

## THE OHIO STATE UNIVERSITY

**TOPIC:** Fiscal Year 2023 Interim Financial Report – September 30, 2022

**CONTEXT:** The purpose of this report is to provide an update of financial results for the three months ending September 30, 2022.

### FINANCIAL SUMMARY

The university's overall financial position is strong driven by the post-pandemic rebound. Fall and summer semesters were characterized by the return to normal university operations and a full college experience for our students. Operating revenues increased \$173 million in the first quarter of fiscal year 2023 compared to the first quarter of fiscal year 2022, driven primarily by strong growth in Healthcare revenues, increases in all major auxiliary enterprises, and tuition and fees increases. Specific impacts include:

- A \$98 million increase in healthcare revenues, reflecting strong outpatient activity and a favorable service mix.
- A \$36 million 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 and increased revenues for on-campus events.
- A \$23 million increase in student tuition, due primarily to a non-resident rate increase and a rate increase to those undergraduate students not in the Ohio State Tuition Guarantee.

The year-to-date decrease in net position was \$277 million, down \$339 million compared to the prior year. The decrease is primarily due to a \$181 million increase in net investment loss, \$94 million decrease in federal COVID-19 assistance programs, and \$50 million increase in net operating loss. Additional details on university revenues, expenses, cash and investments and cash flows are provided below.

#### Revenues

*Student tuition and fees, net* - increased \$23 million or 13%, to \$202 million for the first quarter of fiscal year 2023, compared to the first quarter of fiscal year 2022, due primarily to an increase in gross tuition of \$14 million and a decrease in scholarship allowances of \$9 million. Gross tuition increased \$16 million for autumn semester and decreased \$2 million for summer semester. Autumn tuition increased \$16 million primarily due to a non-resident rate increase and a rate increase to those undergraduate students not in the Ohio State Tuition Guarantee. Summer tuition decreased \$2 million primary due to a two-day shift in academic calendars. Scholarships allowances decreased due primary to decreases in HEERF financial aid to students.

*Grants and contracts* – were flat in the first quarter of fiscal year 2023 compared to the first quarter of fiscal year 2022 due to increases in State grants of \$6 million and Private grants of \$3 million, offset by decreases in Local grants of \$6 million and Federal grants of \$3 million.

*Gifts* – decreased \$5 million over the prior year due primarily to decreases in current use gifts of \$7 million, offset by increases in private capital gifts of \$2 million.

*Sales and services of auxiliary enterprises* - increased \$36 million over the prior year due primarily to an additional home football game and one additional premium game of \$14 million, increases in Student Life housing and dining revenues of \$6 million, and increases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$16 million.

*Federal COVID-19 assistance programs* – decreased \$94 million over the prior year primarily due to decreases in HEERF institutional grants of \$47 million; HEERF grants to students of \$45 million; and Shuttered Venue Operators Grant for the Schottenstein Center of \$10 million; offset by increases in FEMA funding of \$6 million; and Ohio Governor's Emergency Education Relief of \$2 million. This trend will continue as we return to normal business operations post pandemic.

*Sales and services of the OSU Health System and OSU Physicians, Inc* - increased \$98 million to \$1,287 million. The Health System had strong outpatient activity and a favorable service mix. The Health System also experienced growth in chemotherapy, radiation oncology treatments and infusion volume. OSU Physicians experienced a similar trend with a year-over-year increase of \$73 million.

#### Expenses

*University* – expenses increased \$68 million to \$856 million in the first quarter of fiscal year 2023. Salaries increased \$24 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 other strategic investments. Benefits increased \$9 million, or 9%, primarily due to increases in salary guidelines and composite benefit rates as well as strategic hiring. Graduate fee authorizations increased \$2 million, or 9%. Supplies and services increased \$38 million, primarily due to inflation, increased travel activity and related expenses, fees paid to Ohio State Energy Partners, and increases due to resumption of normal operations and research growth. Student aid decreased \$5 million primarily due to decreases in Federal assistance from HEERF III funding. Depreciation was flat compared to prior year.

*OSU Health System and OSU Physicians* - expenses increased \$131 million to \$1,183 million. The Health System experienced increased expenses due to growth in outpatient volumes, a strong service mix as well as increased labor costs including higher agency usage and premium pay. These increased labor costs impacted OSU Health System and OSUP margins compared to the same three months ending September 30, 2021.

