Assessing University Performance Using Financial Statements

Laurentian University (LU) was a Canadian university located in Sudbury, Ontario. It had an enrollment of over 8,000 students and offered a wide variety of programs at both the graduate and undergraduate levels in four faculties: Arts; Management; Education and Health; and Science, Engineering, and Architecture. Over 20% of its programs were offered in French, making it a truly bilingual campus. It was located on lands that adjoin the vast Lake Laurentian Conservation Area. It touted its small class sizes and graduate employment rates.

When looking at the website, it seemed that it was a thriving university. However, on February 1, 2021, LU applied for creditor protection under the *Companies' Creditors Arrangement Act* (CCAA), the first public university in Canada to do so. As a part of restructuring, LU eliminated 76 programs, terminated 195 faculty and staff and incurred millions of dollars in fees paid to private sector advisors and lawyers.

The events at LU raised a number of questions for the Standing Committee of Public Accounts. This Committee is liaises with the Ontario legislative assembly and the Office of the Auditor General of Ontario.[1] LU received significant funding from the provincial government (over $80 million annually). The Legislative Assembly unanimously passed a motion requesting that the Office of the Auditor General of Ontario (OAG) conduct a special audit on Laurentian's operations for the ten-year period from 2010 to 2020[2].

You were recently hired by the Ontario Confederation of University Faculty Associations (OCUFA). Among OCUFA's mandate was to facilitate the exchange of information among member associations. OCUFA also compiled and published data on economic benefits and university funding[3]. Your supervisor, Lillian Rowan, provided you with some excerpts from the Special Report on Laurentian University from the Office of the Auditor General of Ontario (the Report). She asked you to examine this information and discuss its relevance to all universities in Ontario. Lillian asked you to look at several specific issues.

1. The report highlighted the importance of government funding for LU. Lillian asked you to review Figure 4 from the Report and determine if Laurentian's funding was representative of all universities. Figure 4 shows the capital and operating funding from the Ministry to all universities and to LU from 2009/10 until 2020/21. (All information is provided in Appendix 1).
   - What proportion of a university's revenue was typically funded from government sources?

2. She also wanted to understand the operating activities of universities in light of the Report. Laurentian reported deficits in nine of the past eleven years. "On average, annual deficits […] were 2.1% of revenues." (AG Report, p. 23)

[1] https://www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html#what-is (Accessed December 17, 2024)
[2] https://www.auditor.on.ca/en/content/specialreports/specialreports/LaurentianUniversity_EN.pdf (Accessed December 17, 2024)
[3] https://ocufa.on.ca/overview/ (Accessed December 17, 2024)

- Was this typical of most universities in Ontario?

3. Typically, the largest expense for most universities was faculty salaries. The Report indicated that faculty salaries were not out of line with other comparable universities (p. 40). (An excerpt of this discussion is in Appendix III.) Lillian wanted more analysis of this issue.
   - What was the average salary per faculty at Ontario universities?
   - What was the impact of the student to faculty ratio on this expense?
   - Do you agree with the report that this was not the cause of the problem?

4. The Province of Ontario provided financial indicators to help assess the performance of universities. From the information provided in Figure 25 (Appendix IV) of the Report, LU did not meet many of these benchmarks over the past several years.
   - Was this typical of all Ontario universities?
   - Do you think that the benchmarks provide insights into the financial performance of Ontario's universities?

OPTION ONE

Required

Data is provided for Ontario universities for the past ten years (2014-2023). The AG report was prepared from data up to 2020.

You should complete the analysis as required. (This should give you information regarding all Ontario universities.

In addition to comparing Laurentian to all Ontario universities, Lillian was wondering if it might be more appropriate to define a comparator group much like the Auditor General did for her analysis. What metrics might you use for this comparator group? Does this significantly change your analysis? Suggested metrics include:

1. Current student enrolment
2. Maclean's categories
3. Urban vs rural centres
4. You may choose other groupings you consider appropriate.

Based on your analysis, are other Ontario universities in trouble financially?

OPTION TWO

Required

Data is provided for Ontario universities for the past ten years (2014-2023). The AG report was prepared from data up to 2020.

