investment Pool increased by \$302 million to \$7,262 million. Changes in total valuation compared to the prior year are summarized below:

	2023	2022
Market Value at June 30	\$ 6,960,782	\$ 7,041,973
Net Principal Additions	236,750	189,122
Change in Market Value	206,995	148,019
Income Earned	148,634	120,634
Distributions	(216,300)	(193,590)
Expenses	(74,535)	(71,965)
Market Value at March 31	\$ 7,262,326	\$ 7,234,193

Net principal additions include new endowment gifts (\$56.4 million), reinvestment of unused endowment distributions (\$14.2 million), and other net transfers of university monies (\$163.8 million, with the majority to the Med Center Long-Term Operating Fund). 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 March 31, 2023. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$54.7 million), University Development related expenses (\$17.0 million), and other administrative-related expenses (\$0.5 million).

LTIP Investment Returns

For the nine months ending March 31, 2023, the LTIP earned a return, net of investment fees, of 4.30%. The comparable nine months ending March 31, 2022 saw a net investment return of 6.51%.

Temporary Investments

For the nine months ending March 31, 2023, the Tier 1 Investments (0-1 Year maturity) earned a return of 2.59%, outperforming the blended benchmark of ICE Bofa 6m US Treasury Bill benchmark and Bank of America ML 91-day T-Bill (2.43%) by 0.16%. Tier 2 Investments (1-5 Year maturity) earned 1.94%, outperforming the blended benchmark of ICE Bofa US Corp & Govt 1-3 Years, BBG US Govt/Credit 1-5 Years, and ICE Bofa 6m US Treasury Bill (0.97%) by 0.97%.

For the nine months ending March 31, 2022, the Tier 1 Investments earned a return of -0.41%. Tier 2 Investments returned -2.71% for this same time-period.

Noncash Assets and Liabilities

Unexpended bond proceeds decreased \$355 million, reflecting expenditures for capital projects. Deposits and advance payments for goods and services were up \$55 million, primarily reflecting remaining tuition and fee receipts for spring semester. These amounts will be recognized as tuition revenue over the course of the semester.

Cash Flows

University cash and cash equivalents increased \$729 million in the first nine months of fiscal year 2023 compared to June 30, 2022. Net cash used in operating activities was \$362 million, compared to net cash used by operating activities of \$216 million in the first nine months of the prior fiscal year. The increase in cash usage relates primarily to payments made to employees and vendors, partially offset by increases in receipts from sales and services, tuition and fees, and grants and contracts. Net cash provided by

noncapital financing activities was \$703 million in the first nine months of fiscal year 2023, compared to \$807 million for the prior year. The decrease is due primarily to decreases in Federal COVID-19 assistance. Net cash used by capital financing activities was \$865 million in the first nine months of fiscal year 2023 due primarily to the payments for capital assets of \$755 million. Net cash provided by investing activities was \$1,253 million, primarily due to sales of investments.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
March 31, 2023 and June 30, 2022
(in thousands)