*Auxiliary* – expenses increased \$24 million to \$102 million in the first quarter of fiscal year 2023. The increase is primarily due to increases in Schottenstein Center of \$12 million, Athletics of \$8 million, and Student Life housing and dining of \$6 million due primarily to increased number of events and labor and supply costs.

### Cash and Investments

For the quarter ending September 30, 2022, total university cash and investments decreased \$427 million to \$10,827 compared to June 30, 2022, primarily due to decreases in temporary investments (including unexpended bond proceeds) of \$355 million, Long-Term Investment Pool of \$167 million, investment held under securities lending program of \$89 million, and other long-term investments of \$9 million, offset by increases in cash and cash equivalents of \$192 million. Additional details are provided below.

### Long-Term Investment Pool and Temporary Investments

For the quarter ending September 30, 2022, the fair value of the university's Long-Term Investment Pool decreased by \$167 million to \$6,794 million. Changes in total valuation compared to the prior year are summarized below:

	2022	2021
Market Value at June 30	\$ 6,960,782	\$ 7,041,973
Net principal additions	104,196	38,818
Change in market value	(217,443)	(51,179)
Income earned	41,750	33,877
Distributions	(71,335)	(64,050)
Expenses	(23,812)	(21,910)
Market Value at September 30	\$ 6,794,138	\$ 6,977,529

Net principal additions include new endowment gifts (\$10.9 million), reinvestment of unused endowment distributions (\$3.3 million), and other net transfers of university monies (\$90.0 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 September 30, 2022. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$18.0 million), University Development related expenses (\$5.6 million), and other administrative-related expenses (\$0.2 million).

### LTIP Investment Returns

For the quarter ending September 30, 2022, the LTIP earned a return, net of investment fees, of -2.76% versus a preliminary policy benchmark of -7.26%, resulting in an outperformance of 4.50%. During that period, our Legacy Investments returned 2.61% (benchmark is return of actual underlying funds) followed by Hedge Funds and Opportunistic Credit at 1.85% (compared to the preliminary benchmark of 0.72%), Private Equity at -2.52% (compared to the benchmark of -15.66%), Real Assets at -2.57% (compared to the preliminary benchmark of -0.12%), Cash and High-Grade Bonds at -1.37% (compared to the benchmark of -4.75%), and Public Equity at -6.15% (compared to the benchmark of -6.82%).

The comparable quarter ending September 30, 2021 saw a net investment return of 2.84% versus a policy benchmark of 1.73% resulting in outperformance of 1.11%. During that period, our Private Equity returned 12.06% (compared to benchmark of 7.39%), followed by Real Assets at 8.35% (compared to benchmark of 4.87%), Legacy Investments at 3.52% (benchmark is return of actual underlying funds), Hedge Funds and Opportunistic Credit at 2.34% (compared to benchmark of 0.73%), Cash and High-Grade Bonds at -0.03% (compared to benchmark of 0.05%) and Public Equity at -1.86% (compared to benchmark of -1.05%).

### Temporary Investments

For the quarter ending September 30, 2022, the Tier 1 Investments (0-1 Year maturity) earned a return of 0.48%, outperforming the blended benchmark of ICE Bofa 6m US Treasury Bill benchmark and Bank of America ML 91-day T-Bill (0.42%) by 0.06%. Tier 2 Investments (1-5 Year maturity) earned -1.21%, outperforming the blended benchmark of ICE Bofa US Corp & Govt 1-3 Years, BBG US Govt/Credit 1-5 Years, BBG US Agg Treasury 1-3 Years, and ICE Bofa 6m US Treasury Bill (-1.53%) by 0.32%.

The comparable quarter ending September 30, 2021 saw Tier 1 Investments earn a return of 0.10%. Tier 2 Investments returned 0.21% for this same time-period.

### Noncash Assets and Liabilities

Accounts receivable increased \$145 million, reflecting a combination of increases in Health System patient care receivables and tuition receivables. Prepaid expenses increased \$140 million, primarily due to fee authorizations for graduate associates, which are recognized as expense over the course of the semester, and increases in OhioLink prepaid subscriptions. Unexpended bond proceeds decreased \$115 million, reflecting expenditures for capital projects. Deposits and advance payments for goods and services were up \$434 million, primarily reflecting tuition and fee receipts for fall semester. These amounts will be recognized as tuition revenue over the course of the semester.

