

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2023 Interim Financial Report – December 31, 2022

CONTEXT: The purpose of this report is to provide an update of financial results for the six months ending December 31, 2022.

FINANCIAL SUMMARY

The university's overall financial position remains 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 \$399 million in the first six months of fiscal year 2023 compared to the first six months 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 \$243 million increase in healthcare revenues, reflecting strong outpatient surgical activity and service mix and practice expansion.
- A \$55 million increase in auxiliary revenues, primarily due to the return to normal operations for Business Advancement, an additional home football game and one additional premium game, housing and dining rate increases for new first-year students, and increased revenues from on-campus events.
- A \$50 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 \$186 million, down \$367 million compared to the prior year. The decrease is primarily due to a \$217 million decrease in net investment income, a \$97 million decrease in federal COVID-19 assistance programs, \$32 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 \$50 million or 10%, to \$538 million for the first six months of fiscal year 2023, compared to the first six months of fiscal year 2022, due primarily to an increase in gross tuition of \$18 million and a decrease in scholarship allowances of \$31 million. Gross tuition increased by \$20 million for autumn semester and decreased \$2 million for summer semester. Autumn tuition increased \$20 million 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 \$31 million due primarily to decreases in HEERF financial aid to students.

Grants and contracts – increased \$26 million in the first six months of fiscal year 2023 compared to the first six months of fiscal year 2022 due to increases in private grants of \$20 million, federal grants of \$9 million, and state grants of \$3 million, offset by decreases in local grants of \$7 million.

Gifts – decreased \$30 million over the prior year due primarily to decreases in current use gifts of \$26 million and private capital gifts of \$3 million.

Sales and services of auxiliary enterprises - increased \$55 million over the prior year due primarily to increases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$22 million, increases in Athletics revenues due to an additional home football game and one additional premium game (totaling \$19 million), and increases in Student Life housing and dining revenues of \$14 million.

Federal COVID-19 assistance programs – decreased \$97 million from the prior year primarily due to decreases in HEERF grants to students of \$50 million; HEERF institutional grants of \$47 million; Shuttered Venue Operators Grant for the Schottenstein Center of \$10 million; Ohio Department of Health grants of \$3 million; and Payroll Protection Program grants of \$1 million; offset by increases in FEMA funding of \$8 million; and Ohio Governor's Emergency Education Relief of \$6 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 \$243 million to \$2,633 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 \$141 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 \$101 million reflecting the return to normal operations.

Expenses

University – expenses increased \$94 million to \$1,789 million in the first six months of fiscal year 2023. Salaries increased \$63 million, or 9%, 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 \$24 million, or 12%, primarily due to increases in salary guidelines and composite benefit rates as well as strategic hiring. Graduate fee authorizations decreased \$4 million, or 6%. Supplies and services increased \$22 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 \$16 million primarily due to decreases in Federal assistance from HEERF III funding. Depreciation increased \$3 million compared to prior year.

OSU Health System and OSU Physicians - expenses increased \$291 million to \$2,401 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 \$46 million to \$224 million in the first six months of fiscal year 2023. The increase is primarily due to increases in Student Life housing and dining of \$17 million, Athletics of \$15 million, and Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) of \$14 million due primarily to increased number of events and labor and supply costs.

Cash and Investments

For the six months ending December 31, 2022, total university cash and investments decreased \$400 million to \$10,855 million compared to June 30, 2022, primarily due to decreases in temporary investments (including unexpended bond proceeds) of \$992 million, investments held under securities lending program of \$147 million, and other long-term investments of \$4 million, offset by increases in cash and cash equivalents of \$650 million and Long-Term Investment Pool of \$94 million. Additional details are provided below.

Long-Term Investment Pool and Temporary Investments

For the six months ending December 31, 2022, the fair value of the university's Long-Term Investment Pool increased by \$94 million to \$7,054 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	179,593	104,437
Change in Market Value	5,178	286,138
Income Earned	101,807	82,890
Distributions	(143,615)	(128,465)
Expenses	(49,380)	(47,122)
Market Value at December 31	\$ 7,054,365	\$ 7,339,851

Net principal additions include new endowment gifts (\$34.8 million), reinvestment of unused endowment distributions (\$7.4 million), and other net transfers of university monies (\$135.9 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 December 31, 2022. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$36.1 million), University Development related expenses (\$11.3 million), and other administrative-related expenses (\$0.4 million).

