

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2021 Interim Financial Report – March 31, 2021

CONTEXT: The purpose of this report is to provide an update of financial results through the third quarter of fiscal year 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, the third quarter of fiscal year 2021 is outperforming fiscal year 2020, driven primarily by strong investment performance 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 being offset by a combination of cost reductions and federal assistance. Specific impacts include:

- A decline in net tuition and fee revenue of \$109 million for the 2020/2021 academic year, as compared to the prior academic year, due to many students moving to an entirely virtual schedule.
- A decline in auxiliary revenues of \$159 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 \$61 million for the nine months ending March 31, 2021.
- Implementation of financial controls, including a hiring pause and business-essential only spend, resulting in a reduction of university spend of \$156 million. We will continue to monitor cost reduction progress compared to the \$175 million University target.

The year-to-date increase in net position was \$1,277 million compared to prior year's decrease of \$59 million. The increase is primarily due to a \$1,372 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 \$109 million or 13%, to \$713 million over the same period of fiscal year 2020, due primarily to a decrease in gross tuition of \$117 million. Gross tuition decreased \$51 million for Autumn semester, \$64 million for Spring semester, and \$2 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 on-line instruction.

Grants and contracts - increased \$12 million, or 2%, to \$598 million, due primarily to increases in federal grants of \$8 million and private grants of \$10 million, offset by decreases in state and local grants of \$6 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 \$41 million over prior year due primarily to decreases in current use gifts of \$42 million and permanent endowment gifts of \$3 million, offset by increases in private capital gifts of \$4 million.

Sales and services of auxiliary enterprises - decreased \$159 million due primarily to revenue losses associated with the postponement of fall sports of \$84 million, decreases in Student Life housing and dining revenues of \$56 million, and decreases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$17 million.

Educational departments - decreased \$11 million, reflecting reductions in revenues across multiple departmental earnings operations caused by the COVID-19 pandemic.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$199 million to \$3,299 million. Health System revenues increased \$180 million primarily due to increases for surgical volumes and outpatient visits compared to prior years. This contributed to improved operating revenue per adjusted admission of 10.4% above prior year. OSU Physicians experienced a similar trend with a year over year increase of \$19 million.

CARES (Coronavirus Aid, Relief, and Economic Security) Act assistance – increased \$93 million due to the receipt of \$42 million from Federal pass-through funds from the State of Ohio, \$26 million CARES Institutional grant, \$23 million for Emergency aid to students, \$611 thousand in CARES mental health support, and \$865 thousand for College of Dentistry and regional campuses.

Expenses

University - expenses of \$2,047 million for the nine months ending March 31, 2021 decreased \$12 million 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 \$3 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. These savings were offset by an increase of \$48 million in operational expenses in response to COVID-19. Salaries and benefits decreased \$5 million due to the expenditures controls that temporarily paused the annual merit compensation increase process and instituted pauses in hiring and off-cycle salary increases on April 1, 2020. Scholarship expense decreased \$4 million due to a decrease in student tuition.

OSU Health System and OSU Physicians - expenses of \$2,799 million for three quarters of fiscal year 2021 increased \$49 million, or 2%, 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 lower than budgeted FTEs and physician fees.

Auxiliary - expenses of \$208 million for the nine months ending March 31, 2021 decreased \$65 million, or 24%, compared to the same period of fiscal year 2020 primarily due to decreases in Athletics of \$35 million, Student Life of \$20 million, and Business Advancement of \$10 million. The declines in expense are offset by increased costs due to COVID of \$9 million for Student Life and \$4 million for Athletics and Business and Advancement.

Cash and Investments

Total university cash and investments increased \$1,542 million, to \$10,730 million on March 31, 2021, compared to the same period of last year primarily due to the increase in the Long-Term Investment Pool of \$1,485 million. Total cash and temporary investments increased \$50 million, to \$4,063 million on March 31, 2021, compared to March 31, 2020 primarily due to positive Health System margins. Gifted endowment and long-term investments increased \$1,491 million, to \$6,666 million on March 31, 2021 primarily due to increases in the fair value of investments in the Long-Term Investment Pool. Additional details are provided below.

