

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2021 Interim Financial Report – December 31, 2020

CONTEXT: The purpose of this report is to provide an update of financial results for the six months ending December 31, 2020.

FINANCIAL SUMMARY

Our overall financial position remains strong, however, the first half of fiscal year 2021 continues to be impacted by the COVID-19 pandemic. Declining academic revenues are offset by cost reductions and federal funding is supplementing the increased COVID related expenses for students. Increased patient volumes and better investment performance are allowing us to outperform in fiscal year to date 2021 compared to prior year. The university continues to operate under an indefinite state of emergency due to the COVID-19 outbreak. Impacts include:

- A decline in net tuition and fee revenue of \$53 million for Autumn semester, as compared to the prior autumn semester, due to many students moving to an entirely virtual schedule.
- A decline in auxiliary revenues of \$148 million due to lower occupancy for student housing and dining due to an intentional de-densification for safety and the cancellation of event rentals, a postponed and shortened football season and the related reduction in ticket, media, conference, and game guarantee revenues.
- An increase in COVID-19 related expenses, including enhanced cleaning, PPE, testing, contact tracing, and quarantine and isolation of approximately \$55 million for the six months ending December 31, 2020.

Year-to-date increase in net position was \$974 million compared to prior year of \$603M. The increase is primarily due to a \$463 million increase in net investment income over the prior fiscal year. Other activities for the first half of fiscal year 2021 impacting our financial position include:

Revenues

Student tuition and fees, net - decreased \$53 million or 11%, to \$447 million over the same period of fiscal year 2020, due primarily to a decrease in gross tuition of \$53 million. Gross tuition decreased \$51 million for Autumn semester and \$2 million for Summer semester. Autumn tuition decreased primarily due decreases in non-resident fees of \$54 million resulting from out-of-state students choosing all on-line instruction.

Grants and contracts - increased \$25 million, or 6%, to \$419 million, due primarily to increases in federal grants of \$26 million and private grants of \$3 million, offset by decreases in state and local grants of \$4 million. Awarded dollars, which can be considered a leading indicator of the state of the research enterprise, are up 10% overall compared to this time last year, including a 17% increase in federal dollars and an 13% decrease in non-federal awarded dollars.

Gifts - decreased \$25 million over prior year due primarily to decreases in current use gifts of \$18 million and permanent endowment gifts of \$10 million, offset by increases in private capital gifts of \$3 million.

Sales and services of auxiliary enterprises - decreased \$148 million due primarily to revenue losses associated with the postponement of fall sports of \$92 million, decreases in Student Life housing and dining revenues of \$41 million, and decreases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$14 million.

Educational departments - decreased \$12 million primarily from decreases in over 161 earnings funds and 75 conference funds reflecting impacts of COVID-19 pandemic.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$106 million to \$2,176 million. The Health System increased \$100 million primarily due to increases for surgical volumes and outpatient visits compared to prior years. This contributed to improved operating revenue per adjusted admissions of 11.9% above prior year. OSU Physicians experienced a similar trend with a year over year increase of \$5 million, or 2% increase.

Non-exchange grants - increased \$3 million due primarily to increases in Federal Work Study of \$2.3 million and Pell grants of \$1.4 million.

CARES (Coronavirus Aid, Relief, and Economic Security) Act assistance – increased \$69 million due to the receipt of \$42 million from Federal pass-through funds from the State of Ohio, \$21 million CARES Institutional grant, \$4 million for Emergency aid to students, \$611 thousand in CARES mental health support, and \$922 thousand for College of Dentistry and regional campuses.

Expenses

University - expenses of \$1,317 million for the six months ending December 31, 2020 were flat compared to the same period in fiscal year 2020 reflecting expenditure controls implemented in response to the outbreak of COVID-19. Supplies and services decreased \$27 million compared to prior year from restrictions on university travel starting in Spring 2020, and a review of all non-essential spending such as supplies, equipment purchases, conferences and membership expenses led to additional savings. Salaries increased \$24 million from annual merit compensation increases of \$6 million and staff increases which had been authorized prior to the COVID-19 outbreak. The university temporarily paused the annual merit compensation increase process and instituted pauses in hiring and off-cycle salary increases on April 1, 2020.

