

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2021 Unaudited Financial Report – June 30, 2021

CONTEXT: The purpose of this report is to provide an update of financial results for the year ending June 30, 2021

FINANCIAL SUMMARY

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, fiscal year 2021 outperformed fiscal year 2020, driven primarily by strong investment performance, decreases in pension and other post-employment benefit (OPEB) liabilities, and a positive margin at the Health System from increased patient volumes. Declines in academic and auxiliary revenues and increases in COVID-related expenses are offset by a combination of cost reductions and federal assistance. Specific impacts include:

- A decline in net tuition and fee revenue of \$83 million for the 2020/2021 academic year, compared to the prior academic year, due to many students moving to an entirely virtual schedule.
- A decline in auxiliary revenues of \$135 million, reflecting lower occupancy for student housing and dining due to an intentional de-densification for safety, the cancellation of event rentals, a postponed and shortened football season with no ticket sales, 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 \$75 million for the year ending June 30, 2021.
- Implementation of financial controls, including a hiring pause and business-essential only spend, resulting in a reduction of university spend of \$195 million compared to the \$175 million University target.

Total net position increased \$2,961 million in 2021, compared to a \$9 million increase in 2020. This is primarily a result of an increase in the university's net investment income of \$1,424 million to \$1,657 million in 2021, reflecting a 29.24% return on investments in the university's Long Term Investment Pool. Changes in post-retirement health care plans and positive investment returns significantly reduced university net pension and OPEB liabilities, resulting in a \$1,166 million reduction to consolidated university expenses in 2021. Excluding net investment income and pension/OPEB expenses, the university's net position increased by \$138 million in 2021, compared to a \$205 million increase in 2020. Additional details on university revenues, expenses, cash and investments, and cashflows are provided below.

Revenues

Student tuition and fees, net - decreased \$83 million or 9%, to \$871 million over the same period of fiscal year 2020, due primarily to a decrease in gross tuition of \$88 million. Gross tuition decreased \$48 million for Autumn semester, \$53 million for Spring semester, offset by an increase of \$13 million for Summer semester. Autumn and Spring tuition decreased primarily due to decreases in non-resident fees resulting from out-of-state students choosing all online instruction. The increase in Summer tuition reflects a shift back to in-person instruction.

Grants and contracts - increased \$20 million, or 3%, to \$816 million, due primarily to increases in federal grants of \$33 million, offset by decreases in private grants of \$7 million and state grants of \$6 million. Awarded dollars, which can be considered a leading indicator of the state of the research enterprise, are up 2% overall compared to this time last year, including a 9% increase in federal dollars and a 23% decrease in non-federal awarded dollars.

Gifts - decreased \$57 million over the prior year due primarily to decreases in private capital gifts of \$59 million, offset by an increase in current use gifts of \$2 million. Additions to permanent endowments were flat.

Sales and services of auxiliary enterprises - decreased \$135 million due primarily to revenue losses associated with the postponement of fall sports of \$85 million, decreases in Student Life housing and dining revenues of \$32 million, and decreases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$17 million.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$470 million to \$4,504 million. In 2021, the Health System 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. OSU Physicians experienced a similar trend with a year-over-year increase of \$67 million.

Expenses

University – expenses decreased \$552 million to \$2,751 million in 2021, primarily due to a \$580 million reduction in allocated pension and OPEB expenses. Excluding pension and OPEB, total university expenses were flat, decreasing \$8 million to \$3,143 million in 2021. In response to the outbreak of COVID-19, university leadership instituted a hiring pause on April 1, 2020. The university also temporarily paused the annual merit compensation increase process and instituted pauses in off-cycle salary increases. Restrictions on university travel and a review of all non-essential spending such as supplies, equipment purchases, conferences, and membership expenses led to additional savings. These savings were offset by operational expenses of \$75 million and student aid expenses of \$25 million in response to COVID-19.