Inventories and Prepaid Expenses

Total inventories and prepaid expenses increased \$53 million, to \$256 million at March 31, 2021, primarily due to purchases of Personal Protective Equipment (PPE) related to COVID-19, increases in pharmaceutical inventories, rent paid in advance to Campus Partners for construction in progress on the new WOSU building, and growth in prepayments for preventive maintenance contracts.

Pledges Receivable

Pledges receivable increased \$40 million, to \$138 million, primarily due to new pledges for capital projects and an increase in current-use gifts.

Long-Term Investment Pool and Temporary Investments

For the nine months ending March 31, 2021, the fair value of the university's Long-Term Investment Pool increased \$1,074 million to \$6,361 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	181,785	129,417
Change in fair value	1,039,013	(372,081)
Income earned	98,530	90,032
Distributions	(186,663)	(174,979)
Expenses	(58,679)	(53,029)
Fair Value at end of March	<u>\$ 6,361,117</u>	<u>\$ 4,876,119</u>

Net principal additions include new endowment gifts (\$42.8 million), reinvestment of unused endowment distributions (\$1.1 million), and other net transfers of University monies (\$135.7 million with the majority, \$125 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 March 31, 2021. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$43.4 million), University Development related expenses (\$14.7 million) and other administrative related expenses (\$0.6 million).

LTIP Investment Returns

For the nine months ending March 31, 2021, the LTIP earned a net of investment return of 20.69% versus a Policy Benchmark of 18.80%, resulting in outperformance of 1.89%. During that period, our Global Equities returned 28.95%, followed by Real Assets at 6.49% and Global Fixed Income at 5.69%.

The comparable nine months ending March 31, 2020, saw a net of investment 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 ending March 31, 2021, (FYTD) the Intermediate Investments earned a return of 1.68% (+\$18.2 million) outperforming the Bank of America ML 1-3 Year US Gov't/Credit benchmark (+0.47%) by 1.21%. Short-term Investments earned 0.77% (+\$4.8 million) outperforming the 90 Day T-Bill benchmark (+0.07%) by 0.70%.

The comparable nine months ending March 31, 2020, saw Intermediate Investments earn a return of 0.81% (+\$7.9 million). Short-term Investments returned 0.51% (+\$3.1 million) for this same period.

Medicare Advance Payment Program

The Health System and OSU Physicians received \$275 million and \$13 million, respectively, under the Medicare Accelerated and Advance Program to provide necessary funds to providers and suppliers due to the COVID-19 disruption in claims submissions and/or claims processing.

Long-term Bonds Payable, Subject to Remarketing and Bonds, Notes and Lease Payables

In June 2020, the university issued \$186 million in Series 2020A fixed rate bonds to refund \$227 million of its variable rate bonds.

Cash Flows

Cash used by operating activities was \$205 million for the three quarters of fiscal year 2021, compared with net cash used by operating activities of \$94 million for the same period in fiscal year 2020. The decrease in operating cash flows is due primarily to decreased receipts for tuition, grants, auxiliary and departmental sales of \$161 million offset by decreases in payments to employees and vendors of \$63 million.

Cash provided by noncapital financing activities was \$687 million for the three quarters of fiscal year 2021, compared with \$581 million for the same period in fiscal year 2020. The increases are primarily due to increases in CARES assistance of \$93 million and state appropriations of \$46 million, offset by decreases in current use gift receipts.

Net cash flows used by capital financing activities were \$742 million for the nine months ending March 31, 2021, primarily for payments on the construction of capital assets due to capital expenditures by the Health System of \$368 million and the university of \$327 million.