	<u>As of March</u> <u>2023</u>	<u>As of June</u> <u>2022</u>	<u>Increase/(Decrease)</u>	
			Dollars	%
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,209,001	\$ 479,601	\$ 729,400	152.1%
Temporary investments	1,824,049	2,631,011	(806,962)	-30.7%
Accounts receivable, net	859,631	848,760	10,871	1.3%
Notes receivable - current portion, net	25,231	25,231	-	0.0%
Pledges receivable - current portion, net	61,395	61,395	-	0.0%
Accrued interest receivable	22,773	23,109	(336)	-1.5%
Inventories, prepaid expenses, and other assets	209,940	146,401	63,539	43.4%
Investments held under securities lending program	23,111	201,994	(178,883)	-88.6%
Total Current Assets	<u>4,235,131</u>	<u>4,417,502</u>	<u>(182,371)</u>	<u>-4.1%</u>
Noncurrent Assets:				
Unexpended bond proceeds	323,707	679,040	(355,333)	-52.3%
Notes receivable, net	14,512	19,213	(4,701)	-24.5%
Pledges receivable, net	116,230	116,230	-	0.0%
Net other post-employment benefit asset	441,127	441,127	-	0.0%
Long-term investment pool	7,262,327	6,960,782	301,545	4.3%
Other long-term investments	299,300	301,855	(2,555)	-0.8%
Leases receivable, net	64,906	55,272	9,634	17.4%
Other noncurrent assets	228,907	228,907	-	0.0%
Capital assets, net	7,970,711	7,583,147	387,564	5.1%
Total Noncurrent Assets	<u>16,721,727</u>	<u>16,385,573</u>	<u>336,154</u>	<u>2.1%</u>
Total Assets	<u>20,956,858</u>	<u>20,803,075</u>	<u>153,783</u>	<u>0.7%</u>
Deferred Outflows:				
Pension	584,364	584,364	-	0.0%
Other post-employment benefits	11,545	11,545	-	0.0%
Other deferred outflows	21,580	22,505	(925)	-4.1%
Total Assets and Deferred Outflows	<u>\$ 21,574,347</u>	<u>\$ 21,421,489</u>	<u>\$ 152,858</u>	<u>0.7%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 757,073	\$ 783,201	\$ (26,128)	-3.3%
Medicare advance payment program	-	79,601	(79,601)	-100.0%
Deposits and advance payments for goods and services	504,813	450,115	54,698	12.2%
Current portion of bonds, notes and leases payable	113,038	112,937	101	0.1%
Long-term bonds payable, subject to remarketing	275,000	275,000	-	0.0%
Liability under securities lending program	23,111	201,994	(178,883)	-88.6%
Other current liabilities	123,811	139,325	(15,514)	-11.1%
Total Current Liabilities	<u>1,796,846</u>	<u>2,042,173</u>	<u>(245,327)</u>	<u>-12.0%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	3,318,573	3,388,885	(70,312)	-2.1%
Concessionaire payable	341,721	355,786	(14,065)	-4.0%
Net pension liability	1,497,793	1,497,793	-	0.0%
Net other post-employment benefit liability	15,661	15,661	-	0.0%
Compensated absences	210,261	203,505	6,756	3.3%
Self-insurance accruals	79,053	100,497	(21,444)	-21.3%
Amounts due to third-party payors - Health System	80,657	87,306	(6,649)	-7.6%
Irrevocable split-interest agreements	32,595	32,324	271	0.8%
Refundable advances for Federal Perkins loans	23,238	23,238	-	0.0%
Advance from concessionaire	945,966	963,663	(17,697)	-1.8%
Other noncurrent liabilities	283,606	281,045	2,561	0.9%
Total Noncurrent Liabilities	<u>6,829,124</u>	<u>6,949,703</u>	<u>(120,579)</u>	<u>-1.7%</u>
Total Liabilities	<u>8,625,970</u>	<u>8,991,876</u>	<u>(365,906)</u>	<u>-4.1%</u>
Deferred Inflows:				
Parking service concession arrangement	380,429	387,652	(7,223)	-1.9%
Pension	1,681,316	1,681,316	-	0.0%
Other post-employment benefits	456,823	456,823	-	0.0%
Other deferred inflows	315,541	306,166	9,375	3.1%
Total Deferred Inflows	<u>2,834,109</u>	<u>2,831,957</u>	<u>2,152</u>	<u>0.1%</u>
Total Net Position	<u>10,114,268</u>	<u>9,597,656</u>	<u>516,612</u>	<u>5.4%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 21,574,347</u>	<u>\$ 21,421,489</u>	<u>\$ 152,858</u>	<u>0.7%</u>

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

	March	March	Increase/(Decrease)	
	2023	2022	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 865,403	\$ 812,037	\$ 53,366	6.6%
Federal grants and contracts	344,604	320,472	24,132	7.5%
State grants and contracts	69,013	54,705	14,308	26.2%
Local grants and contracts	17,177	24,935	(7,758)	-31.1%
Private grants and contracts	270,029	241,163	28,866	12.0%
Sales and services of educational departments	144,351	139,295	5,056	3.6%
Sales and services of auxiliary enterprises	330,615	269,074	61,541	22.9%
Sales and services of the OSU Health System, net	3,253,104	3,054,754	198,350	6.5%
Sales and services of OSU Physicians, Inc., net	750,742	525,503	225,239	42.9%
Other operating revenues	95,304	47,472	47,832	100.8%
Total Operating Revenues	6,140,342	5,489,410	650,932	11.9%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	952,760	852,525	100,235	11.8%
Separately budgeted research	452,003	411,908	40,095	9.7%
Public service	134,046	122,233	11,813	9.7%
Academic support	216,054	201,681	14,373	7.1%
Student services	85,497	73,997	11,500	15.5%
Institutional support	243,567	292,147	(48,580)	-16.6%
Operation and maintenance of plant	131,765	108,133	23,632	21.9%
Scholarships and fellowships	133,095	141,464	(8,369)	-5.9%
Auxiliary enterprises	336,562	274,482	62,080	22.6%
OSU Health System	2,896,446	2,661,891	234,555	8.8%
OSU Physicians, Inc.	726,833	512,294	214,539	41.9%
Depreciation	390,577	378,640	11,937	3.2%
Total Operating Expenses	6,699,205	6,031,395	667,810	11.1%
Operating Loss	(558,863)	(541,985)	(16,878)	3.1%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	381,237	369,590	11,647	3.2%
Federal subsidies for Build America Bonds interest	8,491	8,794	(303)	-3.4%
Federal non-exchange grants	63,264	64,434	(1,170)	-1.8%
Federal COVID-19 assistance programs	32,673	126,764	(94,091)	-74.2%
State non-exchange grants	24,154	30,369	(6,215)	-20.5%
Gifts	128,252	143,552	(15,300)	-10.7%
Net investment income	389,473	134,348	255,125	189.9%
Interest expense	(132,358)	(114,658)	(17,700)	15.4%
Other non-operating revenues (expenses)	33,622	7,568	26,054	344.3%
Net Non-operating Revenues	928,808	770,761	158,047	20.5%
Income (loss) before changes in net position	369,945	228,776	141,169	61.7%
Changes in Net Position				
State capital appropriations	33,587	34,241	(654)	-1.9%
Private capital gifts	51,705	55,137	(3,432)	-6.2%
Additions to permanent endowments	61,375	65,473	(4,098)	-6.3%
Total Changes in Net Position	146,667	154,851	(8,184)	-5.3%
Increase (decrease) in Net Position	516,612	383,627	\$ 132,985	34.7%
Net Position - Beginning of Year	9,597,656	8,885,418		
Net Position - End of Period	\$ 10,114,268	\$ 9,269,045		

