

# Should Laurier Go Ahead with the Milton Campus?

*A Financial Assessment based on a comparison with four similar universities*

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# Balance Sheet: A Snapshot of the University's Financial Position

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Presents the basic equation (Assets = Liabilities + Equity)

Unlike the other statements, it is a static statement

Both assets and liabilities are divided between current and non-current

Assets represent the resources that the University has to perform its operations

# Assets

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## Characteristics:

- 1** Under the control of the firm
- 2** Provide future benefits (an asset's stated value on a balance sheet cannot exceed the current value of its future benefits)
- 3** Come from past transactions
- 4** Are measurable

# WLU Current Assets

(In thousands of Canadian dollars)

April 30, 2022, with comparative information for 2021

	2022	2021
Current assets:		
Cash and short-term deposits	\$ 79,493	\$ 87,708
Accounts receivable	35,614	44,382
Short-term investments	30,739	32,096
Inventories	1,936	2,768
Prepaid expenses and deposits	7,287	6,671
Current portion of notes receivable	623	544
Asset held for sale	<u>3,328</u>	<u>-</u>
	159,020	174,169

# WLU Long-Term Assets

(In thousands of Canadian dollars)

April 30, 2022, with comparative information for 2021

	2022	2021
Long-term assets:		
Notes receivable less current portion	6,782	7,565
Asset held for sale	3,165	-
Capital assets	604,916	559,566
Long-term investments	177,487	146,051
Restricted cash	<u>191</u>	<u>241</u>
	792,541	713,423
 Total assets	 \$ 951,561	 \$ 887,592

# Liabilities

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- 1** Liabilities are external financing
- 2** Measured by the discounted value of future payments to outside lenders
- 3** If they are due within one year or the next operating cycle, they are not discounted

# WLU Current Liabilities

(In thousands of Canadian dollars)

April 30, 2022, with comparative information for 2021

	2022	2021
Current liabilities:		
Accounts payable and accrued liabilities	\$ 53,681	\$ 54,399
Accrued vacation pay	7,386	6,922
Deferred revenue	43,610	44,267
Current portion of banker's acceptance	3,284	3,189
Current portion of obligation under capital leases	<u>415</u>	<u>402</u>
	108,376	109,179

# WLU Long-Term Liabilities

(In thousands of Canadian dollars)

April 30, 2022, with comparative information for 2021

	2022	2021
Long-term financial liabilities:		
Debentures	110,281	110,184
Banker's acceptance	94,363	97,647
Obligation under capital leases	<u>63</u>	<u>478</u>
	204,707	208,309
Other long-term liabilities:		
Retirement incentive plan	1,155	1,490
Pension plans	12,591	3,035
Other post-employment benefits	79,990	75,302
Deferred contributions - operations	58,345	56,201
Deferred contributions - capital	202,416	203,528
Forgivable loans	<u>315</u>	<u>354</u>
	354,812	339,910
Total liabilities	667,895	657,398



## Balance Sheet (cont.)

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For not-for-profit organizations, the equity is called Net Assets:

**Unrestricted**

**Internally Restricted**

**Invested in  
Capital Assets**

**Endowments**

# WLU Net Assets

(In thousands of Canadian dollars)

April 30, 2022, with comparative information for 2021

	2022	2021
Net assets:		
Unrestricted	(86,675)	(72,617)
Internally restricted	62,317	53,363
Invested in capital assets	200,272	143,784
Endowments	<u>107,752</u>	<u>105,664</u>
	283,666	230,194
Total liabilities and net assets	\$ 951,561	\$ 887,592

# WLU Fund Analysis

(In thousands of Canadian dollars)

