



Management Discussion & Analysis of Results of Operations and Financial Conditions 2015-2016



Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and financial condition of Algonquin College. The MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and accompanying notes.




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Letter from the President

At Algonquin College, we firmly believe that what's good for our students is good for employers and the community. By equipping graduates with the skills and attitudes they will need for the future, we are also creating the workforce that will help Ontario prosper tomorrow and beyond.

We want to create a clear path for learners to the Ontario post-secondary applied education that leads to a fulfilling life. To do so, we draw on our strengths: the entrepreneurial mindset of our employees, modern technology, and a culture of collaboration that embraces a wide range of perspectives. Together with our students, we create an unstoppable force for innovation and economic growth.

Forward-thinking strategic investments will help us realize our mission so that our students are able to acquire the skills and knowledge for the work and lifestyles they envision ahead. Our sector is evolving, and we must invest to keep pace for our students.

At Algonquin College, we face our fiscal challenges with creativity and resourcefulness. We continue to create a wide array of possibilities for our students. We are changing lives through programs and services that address a wide range of learner interests and labour needs.

Technology is providing new opportunities for interactions and ways of learning. With the shift in student demographics, expectations of us are high and increasingly wide-ranging while traditional funding from the province of Ontario is in decline. At Algonquin College, we face our fiscal challenges with creativity and resourcefulness. Although the College operates with unprecedented financial pressure, we continue to create a wide array of possibilities for our students.

I introduce this Management Discussion and Analysis to shine a light on the College's 2015-2016 operating results. I invite you to share in our mission to provide access to the rewarding futures that await our students. Prudent fiscal management of our core activities, hand in hand with innovation, guide our vision to realize the dreams of a diversity of learners. Today and down the road, we will manage our finances to ensure our College continues to be where learners are challenged and succeed, preparing to lead full, rewarding lives after graduation.

Algonquin College is a dynamic, creative place, where innovation and an entrepreneurial mindset are valued. We will continue to learn from each other's insights and experiences, and build a bright future together.

Sincerely,



Cheryl Jensen | President

Overview and Outlook

**Our College has
been named one of
the National Capital
Region's top employers
for three years running.**



From our incorporation as a college in 1966, Algonquin College has focused on providing access to learning. We set out to provide the widest range of post-secondary education and career development opportunities to the broadest array of learners. Today, our College serves more than 21,000 full-time students and nearly 39,000 continuing education students across Eastern Ontario and abroad. A complement of 1,290 full-time and 3,126 part-time employees support our learners. As a leading Canadian polytechnic, we specialize in applied learning and research, offering certificates, diplomas, apprenticeship programs and degrees to students across our different campus locations in Ottawa, Pembroke, Perth, around the world and online.

Our College has been named one of the National Capital Region's top employers for three consecutive years. The dedication of Algonquin College's skilled employees is essential to our students' success. The 2015 Employee Engagement Survey showed that the number of engaged employees has risen to 60%. With the results of the same survey, Algonquin College continues to outperform when measured against other post-secondary institutions.



For the third year in a row, Algonquin College was named by Research Infosource as one of Canada's top 50 research colleges. The same year, faculty led 97% of full-time students through mobile programs that required students to use technologies for course materials and learning interactions. Thanks to the ability to download eTextbooks, 14,900 Algonquin College students had early access to their required materials and increased their likelihood of success in their course work.

Our students reflect on their experiences at Algonquin with a sector-leading 80.4% student satisfaction rate. Employers agree that our graduates are ready to contribute when they enter the workforce, expressing a satisfaction rate of nearly 92%. Showing a gradual increase since 2012, graduation rates have increased only marginally to 65.9% in 2015-2016. Our College will continue to do more to reach a graduation rate of 70% by 2017, supporting the persistence of our students so that more of them complete their programs.

College Sector Trends



Significant capital investments are needed for our College to stay at the forefront of teaching and learning experiences.

Not long ago, most of the students enrolled in Ontario colleges came directly to their studies from secondary schools. With fewer students enrolled in the province's elementary and secondary schools, there are fewer students entering directly into college. However there is a growing demand from overseas and from adult learners in the province seeking to return to school after delaying their studies, adding to their knowledge to advance their career, or retraining to acquire completely new skills.

Compounding the impact of an increasingly diverse student population is the Government of Ontario's commitment to eliminate the provincial deficit by 2017-2018 through controlled growth in its spending. For instance, the province has capped tuition increases at 3% even as the College's operating costs have risen by 4% to 5% per year. Ontario continues to have the lowest per-student tuition and grant funding in the country.

Our Fiscal Context

Staying current requires top-notch, industry-standard equipment and facilities in the rapidly changing area of digital education as students increasingly expect to learn at their own pace, on their own schedule, in their chosen environment. Significant capital investments are needed for our College to stay at the forefront of teaching and learning experiences even as costs of deferred maintenance grow.

Our employees are leveraging process improvements and modernizing activities to improve service levels and realize new efficiencies. Since 2012, many key business processes have been transformed to improve College experiences. Innovation in these areas and the creativity to introduce new sources of revenue define our approach as a global leader in the design and delivery of applied education.

Our core funded activities will be self-sustaining. Our College will actively explore and pursue new ventures to generate funds over and above public funding.

