



**THE OHIO STATE UNIVERSITY**

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# Annual University Financial Overview

Michael Papadakis, Senior Vice President and CFO

Audit, Finance & Investment Committee Meeting | August 19, 2021

# FY2021 Financial Overview

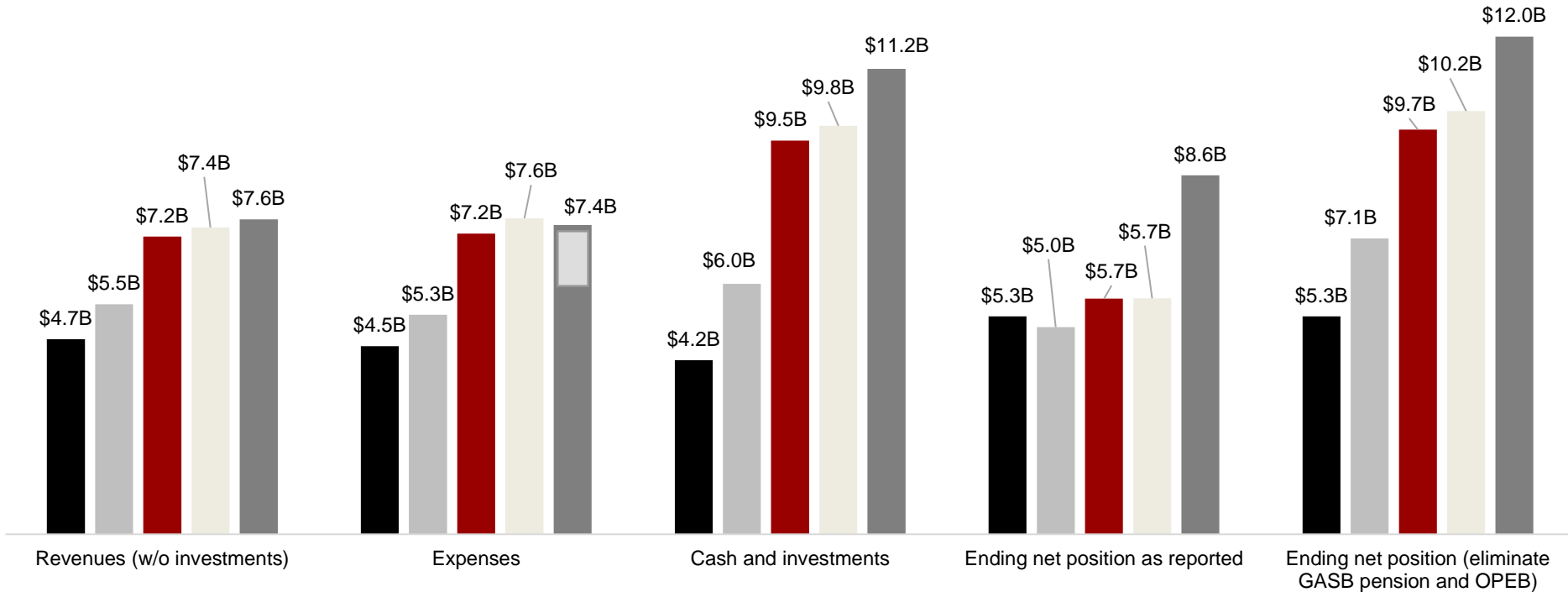
**Our overall financial position remains strong. Our size, diversity of operations, and discipline enabled us to retain fiscal strength during this unprecedented disruption.**


- Even through difficult circumstances FY21 outperformed FY20, driven primarily by strong investment performance, continued positive momentum at the Health System, and significant efficiency work at both the University and Health System.
  - Federal stimulus funds of \$164M have been allocated to offset increased University expenses related to COVID, \$40M has been awarded as additional emergency financial aid to students, and the Health System has received \$182M of Provider relief and FEMA funding.
  - Financial controls implemented, including a hiring pause and business-essential only spending, led to cost savings of over \$195M, which greatly exceeded the university goal of \$175M. These reductions helped to offset lost tuition revenue (\$78M), lost housing and dining revenues (\$85M) and reduced Athletics revenues (\$157M) resulting from the impact of COVID.
  - The Health System in FY21 saw fewer inpatient admissions with significantly higher overall acuity due in large part to COVID-19 cases. The higher acuity levels as well as an improved service mix and lower than anticipated bad debt contributed to a 9% year over year improvement to Operating Revenue per adjusted admission. Expense per adjusted admission increased only 3.5% from the prior year. Efficiency initiatives around Labor, Supplies and a reduction in discretionary spend items totaling \$103.7M through June helped offset the more acute, higher cost admissions associated with the COVID-19 pandemic.
- Investment income of \$1.544B increased by \$1.488B over FY20. FY21 return is 29.2% vs. the benchmark of 25.5%.
- Changes in post-retirement health care plans and positive investment returns within the state pension plans significantly reduced university net pension and OPEB liabilities, resulting in a \$1.2 billion reduction of expenses for FY21.
- Liquidity, while bolstered by Federal and State stimulus, remained robust throughout the pandemic and continues to exceed policy benchmarks.
- University credit ratings of AA/AA/Aa1 were affirmed in FY21 and is evidence of our overall financial strength. (Fitch upgraded rating outlook from Stable to Positive).