LTIP Investment Returns

For the six months ending December 31, 2022, the LTIP earned a return, net of investment fees, of 1.01%. The comparable six months ending December 31, 2021, saw a net investment return of 8.27%.

Temporary Investments

For the six months ending December 31, 2022, the Tier 1 Investments (0-1 Year maturity) earned a return of 1.37%, outperforming the blended benchmark of ICE Bofa 6m US Treasury Bill benchmark and Bank of America ML 91-day T-Bill (1.32%) by 0.05%. Tier 2 Investments (1-5 Year maturity) earned 0.22%, 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 (-0.60%) by 0.82%.

For the six months ending December 31, 2021, the Tier 1 Investments earned a return of 0.00%. Tier 2 Investments returned -0.24% for this same time period.

Noncash Assets and Liabilities

Accounts receivable increased \$482 million, primarily reflecting a combination of increases in tuition receivables and student-related fees of \$452 million, and Health System patient care receivables of \$32 million. Unexpended bond proceeds decreased \$239 million, reflecting expenditures for capital projects. Deposits and advance payments for goods and services were up \$568 million, primarily reflecting 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 \$650 million in the first six months of fiscal year 2023 compared to June 30, 2022. Net cash used in operating activities was \$156 million, compared to net cash used by operating activities of \$108 million in the first six months of the prior fiscal year. The increase in cash usage relates primarily to payments to vendors and employees, offset by increases in receipts for student tuition and grants and contract receipts. Net cash provided by noncapital financing activities was

\$448 million in the first six months of fiscal year 2023, compared to \$576 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 \$641 million in the first six months of fiscal year 2023 due primarily to the payments for capital assets of \$535 million. Net cash provided by investing activities was \$999 million, primarily due to sales of investments.

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

	As of December 2022	As of June 2022	Increase/(Decrease)	
			Dollars	%
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,129,831	\$ 479,601	\$ 650,230	135.6%
Temporary investments	1,878,015	2,631,011	(752,996)	-28.6%
Accounts receivable, net	1,330,641	848,760	481,881	56.8%
Notes receivable - current portion, net	25,231	25,231	-	0.0%
Pledges receivable - current portion, net	69,895	61,395	8,500	13.8%
Accrued interest receivable	23,650	23,109	541	2.3%
Inventories, prepaid expenses, and other assets	187,853	146,401	41,452	28.3%
Investments held under securities lending program	54,668	201,994	(147,326)	-72.9%
Total Current Assets	4,699,784	4,417,502	282,282	6.4%
Noncurrent Assets:				
Unexpended bond proceeds	439,717	679,040	(239,323)	-35.2%
Notes receivable, net	15,712	19,213	(3,501)	-18.2%
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	7,054,365	6,960,782	93,583	1.3%
Other long-term investments	298,092	301,855	(3,763)	-1.2%
Leases receivable, net	64,906	55,272	9,634	100.0%
Other noncurrent assets	228,907	228,907	-	0.0%
Capital assets, net	7,847,750	7,583,147	264,603	3.5%
Total Noncurrent Assets	16,506,806	16,385,573	121,233	0.7%
Total Assets	21,206,590	20,803,075	403,515	1.9%
Deferred Outflows:				
Pension	584,364	584,364	-	0.0%
Other post-employment benefits	11,545	11,545	-	0.0%
Other deferred outflows	21,888	22,505	(617)	-2.7%
Total Assets and Deferred Outflows	\$ 21,824,387	\$ 21,421,489	\$ 402,898	1.9%
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 752,047	\$ 783,201	\$ (31,154)	-4.0%
Medicare advance payment program	-	79,601	(79,601)	-100.0%
Deposits and advance payments for goods and services	1,018,470	450,115	568,355	126.3%
Current portion of bonds, notes and leases payable	112,987	112,937	50	0.0%
Long-term bonds payable, subject to remarketing	275,000	275,000	-	0.0%
Liability under securities lending program	54,668	201,994	(147,326)	-72.9%
Other current liabilities	141,764	139,325	2,439	1.8%
Total Current Liabilities	2,354,936	2,042,173	312,763	15.3%
Noncurrent Liabilities:				
Bonds, notes and leases payable	3,322,218	3,388,885	(66,667)	-2.0%
Concessionaire payable	346,409	355,786	(9,377)	-2.6%
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	205,702	203,505	2,197	1.1%
Self-insurance accruals	80,709	100,497	(19,788)	-19.7%
Amounts due to third-party payors - Health System	80,630	87,306	(6,676)	-7.6%
Irrevocable split-interest agreements	32,860	32,324	536	1.7%
Refundable advances for Federal Perkins loans	23,238	23,238	-	0.0%
Advance from concessionaire	961,031	963,663	(2,632)	-0.3%
Other noncurrent liabilities	283,184	281,045	2,139	0.8%
Total Noncurrent Liabilities	6,849,435	6,949,703	(100,268)	-1.4%
Total Liabilities	9,204,371	8,991,876	212,495	2.4%
Deferred Inflows:				
Parking service concession arrangement	382,836	387,652	(4,816)	-1.2%
Pension	1,681,316	1,681,316	-	0.0%
Other post-employment benefits	456,823	456,823	-	0.0%
Other deferred inflows	315,592	306,166	9,426	3.1%
Total Deferred Inflows	2,836,567	2,831,957	4,610	0.2%
Total Net Position	9,783,449	9,597,656	185,793	1.9%
Total Liabilities, Deferred Inflows, and Net Position	\$ 21,824,387	\$ 21,421,489	\$ 402,898	1.9%

