

**THE OHIO STATE UNIVERSITY BOARD OF TRUSTEES  
AUDIT, COMPLIANCE & FINANCE COMMITTEE**

**TOPIC:** Fiscal Year 2020 Interim Financial Report - March 31, 2020

**CONTEXT:** The purpose of this report is to provide an update of financial results for the third quarter of fiscal year 2020.

**REQUESTED OF THE AUDIT, COMPLIANCE & FINANCE COMMITTEE:** No vote required; for information only

**FINANCIAL SUMMARY**

The first three quarters of fiscal year 2020, resulted in an overall decrease in net position of \$56 million. The main drivers for decreases in net position are net operating loss of \$435 and net investment loss of \$212 million, offset by non-operating revenues and changes in net position of \$591 million. Other activities for the first three quarters of fiscal year 2020 impacting our financial position include:

**Revenues**

*Student tuition and fees, net* - increased \$28 million, to \$823 million or 3.6% over the same period of fiscal year 2019, due primarily to an increase in gross tuition of \$39 million, offset by \$11 million increase in scholarship allowances. The increase in gross tuition is due primarily to increases in undergraduate instructional fees of \$11, undergraduate non-resident fees of \$10 million, graduate and professional instructional fees of \$10 million, and graduate and professional nonresident fees of \$8 million. Total enrollment is nearly flat to both budget and compared to fiscal year 2019. The increase in scholarship allowance reflects budgeted increases in undergraduate student financial aid.

*Grants and contracts* - increased \$28 million, or 4.5%, to \$665 million, due primarily to increases in federal grants of \$17 million, private grants of \$13 million, non-exchange federal and state grants of \$5 million, and local grants of \$1 million, offset by decreases in state grants of \$8 million. Grants managed by the Office of Sponsored Programs increased \$12 million. Research dollars awarded, which can be considered a leading indicator of the state of the research enterprise, are up 14% overall compared to this time last year, including a 10% increase in federal awarded dollars. To date, awards from our two top funders, the National Institutes of Health (NIH) and the National Science Foundation (NSF) are up by 12% and 38% over last year, respectively.

*State appropriations* - increased \$2 million primarily due to increases in state share of instruction and line-item appropriations of \$9 million, offset by decreases in state capital appropriations of \$7 million.

*Gifts* - increased \$22 million over prior year due primarily to increases in current use gifts of \$12 million, permanent endowment gifts of \$9 million, and capital gifts of \$1 million.

*Sales and services of auxiliary enterprises* - decreased \$6 million due primarily to decreases in Student Life housing and dining revenues of \$9 million, Business Advancement (Schottenstein Center and Blackwell) of \$4 million, offset by increases in Athletics revenues from sponsorships, TV rights, and football ticket revenues of \$7.

*Sales and services of the OSU Health System and OSU Physicians, Inc* - increased \$194 million, or 6.7%, to \$3,100 million. The Health System accounted for \$147 million of the increase. Outpatient visits year to date increased 4.5% compared to budget and 8.2% above prior year. Total surgeries year to date increased 3.0% above budget and 5.9% above prior year.

**Expenses**

*University* - expenses of \$2,374 million for the first three quarters of fiscal year 2020 increased \$102 million, or 4.5%, compared to the same period of fiscal year 2019 primarily due to salary increases of \$68 million, benefit increases of \$10 million, depreciation increase of \$14 million, supplies and services increase of \$5 million, and student aid increase of \$5 million. Salary increases are due to a 2.5% merit pool and new hires in certain areas due to strategic investments in faculty and staff.

*OSU Health System and OSU Physicians* - expenses of \$2,750 million increased \$278 million, or 11.2%, primarily due to increases in operating expenses driven by increased patient volumes as well as higher cost of drugs of \$56 million or 14.3%.

*Auxiliary* - expenses of \$273 million for the first three quarters of fiscal year 2020 increased \$5 million, or 2.0%, compared to the same period of fiscal year 2019 primarily due to increases in Athletics of \$3 million and Student Life housing and dining of \$2 million.