OSU Health System and OSU Physicians - expenses decreased \$661 million to \$3,210 million in 2021, primarily due to a \$948 million reduction in allocated pension and OPEB expenses. Excluding pension and OPEB, expenses increased \$287 million to \$3,894 million in 2021. Health System expense per adjusted admission increased only 3.5% from prior year. Efficiency initiatives around labor,

supplies and a reduction in discretionary spend items totaling \$103.7 million through June helped offset the more acute, higher cost admissions associated with the COVID-19 pandemic.

Auxiliary – expenses decreased \$114 million to \$206 million in 2021, primarily due to a \$70 million reduction in allocated pension and OPEB expenses. Excluding pension and OPEB, expenses decreased \$44 million, to \$263 million in 2021, compared to fiscal year 2020, primarily due to decreases in Athletics of \$35 million and Student Life of \$11 million.

Cash and Investments

Total university cash and investments increased \$1,368 million to \$11,205 million on June 30, 2021, compared to the same period of last year, primarily due to the increase in the Long-Term Investment Pool of \$1,527 million. Additional details are provided below.

Long-Term Investment Pool and Temporary Investments

For the year ending June 30, 2021, the fair value of the university's Long-Term Investment Pool increased by \$1,527 million to \$6,814 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	253,710	228,653
Change in fair value	1,466,087	(10,923)
Income earned	136,933	119,271
Distributions	(249,718)	(234,042)
Expenses	(79,730)	(72,587)
Fair Value at end of June	<u>\$ 6,814,413</u>	<u>\$ 5,287,131</u>

Net principal additions include new endowment gifts (\$63.2 million), reinvestment of unused endowment distributions (\$23.2 million), and other net transfers of University monies (\$164.4 million with the majority, \$144 million, to the Expense Repayment Endowment to defray lump sum expenses). 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 June 30, 2021. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$59.4 million), University Development related expenses (\$19.6 million), and other administrative-related expenses (\$0.7 million).

LTIP Investment Returns

For the year ending June 30, 2021, the LTIP earned a return, net of investment fees, of 29.24% versus a Policy Benchmark of 25.47%, resulting in an outperformance of 3.77%. During that period, our Global Equities returned 40.98%, followed by Real Assets at 10.97% and Global Fixed Income at 7.73%.

The comparable year ending June 30, 2020, saw a net investment return of 1.07% versus a Policy Benchmark of 4.63%, resulting in underperformance of 3.56%. During that period, our Global Fixed Income returned 4.82%, followed by Global Equities at -0.38% and Real Assets at -0.39%.

Temporary Investments

For the twelve months ending June 30, 2021 (FYTD), the Intermediate Investments earned a return of 2.08% (+\$24.2 million), outperforming the Bank of America ML 1-3 Year US Gov't/Credit benchmark (+0.54%) by 1.54%. Short-term Investments earned 0.87% (+\$5.6 million) outperforming the 90 Day T-Bill benchmark (+0.07%) by 0.80%.

The comparable twelve months ending June 30, 2020, saw Intermediate Investments earn a return of 4.44% (+\$42.9 million). Short-term Investments returned 3.08% (+\$18.4 million) for this same period.

Cash Flows

Cash used by operating activities was \$439 million for fiscal year 2021, compared with net cash provided by operating activities of \$92 million for fiscal year 2020. The decrease in operating cash flows is due primarily to increases in payments to employees and vendors of \$532 million, primarily due to increased healthcare volumes.

Cash provided by noncapital financing activities was \$921 million for fiscal year 2021, compared with \$925 million for fiscal year 2020.

Net cash flows used by capital financing activities were \$880 million for the year ending June 30, 2021, primarily for payments on the construction of capital assets due to capital expenditures by the Health System of \$456 million on inpatient and outpatient hospitals and garage and the university of \$373 million on Postle Hall, WOSU building and Arts District, Advanced Materials Corridor (Fontana labs), and regional campus buildings.

