

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2022 Interim Financial Report – March 31, 2022

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

FINANCIAL SUMMARY

The university's overall financial position is strong driven by the post-pandemic rebound. Fall and Spring semesters were characterized by a return to near-normal university operations and a full college experience for our students. Operating revenues for three quarters of fiscal year 2022 increased \$591 million compared to the three quarters of fiscal year 2021, driven primarily by strong growth in Health System patient volumes and a return of athletic events and in-person classes for students. Specific impacts include:

- A \$281 million increase in healthcare revenues, reflecting increases in hospital patient acuity and growth in outpatient volumes.
- A \$141 million increase in auxiliary revenues, reflecting football and basketball ticket sales and higher occupancy for student housing and dining.
- A \$99 million increase in student tuition, reflecting a return to in-person instruction and full assessment of non-resident fees.

The year-to-date increase in net position was \$366 million, down \$936 million compared to the prior year. The decrease is primarily due to a \$1,026 million decrease in net investment income, which was offset by a positive margin before investment income and interest expense of \$111 million. Additional details on university revenues, expenses, cash and investments, and cash flows are provided below.

Revenues

Student tuition and fees, net - increased \$99 million or 14%, to \$812 million for the nine months ending March 31, 2022, compared to the same period of fiscal year 2021, due primarily to an increase in gross tuition of \$138 million. Gross tuition increased \$55 million for Spring, \$73 million for Autumn semester, and \$10 million for Summer semester, offset by an increase in scholarship allowance of \$39 million. Tuition for the academic year increased primarily due to a return to in-person instruction and full assessment of non-resident fees. Similarly, scholarships increased to cover increases in fees for non-residents and HEERF financial aid to students.

Grants and contracts – increased \$32 million for the first nine months of fiscal year 2022 compared to fiscal year 2021 due to increases in Federal grants of \$22 million, Local grants of \$5 million, State grants of \$3 million, and Private grants of \$2 million.

Gifts - increased \$101 million over the prior year due primarily to increases in current use gifts of \$55 million, private capital gifts of \$23 million, and additions to permanent endowments of \$23 million.

Sales and services of auxiliary enterprises - increased \$141 million for the nine months ending March 31, 2022, compared to the prior year due primarily to the resumption of fall and spring sports of \$74 million, increases in Student Life housing and dining revenues of \$48 million, increases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$17 million and increases in the OSU airport of \$2 million.

Federal COVID-19 assistance programs – increased \$34 million over the prior year primarily due to increases in HEERF grants to students of \$34 million, HEERF institutional grants of \$21 million, Shuttered Venue Operators Grant for the Schottenstein Center of \$10 million, Ohio Department of Health COVID-19 reimbursement of \$8 million, \$2 million of funds to WOSU and Ohio Governor's Emergency Education Relief of \$1 million, offset by federal pass-through funds from the State of Ohio of \$42 million in fiscal year 2021.

State non-exchange grants – increased \$17 million over the prior year primarily due to increases in JobsOhio Education and Research grants of \$10 million, Care Innovation and Community Improvement programs for Dentistry and Optometry of \$4 million, and various Ohio financial aid grants of \$3 million.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$281 million to \$3,580 million. The Health System had solid outpatient volumes and strong chemotherapy and radiation oncology volumes. The operating revenue per adjusted admission was 9.1% above the prior year. OSU Physicians experienced a similar trend with a year-over-year increase of \$51 million.

Expenses

University – expenses increased \$244 million or 12%, to \$2,204 million in the first nine months of fiscal year 2022 primarily due to a return to in-person instruction and resumption of on campus events and operations to near-normal operations post-pandemic. Salaries increased \$89 million and benefits increased \$31 million. Salary and benefits increased primarily due to increased salary in auxiliary enterprises with resumption of more normalized operations of \$14 million, a 3% increase in faculty and staff salary guidelines, planned strategic new hires, market-based equity adjustments for existing employees, 5.7% increase in composite benefit rates, and \$15 million in increased graduate fee authorizations. Supplies and services increased \$62 million primarily due to increased cost of sales correlating to increased sales and services revenues, lifting of travel restrictions, fees paid to Ohio State Energy Partners, and increases due to inflation and resumption of normal operations. Student aid increased \$21 million primarily due to Federal assistance for the pandemic from HEERF III funding and elimination of the non-resident surcharge fully online discount. Depreciation increased \$41 million due to increases in spending on capital projects.

OSU Health System and OSU Physicians - expenses increased \$300 million to \$3,174 million. Health System expense per adjusted admission increased 10.9% from the prior year. Expenses increased due to growth in outpatient volumes as well as higher transplant volumes, COVID-19 lab expenses, higher surgical and procedural expenses, and increased agency usage and premium pay.

