

# Annual Financial Overview

Michael Papadakis, Senior Vice President and CFO

Finance & Investment Committee | August 17, 2023



# Financial Performance Highlights

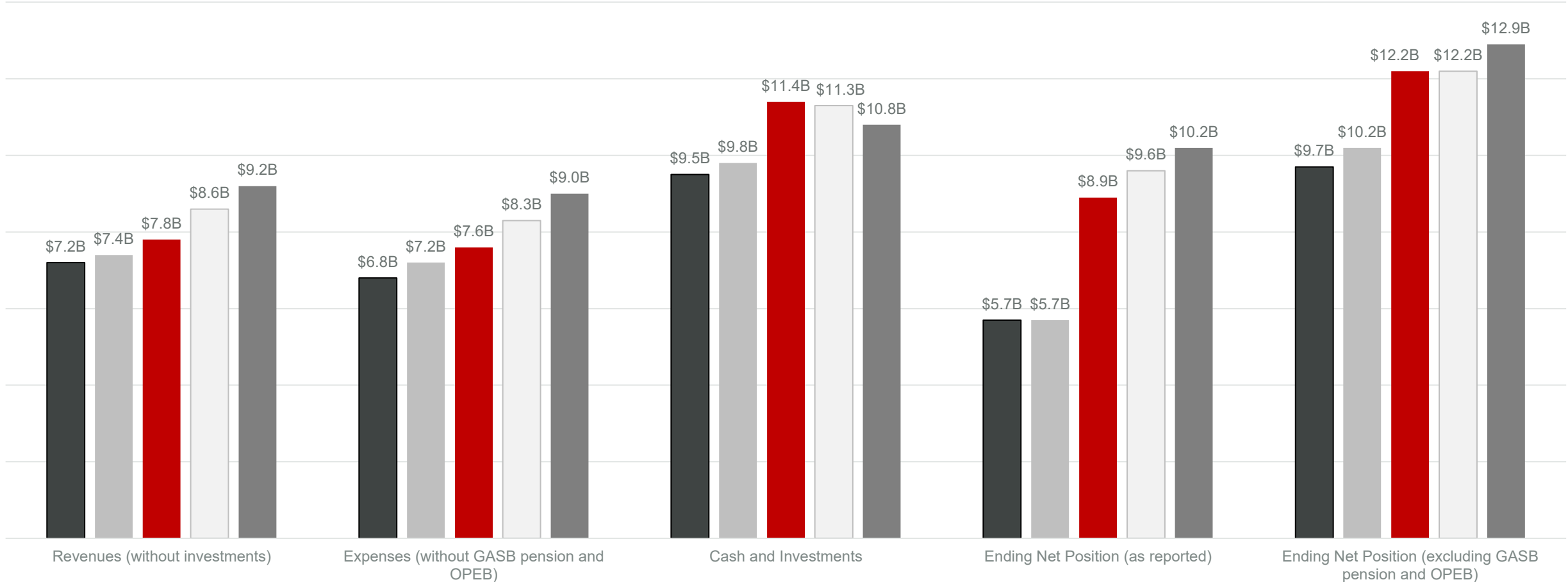
- The university's overall financial position remains strong, driven by the post-pandemic rebound. The FY23 financial results reflect a return to normal university operations and a full college experience for students.
- Operating revenues increased \$808M in FY23 compared to FY22, driven primarily by strong growth in healthcare revenues, higher grant and contract revenues, increased tuition and fees, and increases in all major auxiliary enterprises. Specific impacts include:
  - A \$533M increase in healthcare revenues, reflecting strong outpatient surgical activity, service mix, and practice expansion.
  - A \$93M increase in grants and contracts, primarily due to increases in private grants of \$52M, federal grants of \$32M, and state grants of \$12M, offset by decreases in local grants of \$3M.
  - A \$57M increase in student tuition & fees, due primarily to resident and non-resident rate increases and a rate increase for those undergraduate students not in the Ohio State Tuition Guarantee.
  - A \$48M increase in auxiliary revenues, primarily due to an additional home football game and one additional premium game, housing and dining rate increases for new first-year students, the return to normal operations for Business Advancement, and increased revenues from on-campus events.
- Net investment income also came back strong in FY23 with a \$520M income level based on a very strong final six months of the fiscal year for the LTIP and a rebound of solid returns for our short- and intermediate-term portfolios.
- The FY23 increase in net position was \$589M bringing the total to \$10.2B.
- In April 2023, the university completed a \$328M refunding of its Series 2013A bonds using variable rate refunding bonds (Series 2023A) that were swapped to a fixed rate of 1.23% through two interest rate swap agreements. By replacing the coupon of the Series 2013A bonds (~4.5%) with the swap's low fixed rate (1.23%), the university will save an estimated \$119M in debt service.
- The university's annual rating agency updates had positive results in FY23. Moody's and S&P affirmed both the university's credit rating and 'Stable' outlook. Fitch upgraded the university's credit rating to 'AA+/Stable Outlook' from 'AA/Positive Outlook'. This is the first rating upgrade of the university since Moody's upgrade to 'Aa1' in 2010 and the first by Fitch since it began rating the university in 2003.



