

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2021 Interim Financial Report – September 30, 2020

CONTEXT: The purpose of this report is to provide an update of financial results for the three months ending September 30, 2020.

FINANCIAL SUMMARY

Our overall financial position remains strong; however, the first quarter of fiscal year 2021 continues to be negatively impacted by the COVID-19 pandemic. The university continues to operate under an indefinite state of emergency due to the COVID-19 outbreak. Impacts include:

- A decline in gross tuition and fee revenue of \$51 million for Autumn semester compared to the prior autumn semester due to many students moving to an entirely virtual schedule and others deciding not to return to the university this fiscal year.
- A decline in auxiliary revenues of \$48 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 football season, and the related reduction in ticket, media, conference, and game guarantee revenues.
- An increase in COVID-19 related expenses, including PPE, testing, contact tracing, and quarantine and isolation of approximately \$15 million for the first quarter.

Year-to-date increase in net position was \$388 million, up \$163 million compared to the prior year. The increase is primarily due to a \$237 million increase in net investment income, offset by a \$58 million decrease in operating loss. Other activities for the three months ending September 30, 2020, impacting our financial position include:

Revenues

Student tuition and fees, net - decreased \$31 million or 15%, to \$173 million over the same period of fiscal year 2020, due primarily to a decrease in gross tuition of \$34 million, offset by a \$3 million decrease in scholarship allowances. Gross tuition decreased \$32 million for Autumn semester and \$2 million for Summer semester. Autumn tuition decreased primarily due to a one-week delay, or five academic days, at the start of Autumn 2020 classes of \$24 million and decreased non-resident fees of \$8 million resulting from out-of-state students choosing all on-line instruction.

Grants and contracts - decreased \$4 million, or 1.8%, to \$214 million, due primarily to decreases in private and local grants of \$6 million, offset by increases in state grants of \$2 million. Awarded dollars, which can be considered a leading indicator of the state of the research enterprise, are up 9.9% overall compared to this time last year, including a 9.6% increase in federal dollars and a 11.6% increase in non-federal awarded dollars.

Gifts - decreased \$30 million over the prior year due primarily to decreases in permanent endowment gifts of \$7 million and current use gifts of \$23 million.

Sales and services of auxiliary enterprises - decreased \$48 million due primarily to revenue losses associated with the postponement of fall sports of \$28 million, decreases in Student Life housing and dining revenues of \$14 million, and decreases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$6 million.

Educational departments - decreased \$4 million primarily from decreases in over 160 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 \$45 million to \$1,070 million. The Health System increased \$40 million primarily due to increases for surgical volumes and inpatient surgeries. This contributed to improved operating revenue per adjusted admissions up 3.5% for the first three months of fiscal year 2020 and 9.8% above the prior year. OSU Physicians experienced a similar trend with a year over year increase of \$5 million, or a 3.6% increase.

Non-exchange grants - increased \$3 million due primarily to increases in Federal Work-Study of \$2 million and Pell grants of \$1 million.

CARES (Coronavirus Aid, Relief, and Economic Security) Act assistance – increased \$30 million due to the receipt of \$27.5 million from Federal pass-through funds from the State of Ohio, \$2.6 million for Emergency aid to students, and \$192 thousand for College of Dentistry.

Expenses

University - expenses of \$593 million for the three months ending September 30, 2020, decreased \$10 million, or 1.6%, compared to the same period in 2019, reflecting expenditure controls implemented in response to the outbreak of COVID-19. Supplies and services decreased \$21 million compared to the prior year from restrictions on university travel starting in Spring 2020. A review of all non-essential spending such as supplies, equipment purchases, conferences and membership expenses led to additional savings. Salaries increased \$13 million from annual merit compensation increases of \$6 million and staff increases 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 \$932 million for the three months ending September 30, 2020, increased \$41 million, or 4.6%, compared to the same period of the fiscal year 2019 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 budget of 208 FTEs and \$7.3 million in physician fees.

Auxiliary - expenses of \$60 million for the three months ending September 30, 2020, decreased \$26 million, or 30%, compared to the same period of the fiscal year 2019 primarily due to decreases in Athletics of \$19 million, Student Life of \$5 million, and Business Advancement of \$2 million.

Cash and Investments

Total university cash and investments increased \$541 million to \$10,238 million on September 30, 2020, compared to the same period of last year. Total cash and temporary investments increased \$196 million to \$4,348 million on September 30, 2020, compared to September 30, 2019, primarily due to the Health System's receipt of \$288 million of Medicare Advance payments. Gifted endowment and long-term investments increased \$345 million to \$5,893 million on September 30, 2020, primarily due to increases in the Long-Term Investment Pool of \$273 million and other long-term investments.