OSU Health System and OSU Physicians - expenses of \$1,910 million for the first half of fiscal year 2021 increased \$78 million, or 4%, compared to the same period of fiscal year 2020 primarily due to increases in operating expenses driven by increased patient

volumes. The Health System is seeing significant expense savings with discretionary spend and is below budget for salaries and benefits due to a lower than budgeted FTEs and physician fees.

Auxiliary - expenses of \$132 million for the six months ending December 31, 2020 decreased \$50 million, or 27%, compared to the same period of fiscal year 2020 primarily due to decreases in Athletics of \$31 million, Student Life of \$10 million, and Business Advancement of \$8 million.

Cash and Investments

Total university cash and investments increased \$449 million, to \$10,534 million on December 31, 2020, compared to the same period of last year. Total cash and temporary investments decreased \$174 million, to \$4,077 million on December 31, 2020, compared to December 31, 2019 primarily due to a shift in the student fee payment due date of December 20th in fiscal year 2020 and January 4th in fiscal year 2021. Gifted endowment and long-term investments increased \$624 million, to \$6,457 million on December 31, 2020 primarily due to increases in the Long-Term Investment Pool of \$610 million and other long-term investments of \$14 million.

Long-Term Investment Pool and Temporary Investments

For the six months ending December 31, 2020, the fair value of the university's Long-Term Investment Pool increased \$864 million to \$6,151 million. Changes in total valuation compared to prior year are summarized below:

	2021	2020
Fair Value at June 30	\$ 5,287,131	\$ 5,256,759
Net principal additions	137,063	91,388
Change in fair value	823,118	274,401
Income earned	63,875	67,887
Distributions	(122,290)	(114,665)
Expenses	(38,215)	(35,584)
Fair Value at December 31	<u>\$ 6,150,682</u>	<u>\$ 5,540,186</u>

Net principal additions include new endowment gifts (\$27.7 million), reinvestment of unused endowment distributions (\$0.9 million), and other net transfers of University monies (\$108.5 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 on December 31, 2020. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$28.0 million), University Development related expenses (\$9.8 million) and other administrative related expenses (\$0.4 million).

LTIP Investment Returns

For the six months ending December 31, 2020, the LTIP earned a net of investment fee return of 16.24% versus a Policy Benchmark of 16.10%, resulting in outperformance of 0.14%. During that period, our Global Equities returned 22.96%, followed by Global Fixed Income at 4.34% and Real Assets at 3.00%.

The comparable six months ending December 31, 2019, saw a net of investment fee return of 6.04% versus a Policy Benchmark of 6.71%, resulting in underperformance of 0.67%. During that period, our Global Equities returned 8.68%, followed by Global Fixed Income at 1.55% and Real Assets at 1.13%.

Temporary Investments

For the six months ending December 31, 2020, (FYTD) the Intermediate Investments earned a return of 1.87% (+\$20.5 million) outperforming the Bank of America ML 1-3 Year US Gov't/Credit benchmark (+0.50%) by 1.37%. Short-term Investments earned 0.61% (+\$3.7 million) outperforming the 90 Day T-Bill benchmark (+0.05%) by 0.56%.

The comparable six months ending December 31, 2019, saw Intermediate Investments earn a return of 1.53% (+\$14.8 million). Short-term Investments returned 1.36% (+\$8.1 million) for this same period.

Cash Flows

Cash used by operating activities was \$196 million through the first half of fiscal year 2021, compared with net cash provided by operating activities of \$180 million for the same period in fiscal year 2020. The decrease in operating cash flows is due primarily to decreased receipts from Athletic ticket sales and student tuition and fees and increases in payments to employees.

Cash provided by noncapital financing activities was \$473 million through the first half of fiscal year 2021, compared with \$373 million for the same period in fiscal year 2020. The increases are primarily due to increases in CARES assistance of \$69 million.

