

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2022 Interim Financial Report – September 30, 2021

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

FINANCIAL SUMMARY

Our overall financial position remains strong. Our size, diversity of operations, and discipline enabled us to retain fiscal strength during these unprecedented disruptions. The university is recovering, progressing toward normal operations, and returning to a full college experience. The first quarter of fiscal year 2022 shows increases in operating revenues compared to the first quarter of fiscal year 2021, driven primarily by strong growth at the Health System from increased patient volumes and auxiliary operations due to the return of fall sports. Specific impacts include:

- Healthcare revenues increased \$119 million reflecting increases in hospital patient acuity and growth in outpatient volumes.
- An increase in auxiliary revenues of \$40 million, reflecting higher occupancy for student housing and dining and return of the football season.
- An increase in federal COVID-19 assistance of \$73 million from the Higher Education Emergency Relief Funds (HEERF) for students and lost revenues for the institution.

Year-to-date increase in net position was \$53 million, down \$325 million compared to prior year. The decrease is primarily due to a \$386 million decrease in net investment income, which was partially offset by a \$70 million increase in revenues from federal COVID-19 assistance programs. Additional details on university revenues, expenses, cash and investments, and cash flows are provided below.

Revenues

Student tuition and fees, net - increased \$5 million or 3%, to \$179 million for the three months ending September 30, 2021, compared to the same period of fiscal year 2021, due primarily to an increase in gross tuition of \$21 million. Gross tuition increased \$14 million for Autumn semester, increase of \$7 million for Summer semester, offset by an increase in scholarship allowance of \$15 million. Autumn and Summer tuition increased primarily due to a return to in-person instruction and full assessment of non-resident fees. Similarly, scholarships increased to cover increases in fees for non-residents.

Grants and contracts – were flat for the first quarter of fiscal year 2022 compared to fiscal year 2021. Federal and local grants increased \$7 million and \$8 million, respectively, offset by decreases in State and private grants of \$8 million and \$7 million, respectively. The fluctuation in grants in the first quarter of a fiscal year can be impacted by the various changes in grantor activity.

Gifts - Increased \$12 million over the prior year due primarily to increases in current use gifts of \$8 million, private capital gifts of \$3 million, and additions to permanent endowments of \$1 million.

Sales and services of auxiliary enterprises - increased \$40 million for the three months ending September 30, 2021, compared to prior year due primarily to the resumption of fall sports of \$31 million, increases in Student Life housing and dining revenues of \$6 million, and increases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$3 million.

Federal COVID-19 assistance programs – increased \$73 million over the prior year due to increases in HEERF grants to students of \$43 million, HEERF institutional grants of \$20 million, and Sheltered Venue Operators Grant for the Schottenstein Center of \$10 million.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$119 million to \$1,189 million. The Health System had solid outpatient volumes and strong chemotherapy and radiation oncology volumes. The operating revenues per adjusted admissions were 12.4% above prior year. OSU Physicians experienced a similar trend with a year-over-year increase of \$14 million.

Expenses

University – expenses increased \$58 million or 10%, to \$661 million in the first quarter of fiscal year 2022 due to a return to in-person instruction and resumption on campus events and operations.

OSU Health System and OSU Physicians - expenses increased \$121 million to \$1,053 million. Health System expense per adjusted admission increased only 11.2% from prior year. Expenses increased due to growth in outpatient volumes as well as higher transplant volumes, Covid-19 lab expenses, and higher surgical and procedural expenses.

Auxiliary – expenses increased \$18 million to \$77 million for the three months ending September 30, 2021, compared to prior year, primarily due to the resumption of fall sports and Schottenstein events.

Cash and Investments

Total university cash and investments increased \$1,858 million to \$12,106 million on September 30, 2021, compared to the same period of last year, primarily due to the increase in the Long-Term Investment Pool of \$1,384 million and net increase in cash and temporary investments of \$372 million. Additional details are provided below.

