

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

TOPIC: Fiscal Year 2020 Interim Financial Report - December 31, 2019

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

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

FINANCIAL SUMMARY

Overall our financial position remains strong. The first half of fiscal year 2020, resulted in an overall change in net position of \$588 million. The main drivers for increases in net position are net investment income of \$437 million and current use and endowment gifts of \$144 million. Other activity for the first half of fiscal year 2020 impacting our financial position include:

Revenues

Student tuition and fees - increased \$13 million, to \$491 million or 2.8% over the same period of fiscal year 2019, due primarily to an increase in gross tuition of \$19 million, offset by \$6 million increase in scholarship allowances. The increase in gross tuition is due primarily to increases in rates and enrollment for non-resident students of \$15 million, Ohio graduate and professional students of \$3 million, and Ohio new first year undergraduates of \$1 million. Non-resident surcharge rates and new first-year undergraduate instructional fees increased 4.8% and 3.6%, respectively. 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 \$15 million, or 3.5%, to \$445 million, due primarily to increases in grants managed by the Office of Sponsored Programs of \$15 million. Research dollars awarded, which can be considered a leading indicator of the state of the research enterprise, are up 23% overall compared to this time last year, including an 18% increase in federal awarded dollars and a 42% increase in non-federal. Awards from the state are boosted by a \$10 million award for the Ohio Federal Research Network – Emerging missions and job growth opportunities.

State appropriations - increased \$8 million primarily due to increases in state share of instruction and line-item appropriations of \$5 million and state capital appropriations of \$3 million.

Gifts - increased \$15 million over prior year due primarily to increases in permanent endowment gifts of \$11 million and current use gifts of \$5 million.

Sales and services of auxiliary enterprises - increased \$9 million due primarily to increases in Athletics of \$10 million from contract and football revenues.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$145 million, or 7.5%, to \$2,071 million. The Health System accounted for \$109 million of the increase. Total outpatient visits and surgeries were 11.9% and 8.2% above prior year, respectively.

Expenses

University - expenses of \$1,535 million for the first six months of fiscal year 2020 increased \$62 million, or 4.2%, compared to the same period of fiscal year 2019 primarily due to salary increases of \$45 million, benefit increases of \$5 million, and depreciation increase of \$9 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 \$1,829 million increased \$170 million, or 10.3%, primarily due to increases in operating expenses driven by increased patient volumes as well as higher cost of drugs of \$42 million or 16%.

Cash and Investments

Total university cash and investments increased \$927 million, to \$10,059 million at December 31, 2019 compared to the same period of last year. Total cash and temporary investments increased \$206 million compared to December 31, 2018 primarily due to strong healthcare margins and timing of spring semester student tuition collections. Gifted endowment and long-term investments increased \$721 million primarily due to increasing market value compared to December 31, 2018.

Long-Term Investment Pool

For the six months ended December 31, 2019, the fair value of the university's Long-Term Investment Pool (LTIP) increased \$283.4 million to \$5,540 million.

Net principal additions include new endowment gifts (\$37.3 million), reinvestment of unused endowment distributions (\$2.4 million), and other net transfers of University monies (\$53.2 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 December 31, 2019. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$25.6 million), University Development related expenses (\$9.6 million) and other administrative related expenses (\$0.4 million).

LTIP Investment Returns - for the six months ended December 31, 2019, the LTIP earned 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 ended December 31, 2019 (FYTD) the Intermediate Investments earned a return of 1.53% (+\$14.8 million) outperforming the BofA ML 1-3 Yr US Gov't/Credit benchmark (+1.31%) by 0.22%. Short-Term Investments earned 1.36% (\$8.1 million) outperforming the 90 Day T-Bill benchmark (+0.92%) by 0.44%.

Statement of Net Position

Other significant changes on the Consolidated Statement of Net Position for balances as of December 31, 2019, compared to December 31, 2018, 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 \$267 million, net of depreciation.

Cash Flows

Cash provided by operating activities was \$180 million through the first six months of fiscal year 2020, compared with net cash provided by operating activities of \$229 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.