Net cash flows used by capital financing activities were \$486 million for the six months ending December 31, 2020, primarily for payments on the construction of capital assets. This is an increase of \$113 million primarily due to new Health System facilities.

Net cash flows used by investing activities were \$181 million for the six months ending December 31, 2020, primarily due to net purchases of long-term investments.

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

	As of December 2020	As of December 2019	Increase/Decrease Dollars %	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,718,481	\$ 1,931,974	\$ (213,493)	-11.1%
Temporary investments	2,024,896	1,819,936	204,960	11.3%
Accounts receivable, net	1,018,062	837,068	180,994	21.6%
Notes receivable - current portion, net	25,655	25,318	337	1.3%
Pledges receivable - current portion, net	79,240	31,540	47,700	151.2%
Accrued interest receivable	18,219	18,846	(627)	-3.3%
Inventories and prepaid expenses	215,054	332,344	(117,290)	-35.3%
Investments held under securities lending program	9,065	26,391	(17,326)	-65.7%
Total Current Assets	<u>5,108,672</u>	<u>5,023,417</u>	<u>85,255</u>	<u>1.7%</u>
Noncurrent Assets:				
Restricted cash	324,095	472,758	(148,663)	-31.4%
Notes receivable, net	50,205	58,014	(7,809)	-13.5%
Pledges receivable, net	59,248	64,151	(4,903)	-7.6%
Net other post-employment benefit asset	77,901	74,520	3,381	4.5%
Long-term investment pool	6,150,682	5,540,185	610,497	11.0%
Other long-term investments	307,266	293,545	13,721	4.7%
Capital assets, net	6,143,834	5,526,801	617,033	11.2%
Total Noncurrent Assets	<u>13,113,231</u>	<u>12,029,974</u>	<u>1,083,257</u>	<u>9.0%</u>
Total Assets	<u>18,221,903</u>	<u>17,053,391</u>	<u>1,168,512</u>	<u>6.9%</u>
Deferred Outflows:				
Pension	445,769	1,017,388	(571,619)	-56.2%
Other post-employment benefits	239,629	116,173	123,456	106.3%
Other deferred outflows	31,078	21,766	9,312	42.8%
Total Assets and Deferred Outflows	<u>\$ 18,938,379</u>	<u>\$ 18,208,718</u>	<u>\$ 729,661</u>	<u>4.0%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 596,424	\$ 590,603	\$ 5,821	1.0%
Medicare advance payment program	287,500	-	287,500	100.0%
Deposits and advance payments for goods and services	860,536	826,168	34,368	4.2%
Current portion of bonds, notes and leases payable	58,609	44,969	13,640	30.3%
Long-term bonds payable, subject to remarketing	317,715	574,675	(256,960)	-44.7%
Liability under securities lending program	9,065	26,391	(17,326)	-65.7%
Other current liabilities	80,097	87,351	(7,254)	-8.3%
Total Current Liabilities	<u>2,209,946</u>	<u>2,150,157</u>	<u>59,789</u>	<u>2.8%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	2,706,396	2,519,441	186,955	7.4%
Concessionaire payable	130,577	37,845	92,732	245.0%
Net pension liability	3,025,029	3,715,194	(690,165)	-18.6%
Net other post-employment benefit liability	1,459,572	1,339,443	120,129	9.0%
Compensated absences	214,332	180,300	34,032	18.9%
Self-insurance accruals	86,889	81,721	5,168	6.3%
Amounts due to third-party payors - Health System	59,516	53,412	6,104	11.4%
Irrevocable split-interest agreements	31,200	31,310	(110)	-0.4%
Refundable advances for Federal Perkins loans	29,695	33,478	(3,783)	-11.3%
Advance from concessionaire	991,876	1,013,662	(21,786)	-2.1%
Other noncurrent liabilities	120,676	123,643	(2,967)	-2.4%
Total Noncurrent Liabilities	<u>8,855,758</u>	<u>9,129,449</u>	<u>(273,691)</u>	<u>-3.0%</u>
Total Liabilities	<u>11,065,704</u>	<u>11,279,606</u>	<u>(213,902)</u>	<u>-1.9%</u>
Deferred Inflows:				
Parking service concession arrangement	402,099	411,730	(9,631)	-2.3%
Pension	487,347	110,003	377,344	343.0%
Other post-employment benefits	298,463	117,982	180,481	153.0%
Other deferred inflows	28,569	32,427	(3,858)	-11.9%
Total Deferred Inflows	<u>1,216,478</u>	<u>672,142</u>	<u>544,336</u>	<u>81.0%</u>
Net Position:				
Net investment in capital assets	3,415,630	2,970,225	445,405	15.0%
Restricted:				
Nonexpendable	2,300,888	1,643,707	657,181	40.0%
Expendable	1,209,112	1,109,535	99,577	9.0%
Unrestricted	(269,433)	533,503	(802,936)	-150.5%
Total Net Position	<u>6,656,197</u>	<u>6,256,970</u>	<u>399,227</u>	<u>6.4%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 18,938,379</u>	<u>\$ 18,208,718</u>	<u>\$ 729,661</u>	<u>4.0%</u>

**THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - UNAUDITED**

Comparative Year-To-Date

December 31, 2020 and December 31, 2019

	December		Increase/Decrease	
	2020	2019	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 446,837	\$ 499,800	\$ (52,963)	-10.6%
Federal grants and contracts	216,262	189,914	26,348	13.9%
State grants and contracts	34,771	38,303	(3,532)	-9.2%
Local grants and contracts	14,259	15,614	(1,355)	-8.7%
Private grants and contracts	153,824	150,510	3,314	2.2%
Sales and services of educational departments	79,696	92,072	(12,376)	-13.4%
Sales and services of auxiliary enterprises	72,032	220,022	(147,990)	-67.3%
Sales and services of the OSU Health System, net	1,863,829	1,763,477	100,352	5.7%
Sales and services of OSU Physicians, Inc., net	312,370	307,090	5,280	1.7%
Other operating revenues	13,958	21,067	(7,109)	-33.7%
Total Operating Revenues	3,207,838	3,297,869	(90,031)	-2.7%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	518,902	516,382	2,520	0.5%
Separately budgeted research	268,429	262,665	5,764	2.2%
Public service	85,759	91,940	(6,181)	-6.7%
Academic support	116,236	119,936	(3,700)	-3.1%
Student services	38,411	46,671	(8,260)	-17.7%
Institutional support	151,522	138,329	13,193	9.5%
Operation and maintenance of plant	63,797	65,907	(2,110)	-3.2%
Scholarships and fellowships	74,012	67,911	6,101	9.0%
Auxiliary enterprises	132,368	182,317	(49,949)	-27.4%
OSU Health System	1,611,408	1,535,793	75,615	4.9%
OSU Physicians, Inc.	298,860	296,418	2,442	0.8%
Depreciation	217,642	210,008	7,634	3.6%
Total Operating Expenses	3,577,346	3,534,277	43,069	1.2%
Operating Loss	(369,508)	(236,408)	(133,100)	56.3%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	234,152	240,934	(6,782)	-2.8%
Federal subsidies for Build America Bonds interest	5,396	5,327	69	1.3%
Federal non-exchange grants	39,637	36,140	3,497	9.7%
CARES Assistance	68,925	-	68,925	100.0%
State non-exchange grants	7,776	7,875	(99)	-1.3%
Gifts	88,063	106,317	(18,254)	-17.2%
Net investment income	906,443	437,087	469,356	107.4%
Interest expense on plant debt	(61,512)	(61,172)	(340)	0.6%
Other non-operating revenues(expenses)	3,393	(3,091)	6,484	-209.8%
Net Non-operating Revenue (Expense)	1,292,273	769,417	522,856	68.0%
Income before Other Revenues, Expenses, Gains or Losses	922,765	533,009	389,756	73.1%
Changes in Net Position				
State capital appropriations	33,866	35,364	(1,498)	-4.2%
Private capital gifts	8,934	5,648	3,286	58.2%
Additions to permanent endowments	27,682	37,287	(9,605)	-25.8%
Capital contributions and other changes in net position	(19,371)	(8,353)	(11,018)	100.0%
Total Changes in Net Position	51,111	69,946	(18,835)	-26.9%
Increase in Net Position	973,876	602,955	\$ 370,921	61.5%
Net Position - Beginning of Year	5,682,321	5,654,015		
Net Position - End of Period	\$ 6,656,197	\$ 6,256,970		