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

	March 2023	March 2022	Increase/(Decrease)	
			Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 850,663	\$ 760,381	\$ 90,282	11.9%
Grant and contract receipts	653,193	598,638	54,555	9.1%
Receipts for sales and services	4,358,905	4,036,421	322,484	8.0%
Payments to or on behalf of employees	(3,035,020)	(2,640,390)	(394,630)	-14.9%
University employee benefit payments	(744,004)	(648,796)	(95,208)	-14.7%
Payments to vendors for supplies and services	(2,442,103)	(2,264,060)	(178,043)	-7.9%
Payments to students and fellows	(120,637)	(124,508)	3,871	3.1%
Student loans issued	(3,069)	(2,797)	(272)	-9.7%
Student loans collected	11,435	8,189	3,246	39.6%
Student loan interest and fees collected	1,078	1,169	(91)	-7.8%
Other receipts (payments)	107,782	59,288	48,494	81.8%
Net cash provided (used) by operating activities	<u>(361,777)</u>	<u>(216,465)</u>	<u>(145,312)</u>	<u>-67.1%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	381,237	366,427	14,810	4.0%
Non-exchange grant receipts	94,418	94,803	(385)	-0.4%
Federal COVID-19 assistance programs	32,673	126,764	(94,091)	-74.2%
Gift receipts for current use	128,252	144,910	(16,658)	-11.5%
Additions to permanent endowments	61,375	65,473	(4,098)	-6.3%
Drawdowns of federal direct loan proceeds	289,102	291,968	(2,866)	-1.0%
Disbursements of federal direct loans to students	(285,649)	(284,543)	(1,106)	-0.4%
Repayment of loans from related organization	1,131	-	1,131	100.0%
Amounts received for annuity and life income funds	917	2,268	(1,351)	-59.6%
Amounts paid to annuitants and life beneficiaries	(1,644)	(1,644)	0	0.0%
Agency funds receipts	6,357	5,591	766	13.7%
Agency funds disbursements	(5,588)	(5,051)	(537)	-10.6%
Net cash provided by noncapital financing activities	<u>702,581</u>	<u>806,966</u>	<u>(104,385)</u>	<u>-12.9%</u>
Cash Flows from Capital Financing Activities:				
Proceeds from capital debt and leases	-	718,763	(718,763)	-100.0%
Gift receipts for capital projects	51,705	51,278	427	0.8%
Payments for purchase or construction of capital assets	(755,264)	(802,750)	47,486	5.9%
Principal payments on capital debt and leases	(68,467)	(55,607)	(12,860)	-23.1%
Interest payments on capital debt and leases	(97,797)	(72,839)	(24,958)	-34.3%
Federal subsidies for Build America Bonds interest	5,305	10,707	(5,402)	-50.5%
Net cash provided (used) by capital financing activities	<u>(864,518)</u>	<u>(150,448)</u>	<u>(714,070)</u>	<u>-474.6%</u>
Cash Flows from Investing Activities:				
Purchases of investments	(6,739,947)	(6,331,455)	(408,492)	-6.5%
Proceeds from sales and maturities of investments	7,853,361	5,236,891	2,616,470	50.0%
Investment income	139,700	386,975	(247,275)	-63.9%
Net cash provided (used) by investing activities	<u>1,253,114</u>	<u>(707,589)</u>	<u>1,960,703</u>	<u>277.1%</u>
Net Increase (Decrease) in Cash	729,400	(267,536)	\$ 996,936	372.6%
Cash and Cash Equivalents - Beginning of Year	<u>479,601</u>	<u>1,214,387</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 1,209,001</u>	<u>\$ 946,851</u>		