# Financial Metrics Demonstrate Positive Momentum

Comparison of Financial Metrics since FY11

■ FY11   ■ FY15   ■ FY19   ■ FY20   ■ FY21



 Represents expenses before the \$1.2 billion reduction in pension and OPEB expenses in FY21.

# Consolidated Balance Sheet

<b>Assets and Liabilities (\$ in millions)</b>	<b>FY21 Total</b>		<b>FY20 Total</b>		<b>FY19 Total</b>	
Cash and Cash Equivalents	\$	1,260	\$	2,433	\$	2,206
Total Investments	\$	9,945	\$	7,405	\$	7,275
Capital Assets, net	\$	6,373	\$	5,922	\$	5,438
Pension and OPEB Assets and Deferred Outflows	\$	719	\$	763	\$	1,208
Other Assets	\$	1,172	\$	1,028	\$	1,058
<b>Total Assets</b>	\$	19,469	\$	17,551	\$	17,185
Accounts Payable and Other Current Liabilities	\$	1,535	\$	1,358	\$	1,037
Debt	\$	3,276	\$	3,259	\$	3,222
Pension and OPEB Liabilities and Deferred Inflows	\$	4,060	\$	5,270	\$	5,283
Concessionaire and Other Liabilities	\$	1,954	\$	1,982	\$	1,970
<b>Total Liabilities</b>	\$	10,825	\$	11,869	\$	11,512
<b>Net Position (\$ in millions)</b>						
<b>Net Position (\$ in millions)</b>						
Ending Net Position (Eliminate Pension and OPEB)	\$	11,985	\$	10,189	\$	9,748
Ending Net Position - Pension and OPEB	\$	(3,341)	\$	(4,507)	\$	(4,075)
<b>Final Ending Net Position</b>	\$	8,644	\$	5,682	\$	5,673

# Consolidated Income Statement

<b>Total Revenue (\$ in millions)</b>	<b>2021</b>		<b>2020</b>		<b>2019</b>	
Tuition and Fees	\$	871	\$	954	\$	970
Grants and Contracts	\$	1,035	\$	1,053	\$	875
Sales and Services	\$	337	\$	450	\$	506
Health System & OSUP Sales and Services	\$	4,504	\$	4,034	\$	3,993
State Subsidies and Capital Appropriations	\$	558	\$	532	\$	535
Gifts and Additions to Permanent Endowments	\$	241	\$	299	\$	232
Other Revenues	\$	38	\$	68	\$	60
<b>Total Revenues (w/o investments)</b>	\$	7,584	\$	7,390	\$	7,171
Investment income	\$	1,657	\$	233	\$	232
<b>Total Revenues (w/ investments)</b>	\$	9,241	\$	7,623	\$	7,403

<b>Total Expenses (\$ in millions)</b>	<b>2021</b>		<b>2020</b>		<b>2019</b>	
University Education and General Expenses	\$	2,702	\$	2,713	\$	2,579
Auxiliary Sales and Services	\$	263	\$	307	\$	326
Health System & OSUP	\$	3,894	\$	3,607	\$	3,313
Depreciation	\$	475	\$	435	\$	422
Interest Expense on Plant Debt	\$	112	\$	118	\$	117
<b>Total Expenses (w/o pension and OPEB)</b>	\$	7,446	\$	7,180	\$	6,757

Net Margin	\$	1,795	\$	443	\$	646
Pension and OPEB expense	\$	(1,166)	\$	433	\$	484
<b>Total Expenses (w/ pension and OPEB)</b>	\$	6,280	\$	7,613	\$	7,241
<b>Change in Net Position</b>	\$	2,961	\$	10	\$	162