### Cash Flows

University cash and cash equivalents increased \$192 million in the first quarter of fiscal year 2023 compared to June 30, 2022. Net cash used in operating activities was \$113 million, compared to net cash provided by operating activities of \$79 million in the first three months of the prior fiscal year. The decrease relates primarily to payments to vendors and employees, offset by increases in receipts

for student tuition. Net cash provided by noncapital financing activities was \$212 million in the first quarter of fiscal year 2023, compared to \$291 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 \$217 million in the first quarter of fiscal year 2023 due primarily to the payments for capital assets of \$214 million. Net cash provided by investing activities was \$310 million, primarily due to sales of investments.

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

	<u>As of September</u> <u>2022</u>	<u>As of June</u> <u>2022</u>	<u>Increase/(Decrease)</u>	
			Dollars	%
<b>ASSETS:</b>				
Current Assets:				
Cash and cash equivalents	\$ 672,034	\$ 479,601	\$ 192,433	40.1%
Temporary investments	2,308,850	2,549,095	(240,245)	-9.4%
Accounts receivable, net	993,774	848,760	145,014	17.1%
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	24,751	23,109	1,642	7.1%
Inventories, prepaid expenses, and other assets	286,800	146,401	140,399	95.9%
Investments held under securities lending program	112,481	201,994	(89,513)	-44.3%
Total Current Assets	<u>4,485,316</u>	<u>4,335,586</u>	<u>149,730</u>	<u>3.5%</u>
Noncurrent Assets:				
Unexpended bond proceeds	564,452	679,040	(114,588)	-16.9%
Notes receivable, net	18,943	19,213	(270)	-1.4%
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	6,794,138	6,960,782	(166,644)	-2.4%
Other long-term investments	375,139	383,771	(8,632)	-2.2%
Leases receivable, net	55,272	55,272	-	100.0%
Other noncurrent assets	228,907	228,907	-	0.0%
Capital assets, net	7,640,633	7,583,147	57,486	0.8%
Total Noncurrent Assets	<u>16,234,841</u>	<u>16,467,489</u>	<u>(232,648)</u>	<u>-1.4%</u>
<b>Total Assets</b>	<u>20,720,157</u>	<u>20,803,075</u>	<u>(82,918)</u>	<u>-0.4%</u>
Deferred Outflows:				
Pension	584,364	584,364	-	0.0%
Other post-employment benefits	11,545	11,545	-	0.0%
Other deferred outflows	22,197	22,505	(308)	-1.4%
<b>Total Assets and Deferred Outflows</b>	<u>\$ 21,338,263</u>	<u>\$ 21,421,489</u>	<u>\$ (83,226)</u>	<u>-0.4%</u>
<b>LIABILITIES AND NET POSITION:</b>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 713,071	\$ 789,156	\$ (76,085)	-9.6%
Medicare advance payment program	21,199	79,601	(58,402)	-73.4%
Deposits and advance payments for goods and services	883,892	450,115	433,777	96.4%
Current portion of bonds, notes and leases payable	112,936	112,937	(1)	0.0%
Long-term bonds payable, subject to remarketing	275,000	275,000	-	0.0%
Liability under securities lending program	112,481	201,994	(89,513)	-44.3%
Other current liabilities	142,829	139,325	3,504	2.5%
Total Current Liabilities	<u>2,261,408</u>	<u>2,048,128</u>	<u>213,280</u>	<u>10.4%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	3,376,238	3,388,885	(12,647)	-0.4%
Concessionaire payable	351,098	355,786	(4,688)	-1.3%
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	204,357	203,505	852	0.4%
Self-insurance accruals	94,419	100,497	(6,078)	-6.0%
Amounts due to third-party payors - Health System	87,373	87,306	67	0.1%
Irrevocable split-interest agreements	32,195	32,324	(129)	-0.4%
Refundable advances for Federal Perkins loans	23,238	23,238	-	0.0%
Advance from concessionaire	958,217	963,663	(5,446)	-0.6%
Other noncurrent liabilities	292,471	281,046	11,425	4.1%
Total Noncurrent Liabilities	<u>6,933,060</u>	<u>6,949,704</u>	<u>(16,644)</u>	<u>-0.2%</u>
<b>Total Liabilities</b>	<u>9,194,468</u>	<u>8,997,832</u>	<u>196,636</u>	<u>2.2%</u>
Deferred Inflows:				
Parking service concession arrangement	385,244	387,652	(2,408)	-0.6%
Pension	1,681,316	1,681,316	-	0.0%
Other post-employment benefits	456,823	456,823	-	0.0%
Other deferred inflows	306,115	306,166	(51)	0.0%
<b>Total Deferred Inflows</b>	<u>2,829,498</u>	<u>2,831,957</u>	<u>(2,459)</u>	<u>-0.1%</u>
<b>Total Net Position</b>	<u>9,314,297</u>	<u>9,591,700</u>	<u>(277,403)</u>	<u>-2.9%</u>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<u>\$ 21,338,263</u>	<u>\$ 21,421,489</u>	<u>\$ (83,226)</u>	<u>-0.4%</u>