Long-Term Investment Pool and Temporary Investments

For the three months ending September 30, 2020, the fair value of the university's Long-Term Investment Pool increased \$306 million to \$5,593 million. Changes in total valuation compared to the prior year are summarized below:

	2021	2020
Fair Value at June 30	\$ 5,287,131	\$ 5,256,759
Net principal additions	40,215	45,532
Change in fair value	319,563	58,018
Income earned	25,638	34,579
Distributions	(60,775)	(56,965)
Expenses	(18,654)	(17,983)
Fair Value at September 30	<u>\$ 5,593,118</u>	<u>\$ 5,319,940</u>

Net principal additions include new endowment gifts (\$9.8 million) and other net transfers of University monies (\$30.4 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 June 30, 2020. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$13.6 million), University Development related expenses (\$4.9 million) and other administrative related expenses (\$0.2 million).

LTIP Investment Returns

For the three months ending September 30, 2020, the LTIP earned a net investment fee return of 6.28% versus a Policy Benchmark of 5.72%, resulting in an outperformance of 0.56%. During that period, our Global Equities returned 8.70%, followed by Real Assets at 2.73% and Global Fixed Income at 1.57%.

The comparable three months ending September 30, 2019, saw a net investment fee return of 1.52% versus a Policy Benchmark of 0.71%, resulting in an outperformance of 0.81%. During that period, our Global Equities returned 1.68%, followed by Global Fixed Income at 1.35% and Real Assets at 1.01%.

Temporary Investments

For the three months ending September 30, 2020, (FYTD), the Intermediate Investments earned a return of 0.97% (+\$9.9 million), outperforming the Bank of America ML 1-3 Year US Gov't/Credit benchmark (+0.27%) by 0.70%. Short-Term Investments earned 0.36% (+\$2.2 million) outperforming the 90 Day T-Bill benchmark (+0.03%) by 0.33%.

The comparable three months ending September 30, 2019, saw Intermediate Investments earn a return of 0.87% (+\$8.4 million). Short-Term Investments returned 0.73% (+\$4.4 million) for this same period.

Cash Flows

Cash provided by operating activities was \$65 million through the first three months of fiscal year 2021, compared with net cash provided by operating activities of \$82 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, offset by lower payments to vendors for supplies and services.

Cash provided by noncapital financing activities was \$209 million through the first three months of fiscal year 2021, compared with \$188 million for the same period in fiscal year 2020. The increases are primarily due to increases in CARES assistance of \$30 million.

Net cash flows used by capital financing activities were \$213 million through three months ending September 30, 2020, primarily for payments on the construction of capital assets.

Net cash flows used by investing activities were \$131 million for the three months ending September 30, 2020, primarily due to the purchase of temporary investments.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
September 30, 2020 and September 30, 2019