# Consolidated Cash Flow Statement

Cash Flow From: (\$ in millions)	2021		2020		2019	
Receipts from Tuition and Grants	\$	1,531	\$	1,671	\$	1,632
Receipts from Sales and Services	\$	4,739	\$	4,605	\$	4,453
Payments to or on Behalf of Employees, including benefits	\$	(4,148)	\$	(3,910)	\$	(3,656)
Payments to Suppliers	\$	(2,453)	\$	(2,159)	\$	(2,301)
Other payments	\$	(108)	\$	(114)	\$	(90)
<b>Total Operating Activities</b>	\$	(439)	\$	93	\$	38
State Share of Instruction and appropriations	\$	558	\$	533	\$	535
CARES Assistance and other non-exchange grants	\$	207	\$	246	\$	74
Gift receipts and additions to permanent endowments	\$	241	\$	246	\$	254
Payments for purchase or construction of capital assets	\$	(829)	\$	(795)	\$	(640)
Principal and interest payments on capital debt and leases	\$	(158)	\$	(190)	\$	(193)
Other receipts	\$	22	\$	23	\$	34
<b>Total Financing Activities</b>	\$	41	\$	63	\$	64
Net purchases, proceeds, and maturities from investments	\$	(968)	\$	(73)	\$	(154)
Investment income	\$	193	\$	144	\$	145
<b>Total Investing Activities</b>	\$	(775)	\$	71	\$	(9)
<b>Net change in cash</b>	\$	(1,173)	\$	227	\$	93
Beginning Cash and Cash Equivalent Balance	\$	2,433	\$	2,206	\$	2,113
<b>Ending Cash Balance</b>	\$	1,260	\$	2,433	\$	2,206

# Medical Center Consolidated Activity Summary FY21

<b>OSU-WMC Consolidated Activity Summary</b>	<b>Actual</b>	<b>Budget</b>	<b>Act-Bud Variance</b>	<b>Budget % Variance</b>	<b>Prior Year</b>	<b>Prior Year % Variance</b>
Admissions	62,916	67,355	(4,439)	-6.6%	62,352	0.9%
Patient Days	437,512	433,423	4,089	0.9%	406,140	7.7%
Surgeries	50,740	51,570	(830)	-1.6%	44,741	13.4%
Outpatient Visits	2,116,454	2,127,984	(11,530)	-0.5%	1,868,222	13.3%
Telehealth Visits (includes OSUP)	279,296	0	279,296	0.0%	190,383	0.0%
Average Length of Stay	6.94	6.46	(0.48)	-7.5%	6.50	-6.7%
Case Mix Index (CMI)	2.09	1.90	0.19	10.1%	1.92	8.7%

<b>Operations - Health System (\$ in millions)</b>	<b>Actual</b>	<b>Budget</b>	<b>Act-Bud Variance</b>	<b>Budget % Variance</b>	<b>Prior Year</b>	<b>Prior Year % Variance</b>
Total Operating Revenue	\$ 3,579	\$ 3,494	\$ 85	2.4%	\$ 3,221	11.1%
Total Operating Expense	3,113	3,078	35	1.1%	2,952	5.5%
Other	(137)	(141)	4	-2.8%	45	-
<b>Excess of Revenue over Expense</b>	<b>\$ 329</b>	<b>\$ 275</b>	<b>\$ 54</b>	<b>19.6%</b>	<b>\$ 314</b>	<b>4.8%</b>

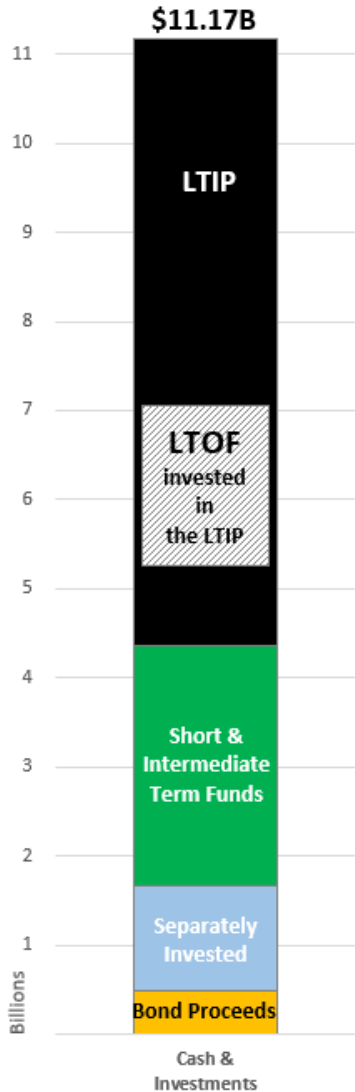
<b>Adjusted Admissions</b>	129,767	139,705	(9,938)	-7.1%	127,329	1.9%
Operating Revenue per AA	\$ 27,580	\$ 25,011	\$ 2,570	10.3%	\$ 25,298	9.0%
Operating Expense per AA	\$ 23,989	\$ 22,033	\$ (1,956)	-8.9%	\$ 23,182	-3.5%

<b>OSUP Change in Net Assets</b>	<b>\$ 13.2</b>	<b>\$ 5.5</b>	<b>\$ 7.7</b>	<b>140.0%</b>	<b>\$ 8.3</b>	<b>59.0%</b>
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# Investments



# University Total Cash and Investments (as of 6/30/2021)



<b>Long Term Investment Pool</b>		<b>\$6.81B</b>
<b>Gifted Endowments</b>	University	\$1.29B
	Foundation	\$1.30B
<b>Quasi Endowments</b>	Designated	\$2.18B
<b>Tier 3 - Long Term Operating Funds</b>	University	\$1.68B
	Health System	\$359M