Net cash flows used by investing activities were \$775 million for the year ending June 30, 2021, primarily due to net purchases of long-term and temporary investments.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
June 30, 2021 and June 30, 2020

	<u>As of June 2021</u>	<u>As of June 2020</u>	<u>Increase/Decrease Dollars</u>	<u>%</u>
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 936,375	\$ 2,031,151	\$ (1,094,776)	-53.9%
Temporary investments	2,707,833	1,803,716	904,117	50.1%
Accounts receivable, net	736,459	583,238	153,221	26.3%
Notes receivable - current portion, net	25,655	25,655	-	0.0%
Pledges receivable - current portion, net	79,240	79,240	-	0.0%
Accrued interest receivable	19,848	21,274	(1,426)	-6.7%
Inventories, prepaid expenses, and other assets	172,213	175,011	(2,798)	-1.6%
Investments held under securities lending program	118,266	12,092	106,174	878.1%
Total Current Assets	<u>4,795,889</u>	<u>4,731,377</u>	<u>64,512</u>	<u>1.4%</u>
Noncurrent Assets:				
Restricted cash	324,095	401,664	(77,569)	-19.3%
Notes receivable, net	42,679	52,275	(9,596)	-18.4%
Pledges receivable, net	59,248	59,248	-	0.0%
Net other post-employment benefit asset	275,182	77,901	197,281	253.2%
Long-term investment pool	6,814,413	5,287,131	1,527,282	28.9%
Other long-term investments	304,201	301,676	2,525	0.8%
Capital assets, net	6,373,137	5,922,015	451,122	7.6%
Total Noncurrent Assets	<u>14,192,955</u>	<u>12,101,910</u>	<u>2,091,045</u>	<u>17.3%</u>
Total Assets	<u>18,988,844</u>	<u>16,833,287</u>	<u>2,155,557</u>	<u>12.8%</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	36,037	31,959	4,078	12.8%
Total Assets and Deferred Outflows	<u>\$ 19,468,742</u>	<u>\$ 17,550,644</u>	<u>\$ 1,918,098</u>	<u>10.9%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 719,217	\$ 669,627	\$ 49,590	7.4%
Medicare advance payment program	262,613	287,500	(24,887)	-8.7%
Deposits and advance payments for goods and services	321,591	271,622	49,969	18.4%
Current portion of bonds, notes and leases payable	58,932	58,608	324	0.6%
Long-term bonds payable, subject to remarketing	317,715	317,715	-	0.0%
Liability under securities lending program	118,266	12,092	106,174	878.1%
Other current liabilities	113,587	117,362	(3,775)	-3.2%
Total Current Liabilities	<u>1,911,921</u>	<u>1,734,526</u>	<u>177,395</u>	<u>10.2%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	2,672,200	2,748,388	(76,188)	-2.8%
Concessionaire payable	226,792	134,362	92,430	68.8%
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	219,734	210,158	9,576	4.6%
Self-insurance accruals	96,285	87,928	8,357	9.5%
Amounts due to third-party payors - Health System	56,369	60,516	(4,147)	-6.9%
Irrevocable split-interest agreements	36,527	31,853	4,674	14.7%
Refundable advances for Federal Perkins loans	26,005	29,695	(3,690)	-12.4%
Advance from concessionaire	980,953	1,002,769	(21,816)	-2.2%
Other noncurrent liabilities	99,899	122,132	(22,233)	-18.2%
Total Noncurrent Liabilities	<u>7,116,780</u>	<u>8,912,402</u>	<u>(1,795,622)</u>	<u>-20.1%</u>
Total Liabilities	<u>9,028,701</u>	<u>10,646,928</u>	<u>(1,618,227)</u>	<u>-15.2%</u>
Deferred Inflows:				
Parking service concession arrangement	397,283	406,914	(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	40,767	28,671	12,096	42.2%
Total Deferred Inflows	<u>1,796,238</u>	<u>1,221,395</u>	<u>574,843</u>	<u>47.1%</u>
Net Position:				
Net investment in capital assets	3,311,377	3,226,206	85,171	2.6%
Restricted:				
Nonexpendable	2,994,165	1,622,782	1,371,383	84.5%
Expendable	1,433,749	1,125,359	308,390	27.4%
Unrestricted	904,512	(292,026)	1,196,538	209.7%
Total Net Position	<u>8,643,803</u>	<u>5,682,321</u>	<u>2,961,482</u>	<u>52.1%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 19,468,742</u>	<u>\$ 17,550,644</u>	<u>\$ 1,918,098</u>	<u>10.9%</u>