Auxiliary – expenses increased \$67 million to \$275 million for the three quarters ending March 31, 2022, compared to the prior year, primarily due to the resumption of fall and spring sports, increased occupancy for student housing, and the return of Schottenstein Center events.

Cash and Investments

Total university cash and investments increased \$1,119 million to \$11,874 million on March 31, 2022, compared to the same period of last year, primarily due to the increase in the Long-Term Investment Pool of \$873 million, restricted cash from bond proceeds of \$454, and temporary and other long-term investments of \$802 million, offset by a decrease in cash and cash equivalents of \$1,010 million. Additional details are provided below.

Long-Term Investment Pool and Temporary Investments

For the nine months ending March 31, 2022, the fair value of the university's Long-Term Investment Pool increased by \$192 million to \$7,234 million. Changes in total valuation compared to the prior year are summarized below:

	2022	2021
Fair Value at June 30	\$ 7,041,973	\$ 5,287,131
Net principal additions	186,856	179,612
Change in market value	148,019	1,039,013
Income earned	120,634	98,530
Distributions	(193,590)	(184,490)
Expenses	(69,699)	(58,680)
Fair Value at March 31	<u>\$ 7,234,193</u>	<u>\$ 6,361,116</u>

Net principal additions include new endowment gifts (\$63.0 million), reinvestment of unused endowment distributions (\$10.2 million), and other net transfers of university monies (\$113.7 million with the majority to the 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, 2022. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$53.3 million), University Development related expenses (\$15.8 million), and other administrative-related expenses (\$0.6 million).

LTIP Investment Returns

For the nine months ending March 31, 2022, the LTIP earned a return, net of investment fees, of 6.51% (shareholder version) versus a preliminary policy benchmark of 3.28% resulting in outperformance of 3.23%. During that period, our Private Equity returned 24.28% (compared to the benchmark of 13.36%) followed by Real Assets at 19.59% (compared to the preliminary benchmark of 18.28%), Legacy Investments at 9.13% (benchmark is return of actual underlying funds), Hedge Funds and Opportunistic Credit at 6.21% (compared to the preliminary benchmark of -1.52%), Cash and High-Grade Bonds at -2.18% (compared to the benchmark of -5.87%), and Public Equity at -2.82% (compared to the benchmark of -0.11%).

The comparable nine months ending March 31, 2021, saw a net investment return of 20.69%. During that period, our Private Equity returned 30.87%, followed by Public Equity at 29.17%, Real Assets at 14.55%, Hedge Funds and Opportunistic Credit at 12.66%, Legacy Investments at 3.37% and Cash and High-Grade Bonds at -1.63%.

Temporary Investments

For the nine months ending March 31, 2022, the Tier 1 Investments (0-1 Year maturity) earned a return of -0.41%, underperforming the blended benchmark of ICE Bofa 6m US Treasury Bill benchmark and Bank of America ML 91-day T-Bill (0.01%) by -0.42%. Tier 2 Investments (1-5 Year maturity) earned -2.71% 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 (-2.74%) by 0.03%.

The comparable nine months ending March 31, 2021, saw Tier 1 Investments earn a return of 0.29%. Tier 2 Investments returned 1.68% for this same time- period.

Accounts Receivable

Accounts receivable increased \$167 million, to \$906 million at March 31, 2022. Receivables increased due primarily to sales and services for patients of \$73 million, grants managed by the Office of Sponsored Programs of \$58 million, and departmental earnings of \$28 million.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased \$95 million, to \$896 million at March 31, 2022, reflecting increases in operating expenses accruals due to higher salaries, benefits, and supplies and services of \$45 million, capital project expenditure accruals of \$36 million, and bond interest payable due to the 2021A bond issue of \$14 million.

Long-term Bonds Payable, Subject to Remarketing and Bonds, Notes and Lease Payables

University debt, in the form of bonds, notes, and capital lease obligations, increased \$644 million, to \$3.72 billion at March 31, 2022. On September 30, 2022, the university closed on \$600,000 in tax-exempt fixed rate General Receipts Bonds – Series 2022A. The interest rate coupons on the Series 2022A bonds range from 2.50% to 5.00%. The proceeds of the bonds will be used to fund the construction of the Wexner Medical Center’s new Inpatient Hospital, scheduled to open in 2026.