# Financial Metrics Demonstrate Positive Momentum

Comparison of Financial Metrics

■ FY19 ■ FY20 ■ FY21 □ FY22 ■ FY23



# Consolidated Balance Sheet (as of June 30, 2023)

Assets and Liabilities (\$ in millions)	2023		2022		2021	
Cash and cash equivalents	\$	1,246	\$	480	\$	1,214
Total investments	\$	9,552	\$	10,775	\$	10,204
Capital assets, net	\$	8,203	\$	7,583	\$	6,753
Pension and OPEB assets and deferred outflows	\$	1,838	\$	1,060	\$	743
Other assets	\$	1,550	\$	1,524	\$	1,457
<b>Total Assets</b>	\$	22,389	\$	21,422	\$	20,371
Accounts payable and other current liabilities	\$	1,187	\$	1,654	\$	1,687
Debt	\$	3,701	\$	3,777	\$	3,128
Pension and OPEB liabilities and deferred inflows	\$	4,886	\$	3,958	\$	4,313
Concessionaire and other liabilities	\$	2,428	\$	2,435	\$	2,344
<b>Total Liabilities</b>	\$	12,202	\$	11,824	\$	11,472

Net Position (\$ in millions)	2023		2022		2021	
Ending net position (eliminate pension and OPEB)	\$	12,919	\$	12,212	\$	12,240
Ending net position - pension and OPEB	\$	(2,732)	\$	(2,614)	\$	(3,341)
<b>Total Net Position</b>	\$	10,187	\$	9,598	\$	8,899

# Consolidated Income Statement (for the fiscal year ended June 30, 2023)

<b>Total Revenue (\$ in millions)</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Tuition and Fees	\$ 1,060	\$ 1,003	\$ 870
Grants and Contracts	\$ 1,148	\$ 1,168	\$ 1,070
Sales and Services	\$ 611	\$ 523	\$ 355
Health System & OSUP Sales and Services	\$ 5,413	\$ 4,881	\$ 4,600
State Subsidies and Capital Appropriations	\$ 556	\$ 546	\$ 550
Gifts and Additions to Permanent Endowments	\$ 293	\$ 355	\$ 272
Other Revenues	\$ 127	\$ 78	\$ 76
<b>Total Revenues (w/o investments)</b>	<b>\$ 9,208</b>	<b>\$ 8,554</b>	<b>\$ 7,793</b>
Investment income	\$ 520	\$ (301)	\$ 1,861
<b>Total Revenues (w/ investments)</b>	<b>\$ 9,728</b>	<b>\$ 8,253</b>	<b>\$ 9,654</b>

<b>Total Expenses (\$ in millions)</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
University Education and General Expenses	\$ 3,029	\$ 2,939	\$ 2,722
Auxiliary Sales and Services	\$ 415	\$ 364	\$ 263
Health System & OSUP	\$ 4,897	\$ 4,290	\$ 4,009
Depreciation	\$ 531	\$ 518	\$ 479
Interest Expense on Plant Debt	\$ 157	\$ 164	\$ 133
<b>Total Expenses (w/o pension and OPEB)</b>	<b>\$ 9,029</b>	<b>\$ 8,275</b>	<b>\$ 7,606</b>
Net Margin	\$ 699	\$ (22)	\$ 2,048
Pension and OPEB Expense	\$ 110	\$ (720)	\$ (1,166)
<b>Total Expenses (w/o pension and OPEB)</b>	<b>\$ 9,139</b>	<b>\$ 7,555</b>	<b>\$ 6,440</b>
<b>Change in Net Position</b>	<b>\$ 589</b>	<b>\$ 698</b>	<b>\$ 3,214</b>

# Consolidated Cash Flow Statement (for the fiscal year ended June 30, 2023)

Cash Flow From: (\$ in millions)	2023	2022	2021
Receipts from Tuition and Grants	\$ 1,889	\$ 1,752	\$ 1,583
Receipts from Sales and Services	\$ 5,872	\$ 5,264	\$ 4,827
Payments to or on Behalf of Employees, including benefits	\$ (5,091)	\$ (4,544)	\$ (4,089)
Payments to Suppliers	\$ (3,075)	\$ (2,894)	\$ (2,423)
Other receipts/(payments)	\$ 39	\$ (115)	\$ (160)
<b>Total Operating Activities</b>	<b>\$ (366)</b>	<b>\$ (537)</b>	<b>\$ (262)</b>
State Share of Instruction and appropriations	\$ 509	\$ 493	\$ 486
CARES Assistance and other non-exchange grants	\$ 136	\$ 302	\$ 223
Gift receipts and additions to permanent endowments	\$ 236	\$ 284	\$ 157
Payments for purchase or construction of capital assets	\$ (1,109)	\$ (1,093)	\$ (958)
Proceeds from capital debt and leases	\$ 0	\$ 769	\$ 2
Principal and interest payments on capital debt and leases	\$ (252)	\$ (242)	\$ (220)
Other receipts	\$ 70	\$ 80	\$ 188
<b>Total Financing Activities</b>	<b>\$ (410)</b>	<b>\$ 593</b>	<b>\$ (122)</b>
Net purchases, proceeds, and maturities from investments	\$ 1,391	\$ (928)	\$ (1,205)
Investment income	\$ 151	\$ 138	\$ 371
<b>Total Investing Activities</b>	<b>\$ 1,542</b>	<b>\$ (790)</b>	<b>\$ (834)</b>
<b>Net change in cash</b>	<b>\$ 766</b>	<b>\$ (734)</b>	<b>\$ (1,218)</b>
Beginning Cash and Cash Equivalent Balance	\$ 480	\$ 1,214	\$ 2,432
<b>Ending Cash Balance</b>	<b>\$ 1,246</b>	<b>\$ 480</b>	<b>\$ 1,214</b>