### Cash and Investments

Total university cash and investments decreased \$343 million, to \$9,188 million at March 31, 2020, compared to the same period of last year. Total cash and temporary investments decreased \$105 million compared to March 31, 2019 primarily due to higher payments to vendors and employees. Gifted endowment and long-term investments decreased \$238 million primarily due to decreased market values compared to March 31, 2019.

### Long-Term Investment Pool

For the nine months ended March 31, 2020, the fair value of the university's Long-Term Investment Pool (LTIP) decreased \$381 million to \$4,876 million.

	2020	2019
Fair Value at June 30	\$ 5,256,759	\$ 5,211,434
Net principal additions	129,417	131,224
Change in fair value	(372,081)	(5,230)
Income earned	90,032	78,621
Distributions	(174,979)	(164,506)
Expenses	(53,029)	(56,718)
Fair Value at March 31	<u>\$ 4,876,119</u>	<u>\$ 5,194,825</u>

Net principal additions include new endowment gifts (\$45 million), reinvestment of unused endowment distributions (\$3 million), and other net transfers of University monies (\$81 million). 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 at March 31, 2020. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$38 million), University Development related expenses (\$14 million) and other administrative related expenses (\$1 million).

*LTIP Investment Returns* - for the nine months ended March 31, 2020, the LTIP earned a net of investment fee return of -6.16% versus a Policy Benchmark of -7.52%, resulting in outperformance of 1.36%. During that period, our Global Fixed Income returned 4.05%, followed by Real Assets at 1.72% and Global Equities at -11.20%.

*Temporary Investments* - For the nine months ended March 31, 2020 (FYTD) the Intermediate Investments earned a return of 0.81% (+7.9 million) underperforming the BofA ML 1-3 Yr US Gov't/Credit benchmark (+2.93%) by 2.12%. Short-Term Investments earned 0.51% (+\$3.1 million) underperforming the 90 Day T-Bill benchmark (+1.24%) by 0.73%.

### Statement of Net Position

Other significant changes on the Consolidated Statement of Net Position for balances as of March 31, 2020, compared to March 31, 2019, includes increases of net Pension and Other post-employment benefit assets of \$489 million and liabilities of \$972 million for changes in benefit plan assets and liabilities held by OPERS and STRS and increased investments in property, plant, and equipment of \$274 million, net of depreciation.

### Cash Flows

Cash used by operating activities was \$94 million through the first three quarters of fiscal year 2020, compared with net cash provided by operating activities of \$171 million for the same period in fiscal year 2019. The decrease in operating cash flows is due primarily to increased payments to vendors and employees outpacing receipts for sales and services.

Cash provided by noncapital financing activities was \$581 million through the first three quarters of fiscal year 2020, compared with \$595 million for the same period in fiscal year 2019. The decreases are primarily due to timing of state

line item appropriations receipts and drawdowns of federal direct loan proceeds, offset by increases in current use gifts and additions to permanent endowments.

Net cash flows used by capital financing activities were \$528 million through nine months ending March 31, 2020, primarily for payments on the construction of capital assets of \$486 million and net payments for debt service of \$97 million, offset by receipt of state capital appropriations and gifts of \$55 million. Capital expenditures consist of \$240 million for University academic, infrastructure, and auxiliary projects, \$201 million for Health System projects and equipment expenditures, and University equipment purchases of \$45 million.