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - UNAUDITED
For the Six Months Ended December 31, 2022 and December 31, 2021
(in thousands)

	December 2022	December 2021	Increase/(Decrease)	
			Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 538,290	\$ 488,359	\$ 49,931	10.2%
Federal grants and contracts	226,782	217,383	9,399	4.3%
State grants and contracts	37,944	35,204	2,740	7.8%
Local grants and contracts	10,408	17,289	(6,881)	-39.8%
Private grants and contracts	184,788	164,357	20,431	12.4%
Sales and services of educational departments	101,426	96,216	5,210	5.4%
Sales and services of auxiliary enterprises	256,632	201,386	55,246	27.4%
Sales and services of the OSU Health System, net	2,142,067	2,040,906	101,161	5.0%
Sales and services of OSU Physicians, Inc., net	491,116	349,622	141,494	40.5%
Other operating revenues	50,933	30,584	20,349	66.5%
Total Operating Revenues	4,040,386	3,641,306	399,080	11.0%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	621,603	551,339	70,264	12.7%
Separately budgeted research	301,020	266,770	34,250	12.8%
Public service	92,071	90,600	1,471	1.6%
Academic support	139,320	131,044	8,276	6.3%
Student services	56,451	48,630	7,821	16.1%
Institutional support	160,990	190,800	(29,810)	-15.6%
Operation and maintenance of plant	83,540	71,490	12,050	16.9%
Scholarships and fellowships	78,922	92,857	(13,935)	-15.0%
Auxiliary enterprises	224,255	178,093	46,162	25.9%
OSU Health System	1,927,288	1,772,178	155,110	8.8%
OSU Physicians, Inc.	473,350	337,841	135,509	40.1%
Depreciation	255,247	251,810	3,437	1.4%
Total Operating Expenses	4,414,057	3,983,452	430,605	10.8%
Operating Loss	(373,671)	(342,146)	(31,525)	9.2%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	254,134	246,619	7,515	3.0%
Federal subsidies for Build America Bonds interest	5,693	5,964	(271)	-4.5%
Federal non-exchange grants	37,016	37,904	(888)	-2.3%
Federal COVID-19 assistance programs	17,222	114,233	(97,011)	-84.9%
State non-exchange grants	20,596	22,811	(2,215)	-9.7%
Gifts	82,999	109,244	(26,245)	-24.0%
Net investment income (loss)	97,361	314,520	(217,159)	-69.0%
Interest expense	(88,053)	(69,860)	(18,193)	26.0%
Other non-operating revenues (expenses)	28,548	8,555	19,993	233.7%
Net Non-operating Revenues	455,516	789,990	(334,474)	-42.3%
Income (loss) before changes in net position	81,845	447,844	(365,999)	-81.7%
Changes in Net Position				
State capital appropriations	23,138	20,635	2,503	12.1%
Private capital gifts	41,012	43,939	(2,927)	-6.7%
Additions to permanent endowments	39,798	40,131	(333)	-0.8%
Total Changes in Net Position	103,948	104,705	(757)	-0.7%
Increase (decrease) in Net Position	185,793	552,549	\$ (366,756)	-66.4%
Net Position - Beginning of Year	9,597,656	8,885,418		
Net Position - End of Period	\$ 9,783,449	\$ 9,437,967		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
For the Six Months Ended December 31, 2022 and December 31, 2021
(in thousands)