## OSU Health System and OSUP Activity Summary (for the twelve months ended June 30, 2023)

OSUWMC Consolidated Activity Summary			Actual-Budget	Budget %	Prior Year	Prior Year %
	Actual	Budget	Variance	Variance		Variance
Admissions	60,713	62,512	(1,799)	-2.9%	58,320	4.1%
Patient Days	433,885	452,087	(18,202)	-4.0%	434,956	-0.2%
Surgeries	56,040	52,175	3,865	7.4%	51,388	9.1%
Outpatient Visits	1,773,306	1,939,989	(166,683)	-8.6%	1,786,053	-0.7%
Average Length of Stay	7.09	7.22	0.13	1.8%	7.42	4.5%
Case Mix Index (CMI)	2.06	2.07	(0.01)	-0.5%	2.07	-0.6%

Operations - Health System (\$ in millions)			Actual-Budget	Budget %	Prior Year	Prior Year %
	Actual	Budget	Variance	Variance		Variance
Total Operating Revenue	\$ 4,006	\$ 3,942	\$ 64	1.6%	\$ 3,656	9.6%
Total Operating Expense	3,704	3,735	31	0.8%	3,329	-11.3%
<b>Excess of Revenue over Expense</b>	<b>\$ 302</b>	<b>\$ 207</b>	<b>\$ 95</b>	<b>45.5%</b>	<b>\$ 327</b>	<b>-7.8%</b>

Adjusted Admissions	137,055	129,248	7,807	6.0%	122,924	11.5%
Operating Revenue per AA	\$ 29,228	\$ 30,497	(1,269)	-4.2%	\$ 29,739	-1.7%
Operating Expense per AA	\$ 26,886	\$ 27,555	669	2.4%	\$ 26,056	-3.2%

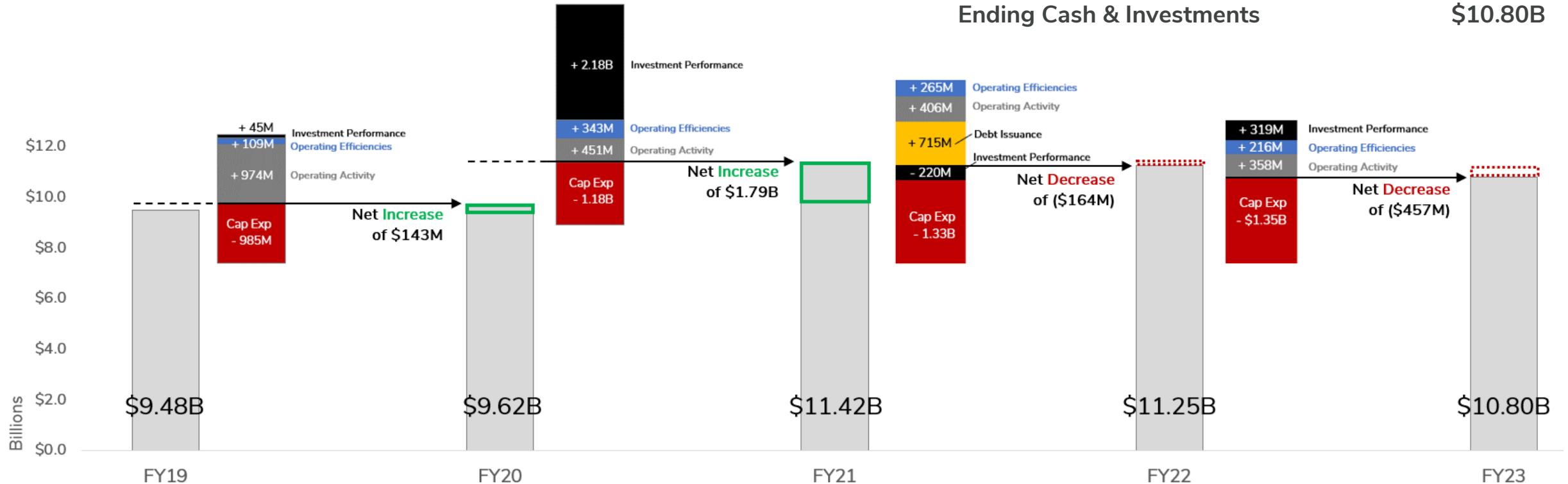
# Investments





# Cash & Investments

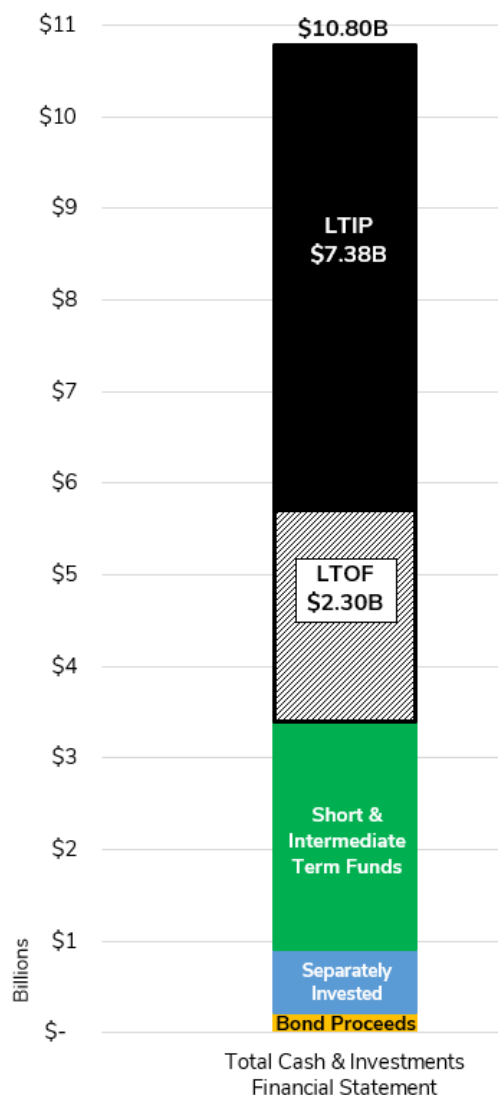
Significant impacts to cash and investments