	<u>As of September 2020</u>	<u>As of September 2019</u>	<u>Increase/Decrease</u>	
			Dollars	%
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 2,010,929	\$ 1,876,126	\$ 134,803	7.2%
Temporary investments	1,981,679	1,778,699	202,980	11.4%
Accounts receivable, net	680,401	835,091	(154,690)	-18.5%
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	18,294	19,114	(820)	-4.3%
Inventories and prepaid expenses	335,840	283,157	52,683	18.6%
Investments held under securities lending program	9,831	37,898	(28,067)	-74.1%
Total Current Assets	<u>5,141,869</u>	<u>4,886,943</u>	<u>254,926</u>	<u>5.2%</u>
Noncurrent Assets:				
Restricted cash	352,274	493,671	(141,397)	-28.6%
Notes receivable, net	54,601	60,667	(6,066)	-10.0%
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	5,593,118	5,319,940	273,178	5.1%
Other long-term investments	300,347	228,357	71,990	31.5%
Capital assets, net	6,048,184	5,449,662	598,522	11.0%
Total Noncurrent Assets	<u>12,485,673</u>	<u>11,690,968</u>	<u>794,705</u>	<u>6.8%</u>
Total Assets	<u>17,627,542</u>	<u>16,577,911</u>	<u>1,049,631</u>	<u>6.3%</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	31,697	21,982	9,715	44.2%
Total Assets and Deferred Outflows	<u>\$ 18,344,637</u>	<u>\$ 17,733,454</u>	<u>\$ 611,183</u>	<u>3.4%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 739,207	\$ 566,223	\$ 172,984	30.6%
Medicare advance payment program	287,500	-	287,500	100.0%
Deposits and advance payments for goods and services	632,789	687,296	(54,507)	-7.9%
Current portion of bonds, notes and leases payable	58,609	44,970	13,639	30.3%
Long-term bonds payable, subject to remarketing	317,715	574,675	(256,960)	-44.7%
Liability under securities lending program	9,831	37,898	(28,067)	-74.1%
Other current liabilities	112,032	96,396	15,636	16.2%
Total Current Liabilities	<u>2,157,683</u>	<u>2,007,458</u>	<u>150,225</u>	<u>7.5%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	2,741,255	2,559,865	181,390	7.1%
Concessionaire payable	134,362	39,121	95,241	243.5%
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	211,319	178,664	32,655	18.3%
Self-insurance accruals	87,095	82,293	4,802	5.8%
Amounts due to third-party payors - Health System	59,516	52,698	6,818	12.9%
Irrevocable split-interest agreements	31,272	29,292	1,980	6.8%
Refundable advances for Federal Perkins loans	29,695	33,478	(3,783)	-11.3%
Advance from concessionaire	997,322	1,019,109	(21,787)	-2.1%
Other noncurrent liabilities	121,610	124,241	(2,631)	-2.1%
Total Noncurrent Liabilities	<u>8,898,047</u>	<u>9,173,398</u>	<u>(275,351)</u>	<u>-3.0%</u>
Total Liabilities	<u>11,055,730</u>	<u>11,180,856</u>	<u>(125,126)</u>	<u>-1.1%</u>
Deferred Inflows:				
Parking service concession arrangement	404,506	414,138	(9,632)	-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	28,620	32,478	(3,858)	-11.9%
Total Deferred Inflows	<u>1,218,936</u>	<u>674,601</u>	<u>544,335</u>	<u>80.7%</u>
Net Position:				
Net investment in capital assets	3,350,409	2,898,527	451,882	15.6%
Restricted:				
Nonexpendable	1,614,009	1,545,380	68,629	4.4%
Expendable	1,128,279	1,076,802	51,477	4.8%
Unrestricted	(22,726)	357,288	(380,014)	-106.4%
Total Net Position	<u>6,069,971</u>	<u>5,877,997</u>	<u>191,974</u>	<u>3.3%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 18,344,637</u>	<u>\$ 17,733,454</u>	<u>\$ 611,183</u>	<u>3.4%</u>

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

Comparative Year-To-Date

September 30, 2020 and September 30, 2019

	September	September	Increase/Decrease	
	2020	2019	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 173,318	\$ 204,153	\$ (30,835)	-15.1%
Federal grants and contracts	108,235	108,510	(275)	-0.3%
State grants and contracts	20,987	18,220	2,767	15.2%
Local grants and contracts	4,434	5,934	(1,500)	-25.3%
Private grants and contracts	80,471	85,483	(5,012)	-5.9%
Sales and services of educational departments	42,291	46,437	(4,146)	-8.9%
Sales and services of auxiliary enterprises	24,531	72,945	(48,414)	-66.4%
Sales and services of the OSU Health System, net	917,119	877,646	39,473	4.5%
Sales and services of OSU Physicians, Inc., net	153,132	147,807	5,325	3.6%
Other operating revenues	3,475	10,140	(6,665)	-65.7%
Total Operating Revenues	<u>1,527,993</u>	<u>1,577,275</u>	<u>(49,282)</u>	<u>-3.1%</u>
Operating Expenses:				
Educational and General:				
Instruction and departmental research	211,219	204,070	7,149	3.5%
Separately budgeted research	127,407	134,009	(6,602)	-4.9%
Public service	46,559	47,761	(1,202)	-2.5%
Academic support	48,440	61,289	(12,849)	-21.0%
Student services	18,021	22,573	(4,552)	-20.2%
Institutional support	89,289	77,873	11,416	14.7%
Operation and maintenance of plant	30,682	31,740	(1,058)	-3.3%
Scholarships and fellowships	21,235	23,418	(2,183)	-9.3%
Auxiliary enterprises	59,518	85,528	(26,010)	-30.4%
OSU Health System	786,954	750,958	35,996	4.8%
OSU Physicians, Inc.	144,908	139,693	5,215	3.7%
Depreciation	108,821	105,004	3,817	3.6%
Total Operating Expenses	<u>1,693,053</u>	<u>1,683,916</u>	<u>9,137</u>	<u>0.5%</u>
Operating Loss	(165,060)	(106,641)	(58,419)	54.8%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	117,024	120,042	(3,018)	-2.5%
Federal subsidies for Build America Bonds interest	2,830	2,830	-	0.0%
Federal non-exchange grants	36,828	33,703	3,125	9.3%
CARES Assistance	30,210	-	30,210	100.0%
State non-exchange grants	859	1,271	(412)	-32.4%
Gifts	23,256	46,208	(22,952)	-49.7%
Net investment income	348,650	111,224	237,426	213.5%
Interest expense on plant debt	(27,717)	(29,542)	1,825	-6.2%
Other non-operating revenues(expenses)	(8,829)	3,622	(12,451)	-343.8%
Net Non-operating Revenue (Expense)	<u>523,111</u>	<u>289,358</u>	<u>233,753</u>	<u>80.8%</u>
Income before Other Revenues, Expenses, Gains or Losses	358,051	182,717	175,334	96.0%
Changes in Net Position				
State capital appropriations	15,392	21,707	(6,315)	-29.1%
Private capital gifts	2,842	2,593	249	9.6%
Additions to permanent endowments	9,861	17,388	(7,527)	-43.3%
Capital contributions and other changes in net position	1,504	-	1,504	100.0%
Total Changes in Net Position	<u>29,599</u>	<u>41,688</u>	<u>(12,089)</u>	<u>-29.0%</u>
Increase in Net Position	<u>387,650</u>	<u>224,405</u>	<u>\$ 163,245</u>	<u>72.7%</u>
Net Position - Beginning of Year	<u>5,682,321</u>	<u>5,653,592</u>		
Net Position - End of Period	<u>\$ 6,069,971</u>	<u>\$ 5,877,997</u>		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
Years Ended September 30, 2020 and September 30, 2019
(in thousands)