Pension and Other post-employment benefit (OPEB) plans

The university participates in two multi-employer cost-sharing retirement systems, OPERS and STRS-Ohio, and is required to record assets, liabilities, and deferred inflows and outflows for its proportionate share in these retirement systems. Pension liability decreased \$346 million to \$2,679 million due to net decreases from realized return on plan investments. Pension deferred outflows decreased \$106 million and pension deferred inflows increased \$195 million reflecting changes in projected and actual investment returns. OPEB liability decreased \$1,437 million and OPEB asset increased \$197 million due to changes in OPERS benefit terms and an increase in the discount rate. OPEB deferred outflows decreased \$136 million and OPEB deferred inflows increased \$377 primarily due to amortization of prior year deferrals for OPERS changes in assumptions and expected vs. actual experience.

Other Noncurrent Assets and Other Noncurrent Liabilities

The university maintains two supplemental 415(m) retirement plans. The university sets aside assets for the plans, which are invested primarily in mutual funds. These assets total \$191 million and are reported as Other noncurrent assets and Other noncurrent liabilities.

Cash Flows

University cash and cash equivalents increased \$187 million in the first three quarters of fiscal year 2022. Net cash used in operating activities was \$217 million, compared to \$243 million in the first three quarters of the prior fiscal year. The decrease relates primarily to increases in receipts for student tuition and sales from healthcare and auxiliary operations, offset by payments to vendors and employees. Net cash flows from noncapital financing activities increased \$807 million for the nine months ending March 31, 2022, compared to \$685 million for the prior year due primarily to increases in non-exchange grants, Federal COVID-19 assistance, current use gifts, and additions to endowments. Cash flows from capital financing activities increased \$150 million for the nine months of fiscal year 2022 due primarily to the issuance of the 2022A bonds of \$719 million, and increases in capital gifts and appropriations of \$59 million, offset by payments for capital assets of \$811 million and capital debt of \$128 million.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
March 31, 2022 and March 31, 2021
(in thousands)

	<u>As of March</u> <u>2022</u>	<u>As of March</u> <u>2021</u>	<u>Increase/(Decrease)</u>	
			<u>Dollars</u>	<u>%</u>
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 622,757	\$ 1,632,728	\$ (1,009,971)	-61.9%
Temporary investments	2,910,469	2,132,007	778,462	36.5%
Accounts receivable, net	906,121	739,091	167,030	22.6%
Notes receivable - current portion, net	25,231	25,655	(424)	-1.7%
Pledges receivable - current portion, net	63,799	79,240	(15,441)	-19.5%
Accrued interest receivable	20,283	18,253	2,030	11.1%
Inventories, prepaid expenses, and other assets	229,509	271,537	(42,028)	-15.5%
Investments held under securities lending program	80,479	9,601	70,878	738.2%
Total Current Assets	<u>4,858,648</u>	<u>4,908,112</u>	<u>(49,464)</u>	<u>-1.0%</u>
Noncurrent Assets:				
Restricted cash	778,497	324,095	454,402	140.2%
Notes receivable, net	30,311	52,911	(22,600)	-42.7%
Pledges receivable, net	97,441	59,248	38,193	64.5%
Net other post-employment benefit asset	275,182	77,901	197,281	253.2%
Long-term investment pool	7,234,193	6,361,117	873,076	13.7%
Other long-term investments	328,360	305,170	23,190	7.6%
Other noncurrent assets	204,133	-	204,133	100.0%
Capital assets, net	6,959,839	6,288,077	671,762	10.7%
Total Noncurrent Assets	<u>15,907,956</u>	<u>13,468,519</u>	<u>2,439,437</u>	<u>18.1%</u>
Total Assets	<u>20,766,604</u>	<u>18,376,631</u>	<u>2,389,973</u>	<u>13.0%</u>
Deferred Outflows:				
Pension	339,679	445,769	(106,090)	-23.8%
Other post-employment benefits	104,182	239,629	(135,447)	-56.5%
Other deferred outflows	22,814	30,816	(8,002)	-26.0%
Total Assets and Deferred Outflows	<u>\$ 21,233,279</u>	<u>\$ 19,092,845</u>	<u>\$ 2,140,434</u>	<u>11.2%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 895,718	\$ 800,655	\$ 95,063	11.9%
Medicare advance payment program	134,730	287,500	(152,770)	-53.1%
Deposits and advance payments for goods and services	599,427	457,222	142,205	31.1%
Current portion of bonds, notes and leases payable	64,201	58,932	5,269	8.9%
Long-term bonds payable, subject to remarketing	289,970	317,715	(27,745)	-8.7%
Liability under securities lending program	80,479	9,601	70,878	738.2%
Other current liabilities	124,040	109,232	14,808	13.6%
Total Current Liabilities	<u>2,188,565</u>	<u>2,040,857</u>	<u>147,708</u>	<u>7.2%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	3,367,730	2,701,648	666,082	24.7%
Concessionaire payable	214,610	128,685	85,925	66.8%
Net pension liability	2,679,333	3,025,029	(345,696)	-11.4%
Net other post-employment benefit liability	22,683	1,459,572	(1,436,889)	-98.4%
Compensated absences	219,161	218,587	574	0.3%
Self-insurance accruals	81,768	87,928	(6,160)	-7.0%
Amounts due to third-party payors - Health System	89,523	60,516	29,007	47.9%
Irrevocable split-interest agreements	36,952	36,070	882	2.4%
Refundable advances for Federal Perkins loans	26,005	29,695	(3,690)	-12.4%
Advance from concessionaire	964,613	988,245	(23,632)	-2.4%
Other noncurrent liabilities	295,030	116,816	178,214	152.6%
Total Noncurrent Liabilities	<u>7,997,408</u>	<u>8,852,791</u>	<u>(855,383)</u>	<u>-9.7%</u>
Total Liabilities	<u>10,186,000</u>	<u>10,893,648</u>	<u>(707,648)</u>	<u>-6.5%</u>
Deferred Inflows:				
Parking service concession arrangement	390,060	399,691	(9,631)	-2.4%
Pension	682,490	487,347	195,143	40.0%
Other post-employment benefits	675,698	298,463	377,235	126.4%
Other deferred inflows	47,667	28,519	19,148	67.1%
Total Deferred Inflows	<u>1,795,915</u>	<u>1,214,020</u>	<u>581,895</u>	<u>47.9%</u>
Net Position:				
Net investment in capital assets	4,225,635	3,449,013	776,622	22.5%
Restricted:				
Nonexpendable	1,838,279	2,023,024	(184,745)	-9.1%
Expendable	2,140,175	1,920,457	219,718	11.4%
Unrestricted	1,047,303	(407,317)	1,454,620	157.1%
Total Net Position	<u>9,251,392</u>	<u>6,985,177</u>	<u>2,266,215</u>	<u>32.4%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 21,233,280</u>	<u>\$ 19,092,845</u>	<u>\$ 2,140,435</u>	<u>11.2%</u>