## 4-YEAR SUMMARY

Beginning Cash & Investments	\$9.48B
Investment Performance	+ \$2.32B
Operating Efficiencies	+ \$933M
Operating Activities	+ \$2.19B
Debt Issuance	+ \$715M
Capital Expenditures & Debt Service	- \$4.85B
<b>Ending Cash &amp; Investments</b>	<b>\$10.80B</b>

# University Total Cash and Investments (as of 6/30/23)



Long Term Investment Pool		\$7.38B
Gifted Endowments	University	\$1.30B
	Foundation	\$1.44B
Quasi Endowments	Designated	\$2.34B
Tier 3 - Long Term Operating Funds	University	\$1.74B
	Health System	\$560M

Short and Intermediate Term Funds		\$2.51B
Tier 2	Fixed Income Investments	\$1.21B
Tier 1	Bank Accounts	\$283M
	Money Market Funds	\$791M
	Ultra-Short Investments	\$230M

Other Separately Invested Funds	\$705M
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Bond Proceeds & Project Funds	\$220M
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- As of the of the 4th quarter, the university had \$10.80B in cash and investments. Its primary components include:

Gifted Endowments	\$2.74B	25%
Quasi Endowments (excluding LTOF)	\$2.34B	22%
Long Term Operating Funds	\$2.30B	21%
Short Term Operating Funds	\$2.51B	23%
Other Separately Invested Funds	\$705M	7%
Bond Proceeds and Project Funds	\$220M	2%

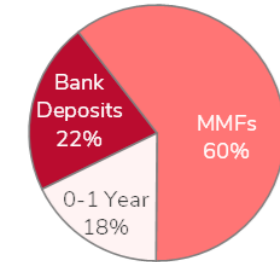
\$10.80B

- The University has \$5.00B in total operating funds. This represents the following in days liquidity:
  - 63 Days liquidity in Tier 1 (includes OSUP)
  - 51 days liquidity in Tier 2
  - = **114 days of Operating Liquidity**
  - 97 days liquidity in Tier 3 – Long Term Operating Funds
  - = **211 days of Total Liquidity**

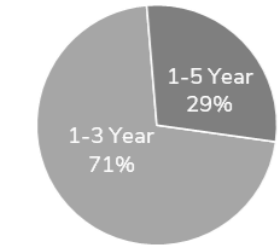
# Operating Fund Portfolio Performance Summary (as of 6/30/2023)

- In FY23, Operating Fund investments outperformed the benchmark by 103bps in Tiers 1 & 2 and 159bps including the LTOF.
- The \$4.82B Operating Fund Portfolio has outperformed its composite benchmark over 1, 3 and 5-year time horizons.

		MV	Duration	FY23 YTD	FY22	1 yr	3 yr	5 yr	
<b>Tier 1 Short Term Working Capital Pool</b>  <b>27%</b>	<b>Investment Objective:</b> Liquidity and principal preservation.	Cash & Cash Equivalents	\$1.07B	3.81%	0.17%	3.81%	1.36%	1.55%	
	<b>Composition:</b> Collateralized bank deposits, AAA rated MMFs, State of Ohio local gov't investment pool, ultra-short separately managed fixed income securities.	0-1 Year Mandate	\$230M	4.43%	-1.35%	4.43%	1.47%	1.92%	
		<b>Consolidated</b>	<b>\$1.31B</b>	<b>0.14</b>	<b>3.98%</b>	<b>-0.56%</b>	<b>3.98%</b>	<b>1.39%</b>	<b>1.62%</b>
		<i>Composite Benchmark</i>		<i>0.48</i>	<i>3.60%</i>	<i>0.10%</i>	<i>3.60%</i>	<i>1.27%</i>	<i>1.58%</i>
		Excess Return			0.38%	-0.66%	0.38%	0.13%	0.04%

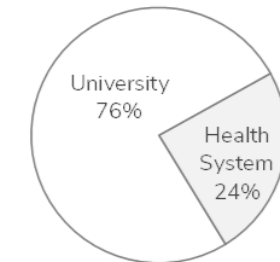


		MV	Duration	FY23 YTD	FY22	1 yr	3 yr	5 yr	
<b>Tier 2 Intermediate Term Investment Pool</b>  <b>25%</b>	<b>Investment Objective:</b> Return and principal preservation.	1-3 Year Mandate	\$864M	2.30%	-3.76%	2.30%	0.23%	1.91%	
	<b>Composition:</b> A+/A1 portfolio of fixed income securities, separately custodied, and externally managed - treasuries, agencies, asset backed securities and high-grade corporate credits.	1-5 Year Mandate	\$346M	1.38%	-6.22%	1.38%	-1.34%	n/a	
		<b>Consolidated</b>	<b>\$1.21B</b>	<b>1.98</b>	<b>2.05%</b>	<b>-3.73%</b>	<b>2.05%</b>	<b>0.10%</b>	<b>1.88%</b>
		<i>Composite Benchmark</i>		<i>2.06</i>	<i>0.54%</i>	<i>-3.31%</i>	<i>0.54%</i>	<i>-0.77%</i>	<i>1.25%</i>
		Excess Return			1.51%	-0.42%	1.51%	0.87%	0.63%