<b>Short &amp; Intermediate Term Funds</b>		<b>\$2.69B</b>
<b>Tier 2</b>	Fixed Income Investments	\$1.35B
	Operating Accounts	\$182M
<b>Tier 1</b>	Bank Deposit Accounts	\$327M
	Money Market Funds	\$140M
	Ultra-Short Investments	\$690M

<b>Other Separately Invested Funds</b>		<b>\$1.18B</b>
Temporary Medicare Advance		\$252M
OSUP Cash & Investments		\$220M
Economic Development Funds		\$217M
Medical Malpractice Funds (HSI & Oval)		\$213M
Securities Lending		\$118M
Foundation Deferred Gifts & Annuities		\$56M
Other Affiliate Cash & Investments		\$42M
Real Estate		\$16M
Other		\$49M

<b>Bond Proceeds and Project Funds</b>	<b>\$482M</b>
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➤ As of the end of FY21, the university had \$11.17B in cash and investments. Its primary components include:

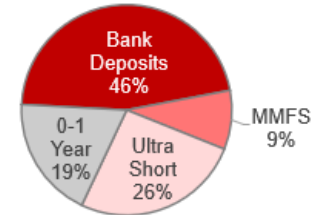
Gifted Endowments	\$2.59B	23%
Quasi Endowments (excl LTOF)	\$2.18B	20%
Long Term Operating Funds	\$2.04B	18%
Short Term Operating Funds	\$2.69B	24%
Other Separately Invested Funds	\$1.18B	11%
Bond Proceeds and Project Funds	\$482M	4%
	<b>\$11.17B</b>	

➤ Assets grew by ~\$1.4B in FY21 most notably due to appreciation in the LTIP portfolio.

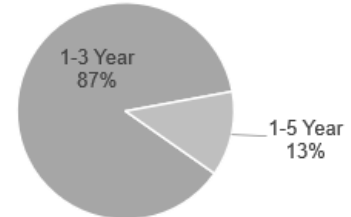
# Operating Fund Portfolio Performance Summary (as of 6/30/2021)

- The Operating Fund Portfolio exceeded benchmarks in FY21 and interest earnings are projected to increase modestly in FY22.
- COVID-19 introduced significant rate volatility in FY21. In December, interest rates reached their lowest levels in 5 years. Fiscal and monetary policy combined with inflationary pressure suggest a rising rate bias in FY22.

	MV	1 yr	3 yr	5 yr
<b>Tier 1</b> Short Term Working Capital Pool  <b>31%</b>	<b>Consolidated Yield \$1.54B</b>	<b>0.36%</b>	<b>1.34%</b>	<b>1.24%</b>
	<i>Composite Benchmark</i>	0.10%	1.37%	1.20%
	Excess Yield	0.26%	-0.03%	0.04%
<i>Investment Objective:</i> Liquidity and principal preservation.				
<i>Composition:</i> Collateralized bank deposits, AAA rated MMFs, State of Ohio local government investment pool, ultra-short comingled bond funds.				

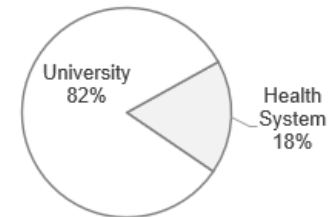


	MV	Duration	1 yr	3 yr	5 yr
<b>Tier 2</b> Intermediate Term Investment Pool  <b>28%</b>	<b>Consolidated Return \$1.34B</b>	<b>2.04</b>	<b>2.10%</b>	<b>3.77%</b>	<b>2.61%</b>
	<i>Composite Benchmark</i>	2.01	0.51%	3.05%	1.94%
	Excess Return		1.59%	0.72%	0.67%
<i>Investment Objective:</i> Return and principal preservation.					
<i>Composition:</i> A+/A1 portfolio of fixed income securities, separately custodied, and externally managed - treasuries, agencies, asset backed securities and high-grade corporate credits.					



Operating Funds (Tier 1+2) Return	\$2.90B	1.00%	2.09%	1.68%
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	MV	1 yr	3 yr	5 yr
<b>Tier 3</b> Long Term Operating Funds (LTOF) In LTIP  <b>41%</b>	<b>Consolidated Return \$2.04B</b>	<b>29.24%</b>	<b>9.74%</b>	<b>10.26%</b>
	<i>Composite Benchmark</i>	25.47%	11.99%	11.04%
	Excess Return	3.77%	-2.25%	-0.78%
Equity investments managed as a part of the endowment strategy.				