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - UNAUDITED
March 31, 2022 and March 31, 2021
(in thousands)

	March	March	Increase/(Decrease)	
	2022	2021	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 812,037	\$ 713,278	\$ 98,759	13.8%
Federal grants and contracts	320,472	298,775	21,697	7.3%
State grants and contracts	54,705	52,045	2,660	5.1%
Local grants and contracts	24,935	19,764	5,171	26.2%
Private grants and contracts	223,510	221,008	2,502	1.1%
Sales and services of educational departments	139,295	120,860	18,435	15.3%
Sales and services of auxiliary enterprises	269,074	128,256	140,818	109.8%
Sales and services of the OSU Health System, net	3,054,754	2,824,243	230,511	8.2%
Sales and services of OSU Physicians, Inc., net	525,503	474,834	50,669	10.7%
Other operating revenues	47,472	27,816	19,656	70.7%
Total Operating Revenues	5,471,757	4,880,879	590,878	12.1%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	857,425	782,296	75,129	9.6%
Separately budgeted research	414,008	376,939	37,069	9.8%
Public service	122,233	110,874	11,359	10.2%
Academic support	201,681	183,815	17,866	9.7%
Student services	73,997	59,011	14,986	25.4%
Institutional support	292,147	231,925	60,222	26.0%
Operation and maintenance of plant	108,133	105,150	2,983	2.8%
Scholarships and fellowships	134,464	110,588	23,876	21.6%
Auxiliary enterprises	274,482	207,703	66,779	32.2%
OSU Health System	2,661,891	2,421,092	240,799	9.9%
OSU Physicians, Inc.	512,294	453,029	59,265	13.1%
Depreciation	378,640	337,653	40,987	12.1%
Total Operating Expenses	6,031,395	5,380,075	651,320	12.1%
Operating Loss	(559,638)	(499,196)	(60,442)	12.1%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	369,590	358,152	11,438	3.2%
Federal subsidies for Build America Bonds interest	8,794	8,192	602	7.3%
Federal non-exchange grants	64,434	65,765	(1,331)	-2.0%
Federal COVID-19 assistance programs	126,764	92,681	34,083	36.8%
State non-exchange grants	30,369	13,205	17,164	130.0%
Gifts	143,552	88,366	55,186	62.5%
Net investment income	134,348	1,160,515	(1,026,167)	-88.4%
Interest expense on plant debt	(114,658)	(92,952)	(21,706)	23.4%
Other non-operating revenues (expenses)	7,568	(10,163)	17,731	-174.5%
Net Non-operating Revenues	770,761	1,683,761	(913,000)	-54.2%
Income before changes in net position	211,123	1,184,565	(973,442)	-82.2%
Changes in Net Position				
State capital appropriations	34,241	42,981	(8,740)	-20.3%
Private capital gifts	55,137	32,051	23,086	72.0%
Additions to permanent endowments	65,473	42,834	22,639	52.9%
Total Changes in Net Position	154,851	117,866	36,985	31.4%
Increase in Net Position	365,974	1,302,431	(936,457)	-71.9%
Net Position - Beginning of Year	8,885,418	5,682,746		
Net Position - End of Period	\$ <u>9,251,392</u>	\$ <u>6,985,177</u>		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
Years Ended March 31, 2022 and March 31, 2021
(in thousands)