Cash provided by noncapital financing activities was \$373 million through the first six months of fiscal year 2020, compared with \$388 million for the same period in fiscal year 2019. The decrease is primarily due to timing of state line item appropriations receipts and drawdowns of federal direct loan proceeds.

Net cash flows used by capital financing activities were \$373 million through the six months ending December 31, 2019, primarily for payments on the construction of capital assets of \$318 million and net payments for debt service of \$94 million, offset by receipt of state capital appropriations of \$34 million. Capital expenditures consist of \$155 million for University academic, infrastructure, and auxiliary projects, \$125 million for Health System projects and equipment expenditures, and University equipment purchases of \$38 million.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
December 31, 2019 and December 31, 2018

	As of December 2019	As of December 2018	Increase/Decrease	
			Dollars	%
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,932,055	\$ 1,852,949	\$ 79,106	4.3%
Temporary investments	1,819,936	1,644,496	175,440	10.7%
Accounts receivable, net	837,068	856,409	(19,341)	-2.3%
Notes receivable - current portion, net	25,317	25,317	-	0.0%
Pledges receivable - current portion, net	31,540	29,524	2,016	6.8%
Accrued interest receivable	18,846	19,485	(639)	-3.3%
Inventories and prepaid expenses	332,344	328,917	3,427	1.0%
Investments held under securities lending program	26,391	30,017	(3,626)	-12.1%
Total Current Assets	<u>5,023,497</u>	<u>4,787,114</u>	<u>236,383</u>	<u>4.9%</u>
Noncurrent Assets:				
Restricted cash	472,758	521,629	(48,871)	-9.4%
Notes receivable, net	58,014	41,020	16,994	41.4%
Pledges receivable, net	64,151	70,901	(6,750)	-9.5%
Net other post-employment benefit asset	74,520	-	74,520	100.0%
Long-term investment pool	5,540,185	4,918,617	621,568	12.6%
Other long-term investments	293,545	194,241	99,304	51.1%
Capital assets, net	<u>5,526,801</u>	<u>5,260,136</u>	<u>266,665</u>	<u>5.1%</u>
Total Noncurrent Assets	<u>12,029,974</u>	<u>11,006,544</u>	<u>1,023,430</u>	<u>9.3%</u>
Total Assets	<u>17,053,471</u>	<u>15,793,658</u>	<u>1,259,813</u>	<u>8.0%</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	<u>21,766</u>	<u>21,068</u>	<u>698</u>	<u>3.3%</u>
Total Assets and Deferred Outflows	<u>\$ 18,208,798</u>	<u>\$ 16,534,292</u>	<u>\$ 1,646,248</u>	<u>10.1%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 593,953	\$ 627,349	\$ (33,396)	-5.3%
Deposits and advance payments for goods and services	835,150	854,142	(18,992)	-2.2%
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	26,391	30,017	(3,626)	-12.1%
Other current liabilities	<u>87,352</u>	<u>64,675</u>	<u>22,677</u>	<u>35.1%</u>
Total Current Liabilities	<u>2,162,490</u>	<u>2,218,094</u>	<u>(55,604)</u>	<u>-2.5%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	2,522,385	2,563,392	(41,007)	-1.6%
Concessionaire payable	37,845	10,056	27,789	276.3%
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	180,300	173,211	7,089	4.1%
Self-insurance accruals	81,721	70,613	11,108	15.7%
Amounts due to third-party payors - Health System	53,412	53,995	(583)	-1.1%
Irrevocable split-interest agreements	31,310	29,307	2,003	6.8%
Refundable advances for Federal Perkins loans	33,478	32,638	840	2.6%
Advance from concessionaire	1,013,662	1,035,448	(21,786)	-2.1%
Other noncurrent liabilities	<u>123,640</u>	<u>92,521</u>	<u>31,119</u>	<u>33.6%</u>
Total Noncurrent Liabilities	<u>9,132,392</u>	<u>7,859,100</u>	<u>1,273,292</u>	<u>16.2%</u>
Total Liabilities	<u>11,294,882</u>	<u>10,077,194</u>	<u>1,217,688</u>	<u>12.1%</u>
Deferred Inflows:				
Parking service concession arrangement	411,730	421,361	(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	<u>32,427</u>	<u>33,678</u>	<u>(1,251)</u>	<u>-3.7%</u>
Total Deferred Inflows	<u>672,142</u>	<u>967,359</u>	<u>(295,217)</u>	<u>-30.5%</u>
Net Position:				
Net investment in capital assets	2,967,280	2,676,756	290,524	10.9%
Restricted:				
Nonexpendable	1,643,707	1,524,081	119,626	7.8%
Expendable	1,105,624	1,134,438	(28,814)	-2.5%
Unrestricted	<u>525,163</u>	<u>154,464</u>	<u>370,699</u>	<u>240.0%</u>
Total Net Position	<u>6,241,774</u>	<u>5,489,739</u>	<u>752,035</u>	<u>13.7%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 18,208,798</u>	<u>\$ 16,534,292</u>	<u>\$ 1,674,506</u>	<u>10.1%</u>