<b>Operating Funds (Tier 1+2) Return</b>		<b>\$2.52B</b>	<b>1.68</b>	<b>2.86%</b>	<b>-2.49%</b>	<b>2.86%</b>	<b>0.73%</b>	<b>1.73%</b>
	<i>Composite Benchmark</i>		<i>1.81</i>	<i>1.83%</i>	<i>-1.98%</i>	<i>1.83%</i>	<i>0.23%</i>	<i>1.44%</i>
	Excess Return			1.03%	-0.51%	1.03%	0.50%	0.29%

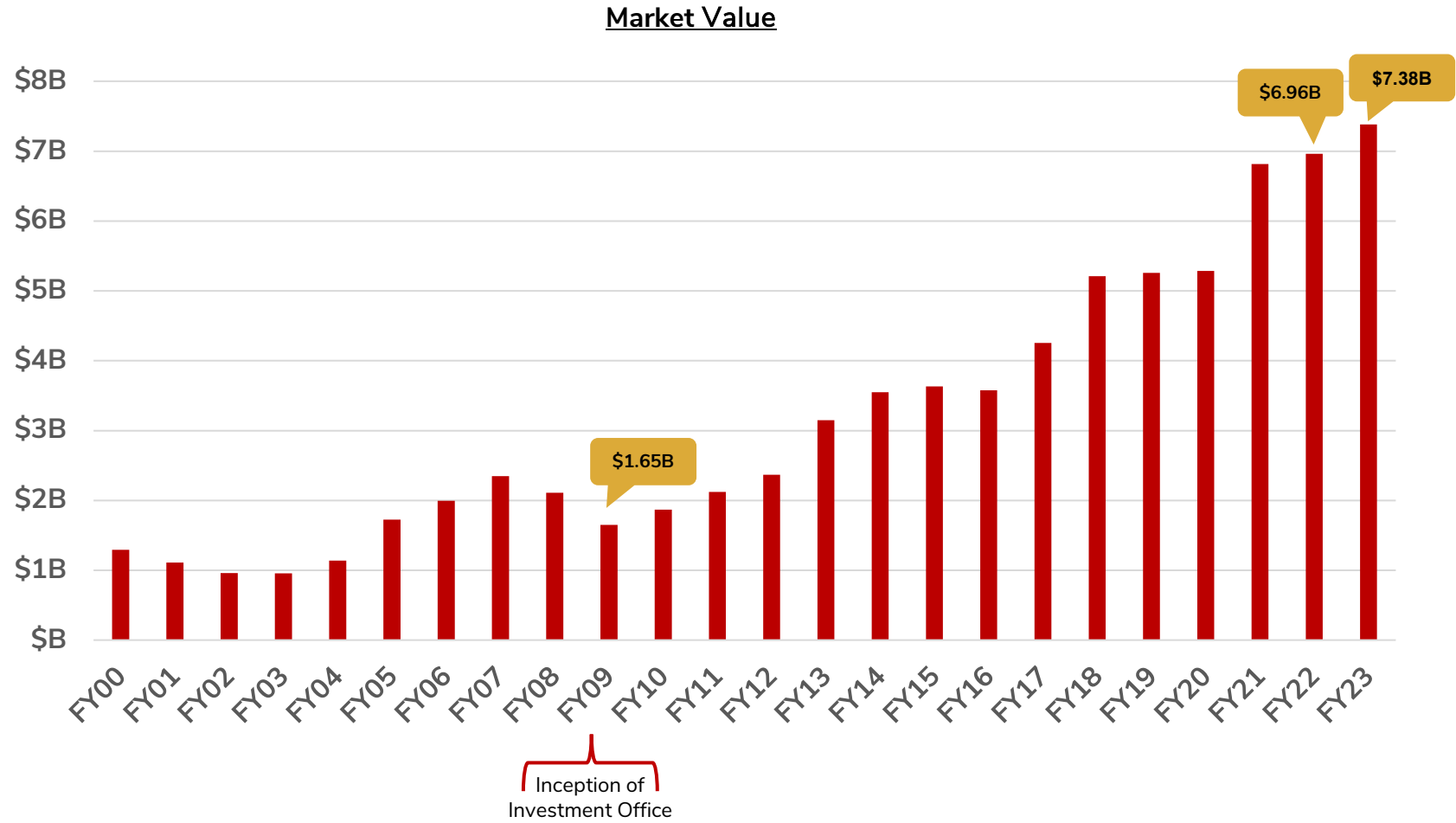
		MV	FY23 YTD	FY22	1 yr	3 yr	5 yr	
<b>Tier 3 Long Term Operating Funds (LTOF) In LTIP</b>  <b>48%</b>	Equity investments managed as a part of the endowment strategy.	University	\$1.74B	<b>Performance calculated on a consolidated basis.</b>				
		OSUWMC	\$560M					
		<b>Consolidated</b>	<b>\$2.30B</b>	<b>6.86%</b>	<b>0.98%</b>	<b>6.86%</b>	<b>11.72%</b>	<b>7.36%</b>
	<i>*Tier 3 composite benchmark returns are preliminary</i>	<i>Composite Benchmark*</i>		4.64%	-5.54%	4.64%	7.41%	6.76%
		Excess Return		2.22%	6.52%	2.22%	4.31%	0.60%



<b>Operating Fund Portfolio (Tier 1+2+3) Return</b>		<b>\$4.82B</b>	<b>4.73%</b>	<b>-1.02%</b>	<b>4.73%</b>	<b>5.33%</b>	<b>3.97%</b>
	<i>Composite Benchmark</i>		3.14%	-3.49%	3.14%	3.23%	3.56%
	Excess Return		1.59%	2.47%	1.59%	2.10%	0.41%

# LTIP Market Value

FY 2023 the LTIP has increased in value from \$6.96B to \$7.38B and generated \$472M in investment income.