	March 2022	March 2021	Increase (Decrease)	
			Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 760,381	\$ 660,339	\$ 100,042	15.2%
Grant and contract receipts	598,638	549,247	49,391	9.0%
Receipts for sales and services	4,036,421	3,606,759	429,662	11.9%
Payments to or on behalf of employees	(2,640,390)	(2,471,118)	(169,272)	6.9%
University employee benefit payments	(648,796)	(632,291)	(16,505)	2.6%
Payments to vendors for supplies and services	(2,264,060)	(1,865,123)	(398,937)	21.4%
Payments to students and fellows	(124,508)	(103,131)	(21,377)	20.7%
Student loans issued	(2,797)	(2,437)	(360)	14.8%
Student loans collected	8,189	6,129	2,060	33.6%
Student loan interest and fees collected	1,169	1,441	(272)	-18.9%
Other receipts	59,288	7,169	52,119	727.0%
Net cash used by operating activities	<u>(216,465)</u>	<u>(243,016)</u>	<u>26,551</u>	<u>-10.9%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	366,427	358,152	8,275	2.3%
Non-exchange grant receipts	94,803	78,970	15,833	20.0%
Federal COVID-19 assistance programs	126,764	92,681	34,083	36.8%
Gift receipts for current use	144,910	107,234	37,676	35.1%
Additions to permanent endowments	65,473	42,834	22,639	52.9%
Drawdowns of federal direct loan proceeds	291,968	281,679	10,289	3.7%
Disbursements of federal direct loans to students	(284,543)	(281,289)	(3,254)	1.2%
Amounts received for annuity and life income funds	2,268	5,742	(3,474)	-60.5%
Amounts paid to annuitants and life beneficiaries	(1,644)	(1,594)	(50)	3.1%
Agency funds receipts	540	476	64	13.4%
Net cash provided by noncapital financing activities	<u>806,966</u>	<u>684,885</u>	<u>122,081</u>	<u>17.8%</u>
Cash Flows from Capital Financing Activities:				
Proceeds from capital debt and leases	718,763	-	718,763	100.0%
State capital appropriations	8,181	43,487	(35,306)	-81.2%
Gift receipts for capital projects	51,278	13,183	38,095	289.0%
Payments for purchase or construction of capital assets	(810,931)	(654,209)	(156,722)	24.0%
Principal payments on capital debt and leases	(55,607)	(44,850)	(10,757)	24.0%
Interest payments on capital debt and leases	(72,839)	(63,860)	(8,979)	14.1%
Federal subsidies for Build America Bonds interest	10,707	5,396	5,311	98.4%
Net cash provided (used) by capital financing activities	<u>(150,448)</u>	<u>(700,853)</u>	<u>550,405</u>	<u>78.5%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(215,066)	(328,291)	113,225	-34.5%
Proceeds from sales and maturities of long-term investments	1,710,936	3,537,787	(1,826,851)	-51.6%
Investment income	30,885	124,592	(93,707)	-75.2%
Purchases of long-term investments	(1,779,941)	(3,576,254)	1,796,313	-50.2%
Net cash used by investing activities	<u>(253,186)</u>	<u>(242,166)</u>	<u>(11,020)</u>	<u>4.6%</u>
Net Increase (Decrease) in Cash	<u>186,867</u>	<u>(501,150)</u>	<u>\$ 688,017</u>	<u>-137.3%</u>
Cash and Cash Equivalents - Beginning of Year	<u>1,214,387</u>	<u>2,432,815</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 1,401,254</u>	<u>\$ 1,931,665</u>		