Long-Term Investment Pool and Temporary Investments

For the quarter ending September 30, 2021, the fair value of the university's Long-Term Investment Pool decreased by \$64 million to \$6,978 million. Changes in total valuation compared to prior year are summarized below:

	2021	2020
Market Value at June 30	\$ 7,041,973	\$ 5,287,131
Net principal additions	38,818	40,215
Change in market value	(51,179)	319,563
Income earned	33,877	25,638
Distributions	(64,050)	(60,775)
Expenses	(21,910)	(18,654)
Market Value at end of June	\$ 6,977,529	\$ 5,593,118

Net principal additions include new endowment gifts (\$8.1 million), reinvestment of unused endowment distributions (\$2.6 million), and other net transfers of university monies (\$28.1 million with the majority 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 September 30, 2021. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$16.8 million), University Development related expenses (\$4.9 million), and other administrative-related expenses (\$0.2 million).

LTIP Investment Returns

For the quarter ending September 30, 2021, the LTIP earned a return, net of investment fees, of 2.84%. During that period, our Private Equity returned 12.06% followed by Real Assets at 8.35%, Legacy Investments at 3.52%, Hedge Funds and Opportunistic Credit at 2.34%, Cash and High-Grade Bonds at -0.03% and Public Equity at -1.86%

The comparable quarter ending September 30, 2020, saw a net investment return of 6.28%. During that period, our Public Equity returned 9.28%, followed by Private Equity at 7.53%, Real Assets at 5.33%, Hedge Funds and Opportunistic Credit at 3.65%, Legacy Investments at 2.47%, and Cash and High-Grade Bonds at 0.04%.

Temporary Investments

For the quarter ending September 30, 2021, the Tier 1 Investments (0-1 Year maturity) earned a return of 0.10%, outperforming the ICE Bofa 6m US Treasury Bill benchmark (+0.02%) by 0.08%. Tier 2 Investments (1-5 Year maturity) earned 0.21% outperforming the blended benchmark of ICE Bofa US Corp & Govt 1-3 Years and BBG US Govt/Credit 1-5 Years (+0.08%) by 0.13%.

The comparable quarter ending September 30, 2020, saw Tier 1 Investments earn a return of 0.57%. Tier 2 Investments returned 0.97% for this same time period.

Accounts Receivable

Accounts receivable increased \$165 million, to \$846 million at September 30, 2021. Receivables on grants and appropriations increased \$83 million, driven primarily by a \$105 million in receivables on grants managed by the Office of Sponsored Programs, \$22 million for state-line item appropriations, and \$17 million for departmental programs. Sales and services receivables increased \$60 million for patients, departmental earnings, and auxiliary operations.

Deposits and Advance Payments for Goods and Services

Advance payments for goods and services increased \$174 million to \$807 million at September 30, 2021, primarily due to increases in student tuition and fees of \$80 million, auxiliary operations for Athletics, Student Life, and Schottenstein Center of \$52 million, and Health System of \$30 million for software and construction agreements.

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

University debt, in the form of bonds, notes and capital lease obligations, increased \$649 million, to \$3.77 billion at September 30, 2021. On September 30, 2021, the university closed on \$600,000 in tax-exempt fixed rate General Receipts Bonds – Series 2021A. The Series 2021A bonds are structured on a level debt service basis with annual principal payments beginning December 1, 2022, through final maturity on December 1, 2051. The interest rate coupons on the Series 2021A bonds range from 2.50% to 5.00%. The proceeds of the bonds will be used to fund construction of the Wexner Medical Center's new Inpatient Hospital, scheduled to open in 2026

Cash Flows

University cash and cash equivalents increased \$370 million in the first quarter of fiscal year 2022. Net cash provided in operating activities was \$79 million, compared to \$65 million in the first three months of the fiscal year. The increase relates primarily to increases in sales and services from healthcare and auxiliary operations, offset by payments to vendors and employees. Net cash flows from noncapital financing activities increased \$291 million for the three months ending September 30, 2021, compared \$209 million for the prior year due primarily to increases in COVID-19 assistance program revenue. Cash flows from capital financing activities increased \$433 million for the first quarter of fiscal year 2022 due to the issuance of the 2021A bonds of \$718 million, offset by payments for capital assets of \$292 million. Cash used by investing activities was \$433 million, reflecting net purchases of temporary investments.