Unrestricted Fund Balance, April 30, 2022	(86,675)
Internally Restricted Fund Balance, April 30, 2022	<u>62,317</u>
	(24,358)
Add: 2022 Transfer to Capital Assets Fund	12,814
Add: 2021 Transfer to Capital Assets Fund	19,240
Add: 2020 Transfer to Capital Assets Fund	32,417
Add: 2019 Transfer to Capital Assets Fund	24,123
Add: 2018 Transfer to Capital Assets Fund	8,243
Add: 2017 Transfer to Capital Assets Fund	10,516
Add: 2016 Transfer to Capital Assets Fund	127
Less: 2015 Transfer from Capital Assets Fund	(7,375)
Add: 2014 Transfer to Capital Assets Fund	12,102
Add: 2013 Transfer to Capital Assets Fund	9,902
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<b>Adjusted Sum of Unrestricted and Internally Restricted Fund Balances</b>	<b>97,751</b>

# Income Statement

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Shows revenues and expenses for a period of time (dynamic statement)

The objective is to present the extent to which the University's revenues cover its expenses

The bottom line is the excess (deficiency) of revenue over expenses of the University

# WLU Revenues

(In thousands of Canadian dollars)

Year ended April 30, 2022, with comparative information for 2021

	2022	2021
Revenue:		
Government grants	\$ 125,363	\$ 120,215
Student fees	221,405	197,687
Donations	4,351	4,847
Sales and service	19,850	15,490
Amortization of deferred contributions - capital	8,435	8,348
Interest and investment income	7,618	12,293
Gain on sale of capital assets	-	195
Other revenues	<u>12,227</u>	<u>10,067</u>
	399,249	369,142

# WLU Expenses

(In thousands of Canadian dollars)

Year ended April 30, 2022, with comparative information for 2021

	2022	2021
Expenses:		
Salaries	200,854	195,797
Benefits	26,419	22,023
Employee future benefits	29,166	30,495
Operating costs	50,064	40,037
Amortization of capital assets	24,533	23,735
Cost of goods sold	8,894	8,269
Taxes, utilities, and rent	18,665	18,676
Scholarships and bursaries	32,237	27,561
Interest	<u>9,296</u>	<u>9,399</u>
	400,128	375,992
Excess (deficiency) of revenue over expenses	\$ (879)	\$ (6,850)

# Profitability

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- For 2022, the income statement shows a loss of \$(879,000)
- In salaries, there is \$4,000,000 for the voluntary retirement incentive program (which is not recurring in nature)
- When we exclude the \$4,000,000 of non-recurring expense for the voluntary retirement incentive program, the University generated a surplus of revenue over expenses of \$3,021,000

# **Should Laurier Go Ahead with the Milton Campus?**

## ***A Financial Assessment based on a comparison with four similar universities***

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**In the analyses, we compare the financial situation of WLU to four similar universities:**

**1) Brock University**

**2) University of Windsor**

**3) University of Guelph**

**4) Carleton University**



# *The Special Report on Laurentian University prepared by the Office of the Auditor General of Ontario*

- 1 Major capital projects without adequate consideration for how they would be collectively funded or ultimately used
- 2 Pursuit of poorly considered capital investments
- 3 Ineffectual Board of Governors and its committees lacked key operational and governance oversight practices and expertise
- 4 High senior administrator salaries and expenses and inappropriate human resources practices negatively impacted Laurentian's financial picture

# Parallels with the Current Situation at WLU

- Milton represents a major capital investments and the University still does not have a clear vision of the programs that will be offered there
- The Board of Governor and the Senate at WLU are more passive than active in their decision processes and oversight
- Significant increase in the cost of administration relative to growth in the number of students:
  - *From 2011 and 2021, the number of full-time students has increased by 9.7%*
  - *During that period and controlling for inflation, the salaries for faculty members increased by 11.3%*
  - *For staff and management, the increase was 17.7% (after controlling for inflation)*

# Liquidity Analysis

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Examines the ability of the University to meet its short-term obligations (i.e., current liabilities).