Net cash flows used by investing activities were \$242 million for the nine months ending March 31, 2021, primarily due to net purchases of long-term and temporary investments.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
March 31, 2021 and March 31, 2020

	<u>As of March 2021</u>	<u>As of March 2020</u>	<u>Increase/Decrease</u>	
			<u>Dollars</u>	<u>%</u>
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,607,570	\$ 1,786,928	\$ (179,358)	-10.0%
Temporary investments	2,132,007	1,777,345	354,662	20.0%
Accounts receivable, net	739,091	772,554	(33,463)	-4.3%
Notes receivable - current portion, net	25,655	25,318	337	1.3%
Pledges receivable - current portion, net	79,240	34,715	44,525	128.3%
Accrued interest receivable	18,253	18,424	(171)	-0.9%
Inventories and prepaid expenses	256,385	203,616	52,769	25.9%
Investments held under securities lending program	9,601	10,714	(1,113)	-10.4%
Total Current Assets	<u>4,867,802</u>	<u>4,629,614</u>	<u>238,188</u>	<u>5.1%</u>
Noncurrent Assets:				
Restricted cash	324,095	449,106	(125,011)	-27.8%
Notes receivable, net	52,911	53,261	(350)	-0.7%
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	6,361,117	4,876,119	1,484,998	30.5%
Other long-term investments	305,170	298,957	6,213	2.1%
Capital assets, net	6,288,077	5,590,945	697,132	12.5%
Total Noncurrent Assets	<u>13,468,519</u>	<u>11,407,059</u>	<u>2,061,460</u>	<u>18.1%</u>
Total Assets	<u>18,336,321</u>	<u>16,036,673</u>	<u>2,299,648</u>	<u>14.3%</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	30,816	21,551	9,265	43.0%
Total Assets and Deferred Outflows	<u>\$ 19,052,535</u>	<u>\$ 17,191,785</u>	<u>\$ 1,860,750</u>	<u>10.8%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 800,655	\$ 703,738	\$ 96,917	13.8%
Medicare advance payment program	287,500	-	287,500	100.0%
Deposits and advance payments for goods and services	442,046	402,884	39,162	9.7%
Current portion of bonds, notes and leases payable	58,932	44,969	13,963	31.1%
Long-term bonds payable, subject to remarketing	317,715	574,675	(256,960)	-44.7%
Liability under securities lending program	9,601	10,714	(1,113)	-10.4%
Other current liabilities	109,232	48,714	60,518	124.2%
Total Current Liabilities	<u>2,025,681</u>	<u>1,785,694</u>	<u>239,987</u>	<u>13.4%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	2,701,648	2,520,653	180,995	7.2%
Concessionaire payable	128,685	37,208	91,477	245.9%
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	218,587	182,805	35,782	19.6%
Self-insurance accruals	87,928	81,323	6,605	8.1%
Amounts due to third-party payors - Health System	60,516	65,246	(4,730)	-7.2%
Irrevocable split-interest agreements	36,070	31,355	4,715	15.0%
Refundable advances for Federal Perkins loans	29,695	33,478	(3,783)	-11.3%
Advance from concessionaire	988,245	1,008,216	(19,971)	-2.0%
Other noncurrent liabilities	116,815	123,370	(6,555)	-5.3%
Total Noncurrent Liabilities	<u>8,852,790</u>	<u>9,138,291</u>	<u>(285,501)</u>	<u>-3.1%</u>
Total Liabilities	<u>10,878,471</u>	<u>10,923,985</u>	<u>(45,514)</u>	<u>-0.4%</u>
Deferred Inflows:				
Parking service concession arrangement	399,691	409,322	(9,631)	-2.4%
Pension	487,347	110,003	377,344	343.0%
Other post-employment benefits	298,463	117,982	180,481	153.0%
Other deferred inflows	28,519	32,376	(3,857)	-11.9%
Total Deferred Inflows	<u>1,214,020</u>	<u>669,683</u>	<u>544,337</u>	<u>81.3%</u>
Net Position:				
Net investment in capital assets	3,449,013	3,009,341	439,672	14.6%
Restricted:				
Nonexpendable	2,309,891	1,097,386	1,212,505	110.5%
Expendable	1,209,852	1,113,397	96,455	8.7%
Unrestricted	(8,712)	377,993	(386,705)	-102.3%
Total Net Position	<u>6,960,044</u>	<u>5,598,117</u>	<u>1,361,927</u>	<u>24.3%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 19,052,535</u>	<u>\$ 17,191,785</u>	<u>\$ 1,860,750</u>	<u>10.8%</u>