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
September 31, 2021 and September 31, 2020
(in thousands)

	<u>As of September 2021</u>	<u>As of September 2020</u>	<u>Increase/(Decrease)</u>	
			<u>Dollars</u>	<u>%</u>
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,260,529	\$ 2,010,929	\$ (750,400)	-37.3%
Temporary investments	3,154,223	1,981,679	1,172,544	59.2%
Accounts receivable, net	845,671	680,401	165,270	24.3%
Notes receivable - current portion, net	25,231	25,655	(424)	-1.7%
Pledges receivable - current portion, net	63,799	79,240	(15,441)	-19.5%
Accrued interest receivable	18,645	18,294	351	1.9%
Inventories, prepaid expenses, and other assets	312,644	335,840	(23,196)	-6.9%
Investments held under securities lending program	89,062	9,831	79,231	805.9%
Total Current Assets	<u>5,769,804</u>	<u>5,141,869</u>	<u>627,935</u>	<u>12.2%</u>
Noncurrent Assets:				
Restricted cash	324,095	352,274	(28,179)	-8.0%
Notes receivable, net	37,721	54,601	(16,880)	-30.9%
Pledges receivable, net	97,441	59,248	38,193	64.5%
Net other post-employment benefit asset	275,182	77,901	197,281	253.2%
Long-term investment pool	6,977,529	5,593,118	1,384,411	24.8%
Other long-term investments	350,341	300,347	49,994	16.6%
Other noncurrent assets	204,133	-	204,133	100.0%
Capital assets, net	6,629,965	6,048,184	581,781	9.6%
Total Noncurrent Assets	<u>14,896,407</u>	<u>12,485,673</u>	<u>2,410,734</u>	<u>19.3%</u>
Total Assets	<u>20,666,211</u>	<u>17,627,542</u>	<u>3,038,669</u>	<u>17.2%</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	23,431	31,697	(8,266)	-26.1%
Total Assets and Deferred Outflows	<u>\$ 21,133,503</u>	<u>\$ 18,344,637</u>	<u>\$ 2,788,866</u>	<u>15.2%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 824,691	\$ 749,084	\$ 75,607	10.1%
Medicare advance payment program	213,468	287,500	(74,032)	-25.8%
Deposits and advance payments for goods and services	806,853	632,789	174,064	27.5%
Current portion of bonds, notes and leases payable	64,345	58,609	5,736	9.8%
Long-term bonds payable, subject to remarketing	289,970	317,715	(27,745)	-8.7%
Liability under securities lending program	89,062	9,831	79,231	805.9%
Other current liabilities	93,265	112,032	(18,767)	-16.8%
Total Current Liabilities	<u>2,381,654</u>	<u>2,167,560</u>	<u>214,094</u>	<u>9.9%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	3,412,616	2,741,255	671,361	24.5%
Concessionaire payable	220,684	134,362	86,322	64.2%
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	218,702	211,319	7,383	3.5%
Self-insurance accruals	30,966	87,095	(56,129)	-64.4%
Amounts due to third-party payors - Health System	94,670	59,516	35,154	59.1%
Irrevocable split-interest agreements	36,328	31,272	5,056	16.2%
Refundable advances for Federal Perkins loans	26,005	29,695	(3,690)	-12.4%
Advance from concessionaire	975,506	997,322	(21,816)	-2.2%
Other noncurrent liabilities	290,164	121,610	168,554	138.6%
Total Noncurrent Liabilities	<u>8,007,657</u>	<u>8,898,047</u>	<u>(890,390)</u>	<u>-10.0%</u>
Total Liabilities	<u>10,389,311</u>	<u>11,065,607</u>	<u>(676,296)</u>	<u>-6.1%</u>
Deferred Inflows:				
Parking service concession arrangement	394,875	404,506	(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	40,713	28,620	12,093	42.3%
Total Deferred Inflows	<u>1,793,776</u>	<u>1,218,936</u>	<u>574,840</u>	<u>47.2%</u>
Net Position:				
Net investment in capital assets	3,316,600	3,350,409	(33,809)	-1.0%
Restricted:				
Nonexpendable	1,708,529	1,614,009	94,520	5.9%
Expendable	2,115,658	1,128,279	987,379	87.5%
Unrestricted	1,809,629	(32,603)	1,842,232	5450.5%
Total Net Position	<u>8,950,416</u>	<u>6,060,094</u>	<u>2,890,322</u>	<u>47.7%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 21,133,503</u>	<u>\$ 18,344,637</u>	<u>\$ 2,788,866</u>	<u>15.2%</u>