**THE OHIO STATE UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED**  
**March 31, 2020 and March 31, 2019**

	<u>As of March 2020</u>	<u>As of March 2019</u>	<u>Increase/Decrease Dollars</u>	<u>%</u>
<b>ASSETS:</b>				
Current Assets:				
Cash and cash equivalents	\$ 1,786,928	\$ 1,869,041	\$ (82,113)	-4.4%
Temporary investments	1,777,345	1,754,042	23,303	1.3%
Accounts receivable, net	772,554	740,233	32,321	4.4%
Notes receivable - current portion, net	25,317	25,317	-	0.0%
Pledges receivable - current portion, net	34,715	29,524	5,191	17.6%
Accrued interest receivable	18,424	19,809	(1,385)	-7.0%
Inventories and prepaid expenses	203,616	189,130	14,486	7.7%
Investments held under securities lending program	10,714	35,509	(24,795)	-69.8%
<b>Total Current Assets</b>	<u>4,629,613</u>	<u>4,662,605</u>	<u>(32,992)</u>	<u>-0.7%</u>
Noncurrent Assets:				
Restricted cash	449,106	495,562	(46,456)	-9.4%
Notes receivable, net	53,261	44,017	9,244	21.0%
Pledges receivable, net	64,151	70,887	(6,736)	-9.5%
Net other post-employment benefit asset	74,520	-	74,520	100.0%
Long-term investment pool	4,876,119	5,194,825	(318,706)	-6.1%
Other long-term investments	298,957	218,183	80,774	37.0%
Capital assets, net	5,590,945	5,316,660	274,285	5.2%
<b>Total Noncurrent Assets</b>	<u>11,407,059</u>	<u>11,340,134</u>	<u>66,925</u>	<u>0.6%</u>
<b>Total Assets</b>	<u>16,036,672</u>	<u>16,002,739</u>	<u>33,933</u>	<u>0.2%</u>
Deferred Outflows:				
Pension	1,017,388	631,651	385,737	61.1%
Other post-employment benefits	116,173	87,915	28,258	32.1%
Other deferred outflows	21,551	20,853	698	3.3%
<b>Total Assets and Deferred Outflows</b>	<u>\$ 17,191,784</u>	<u>\$ 16,743,158</u>	<u>\$ 420,368</u>	<u>2.7%</u>
<b>LIABILITIES AND NET POSITION:</b>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 703,738	\$ 710,217	\$ (6,479)	-0.9%
Deposits and advance payments for goods and services	402,884	502,959	(100,075)	-19.9%
Current portion of bonds, notes and leases payable	44,969	53,551	(8,582)	-16.0%
Long-term bonds payable, subject to remarketing	574,675	588,360	(13,685)	-2.3%
Liability under securities lending program	10,714	35,509	(24,795)	-69.8%
Other current liabilities	48,716	78,222	(29,506)	-37.7%
<b>Total Current Liabilities</b>	<u>1,785,696</u>	<u>1,968,818</u>	<u>(183,122)</u>	<u>-9.3%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	2,520,653	2,560,142	(39,489)	-1.5%
Concessionaire payable	37,208	9,925	27,283	274.9%
Net pension liability	3,715,195	2,548,245	1,166,950	45.8%
Net other post-employment benefit liability	1,339,444	1,249,674	89,770	7.2%
Compensated absences	182,805	175,195	7,610	4.3%
Self-insurance accruals	81,323	69,644	11,679	16.8%
Amounts due to third-party payors - Health System	65,246	61,995	3,251	5.2%
Irrevocable split-interest agreements	31,355	29,265	2,090	7.1%
Refundable advances for Federal Perkins loans	33,478	32,638	840	2.6%
Advance from concessionaire	1,008,216	1,030,002	(21,786)	-2.1%
Other noncurrent liabilities	123,364	92,246	31,118	33.7%
<b>Total Noncurrent Liabilities</b>	<u>9,138,287</u>	<u>7,858,971</u>	<u>1,279,316</u>	<u>16.3%</u>
<b>Total Liabilities</b>	<u>10,923,983</u>	<u>9,827,789</u>	<u>1,096,194</u>	<u>11.2%</u>
Deferred Inflows:				
Parking service concession arrangement	409,322	418,953	(9,631)	-2.3%
Pension	110,003	411,809	(301,806)	-73.3%
Other post-employment benefits	117,982	100,511	17,471	17.4%
Other deferred inflows	32,376	33,627	(1,251)	-3.7%
<b>Total Deferred Inflows</b>	<u>669,683</u>	<u>964,900</u>	<u>(295,217)</u>	<u>-30.6%</u>
Net Position:				
Net investment in capital assets	3,009,341	2,710,315	299,026	11.0%
Restricted:				
Nonexpendable	1,097,387	1,825,812	(728,425)	-39.9%
Expendable	1,113,397	1,176,342	(62,945)	-5.4%
Unrestricted	377,993	238,000	139,993	58.8%
<b>Total Net Position</b>	<u>5,598,118</u>	<u>5,950,469</u>	<u>(352,351)</u>	<u>-5.9%</u>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<u>\$ 17,191,784</u>	<u>\$ 16,743,158</u>	<u>\$ 448,626</u>	<u>2.7%</u>