**THE OHIO STATE UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION - UNAUDITED**  
**For the Three Months Ended September 30, 2022 and September 30, 2021**  
(in thousands)

	September	September	Increase/(Decrease)	
	2022	2021	Dollars	%
<b>Operating Revenues:</b>				
Student tuition and fees, net	\$ 201,813	\$ 178,634	\$ 23,179	13.0%
Federal grants and contracts	111,461	115,180	(3,719)	-3.2%
State grants and contracts	19,363	13,169	6,194	47.0%
Local grants and contracts	6,765	12,583	(5,818)	-46.2%
Private grants and contracts	85,701	82,720	2,981	3.6%
Sales and services of educational departments	56,173	53,939	2,234	4.1%
Sales and services of auxiliary enterprises	101,326	64,865	36,461	56.2%
Sales and services of the OSU Health System, net	1,047,768	1,022,320	25,448	2.5%
Sales and services of OSU Physicians, Inc., net	239,463	166,863	72,600	43.5%
Other operating revenues	25,489	12,255	13,234	108.0%
<b>Total Operating Revenues</b>	<b>1,895,322</b>	<b>1,722,528</b>	<b>172,794</b>	<b>10.0%</b>
<b>Operating Expenses:</b>				
<b>Educational and General:</b>				
Instruction and departmental research	277,099	242,118	34,981	14.4%
Separately budgeted research	139,036	123,807	15,229	12.3%
Public service	49,210	43,690	5,520	12.6%
Academic support	67,511	61,404	6,107	9.9%
Student services	26,563	23,251	3,312	14.2%
Institutional support	108,056	96,587	11,469	11.9%
Operation and maintenance of plant	34,211	39,323	(5,112)	-13.0%
Scholarships and fellowships	27,609	31,003	(3,394)	-10.9%
Auxiliary enterprises	101,591	77,484	24,107	31.1%
OSU Health System	954,601	894,035	60,566	6.8%
OSU Physicians, Inc.	228,802	158,649	70,153	44.2%
Depreciation	126,508	126,762	(254)	-0.2%
<b>Total Operating Expenses</b>	<b>2,140,797</b>	<b>1,918,113</b>	<b>222,684</b>	<b>11.6%</b>
<b>Operating Loss</b>	<b>(245,475)</b>	<b>(195,585)</b>	<b>(49,890)</b>	<b>25.5%</b>
<b>Non-operating Revenues (Expenses):</b>				
State share of instruction and line-item appropriations	127,235	123,422	3,813	3.1%
Federal subsidies for Build America Bonds interest	2,863	2,830	33	1.2%
Federal non-exchange grants	35,264	37,275	(2,011)	-5.4%
Federal COVID-19 assistance programs	9,259	102,981	(93,722)	-91.0%
State non-exchange grants	3,445	4,572	(1,127)	-24.7%
Gifts	23,926	31,299	(7,373)	-23.6%
Net investment income (loss)	(218,691)	(37,792)	(180,899)	478.7%
Interest expense	(42,734)	(34,077)	(8,657)	25.4%
Other non-operating revenues (expenses)	(2,811)	(3,316)	505	-15.2%
<b>Net Non-operating Revenues</b>	<b>(62,244)</b>	<b>227,194</b>	<b>(289,438)</b>	<b>-127.4%</b>
<b>Income (loss) before changes in net position</b>	<b>(307,719)</b>	<b>31,609</b>	<b>(339,328)</b>	<b>-1073.5%</b>
<b>Changes in Net Position</b>				
State capital appropriations	10,658	13,662	(3,004)	-22.0%
Private capital gifts	8,807	6,288	2,519	40.1%
Additions to permanent endowments	10,856	10,529	327	3.1%
Capital contributions and other changes in net position	-	-	-	0.0%
<b>Total Changes in Net Position</b>	<b>30,321</b>	<b>30,479</b>	<b>(158)</b>	<b>-0.5%</b>
<b>Increase (decrease) in Net Position</b>	<b>(277,398)</b>	<b>62,088</b>	<b>(339,486)</b>	<b>-546.8%</b>
Net Position - Beginning of Year	9,591,695	8,897,558		
Net Position - End of Period	\$ 9,314,297	\$ 8,959,646		