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

Comparative Year-To-Date

December 31, 2019 and December 31, 2018

	December 2019	December 2018	Increase/Decrease	
			Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 490,818	\$ 477,590	\$ 13,228	2.8%
Federal grants and contracts	191,975	183,769	8,206	4.5%
State grants and contracts	38,303	47,225	(8,922)	-18.9%
Local grants and contracts	15,614	13,251	2,363	17.8%
Private grants and contracts	154,968	144,084	10,884	7.6%
Sales and services of educational departments	92,115	88,088	4,027	4.6%
Sales and services of auxiliary enterprises	220,022	211,212	8,810	4.2%
Sales and services of the OSU Health System, net	1,763,477	1,654,870	108,607	6.6%
Sales and services of OSU Physicians, Inc., net	307,090	270,908	36,182	13.4%
Other operating revenues	21,067	20,225	842	4.2%
Total Operating Revenues	<u>3,295,449</u>	<u>3,111,222</u>	<u>184,227</u>	<u>5.9%</u>
Operating Expenses:				
Educational and General:				
Instruction and departmental research	533,532	501,110	32,422	6.5%
Separately budgeted research	262,602	257,070	5,532	2.2%
Public service	92,105	90,939	1,166	1.3%
Academic support	114,936	111,071	3,865	3.5%
Student services	46,671	46,041	630	1.4%
Institutional support	141,444	135,263	6,181	4.6%
Operation and maintenance of plant	65,886	65,070	816	1.3%
Scholarships and fellowships	67,911	65,860	2,051	3.1%
Auxiliary enterprises	182,317	179,803	2,514	1.4%
OSU Health System	1,532,857	1,405,122	127,735	9.1%
OSU Physicians, Inc.	296,418	253,862	42,556	16.8%
Depreciation	210,008	200,910	9,098	4.5%
Total Operating Expenses	<u>3,546,687</u>	<u>3,312,121</u>	<u>234,566</u>	<u>7.1%</u>
Operating Loss	(251,238)	(200,899)	(50,339)	25.1%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	240,934	235,504	5,430	2.3%
Federal subsidies for Build America Bonds interest	5,327	5,310	17	0.3%
Federal non-exchange grants	36,140	35,500	640	1.8%
State non-exchange grants	7,875	5,961	1,914	32.1%
Gifts	106,317	101,432	4,885	4.8%
Net investment income (loss)	437,244	(206,608)	643,852	311.6%
Interest expense on plant debt	(60,797)	(61,146)	349	-0.6%
Other non-operating revenues(expenses)	(10,256)	5,573	(15,829)	-284.0%
Net Non-operating Revenue (Expense)	<u>762,784</u>	<u>121,526</u>	<u>641,258</u>	<u>527.7%</u>
Income (Loss) before Other Revenues, Expenses, Gains or Losses	511,546	(79,373)	590,919	-744.5%
Changes in Net Position				
State capital appropriations	35,364	32,026	3,338	10.4%
Private capital gifts	5,648	6,232	(584)	-9.4%
Additions to permanent endowments	37,287	25,883	11,404	44.1%
Capital contributions and other changes in net position	(2,086)	(5,281)	3,195	-60.5%
Total Changes in Net Position	<u>76,213</u>	<u>58,860</u>	<u>17,353</u>	<u>29.5%</u>
Increase (Decrease) in Net Position	587,759	(20,513)	\$ 608,272	2965.3%
Net Position - Beginning of Year				
Beginning of year	<u>5,654,015</u>	<u>5,510,252</u>		
Net Position - End of Period	<u>\$ 6,241,774</u>	<u>\$ 5,489,739</u>		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
Years Ended December 31, 2019 and December 31, 2018
(in thousands)