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

	December 2020	December 2019	Incr/(Decr) to Cash Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 562,468	\$ 683,217	\$ (120,749)	-17.7%
Grant and contract receipts	355,624	377,147	(21,523)	-5.7%
Receipts for sales and services	2,329,676	2,425,858	(96,182)	-4.0%
Payments to or on behalf of employees	(1,658,016)	(1,574,757)	(83,259)	5.3%
University employee benefit payments	(434,245)	(424,879)	(9,366)	2.2%
Payments to vendors for supplies and services	(1,280,235)	(1,254,399)	(25,836)	2.1%
Payments to students and fellows	(69,316)	(63,334)	(5,982)	9.4%
Student loans issued	(1,625)	(2,001)	376	-18.8%
Student loans collected	4,969	5,220	(251)	-4.8%
Student loan interest and fees collected	961	1,027	(66)	-6.4%
Other receipts, net	(6,630)	7,193	(13,823)	-192.2%
Net cash (used) provided by operating activities	<u>(196,369)</u>	<u>180,292</u>	<u>(376,661)</u>	<u>-208.9%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	234,152	200,827	33,325	16.6%
Non-exchange grant receipts	47,413	44,015	3,398	7.7%
CARES Assistance	68,925	-	68,925	100.0%
Gift receipts for current use	88,063	106,317	(18,254)	-17.2%
Additions to permanent endowments	27,682	37,287	(9,605)	-25.8%
Drawdowns of federal direct loan proceeds	258,500	276,500	(18,000)	-6.5%
Disbursements of federal direct loans to students	(254,578)	(292,954)	38,376	-13.1%
Repayment of loans from related organization	1,984	98	1,886	1924.5%
Amounts received for annuity and life income funds	423	1,218	(795)	100.0%
Amounts paid to annuitants and life beneficiaries	(1,145)	(868)	(277)	31.9%
Agency funds receipts, net	1,218	642	576	89.7%
Net cash provided by noncapital financing activities	<u>472,637</u>	<u>373,082</u>	<u>99,555</u>	<u>26.7%</u>
Cash Flows from Capital Financing Activities:				
State capital appropriations	34,364	34,142	222	0.7%
Gift receipts for capital projects	8,934	5,648	3,286	58.2%
Payments for purchase or construction of capital assets	(430,018)	(318,385)	(111,633)	35.1%
Principal payments on capital debt and leases	(43,322)	(38,006)	(5,316)	14.0%
Interest payments on capital debt and leases	(61,107)	(61,433)	326	-0.5%
Federal subsidies for Build America Bonds interest	5,396	5,327	69	1.3%
Net cash (used) by capital financing activities	<u>(485,753)</u>	<u>(372,707)</u>	<u>(113,046)</u>	<u>30.3%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(221,180)	(65,416)	(155,764)	238.1%
Proceeds from sales and maturities of long-term investments	2,577,395	1,657,124	920,271	55.5%
Investment income	86,449	171,544	(85,095)	-49.6%
Purchases of long-term investments	(2,623,418)	(1,740,239)	(883,179)	50.8%
Net cash provided (used) by investing activities	<u>(180,754)</u>	<u>23,013</u>	<u>(203,767)</u>	<u>-885.4%</u>
Net Increase (Decrease) in Cash	<u>(390,239)</u>	<u>203,680</u>	<u>\$ (593,919)</u>	<u>-291.6%</u>
Cash and Cash Equivalents - Beginning of Year	<u>2,432,815</u>	<u>2,201,133</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 2,042,576</u>	<u>\$ 2,404,813</u>		