**THE OHIO STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS - UNAUDITED**  
**For the Three Months Ended September 30, 2022 and September 30, 2021**  
(in thousands)

	<b>September 2022</b>	<b>September 2021</b>	<b>Increase (Decrease)</b>	
			<b>Dollars</b>	<b>%</b>
<b>Cash Flows from Operating Activities:</b>				
Tuition and fee receipts	\$ 379,422	\$ 318,341	\$ 61,081	19.2%
Grant and contract receipts	235,501	172,386	63,115	36.6%
Receipts for sales and services	1,331,711	1,414,109	(82,398)	-5.8%
Payments to or on behalf of employees	(985,223)	(850,015)	(135,208)	15.9%
University employee benefit payments	(275,460)	(247,829)	(27,631)	11.1%
Payments to vendors for supplies and services	(814,958)	(720,676)	(94,282)	13.1%
Payments to students and fellows	(23,843)	(28,586)	4,743	-16.6%
Student loans issued	(1,023)	(867)	(156)	18.0%
Student loans collected	6,604	1,165	5,439	466.9%
Student loan interest and fees collected	359	390	(31)	-7.9%
Other receipts (payments)	34,318	20,631	13,687	-66.3%
Net cash provided (used) by operating activities	<u>(112,592)</u>	<u>79,049</u>	<u>(191,641)</u>	<u>-242.4%</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
State share of instruction and line-item appropriations	127,235	101,022	26,213	25.9%
Non-exchange grant receipts	38,709	41,847	(3,138)	-7.5%
Federal COVID-19 assistance programs	9,259	102,981	(93,722)	-91.0%
Gift receipts for current use	23,926	31,298	(7,372)	-23.6%
Additions to permanent endowments	10,856	10,706	150	1.4%
Drawdowns of federal direct loan proceeds	132,040	146,113	(14,073)	-9.6%
Disbursements of federal direct loans to students	(128,587)	(143,769)	15,182	-10.6%
Repayment of loans from related organization	(1,011)	-	(1,011)	100.0%
Amounts received for annuity and life income funds	517	750	(233)	-31.1%
Amounts paid to annuitants and life beneficiaries	(1,644)	(750)	(894)	119.2%
Agency funds receipts	6,616	5,233	1,383	26.4%
Agency funds disbursements	(5,588)	(4,546)	(1,042)	22.9%
Other receipts	-	86	(86)	-100.0%
Net cash provided by noncapital financing activities	<u>212,328</u>	<u>290,971</u>	<u>(78,643)</u>	<u>-27.0%</u>
<b>Cash Flows from Capital Financing Activities:</b>				
Proceeds from capital debt and leases	-	718,307	(718,307)	-100.0%
Gift receipts for capital projects	8,807	6,288	2,519	40.1%
Payments for purchase or construction of capital assets	(214,294)	(279,798)	65,504	-23.4%
Principal payments on capital debt and leases	(4,688)	(11,731)	7,043	-60.0%
Interest payments on capital debt and leases	(7,893)	(4,477)	(3,416)	76.3%
Federal subsidies for Build America Bonds interest	989	4,708	(3,719)	-79.0%
Net cash provided (used) by capital financing activities	<u>(217,079)</u>	<u>433,297</u>	<u>(650,376)</u>	<u>150.1%</u>
<b>Cash Flows from Investing Activities:</b>				
Purchases of investments	(2,976,553)	(1,581,728)	(1,394,825)	88.2%
Proceeds from sales and maturities of investments	3,257,965	1,125,799	2,132,166	189.4%
Investment income	28,364	22,849	5,515	24.1%
Net cash provided (used) by investing activities	<u>309,776</u>	<u>(433,080)</u>	<u>742,856</u>	<u>-171.5%</u>
<b>Net Increase (Decrease) in Cash</b>	<u>192,433</u>	<u>370,237</u>	<u>\$ (177,804)</u>	<u>-48.0%</u>
Cash and Cash Equivalents - Beginning of Year	<u>479,601</u>	<u>1,214,387</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 672,034</u>	<u>\$ 1,584,624</u>		