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND OTHER CHANGES IN NET POSITION - UNAUDITED
Comparative Year-To-Date
June 30, 2021 and June 30, 2020

	June		Increase/Decrease	
	2021	2020	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 870,585	\$ 953,569	\$ (82,984)	-8.7%
Federal grants and contracts	416,148	382,923	33,225	8.7%
State grants and contracts	71,320	78,217	(6,897)	-8.8%
Local grants and contracts	27,538	27,015	523	1.9%
Private grants and contracts	301,423	308,074	(6,651)	-2.2%
Sales and services of educational departments	173,942	151,743	22,199	14.6%
Sales and services of auxiliary enterprises	163,197	298,064	(134,867)	-45.2%
Sales and services of the OSU Health System, net	3,853,048	3,449,681	403,367	11.7%
Sales and services of OSU Physicians, Inc., net	650,846	584,222	66,624	11.4%
Other operating revenues	36,311	44,700	(8,389)	-18.8%
Total Operating Revenues	6,564,358	6,278,208	286,150	4.6%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	1,064,722	1,060,197	4,525	0.4%
Separately budgeted research	510,644	521,213	(10,569)	-2.0%
Public service	180,043	189,132	(9,089)	-4.8%
Academic support	252,289	223,552	28,738	12.9%
Student services	80,159	89,162	(9,004)	-10.1%
Institutional support	376,546	375,546	1,000	0.3%
Operation and maintenance of plant	101,951	118,468	(16,517)	-13.9%
Scholarships and fellowships	135,328	139,622	(4,294)	-3.1%
Auxiliary enterprises	262,940	307,357	(44,416)	-14.5%
OSU Health System	3,273,588	3,043,330	230,258	7.6%
OSU Physicians, Inc.	620,055	563,200	56,855	10.1%
Pensions and other post-employment benefits	(1,165,952)	428,438	(1,594,390)	-372.1%
Depreciation	475,025	435,284	39,741	9.1%
Total Operating Expenses	6,167,340	7,494,501	(1,327,161)	-17.7%
Operating Loss	397,018	(1,216,293)	1,613,311	-132.6%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	486,115	461,838	24,277	5.3%
Federal subsidies for Build America Bonds interest	10,790	10,987	(197)	-1.8%
Federal non-exchange grants	66,124	61,531	4,593	7.5%
CARES Assistance	128,053	169,863	(41,810)	-24.6%
State non-exchange grants	13,123	14,702	(1,579)	-10.7%
Gifts	159,720	157,511	2,209	1.4%
Net investment income	1,657,140	233,115	1,424,025	610.9%
Interest expense on plant debt	(112,051)	(117,910)	5,859	5.0%
Other non-operating revenues(expenses)	1,891	(1,554)	3,445	-221.7%
Net Non-operating Revenue (Expense)	2,410,905	990,083	1,420,822	143.5%
Income (Loss) before Other Revenues, Expenses, Gains or Losses	2,807,923	(226,210)	3,034,133	-1341.3%
Other Changes in Net Position				
State capital appropriations	71,930	69,905	2,025	2.9%
Private capital gifts	18,355	77,425	(59,070)	-76.3%
Additions to permanent endowments	63,331	63,695	(364)	-0.6%
Capital contributions and other changes in net position	(57)	24,578	(24,635)	-100.2%
Total Other Changes in Net Position	153,559	235,603	(82,044)	-34.8%
Increase in Net Position	2,961,482	9,393	\$ 2,952,089	31428.6%
Net Position - Beginning of Year	5,682,321	5,672,928		
Net Position - End of Period	\$ 8,643,803	\$ 5,682,321		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
Years Ended June 30, 2021 and June 30, 2020
(in thousands)