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

Comparative Year-To-Date

March 31, 2021 and March 31, 2020

	March 2021	March 2020	Increase/Decrease	
			Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 713,278	\$ 822,562	\$ (109,284)	-13.3%
Federal grants and contracts	294,257	286,757	7,500	2.6%
State grants and contracts	52,045	56,959	(4,914)	-8.6%
Local grants and contracts	19,764	20,458	(694)	-3.4%
Private grants and contracts	231,444	221,415	10,029	4.5%
Sales and services of educational departments	120,335	130,631	(10,296)	-7.9%
Sales and services of auxiliary enterprises	128,256	287,127	(158,871)	-55.3%
Sales and services of the OSU Health System, net	2,824,243	2,643,904	180,339	6.8%
Sales and services of OSU Physicians, Inc., net	474,834	456,120	18,714	4.1%
Other operating revenues	27,816	33,929	(6,113)	-18.0%
Total Operating Revenues	<u>4,886,272</u>	<u>4,959,862</u>	<u>(73,590)</u>	<u>-1.5%</u>
Operating Expenses:				
Educational and General:				
Instruction and departmental research	841,740	830,722	11,018	1.3%
Separately budgeted research	381,011	397,183	(16,172)	-4.1%
Public service	137,198	141,720	(4,522)	-3.2%
Academic support	182,885	181,739	1,146	0.6%
Student services	58,749	70,564	(11,815)	-16.7%
Institutional support	229,970	219,145	10,825	4.9%
Operation and maintenance of plant	105,089	103,644	1,445	1.4%
Scholarships and fellowships	110,591	114,672	(4,081)	-3.6%
Auxiliary enterprises	207,703	273,131	(65,428)	-24.0%
OSU Health System	2,345,988	2,305,978	40,010	1.7%
OSU Physicians, Inc.	453,029	444,010	9,019	2.0%
Depreciation	337,653	315,013	22,640	7.2%
Total Operating Expenses	<u>5,391,606</u>	<u>5,397,521</u>	<u>(5,915)</u>	<u>-0.1%</u>
Operating Loss	(505,334)	(437,659)	(67,675)	15.5%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	358,152	361,602	(3,450)	-1.0%
Federal subsidies for Build America Bonds interest	8,192	8,157	35	0.4%
Federal non-exchange grants	65,765	62,541	3,224	5.2%
CARES Assistance	92,681	-	92,681	100.0%
State non-exchange grants	13,205	13,773	(568)	-4.1%
Gifts	107,234	149,052	(41,818)	-28.1%
Net investment income (loss)	1,160,515	(211,892)	1,372,407	647.7%
Interest expense on plant debt	(92,455)	(90,719)	(1,736)	1.9%
Other non-operating revenues(expenses)	(508)	(13,297)	12,789	96.2%
Net Non-operating Revenue (Expense)	<u>1,712,781</u>	<u>279,217</u>	<u>1,433,564</u>	<u>513.4%</u>
Income before Other Revenues, Expenses, Gains or Losses	1,207,447	(158,442)	1,365,889	862.1%
Changes in Net Position				
State capital appropriations	42,981	46,879	(3,898)	-8.3%
Private capital gifts	13,183	9,329	3,854	41.3%
Additions to permanent endowments	42,834	45,422	(2,588)	-5.7%
Capital contributions and other changes in net position	(29,147)	(2,086)	(27,061)	1297.3%
Total Changes in Net Position	<u>69,851</u>	<u>99,544</u>	<u>(29,693)</u>	<u>-29.8%</u>
Increase in Net Position	<u>1,277,298</u>	<u>(58,898)</u>	<u>\$ 1,336,196</u>	<u>2268.7%</u>
Net Position - Beginning of Year	<u>5,682,746</u>	<u>5,654,015</u>		
Net Position - End of Period	<u>\$ 6,960,044</u>	<u>\$ 5,595,117</u>		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
Years Ended March 31, 2021 and March 31, 2020
(in thousands)