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - UNAUDITED
September 31, 2021 and September 31, 2020
(in thousands)

	September	September	Increase/(Decrease)	
	2021	2020	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 178,634	\$ 173,318	\$ 5,316	3.1%
Federal grants and contracts	115,180	108,235	6,945	6.4%
State grants and contracts	13,169	20,987	(7,818)	-37.3%
Local grants and contracts	12,583	4,434	8,149	183.8%
Private grants and contracts	73,490	80,471	(6,981)	-8.7%
Sales and services of educational departments	53,939	42,291	11,648	27.5%
Sales and services of auxiliary enterprises	64,865	24,531	40,334	164.4%
Sales and services of the OSU Health System, net	1,022,320	917,119	105,201	11.5%
Sales and services of OSU Physicians, Inc., net	166,863	153,132	13,731	9.0%
Other operating revenues	12,255	3,475	8,780	252.7%
Total Operating Revenues	1,713,298	1,527,993	185,305	12.1%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	242,118	220,655	21,463	9.7%
Separately budgeted research	123,807	127,823	(4,016)	-3.1%
Public service	43,690	46,664	(2,974)	-6.4%
Academic support	61,404	48,342	13,062	27.0%
Student services	23,251	18,023	5,228	29.0%
Institutional support	96,587	89,300	7,287	8.2%
Operation and maintenance of plant	39,323	30,682	8,641	28.2%
Scholarships and fellowships	31,003	21,241	9,762	46.0%
Auxiliary enterprises	77,484	59,518	17,966	30.2%
OSU Health System	894,035	786,954	107,081	13.6%
OSU Physicians, Inc.	158,649	144,908	13,741	9.5%
Depreciation	126,762	108,821	17,941	16.5%
Total Operating Expenses	1,918,113	1,702,931	215,182	12.6%
Operating Loss	(204,815)	(174,938)	(29,877)	17.1%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	123,422	117,024	6,398	5.5%
Federal subsidies for Build America Bonds interest	2,830	2,830	-	0.0%
Federal non-exchange grants	37,275	36,828	447	1.2%
Federal COVID-19 assistance programs	102,981	30,210	72,771	240.9%
State non-exchange grants	4,572	859	3,713	432.2%
Gifts	31,299	23,256	8,043	34.6%
Net investment income (loss)	(37,792)	348,650	(386,442)	-110.8%
Interest expense on plant debt	(34,077)	(27,717)	(6,360)	-22.9%
Other non-operating revenues (expenses)	(3,493)	(8,829)	5,336	-60.4%
Net Non-operating Revenue (Expense)	227,017	523,111	(296,094)	-56.6%
Income (Loss) before Other Revenues, Expenses, Gains or Losses	22,202	348,173	(325,971)	-93.6%
Changes in Net Position				
State capital appropriations	13,662	15,392	(1,730)	-11.2%
Private capital gifts	6,288	2,842	3,446	121.3%
Additions to permanent endowments	10,706	9,862	844	8.6%
Total Changes in Net Position	30,656	29,600	1,056	3.6%
Increase in Net Position	52,858	377,773	\$(324,915)	-86.0%
Net Position - Beginning of Year	8,897,558	5,682,321		
Net Position - End of Period	\$ 8,950,416	\$ 6,060,094		