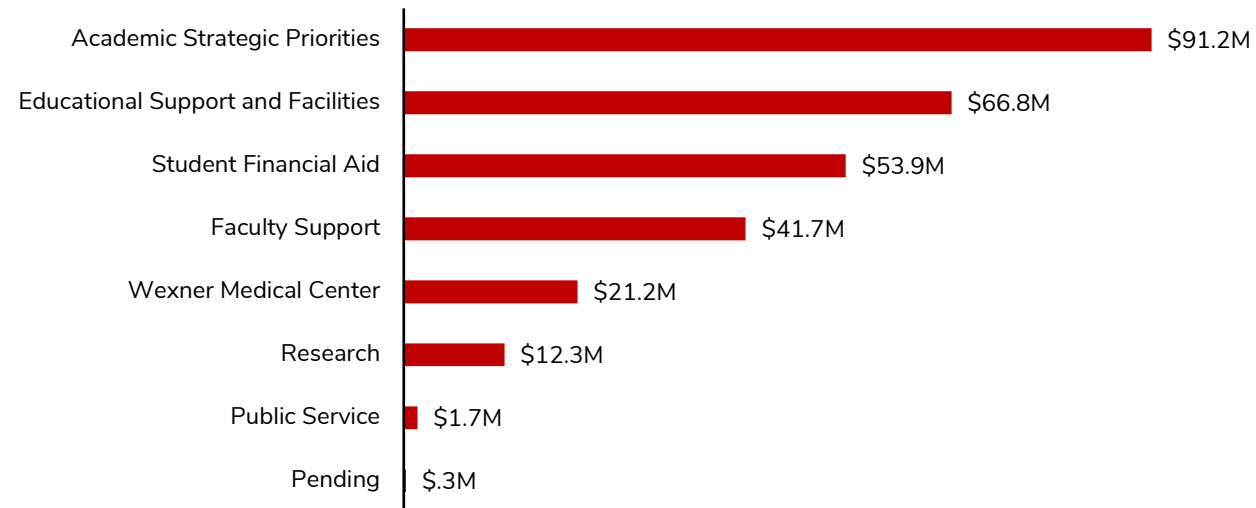


# Distributions from the LTIP

Annual payments based on a five-year average.

- 4.5% distributed on an annual basis.
- Policy provides steady, reliable funding for campus priorities.

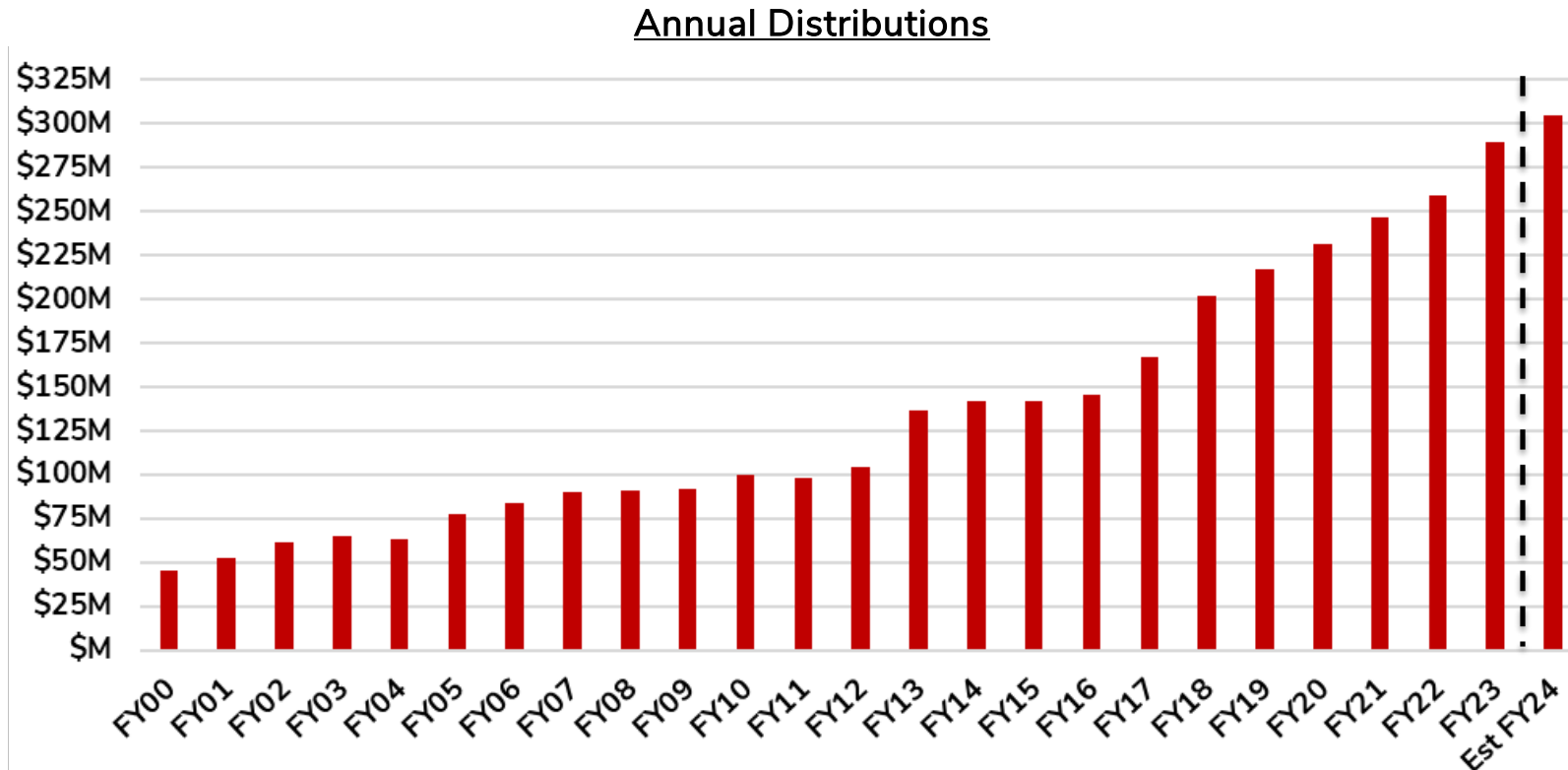
## FY23 Distributions: \$289.1M



# LTIP Historical and Projected Distributions

Since FY2000, annual distributions from the LTIP to support university priorities have grown more than six-fold from \$46M to \$289M.