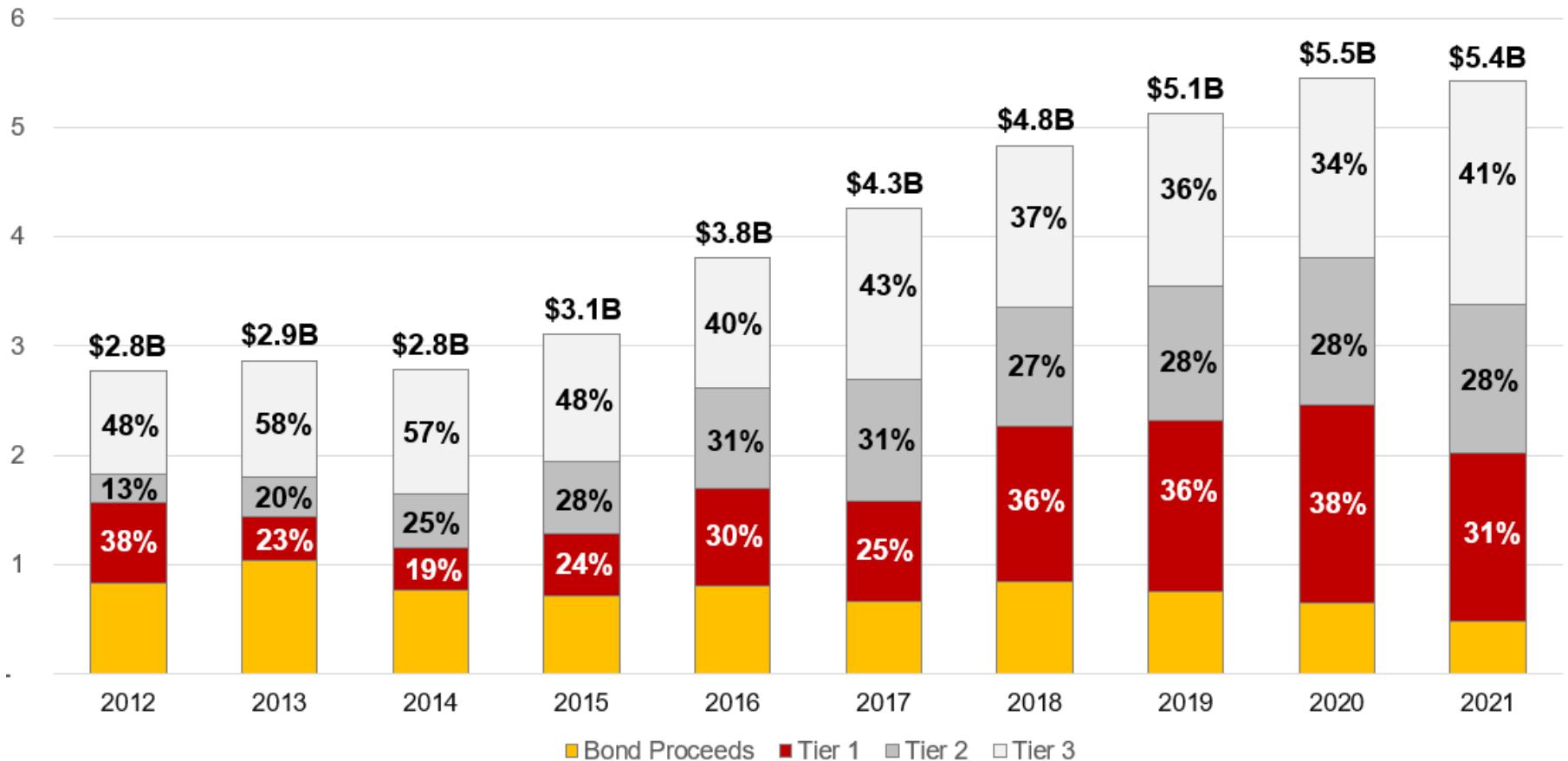


Operating Fund Portfolio (Tier 1+2+3) Return	\$4.94B	11.21%	4.72%	4.64%
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Bond Proceeds & Project Funds	\$0.5B	0.42%	2.17%	1.67%
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# University Operating Funds (as of 6/30/2021)