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

	September 2021	September 2020	Increase (Decrease)	
			Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 318,341	\$ 289,417	\$ 28,924	10.0%
Grant and contract receipts	163,156	186,006	(22,850)	-12.3%
Receipts for sales and services	1,423,339	1,150,599	272,740	23.7%
Payments to or on behalf of employees	(850,015)	(791,978)	(58,037)	7.3%
University employee benefit payments	(247,829)	(232,101)	(15,728)	6.8%
Payments to vendors for supplies and services	(720,676)	(529,438)	(191,238)	36.1%
Payments to students and fellows	(28,586)	(19,172)	(9,414)	49.1%
Student loans issued	(867)	(812)	(55)	6.8%
Student loans collected	1,165	1,410	(245)	-17.4%
Student loan interest and fees collected	390	480	(90)	-18.8%
Other receipts (payments)	15,184	10,462	4,722	45.1%
Net cash provided by operating activities	<u>79,049</u>	<u>64,873</u>	<u>14,176</u>	<u>21.9%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	101,022	117,024	(16,002)	-13.7%
Non-exchange grant receipts	41,847	37,687	4,160	11.0%
Federal COVID-19 assistance programs	102,981	30,210	72,771	240.9%
Gift receipts for current use	31,298	23,256	8,042	34.6%
Additions to permanent endowments	10,706	9,861	845	8.6%
Drawdowns of federal direct loan proceeds	146,113	128,700	17,413	13.5%
Disbursements of federal direct loans to students	(143,769)	(137,554)	(6,215)	4.5%
Amounts paid to annuitants and life beneficiaries	-	(696)	696	-100.0%
Agency funds receipts	687	812	(125)	-15.4%
Net cash provided by noncapital financing activities	<u>290,971</u>	<u>209,300</u>	<u>81,671</u>	<u>39.0%</u>
Cash Flows from Capital Financing Activities:				
Proceeds from capital debt and leases	718,307	-	718,307	100.0%
State capital appropriations	12,255	16,729	(4,474)	-26.7%
Gift receipts for capital projects	6,288	2,842	3,446	121.3%
Payments for purchase or construction of capital assets	(292,053)	(231,415)	(60,638)	26.2%
Principal payments on capital debt and leases	(11,731)	(5,905)	(5,826)	98.7%
Interest payments on capital debt and leases	(4,477)	(556)	(3,921)	705.2%
Federal subsidies for Build America Bonds interest	4,708	5,396	(688)	-12.8%
Net cash provided (used) by capital financing activities	<u>433,297</u>	<u>(212,909)</u>	<u>646,206</u>	<u>303.5%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(458,820)	(177,963)	(280,857)	157.8%
Proceeds from sales and maturities of long-term investments	786,899	277,346	509,553	183.7%
Investment income	14,590	32,182	(17,592)	-54.7%
Purchases of long-term investments	(775,749)	(262,441)	(513,308)	195.6%
Net cash used by investing activities	<u>(433,080)</u>	<u>(130,876)</u>	<u>(302,204)</u>	<u>230.9%</u>
Net Increase (Decrease) in Cash	<u>370,237</u>	<u>(69,612)</u>	<u>\$ 439,849</u>	<u>-631.9%</u>
Cash and Cash Equivalents - Beginning of Year	<u>1,214,387</u>	<u>2,432,815</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 1,584,624</u>	<u>\$ 2,363,203</u>		