In preparation for meetings with the universities, Lillian would like you to create a minimum of five visuals in Excel to show how your assigned universities are doing in comparison to LU. In particular, she would like to be able to compare all of the financial indicators (shown in Appendix III) across your assigned universities and LU.

The case also provides you additional information (faculty salaries, student counts etc.) that you are welcome to use should you believe that the information is important and applicable to your determination of whether or not your universities might be in financial distress.

Provide a one-page written analysis of your findings answering the question of whether your findings show that your assigned universities might be in financial distress. Reference your charts, graphs, or tables in your report but do not put them into your word document. Please ensure your Excel document is properly formatted and I can easily find your charts, graphs or tables.

You will be submitting two documents for this assignment. One excel document with your labelled work, one word document with a one page written analysis of your work. Title each document with your last name, Excel or Word, and LU Project.

Appendix I

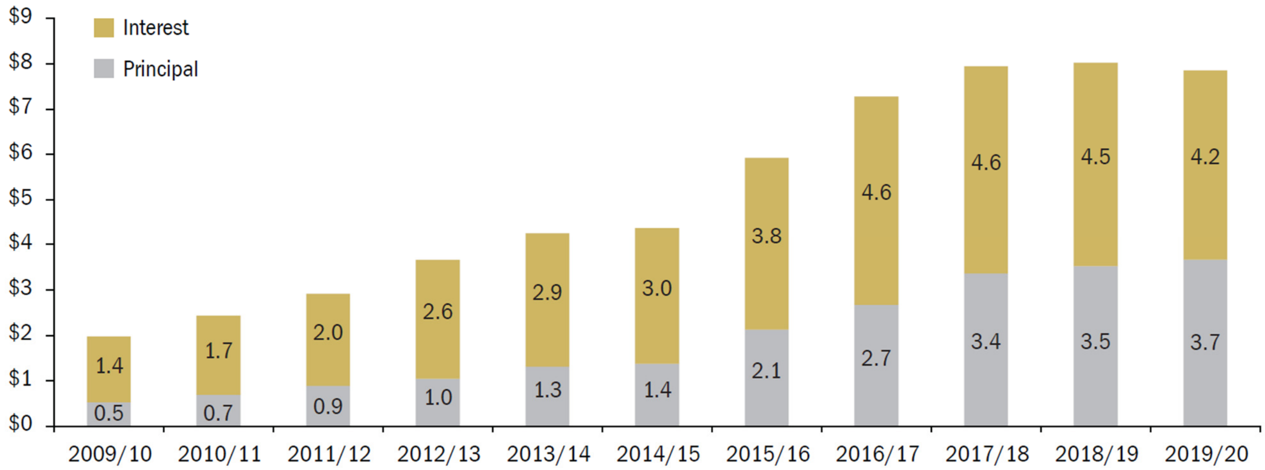
Figure 4: Ministry of Colleges and Universities Capital and Operating Funding to Universities for the Years Ending April 30, 2009/10 – 2020/21 ($ million) *(This Figure is also included in the data file.)*

Year	All Ontario Universities			Laurentian University			
	Operating	Capital	Total	Operating	Capital*	Total	Ministry Funding as a % of Revenues
2009/10	3,214.2	95.1	3,309.3	69.9	3.4	73.3	49.6
2010/11	3,315.0	104.7	3,419.7	72.9	3.5	76.4	48.3
2011/12	3,410.2	83.1	3,493.3	74.8	0.9	75.7	48.1
2012/13	3,479.3	111.6	3,590.9	72.6	1.2	73.8	45.9
2013/14	3,539.0	155.2	3,694.2	73.8	6.9	80.7	47.2
2014/15	3,505.9	167.8	3,673.7	73.1	8.4	81.5	46.4
2015/16	3,517.8	223.9	3,741.7	73.5	8.2	81.7	45.6
2016/17	3,551.9	132.1	3,684.0	75.6	9.8	85.4	45.3
2017/18	3,613.9	153.6	3,767.5	75.2	10.3	85.5	43.7
2018/19	3,649.8	130.5	3,780.3	75.5	5.6	81.1	41.6
2019/20	3,733.5	53.4	3,786.9	81.0	3.1	84.1	42.6
2020/21	3,678.9	90.0	3,768.9	74.9	2.5	77.4	39.6
Average/year	**3,517.5**	**125.1**	**3,642.5**	**74.4**	**5.3**	**79.7**	**45.3**
Total	**42,209.4**	**1,501.0**	**43,710.4**	**892.8**	**63.8**	**956.6**	**-**