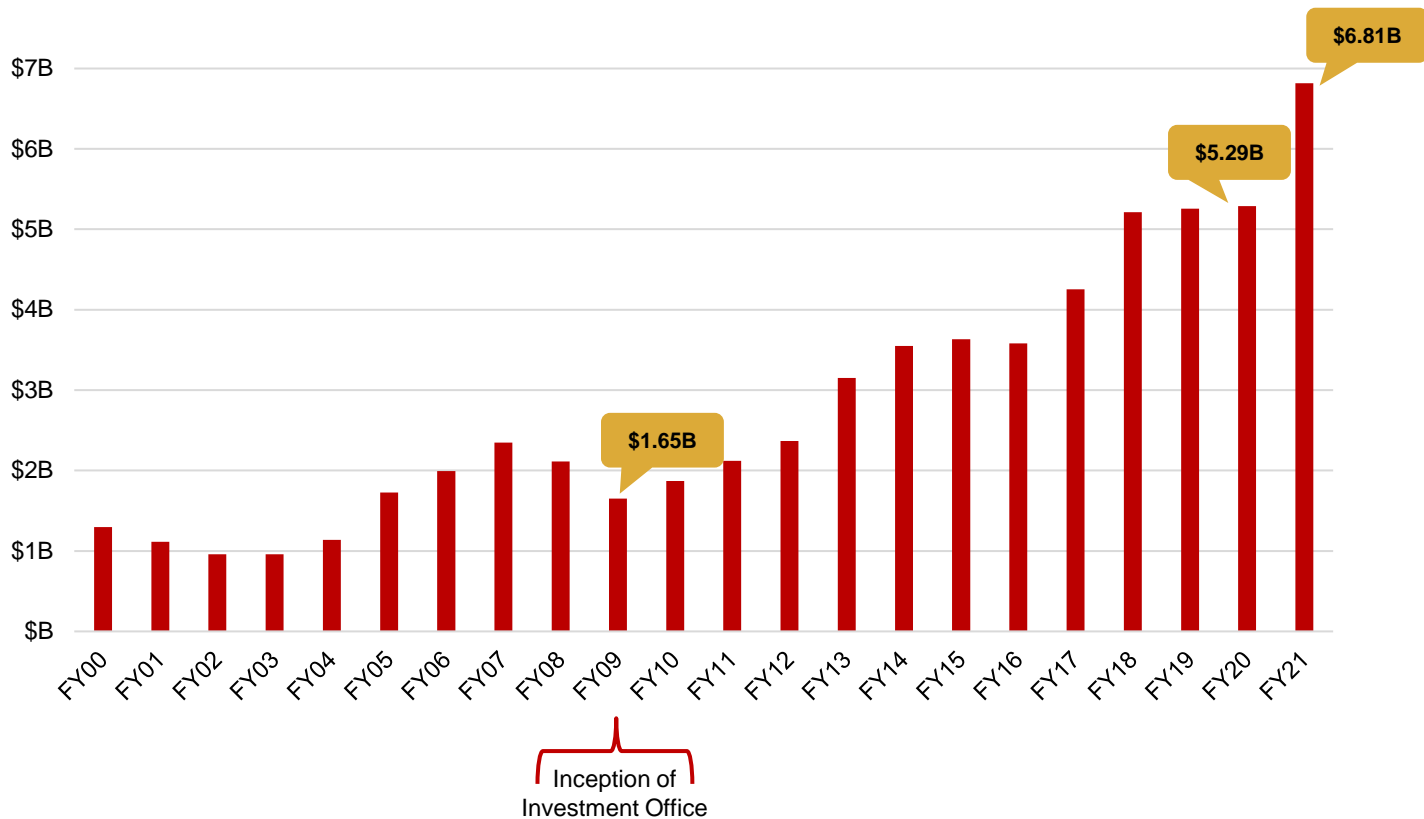
- The university's Operating Fund Portfolio decreased by ~\$100M year over year as a result of increased capital spending partially offset by strong appreciation in the long-term operating funds held in the endowment.
- Operating fund's future growth will be muted by ongoing increased capital spending.



# LTIP Market Value

- For the full year of FY2021, the LTIP increased in value from \$5.29B to \$6.81B and generated \$1.54B in investment income.

**Market Value**

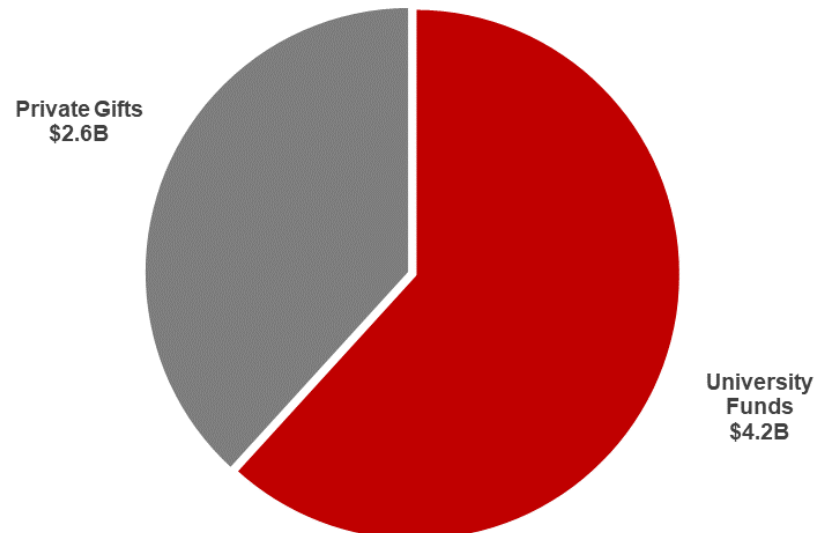


# LTIP Summary and Overview

## Performance

	Qtr	1 Year	3 Years	5 Years	10 Years	7/09-6/21
Global Equities	9.3%	41.0%	12.7%	13.8%		
MSCI ACWI	7.4%	39.3%	14.7%	14.9%		
Global Fixed Income	1.9%	7.7%	5.1%	4.1%		
Barclays US Agg.	1.8%	-0.3%	5.3%	3.0%		
Real Assets	4.2%	11.0%	0.7%	4.8%		
CPI+5%	3.6%	10.1%	7.4%	7.3%		
Total LTIP	7.1%	29.2%	9.7%	10.3%	7.6%	9.0%
Policy Benchmark	5.6%	25.5%	12.0%	11.0%	8.2%	8.8%