	<u>September 2020</u>	<u>September 2019</u>	<u>Incr/(Decr) to Cash Dollars</u>	<u>%</u>
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 289,417	\$ 329,635	\$ (40,218)	-12.2%
Grant and contract receipts	186,006	177,426	8,580	4.8%
Receipts for sales and services	1,150,599	1,194,796	(44,197)	-3.7%
Payments to or on behalf of employees	(791,978)	(797,458)	5,480	-0.7%
University employee benefit payments	(232,101)	(219,373)	(12,728)	5.8%
Payments to vendors for supplies and services	(529,438)	(594,720)	65,282	-11.0%
Payments to students and fellows	(19,172)	(21,297)	2,125	-10.0%
Student loans issued	(812)	(1,000)	188	-18.8%
Student loans collected	1,410	2,016	(606)	-30.1%
Student loan interest and fees collected	480	513	(33)	-6.4%
Other receipts, net	10,462	11,405	(943)	-8.3%
Net cash provided by operating activities	<u>64,873</u>	<u>81,943</u>	<u>(17,070)</u>	<u>-20.8%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	117,024	97,567	19,457	19.9%
Non-exchange grant receipts	37,687	34,974	2,713	7.8%
CARES Assistance	30,210	-	30,210	100.0%
Gift receipts for current use	23,256	46,208	(22,952)	-49.7%
Additions to permanent endowments	9,861	17,388	(7,527)	-43.3%
Drawdowns of federal direct loan proceeds	128,700	138,000	(9,300)	-6.7%
Disbursements of federal direct loans to students	(137,889)	(148,224)	10,335	-7.0%
Repayment of loans from related organization	335	1,149	(814)	-70.8%
Amounts paid to annuitants and life beneficiaries	(696)	(434)	(262)	60.4%
Agency funds receipts, net	812	1,454	(642)	-44.2%
Net cash provided by noncapital financing activities	<u>209,300</u>	<u>188,082</u>	<u>21,218</u>	<u>11.3%</u>
Cash Flows from Capital Financing Activities:				
State capital appropriations	16,729	21,294	(4,565)	-21.4%
Gift receipts for capital projects	2,842	2,593	249	9.6%
Payments for purchase or construction of capital assets	(231,415)	(144,677)	(86,738)	60.0%
Principal payments on capital debt and leases	(5,905)	(454)	(5,451)	1200.7%
Interest payments on capital debt and leases	(556)	(2,156)	1,600	-74.2%
Federal subsidies for Build America Bonds interest	5,396	-	5,396	100.0%
Net cash (used) by capital financing activities	<u>(212,909)</u>	<u>(123,400)</u>	<u>(89,509)</u>	<u>72.5%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(177,963)	(24,179)	(153,784)	636.0%
Proceeds from sales and maturities of long-term investments	277,346	1,084,405	(807,059)	-74.4%
Investment income	32,182	60,405	(28,223)	-46.7%
Purchases of long-term investments	(262,441)	(1,098,470)	836,029	-76.1%
Net cash provided (used) by investing activities	<u>(130,876)</u>	<u>22,161</u>	<u>(153,037)</u>	<u>-690.6%</u>
Net Increase (Decrease) in Cash	<u>(69,612)</u>	<u>168,786</u>	<u>\$ (238,398)</u>	<u>-141.2%</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>\$ 2,363,203</u>	<u>\$ 2,369,919</u>		