	March 2021	March 2020	Incr/(Decr) to Cash Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 660,339	\$ 761,179	\$ (100,840)	-13.2%
Grant and contract receipts	549,247	589,711	(40,464)	-6.9%
Receipts for sales and services	3,501,796	3,521,208	(19,412)	-0.6%
Payments to or on behalf of employees	(2,471,118)	(2,375,790)	(95,328)	4.0%
University employee benefit payments	(632,291)	(671,501)	39,210	-5.8%
Payments to vendors for supplies and services	(1,719,160)	(1,838,538)	119,378	-6.5%
Payments to students and fellows	(103,131)	(107,500)	4,369	-4.1%
Student loans issued	(2,437)	(3,001)	564	-18.8%
Student loans collected	6,129	7,083	(954)	-13.5%
Student loan interest and fees collected	1,441	1,540	(99)	-6.4%
Other receipts, net	4,705	21,650	(16,945)	-78.3%
Net cash (used) provided by operating activities	<u>(204,480)</u>	<u>(93,959)</u>	<u>(110,521)</u>	<u>117.6%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	358,152	312,663	45,489	14.5%
Non-exchange grant receipts	78,970	76,314	2,656	3.5%
CARES Assistance	92,681	-	92,681	100.0%
Gift receipts for current use	107,234	145,877	(38,643)	-26.5%
Additions to permanent endowments	42,834	45,422	(2,588)	-5.7%
Drawdowns of federal direct loan proceeds	281,679	301,800	(20,121)	-6.7%
Disbursements of federal direct loans to students	(277,757)	(301,740)	23,983	-7.9%
Repayment of loans from related organization	(1,068)	(1,512)	444	-29.4%
Amounts received for annuity and life income funds	5,742	3,696	2,046	55.4%
Amounts paid to annuitants and life beneficiaries	(1,594)	(1,301)	(293)	22.5%
Agency funds receipts, net	476	213	263	123.5%
Net cash provided by noncapital financing activities	<u>687,349</u>	<u>581,432</u>	<u>105,917</u>	<u>18.2%</u>
Cash Flows from Capital Financing Activities:				
State capital appropriations	43,487	45,686	(2,199)	-4.8%
Gift receipts for capital projects	13,183	9,329	3,854	41.3%
Payments for purchase or construction of capital assets	(695,209)	(485,922)	(209,287)	43.1%
Principal payments on capital debt and leases	(44,850)	(39,101)	(5,749)	14.7%
Interest payments on capital debt and leases	(63,860)	(63,435)	(425)	0.7%
Federal subsidies for Build America Bonds interest	5,396	5,327	69	1.3%
Net cash (used) by capital financing activities	<u>(741,853)</u>	<u>(528,116)</u>	<u>(213,737)</u>	<u>40.5%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(328,291)	(22,825)	(305,466)	1338.3%
Proceeds from sales and maturities of long-term investments	3,537,787	2,239,558	1,298,229	58.0%
Investment income	124,592	169,312	(44,720)	-26.4%
Purchases of long-term investments	(3,576,254)	(2,310,501)	(1,265,753)	54.8%
Net cash provided (used) by investing activities	<u>(242,166)</u>	<u>75,544</u>	<u>(317,710)</u>	<u>-420.6%</u>
Net Increase (Decrease) in Cash	(501,150)	34,901	\$ (536,051)	-1535.9%
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>\$ 1,931,665</u>	<u>\$ 2,236,034</u>		