## LTIP Fund Composition

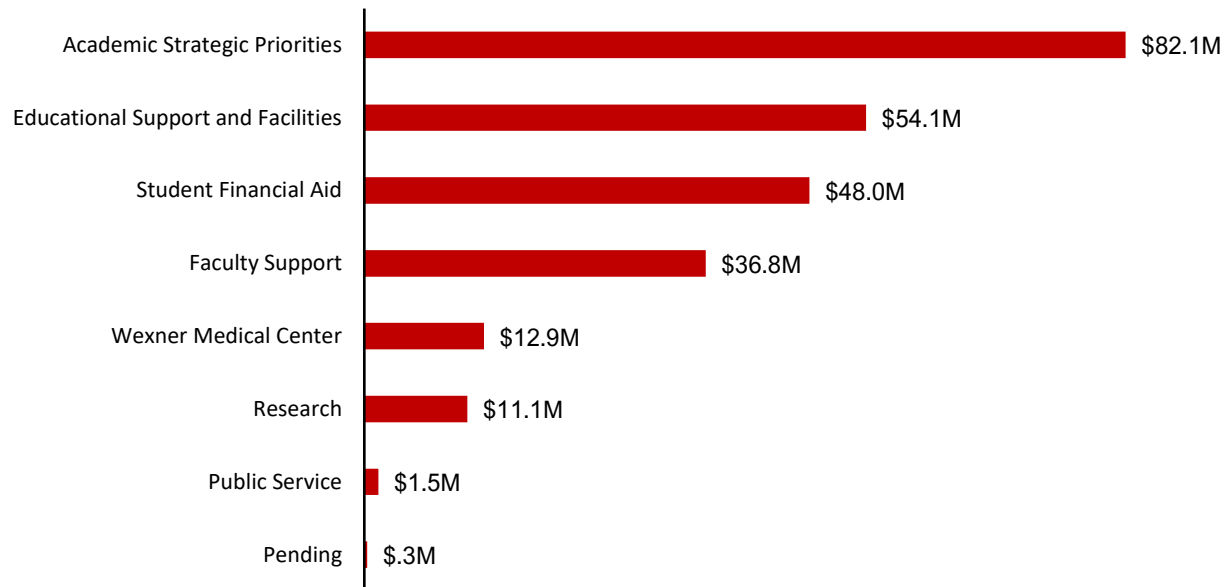


Note: Results reflect most recently reported illiquid marks, resulting in a lag of up to one quarter.

# Distributions from the LTIP

- **Annual payments are determined based on a seven-year average.**
  - 4.5% distributed on an annual basis.
  - Policy provides steady, reliable funding for campus priorities.