There are two key ratios:

**1. Current ratio** (Current ratio: current assets / current liabilities)

**2. Cash ratio** (Cash plus short-term investments over current liabilities)

# Liquidity Analyses

	2022 WLU	2021 WLU	2020 WLU	2019 WLU	Average of 4 Other Universities
Current ratio	1.467	1.595	1.628	1.926	<b>1.691</b>
Cash ratio	1.017	1.097	1.110	1.369	<b>1.414</b>

## Liquidity Analyses (cont.)

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- In general, the ratios of WLU are smaller than the average ratios of the 4 universities over the period of 2011 to 2022
- The cash ratio of WLU, while lower than the other 4 universities, is quite good
- **More worrying is the decrease in the ratios of WLU over this period of time. This implies that the University has less flexibility in meeting its current obligations**

# Solvency Analyses

Examine the ability of the University to meet its long-term obligations. We focus on two key ratios:

**1. Debt/Asset ratio** (Total liabilities over total assets). It indicates the proportion of assets that is financed with debt.

**2. Interest Coverage ratio** (Net income less interest expense divided by interest expense). This ratio indicates how many times the profit, excluding interest expenses, can cover the interest expense.

➤ *These two ratios are key ratios for lenders in the event that WLU must borrow money*

## Solvency Analyses (cont.)

	2022 WLU	2021 WLU	2020 WLU	2019 WLU	Average of 4 Other Universities
Debt/Asset	0.702	0.741	0.792	0.770	<b>0.650</b>
Interest Coverage	0.905	0.271	(0.171)	2.054	<b>5.599</b>

# Debt/Assets Ratio

➤ The ratio has been declining over the last 12 years (good news)

➤ The decrease in the ratio between 2021 (0.741) and 2022 (0.702) is due to the donation of the land by the City of Milton

➤ The ratio of WLU is higher than the average of the 4 universities (0.650)

➤ If we assume that the two building that WLU wants to build in Milton costs \$400M, **the debt/assets ratio will be very close to 80% (0.790)**



# Interest Coverage Ratio

- This ratio is very weak since the University cannot cover its interest expense using its profit
- It is important for this ratio to be as high as possible since it would indicate lower risk for lenders
- WLU interest coverage ratio is weaker than the average of the 4 universities (5.599)
- **Considering that the interest rates are increasing, the ratio will only get worse over time**

# Conclusion of Solvency Analyses

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➤ The debt/asset ratio will be too high if WLU proceeds with Milton

➤ The weak interest coverage ratios may make it difficult for the University to cover the cost of Milton

➤ ***The WLUFA Finance Committee recommends that the University does not proceed with the expansion to Milton***

# Salaries Over Revenues

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The ratio is calculated by taking salaries and benefits from the income statement and dividing this by total revenues

By dividing by total revenues, we control for the difference in sizes across the 5 universities

We exclude the \$4,000,000 of non-recurring expenses for the voluntary retirement incentive program (included in salaries in 2022)

# Salaries Over Revenues Analysis

	2022 WLU	2021 WLU	2020 WLU	2019 WLU	Average of 4 Other Universities
$\frac{\text{(Salaries + Benefits)}}{\text{Revenues}}$	55.9%	59.0%	57.7%	53.1%	<b>59.1%</b>

## Salaries Over Revenues Analysis (cont.)

<b>(Salaries + Benefits) Over Revenues</b>	<b>2022</b>
WLU	55.9%
Brock University	63.4%
University of Guelph	57.8%
University of Windsor	66.2%
Carleton University	61.1%

# Salaries Over Revenues Conclusion

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➤ WLU pays lower salaries and benefits relative to its revenues than the 4 other universities

➤ ***WLU's relatively weak and declining financial position is not attributable to overall employee salaries***

# Overall Conclusion

WLU has experienced **declining liquidity** and is currently in a **weak position to undertake a major capital project** like the proposed Milton expansion

Furthermore, WLU is in a **weak position to borrow funds for this expansion** (i.e., the University cannot currently service the interest on its current debt from the surplus of its operations)

Total faculty salaries have been increasing in line with the growth in the number of students. In contrast, in constant dollar terms, the **total salaries of staff and management have been growing faster than the number of students**

**WLU should not expand to Milton**