	December 2022	December 2021	Increase (Decrease) Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 579,420	\$ 529,236	\$ 50,184	9.5%
Grant and contract receipts	444,003	349,635	94,368	27.0%
Receipts for sales and services	2,891,105	2,803,149	87,956	3.1%
Payments to or on behalf of employees	(2,047,584)	(1,763,388)	(284,196)	16.1%
University employee benefit payments	(514,338)	(413,771)	(100,567)	24.3%
Payments to vendors for supplies and services	(1,522,624)	(1,559,568)	36,944	-2.4%
Payments to students and fellows	(70,815)	(86,605)	15,790	-18.2%
Student loans issued	(2,046)	(3,109)	1,063	-34.2%
Student loans collected	9,351	6,013	3,338	55.5%
Student loan interest and fees collected	719	780	(61)	-7.8%
Other receipts (payments)	76,877	29,508	47,369	-160.5%
Net cash provided (used) by operating activities	<u>(155,932)</u>	<u>(108,120)</u>	<u>(47,812)</u>	<u>44.2%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	254,134	239,750	14,384	6.0%
Non-exchange grant receipts	57,612	60,715	(3,103)	-5.1%
Federal COVID-19 assistance programs	17,222	114,233	(97,011)	-84.9%
Gift receipts for current use	74,499	109,243	(34,744)	-31.8%
Additions to permanent endowments	39,798	40,131	(333)	-0.8%
Drawdowns of federal direct loan proceeds	146,602	145,633	969	0.7%
Disbursements of federal direct loans to students	(143,149)	(140,072)	(3,077)	2.2%
Repayment of loans from related organization	719	778	(59)	-7.6%
Amounts received for annuity and life income funds	1,182	8,022	(6,840)	-85.3%
Amounts paid to annuitants and life beneficiaries	(1,644)	(1,099)	(545)	49.6%
Agency funds receipts	6,544	5,706	838	14.7%
Agency funds disbursements	(5,588)	(5,051)	(537)	10.6%
Other receipts	(19)	(1,871)	1,852	-99.0%
Net cash provided by noncapital financing activities	<u>447,912</u>	<u>576,118</u>	<u>(128,206)</u>	<u>-22.3%</u>
Cash Flows from Capital Financing Activities:				
Proceeds from capital debt and leases	-	718,279	(718,279)	-100.0%
Gift receipts for capital projects	41,012	43,939	(2,927)	-6.7%
Payments for purchase or construction of capital assets	(535,430)	(514,078)	(21,352)	4.2%
Principal payments on capital debt and leases	(63,779)	(52,570)	(11,209)	21.3%
Interest payments on capital debt and leases	(88,177)	(68,502)	(19,675)	28.7%
Federal subsidies for Build America Bonds interest	5,305	10,688	(5,383)	-50.4%
Net cash provided (used) by capital financing activities	<u>(641,069)</u>	<u>137,756</u>	<u>(778,825)</u>	<u>565.4%</u>
Cash Flows from Investing Activities:				
Purchases of investments	(4,954,433)	(5,147,648)	193,215	-3.8%
Proceeds from sales and maturities of investments	5,875,953	3,921,992	1,953,961	49.8%
Investment income	77,799	440,893	(363,094)	-82.4%
Net cash provided (used) by investing activities	<u>999,319</u>	<u>(784,763)</u>	<u>1,784,082</u>	<u>-227.3%</u>
Net Increase (Decrease) in Cash	<u>650,230</u>	<u>(179,009)</u>	<u>\$ 829,239</u>	<u>-463.2%</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>\$ 1,129,831</u>	<u>\$ 1,035,378</u>		