**THE OHIO STATE UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION - UNAUDITED**  
**Comparative Year-To-Date**  
**March 31, 2020 and March 31, 2019**

	March	March	Increase/Decrease	
	2020	2019	Dollars	%
<b>Operating Revenues:</b>				
Student tuition and fees, net	\$ 822,562	\$ 794,189	\$ 28,373	3.6%
Federal grants and contracts	289,757	272,423	17,334	6.4%
State grants and contracts	56,959	64,926	(7,967)	-12.3%
Local grants and contracts	20,458	19,322	1,136	5.9%
Private grants and contracts	221,415	208,764	12,651	6.1%
Sales and services of educational departments	130,631	128,640	1,991	1.5%
Sales and services of auxiliary enterprises	287,127	292,935	(5,808)	-2.0%
Sales and services of the OSU Health System, net	2,643,904	2,496,410	147,494	5.9%
Sales and services of OSU Physicians, Inc., net	456,120	409,426	46,694	11.4%
Other operating revenues	33,929	31,014	2,915	9.4%
<b>Total Operating Revenues</b>	<b>4,962,862</b>	<b>4,718,049</b>	<b>244,813</b>	<b>5.2%</b>
<b>Operating Expenses:</b>				
<b>Educational and General:</b>				
Instruction and departmental research	830,722	788,241	42,481	5.4%
Separately budgeted research	397,183	385,810	11,373	2.9%
Public service	141,720	139,985	1,735	1.2%
Academic support	181,739	168,028	13,711	8.2%
Student services	70,564	69,588	976	1.4%
Institutional support	219,145	207,203	11,942	5.8%
Operation and maintenance of plant	103,644	103,505	139	0.1%
Scholarships and fellowships	114,672	109,211	5,461	5.0%
Auxiliary enterprises	273,131	267,746	5,385	2.0%
OSU Health System	2,305,978	2,091,400	214,578	10.3%
OSU Physicians, Inc.	444,010	380,901	63,109	16.6%
Depreciation	315,013	301,365	13,648	4.5%
<b>Total Operating Expenses</b>	<b>5,397,521</b>	<b>5,012,983</b>	<b>384,538</b>	<b>7.7%</b>
<b>Operating Loss</b>	<b>(434,659)</b>	<b>(294,934)</b>	<b>(139,725)</b>	<b>47.4%</b>
<b>Non-operating Revenues (Expenses):</b>				
State share of instruction and line-item appropriations	361,602	352,340	9,262	2.6%
Federal subsidies for Build America Bonds interest	8,157	8,140	17	0.2%
Federal non-exchange grants	62,541	59,927	2,614	4.4%
State non-exchange grants	13,773	11,053	2,720	24.6%
Gifts	149,052	137,014	12,038	8.8%
Net investment income (loss)	(211,892)	162,181	(374,073)	-230.7%
Interest expense on plant debt	(90,719)	(91,919)	1,200	-1.3%
Other non-operating revenues(expenses)	(13,296)	4,190	(17,486)	-417.3%
<b>Net Non-operating Revenue (Expense)</b>	<b>279,218</b>	<b>642,926</b>	<b>(363,708)</b>	<b>-56.6%</b>
<b>Income (Loss) before Other Revenues, Expenses, Gains or Losses</b>	<b>(155,441)</b>	<b>347,992</b>	<b>(503,433)</b>	<b>-144.7%</b>
<b>Changes in Net Position</b>				
State capital appropriations	46,879	53,741	(6,862)	-12.8%
Private capital gifts	9,329	8,015	1,314	16.4%
Additions to permanent endowments	45,422	36,364	9,058	24.9%
Capital contributions and other changes in net position	(2,086)	(5,895)	3,809	35.4%
<b>Total Changes in Net Position</b>	<b>99,544</b>	<b>92,225</b>	<b>7,319</b>	<b>7.9%</b>
<b>Increase (Decrease) in Net Position</b>	<b>(55,897)</b>	<b>440,217</b>	<b>\$ (496,114)</b>	<b>-112.7%</b>
<b>Net Position - Beginning of Year</b>				
Beginning of year	5,654,015	5,510,252		
<b>Net Position - End of Period</b>	<b>\$ 5,598,118</b>	<b>\$ 5,950,469</b>		