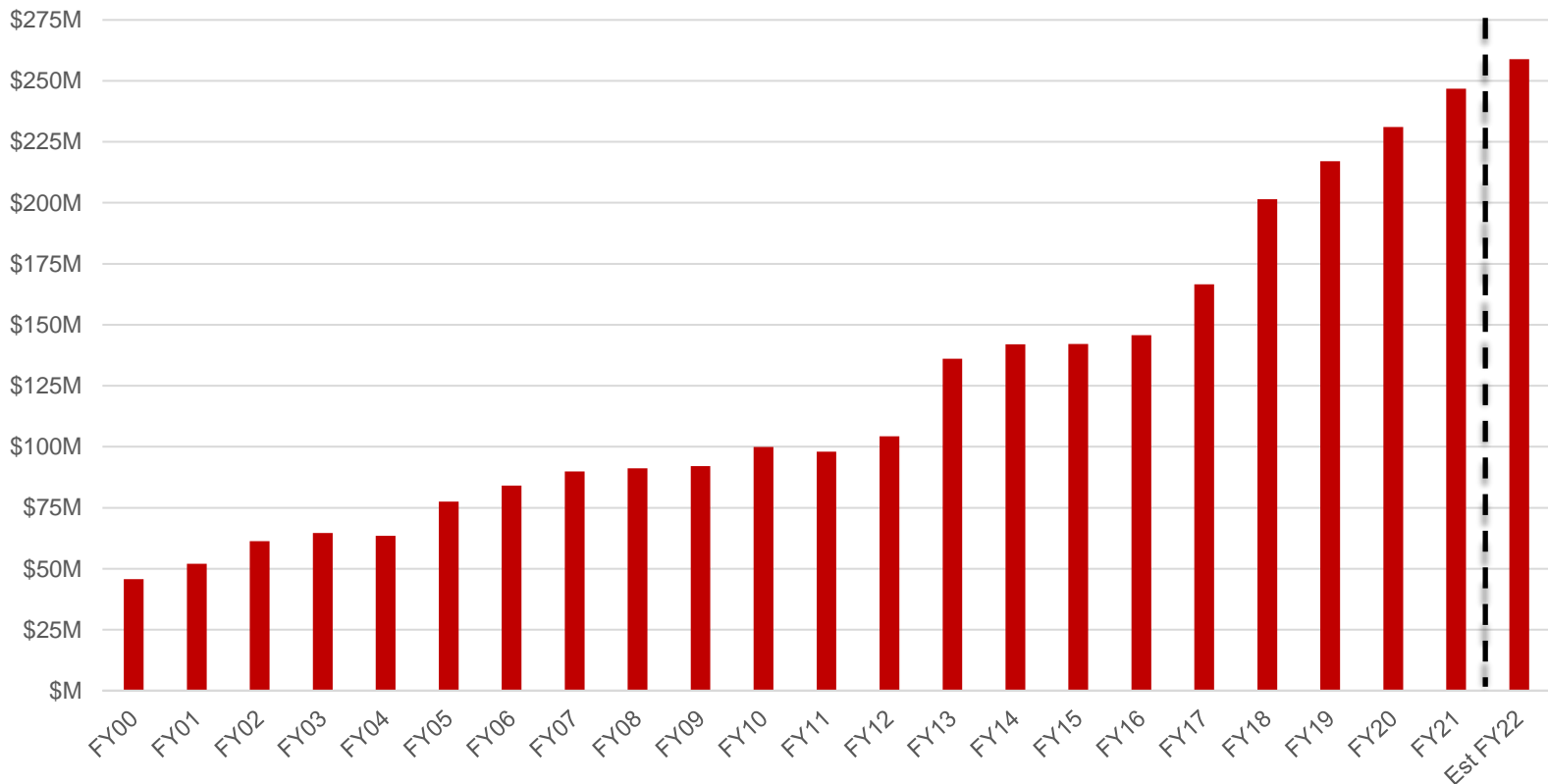
## FY21 Distributions: \$246.8M



# LTIP Historical and Projected Distributions

- Since FY2000, annual distributions from the LTIP to support university priorities have grown more than five-fold from \$47M to approximately \$260M.
- Based on 2021 LTIP performance, FY2022 distribution is estimated to be \$259M.

## Annual Distributions



Efficiency



# Efficiency & New Resource Generation Progress Report

## FY 2021 Operational Efficiency Progress Report

Efficiency Savings	FY21 Target	FY21 Actual	Progress to Goal	YTD Status
University	\$175M	\$194.8M	111%	
Wexner Medical Center	\$77.6M	\$103.7M	134%	
Capital Efficiencies	\$45M	\$44.7M	99%	

### Annual Impact – Operational Efficiency

	FY15	FY16	FY17	FY18	FY19	FY20	FY21
University Efficiencies	\$5.2 M	\$20.2 M	\$33.4 M	\$55.3 M	\$53.0 M	\$52.7 M	\$194.8 M
Wexner Medical Center		\$18.1 M	\$40.2 M	\$23.1 M	\$23.7 M	\$45.3 M	\$103.7 M
Capital Efficiencies	NA	NA	NA	\$33.8 M	\$54.1M	\$11.1 M	\$44.7 M

### Annual Impact – New Resource Generation

	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Affinity Partnerships	NA	\$31.8 M	\$1.0 M	\$1.0 M	\$7.3 M	\$1.3 M	\$15.8 M
Non-Core Asset Review	NA	NA	NA	\$1,095.8 M	\$34.8 M	\$35.6 M	\$36.5 M

### Annual Impact – Strategic Procurement

	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Strategic Procurement	\$51.3 M	\$55.7 M	\$58.1 M	\$61.9 M	\$64.0 M	\$57.7 M	\$46.3 M

Conclusion

# Financial State of the University

- University's stability and fiscal strength provides resiliency during times of disruption.
- FY21 outperformed FY20, driven primarily by strong investment performance, continued positive momentum at the Health System and significant efficiency work at both the University and Health System.
- Administrative efficiencies enabled us to re-direct funds to our core mission of access, affordability, academic excellence and patient care during an uncertain landscape.
- Changes in post-retirement health care plans and positive investment returns within the state pension plans significantly reduced university net pension and OPEB liabilities, resulting in a \$1.2 billion reduction in expenses for FY21.
- University credit ratings of AA/AA/Aa1 were affirmed in FY21 and is evidence of financial strength. (Fitch upgraded rating outlook from Stable to Positive).