	December 2019	December 2018	Incr/(Decr) to Cash Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 683,217	\$ 631,374	\$ 51,843	8.2%
Grant and contract receipts	377,147	346,834	30,313	8.7%
Receipts for sales and services	2,425,858	2,281,779	144,079	6.3%
Payments to or on behalf of employees	(1,574,757)	(1,458,350)	(116,407)	8.0%
University employee benefit payments	(424,879)	(418,651)	(6,228)	1.5%
Payments to vendors for supplies and services	(1,254,399)	(1,114,142)	(140,257)	12.6%
Payments to students and fellows	(63,334)	(61,551)	(1,783)	2.9%
Student loans issued	(2,001)	(3,431)	1,430	-41.7%
Student loans collected	5,220	6,549	(1,329)	-20.3%
Student loan interest and fees collected	1,027	944	83	8.8%
Other receipts, net	7,193	17,404	(10,211)	-58.7%
Net cash provided (used) by operating activities	<u>180,292</u>	<u>228,759</u>	<u>(48,467)</u>	<u>-21.2%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	200,827	235,504	(34,677)	-14.7%
Non-exchange grant receipts	44,015	41,461	2,554	6.2%
Gift receipts for current use	106,317	101,432	4,885	4.8%
Additions to permanent endowments	37,287	25,883	11,404	44.1%
Drawdowns of federal direct loan proceeds	276,500	280,800	(4,300)	-1.5%
Disbursements of federal direct loans to students	(292,954)	(298,411)	5,457	-1.8%
Repayment of loans from related organization	98	17	81	476.5%
Amounts received for annuity and life income funds	1,218	795	423	53.2%
Amounts paid to annuitants and life beneficiaries	(868)	(866)	(2)	0.2%
Agency funds receipts	6,207	6,293	(86)	-1.4%
Agency funds disbursements	(5,565)	(5,386)	(179)	3.3%
Net cash provided (used) by noncapital financing activities	<u>373,082</u>	<u>387,522</u>	<u>(14,440)</u>	<u>-3.7%</u>
Cash Flows from Capital Financing Activities:				
State capital appropriations	34,142	32,106	2,036	6.3%
Gift receipts for capital projects	5,648	6,232	(584)	-9.4%
Payments for purchase or construction of capital assets	(318,385)	(336,594)	18,209	-5.4%
Principal payments on capital debt and leases	(38,006)	(38,431)	425	-1.1%
Interest payments on capital debt and leases	(61,433)	(61,426)	(7)	0.0%
Federal subsidies for Build America Bonds interest	5,327	5,310	17	0.3%
Net cash provided (used) by capital financing activities	<u>(372,707)</u>	<u>(392,803)</u>	<u>20,096</u>	<u>-5.1%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(65,416)	(28,857)	(36,559)	126.7%
Proceeds from sales and maturities of long-term investments	1,657,124	2,105,557	(448,433)	-21.3%
Investment income	171,544	96,748	74,796	77.3%
Purchases of long-term investments	(1,740,239)	(2,141,022)	400,783	-18.7%
Net cash provided (used) by investing activities	<u>23,013</u>	<u>32,426</u>	<u>(9,413)</u>	<u>-29.0%</u>
Net Increase (Decrease) in Cash	<u>203,680</u>	<u>255,904</u>	<u>\$ (52,224)</u>	<u>-20.4%</u>
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>\$ 2,404,813</u>	<u>\$ 2,369,386</u>		