**THE OHIO STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS - UNAUDITED**  
**Years Ended March 31, 2020 and March 31, 2019**  
(in thousands)

	<u>March 2020</u>	<u>March 2019</u>	<u>Incr/(Decr) to Cash Dollars</u>	<u>%</u>
<b>Cash Flows from Operating Activities:</b>				
Tuition and fee receipts	\$ 761,179	\$ 761,629	\$ (450)	-0.1%
Grant and contract receipts	589,711	545,810	43,901	8.0%
Receipts for sales and services	3,521,208	3,372,329	148,879	4.4%
Payments to or on behalf of employees	(2,375,790)	(2,183,850)	(191,940)	8.8%
University employee benefit payments	(671,501)	(581,463)	(90,038)	15.5%
Payments to vendors for supplies and services	(1,838,538)	(1,676,738)	(161,800)	9.6%
Payments to students and fellows	(107,500)	(105,115)	(2,385)	2.3%
Student loans issued	(3,001)	(4,628)	1,627	-35.2%
Student loans collected	7,083	8,437	(1,354)	-16.0%
Student loan interest and fees collected	1,540	1,415	125	8.8%
Other receipts, net	21,650	33,651	(12,001)	-35.7%
Net cash provided (used) by operating activities	<u>(93,959)</u>	<u>171,477</u>	<u>(265,436)</u>	<u>-154.8%</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
State share of instruction and line-item appropriations	312,663	352,340	(39,677)	-11.3%
Non-exchange grant receipts	76,314	70,980	5,334	7.5%
Gift receipts for current use	145,877	121,334	24,543	20.2%
Additions to permanent endowments	45,422	36,364	9,058	24.9%
Drawdowns of federal direct loan proceeds	301,800	321,193	(19,393)	-6.0%
Disbursements of federal direct loans to students	(301,740)	(308,201)	6,461	-2.1%
Repayment of loans from related organization	488	296	192	64.9%
Amounts received for annuity and life income funds	1,696	1,186	510	43.0%
Amounts paid to annuitants and life beneficiaries	(1,301)	(1,299)	(2)	0.2%
Agency funds receipts	5,777	5,892	(115)	-2.0%
Agency funds disbursements	(5,564)	(5,373)	(191)	3.6%
Net cash provided (used) by noncapital financing activities	<u>581,432</u>	<u>594,712</u>	<u>(13,280)</u>	<u>-2.2%</u>
<b>Cash Flows from Capital Financing Activities:</b>				
State capital appropriations	45,686	54,145	(8,459)	-15.6%
Gift receipts for capital projects	9,329	8,015	1,314	16.4%
Payments for purchase or construction of capital assets	(485,922)	(476,467)	(9,455)	2.0%
Principal payments on capital debt and leases	(39,101)	(35,967)	(3,134)	8.7%
Interest payments on capital debt and leases	(63,435)	(63,736)	301	-0.5%
Federal subsidies for Build America Bonds interest	5,327	5,310	17	0.3%
Net cash provided (used) by capital financing activities	<u>(528,116)</u>	<u>(508,700)</u>	<u>(19,416)</u>	<u>3.8%</u>
<b>Cash Flows from Investing Activities:</b>				
Net (purchases) sales of temporary investments	(22,825)	(138,420)	115,595	-83.5%
Proceeds from sales and maturities of long-term investments	2,239,558	2,934,999	(695,441)	-23.7%
Investment income	169,312	170,935	(1,623)	-0.9%
Purchases of long-term investments	(2,310,501)	(2,976,376)	665,875	-22.4%
Net cash provided (used) by investing activities	<u>75,544</u>	<u>(8,862)</u>	<u>84,406</u>	<u>-952.4%</u>
<b>Net Increase (Decrease) in Cash</b>	<b>34,901</b>	<b>248,627</b>	<b>\$ (213,726)</b>	<b>-86.0%</b>
Cash and Cash Equivalents - Beginning of Year	<u>2,201,133</u>	<u>2,113,482</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 2,236,034</u>	<u>\$ 2,362,109</u>		