* Includes federal funding provided to Laurentian through the post-Secondary Institutions Strategic Initiatives Fund, which is administered through the Ministry of Colleges and Universities

Appendix II

Figure 5: Principal and interest payment on debt for the years ending April 30, 2009/10 through 2019/20 ($ million)



Appendix III

Excerpt from Section 7.1, p. 40

> Given Laurentian had 403 full-time faculty in 2018/19, it had lower relative estimated costs of $1.9 million compared with Lakehead's average faculty salaries, and $10 million in lower relative estimated costs compared with Nipissing's average faculty salaries.
>
> While Laurentian's salaries were lower, the ratio of students to full-time faculty was also lower than other Northern Ontario[4] universities. At Laurentian, there were on average 22 students per faculty member in 2018/19, compared to an average at the other three Northern universities of 25 students per faculty member. Had Laurentian had the same student to faculty ratio as the average of the other universities in Northern Ontario, its costs could have been an estimated $6.4 million lower in 2018/19.

Excerpt from Section 7.2, p. 41

> We found that although some Laurentian courses generated losses, overall, the University's academic programming provided a positive financial contribution during the 10-year period of our review. The University had balanced operating costs between 2009/10 and 2019/20, meaning that its salary costs for delivering academic programs were equal to or less than the revenue generated from them. What this means is that overall, Laurentian's academic programs were helping to cover the schools' overall operating and fixed administrative overhead costs.
>
> Specifically, from 2009/10 to 2019/20, the revenue Laurentian generated from tuition and government grants related to enrolment ($1.36 billion) exceeded the cost of salaries and benefits paid to faculty teaching these courses ($641 million), by $717.7 million. Annual revenues were on average $65.2 million higher than annual faculty salary and benefit costs.

[4] The AG Report defines Northern Universities as Laurentian, Lakehead, Nipissing and Algoma. Data from Algoma University is not included in the data file as its information was not complete.

Appendix IV

Figure 25: Laurentian University's Performance Against Ministry Financial Indicators for the Years Ending April 30. 2014/15 – 2019/20

	Ministry Benchmarks	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Net income/loss ratio (%)	=> 1.5	(1.0)	(1.1)	1.0	1.1	2.1	(1.7)
Net operating revenue ratio (%)	=> 5	1.5	5.2	(1.2)	(0.4)	(2.9)	1.0
Primary reserve (days)	=> 30	(7.0)	(14.0)	(17.0)	(12.0)	(22.0)	(36.0)
Interest burden ratio (%)	=< 3	1.6	2.3	2.4	2.4	2.7	2.2
Viability ratio (%)	=> 30	(5.7)	(8.1)	(8.9)	(6.6)	(12.9)	(22.2)
In-year surplus (deficit) ($ million)	=> 0	(1.7)	(2.0)	(1.8)	2.1	(4.1)	(3.4)
Expendable net assets ($ million)	=> 50	(3.6)	(6.9)	(8.8)	(6.3)	(11.8)	(19.8)

Shading indicates when Laurentian did not meet the Ministry of Colleges and Universities benchmark for an indicator.
This figure relies on the Ministry's estimate of Laurentian's interest costs, as Laurentian does not separately disclose interest in its audited financial statements.

Benchmarks defined:

Net income/loss ratio = Net Income/Total revenue

Net operating revenue ratio = Cash flow from operations/Total revenue

Primary reserve (days) = (Expendable net assets/Total expenses) X 365 days

Interest burden ratio = Interest expense/(Total expenses – amortization)

Viability ratio = Expendable net assets/ Long-term debt

In year surplus as a percent of revenue = Total revenues – Total expenses

Expendable net assets = Net assets – investments in capital assets – future employee benefits (asset) + future employee benefits (liability) – endowment fund