	<u>June 2021</u>	<u>June 2020</u>	<u>Incr/(Decr) to Cash Dollars</u>	<u>%</u>
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 763,052	\$ 838,750	\$ (75,698)	-9.0%
Grant and contract receipts	768,396	832,338	(63,942)	-7.7%
Receipts for sales and services	4,739,379	4,604,744	134,635	2.9%
Payments to or on behalf of employees	(3,268,520)	(3,094,419)	(174,101)	5.6%
University employee benefit payments	(879,751)	(815,460)	(64,291)	7.9%
Payments to vendors for supplies and services	(2,453,180)	(2,159,265)	(293,915)	13.6%
Payments to students and fellows	(123,924)	(165,171)	41,247	-25.0%
Student loans issued	(3,764)	(3,249)	(515)	15.9%
Student loans collected	9,121	9,061	60	0.7%
Student loan interest and fees collected	911	1,949	(1,038)	-53.3%
Other receipts, net	9,591	43,099	(33,508)	-77.7%
Net cash (used) provided by operating activities	<u>(438,689)</u>	<u>92,377</u>	<u>(531,066)</u>	<u>-574.9%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	486,115	461,838	24,277	5.3%
Non-exchange grant receipts	79,247	76,233	3,014	4.0%
CARES Assistance	128,053	169,863	(41,810)	-24.6%
Gift receipts for current use	159,720	148,904	10,816	7.3%
Additions to permanent endowments	63,331	63,695	(364)	-0.6%
Drawdowns of federal direct loan proceeds	307,679	332,591	(24,912)	-7.5%
Disbursements of federal direct loans to students	(303,757)	(330,524)	26,767	-8.1%
Repayment of loans from related organization	(4,633)	-	(4,633)	100.0%
Amounts received for annuity and life income funds	6,649	5,187	1,462	28.2%
Amounts paid to annuitants and life beneficiaries	(2,044)	(1,797)	(247)	13.7%
Agency funds receipts, net	316	(1,015)	1,331	-131.1%
Net cash provided by noncapital financing activities	<u>920,676</u>	<u>924,975</u>	<u>(4,299)</u>	<u>-0.5%</u>
Cash Flows from Capital Financing Activities:				
Proceeds from capital debt and leases	6,170	12,003	(5,833)	-48.6%
State capital appropriations	72,303	71,605	698	1.0%
Gift receipts for capital projects	18,355	33,250	(14,895)	-44.8%
Payments for purchase or construction of capital assets	(829,339)	(794,600)	(34,739)	4.4%
Principal payments on capital debt and leases	(46,743)	(71,277)	24,534	-34.4%
Interest payments on capital debt and leases	(111,251)	(118,735)	7,484	-6.3%
Federal subsidies for Build America Bonds interest	10,814	5,327	5,487	103.0%
Net cash (used) by capital financing activities	<u>(879,691)</u>	<u>(862,427)</u>	<u>(17,264)</u>	<u>2.0%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(904,117)	(40,339)	(863,778)	2141.3%
Proceeds from sales and maturities of long-term investments	3,913,205	3,136,413	776,792	24.8%
Investment income	193,196	144,459	48,737	33.7%
Purchases of long-term investments	(3,976,925)	(3,168,993)	(807,932)	25.5%
Net cash provided (used) by investing activities	<u>(774,641)</u>	<u>71,540</u>	<u>(846,181)</u>	<u>-1182.8%</u>
Net Increase (Decrease) in Cash	(1,172,345)	226,465	\$ (1,398,810)	-617.7%
Cash and Cash Equivalents - Beginning of Year	<u>2,432,815</u>	<u>2,206,350</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 1,260,470</u>	<u>\$ 2,432,815</u>		