- Based on 2023 LTIP performance, FY2024 distribution is estimated to be \$305M.



# LTIP Summary as of June 30, 2023

## Performance

	Performance					
	Qtr	1 Year	3 Year	5 Year	10 Year	7/09-6/23
Public Equity	6.07%	15.51%	10.35%			
<i>MSCI ACWI - ND</i>	6.18%	16.53%	10.99%			
Private Equity (Including Buyouts, Growth & Venture Capital)	-0.71%	-0.91%	23.54%			
<i>MSCI ACWI - ND w/one quarter lag</i>	7.31%	-7.44%	15.36%			
Real Estate & Infrastructure	2.85%	8.07%	14.56%			
<i>Cambridge Associates Real Estate (50%) &amp; Infrastructure (50%)</i>	0.91%	2.00%	13.90%			
Legacy Investments	-3.61%	-0.75%	6.31%			
<i>Return of Actual Underlying Funds</i>	-3.61%	-0.75%	6.31%			
Hedge Funds (Including Liquid Credit & Illiquid Credit)	2.47%	6.60%	8.64%			
<i>HFRI FOF Composite</i>	1.43%	3.58%	5.01%			
Cash & High-Grade Bonds	-0.55%	0.06%	-1.34%			
<i>Bloomberg Barclays US Aggregate Bond Index</i>	-0.84%	-0.94%	-3.96%			
<b>LTIP Return</b>	<b>2.45%</b>	<b>6.86%</b>	<b>11.72%</b>	<b>7.36%</b>	<b>7.27%</b>	<b>8.25%</b>
<b>Total Consolidated Benchmark</b>	<b>4.21%</b>	<b>4.64%</b>	<b>7.41%</b>	<b>6.76%</b>	<b>6.72%</b>	<b>7.36%</b>

## Market Value Rollforward

	7/22-6/23	7/09-6/23
Beginning Market Value	\$6,960,782,423	\$1,651,561,030
Gifts	62,016,183	774,034,005
Other additions, net	175,027,677	3,214,354,095
Distribution	(264,875,000)	(2,455,417,618)
Development & Accounting	(21,389,000)	(242,267,130)
Investment income, net	<u>472,113,699</u>	<u>4,441,411,600</u>
Ending Market Value	<u>\$7,383,675,982</u>	<u>\$7,383,675,982</u>

## Asset Allocation

<b>Total Equity (Public &amp; Private)</b>	<b>65.7%</b>
Public Equity	38.2%
Private Equity	<u>27.6%</u>
Buyouts	16.2%
Growth Equity	2.4%
Venture Capital	9.0%
<b>Real Assets</b>	<b>12.6%</b>
Infrastructure	4.8%
Real Estate	3.2%
Legacy Investments	4.6%
<b>Diversifying Assets</b>	<b>21.6%</b>
Hedge Funds	10.5%
Credit	5.8%
Cash & High-Grade Bonds	5.3%



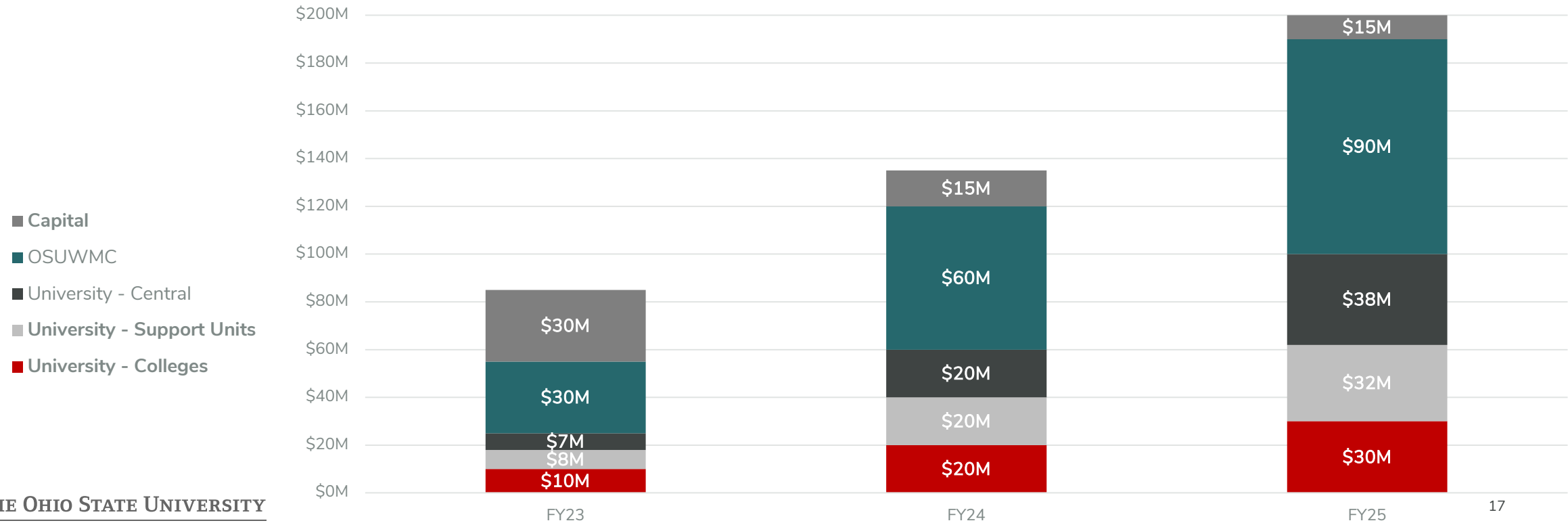
# Efficiency





# 3-Year Efficiency Targets

Efficiency Targets	FY23	FY24	FY25	Total
University	\$25M	\$60M	\$100M	\$185M
OSUWMC	\$30M	\$60M	\$90M	\$180M
Capital	\$30M	\$15M	\$15M	\$60M
<b>Total</b>	<b>\$85M</b>	<b>\$135M</b>	<b>\$205M</b>	<b>\$425M</b>



# Operational Efficiency Progress Report

## FY23 Q4 Operational Efficiency Progress Report

Efficiency Savings	FY23 Target	FY23 Actual	Progress to Goal	Status
University	\$25M	\$31.46M	125.8%	
OSUWMC	\$30M	\$58.31M	194.4%	
Capital Efficiencies	\$30M	\$62.08M	207%	

## Annual Impact – Operational Efficiency

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
University Efficiencies	\$5.2M	\$20.2M	\$33.4M	\$55.3M	\$53.0M	\$52.7M	\$194.8M	\$88.3M
OSUWMC		\$18.1M	\$40.2M	\$23.1M	\$23.7M	\$45.3M	\$103.7M	\$115.0M
Capital Efficiencies	NA	NA	NA	\$33.8M	\$54.1M	\$11.1M	\$44.7M	\$61.6M

## FY12-FY23 Total Efficiency Savings

	Target	Actual
University Operational Efficiencies	\$400M	\$535.1M
OSUWMC Operational Efficiencies	\$261.6M	\$471.9M
Capital Efficiencies	\$188M	\$267.4M
Enterprise Procurement Savings	\$623M	\$782.1M
Operational Excellence@OSU (Lean Six Sigma)	\$90M	\$96.5M
OSUWMC Pharmacy, Revenue Cycle & Other	\$255M	\$355.9M

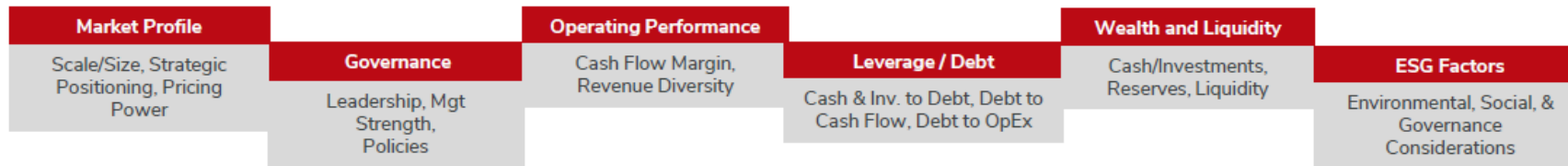
**FY12 – FY23 Enterprise Efficiencies: \$2.5B**

# Credit Ratings Update

- Having completed their annual reviews in January 2023, Moody's and S&P affirmed both the university's credit rating and 'Stable' outlook.
- Fitch **upgraded** the university's credit rating to '**AA+/Stable Outlook**' from '**AA/Positive Outlook**'. This is the first rating upgrade of the university since the Moody's upgrade to 'Aa1' in 2010 and the first by Fitch since it began rating the university in 2003.

	Moody's	S&P	Fitch	Notes
Credit Rating	Aa1	AA	AA+	Moody's and Fitch 2 <sup>nd</sup> highest rating; S&P 3 <sup>rd</sup> highest rating
Rating Outlook	Stable	Stable	Stable	Outlook conveys possible direction of rating

- Credit rating drivers for the university, as with the broader higher education sector, include the following. The rating agencies apply their own detailed methodologies, metrics, and weighting system for these factors.



## Higher Education Sector Outlook 2023

- Moody's/Fitch have 'Negative' and 'Deteriorating' outlooks while S&P is 'mixed', expecting less selective regional campuses to be more challenged than larger, more comprehensive peers.
  - Macro headwinds continue from inflation and labor and wage costs and there is pressure to restore spending cuts.
    - Compounded for AMC's due to healthcare operating pressures.
  - Increased enrollment competition, growing tuition discounts, and limits on pricing power bring muted revenue growth.
  - Higher borrowing costs plus higher constructions costs bring strain for capital projects and is felt particularly within the student housing sector.
- Outlooks could change to 'Stable' if revenues match inflation, macro conditions improve, and steady student demand prevails.

# Conclusion



# Financial State of the University

- The university's overall financial position is strong driven by a variety of factors, including our diversity of operations and our continued focus on operating and capital efficiencies.
- Operating revenues increased \$808M in FY23 compared to FY22, driven primarily by strong growth in healthcare revenues, increases in all major auxiliary enterprises, and tuition and fee increases.
- Administrative efficiencies enabled us to re-direct funds to our core mission of access, affordability, academic excellence and patient care during the pandemic.
- University annual rating agency updates had positive results in FY23, receiving our first rating upgrade of the university since the Moody's upgrade to 'Aa1' in 2010 and the first by Fitch since it began rating the university in 2003.