Our Fiscal Approach

There are two overarching principles that guide the College's fiscal approach:

Our core, funded activities will be self-sustaining. Where the College has been entrusted with public funds to provide programs and services for our students, our College will continue to ensure these activities will be fiscally managed to balance our budget with tuition, associated fees and grants against operating expenses each year.

Our College will actively explore and pursue new ventures to generate funds over and above public funding. The College will continue to use these funds to support strategic priorities and investments. Creativity begets innovation at Algonquin College, enabling us to reinvest in the excellence of our student experiences. The strategic priorities supported by the College's entrepreneurial activities are often multi-year investments. Where activities generate a surplus, these funds will be allocated for future strategic priorities.

Deferred Maintenance

Public funding has not kept pace with the rising costs of providing a high-quality post-secondary education in Ontario. In this time of fiscal restraint sector-wide, our College has had to make hard choices about the use of its budget, meaning that maintenance of our facilities has not always kept pace with the need. To continue our pursuit of excellence in the design and delivery of Algonquin College programs and services, we will need to address a growing backlog of repairs. The College has created a deferred maintenance reserve fund that amounts to \$1,151,962 million as of March 31st and will be increased by \$1 million each year until 2023-2024 to address the deferred maintenance backlog.

Annual Budget and Business Plan

Each year Algonquin College employees review the activities of the past against the goals and objectives of the annual business plan, aligned with the longer-term goals of the Strategic Plan. With a representative group of academic and administrative leaders across the College, the College Budget Committee establishes area targets and works with stakeholders to consolidate those financial projections to the budget and plan for the following fiscal year in alignment with the goals and priorities of the Strategic Plan 2012-2017.

Strategic investment priorities in 2015-2016 included:

Retention

Increase in graduation and first term retention rates by 1.5%.

- Gather cross-College support for a common definition of retention
- Pilot a program completion strategy for final semester students
- Invest in a one-stop physical and digital environment for onshore international students
- Continue to mature our strategic enrolment management practices
- Hold second Student Success Conference to highlight best practices
- Build retention plans for each School based on these best practices
- Validate College hybrid and online offerings against the Hybrid and Online Quality Assurance Standards (HOQAS), adapted from the Quality Matters TM (QM) rubric
- Prepare for institutional-level Program Quality Assurance Process Accreditation in 2016

Employee Engagement

More can to be done to create a truly engaged workplace.

- Constitute a new Employee Engagement Tiger Team
- Host follow up town halls
- Identify and action the top three employee selected engagement priorities
- Invest further in professional development and leadership training
- Phase-in Responsibility Center Management providing units with units with greater control and autonomy, and incentives for cross-College collaboration and teamwork.

Financial Results



In 2015-2016, our College continued a solid track record of responsible financial management.

In 2015-2016, our College continued a solid track record of responsible financial management. The consolidated financial statements present the financial position of the College as of March 31, 2016. The results of College operations and our cash flow for the year were in accordance with Canadian public sector accounting standards for government not for profit organizations.

Highlights of the fiscal year ending March 31, 2016

Algonquin College successfully balanced government-funded activities with expenses. Our budget provided resources to execute the commitments made in the business plan. Algonquin College financial results in 2015-2016 show a net contribution of \$11.7 million.

Enrolment grew more than 2.5%, which represents a respectable gain considering demographic shifts, new market segments and increasing learner expectations in an increasingly competitive educational environment.

Financial report

Full financial statements for the fiscal year ending March 31, 2016 are available for download at: www.algonquincollege.com/reports

	Approved Annual Budget 2015-2016	March 31, 2016 Actual (Unaudited)	March 31, 2015 Actual
Funded Activity/College Operations			
Revenue	\$ 222,264	\$ 227,503	\$ 218,911
Expenditures	213,930	210,633	204,227
Net Contribution	8,334	16,870	14,684
Contracts & Other Non-Funded Activity			
Revenue	24,822	28,579	29,098
Expenditures	23,189	26,660	26,836
Net Contribution	1,633	1,919	2,262
College Ancillary Services			
Revenue	43,420	41,734	40,683
Expenditures	36,458	34,978	33,970
Net Contribution	6,962	6,756	6,713
International Education Centre			
Revenue	21,089	21,558	21,972
Expenditures	16,068	16,878	14,860
Net Contribution	5,021	4,680	7,112
Strategic Investment Priorities			
Revenue	1,479	3,872	3,092
Expenditures	19,565	19,397	22,782
Net Contribution	(18,086)	(15,525)	(19,690)
Net Gain on Sale of Former Pembroke Campus			
	—	—	924
Non-Cash Revenue Adjustments			
Capital Grants recorded as Deferred Capital Contributions	(1,000)	(1,243)	(2,630)
Amortization of Deferred Capital Contributions	7,500	7,784	8,233
Non-Cash Expenditure Adjustments			
Expenditures to be Capitalized	4,500	4,841	10,659
Amortization Expense	(14,000)	(14,600)	(15,048)
Change in Vacation, Sick Leave & Post-Employment Benefits	624	234	(77)
Net Contribution as per Public Sector Accounting Standards (PSAS)			
	<u>\$ 1,488</u>	<u>\$ 11,716</u>	<u>\$ 13,142</u>

All figures in \$ 000's

Statement of Financial Position

Algonquin College experienced another successful year by exceeding its net contribution and achieving an \$11.7 million surplus or 3.8% net margin. There are many factors that contributed to this result including a \$1.6 million underestimation of enrolment growth and operating grants, a \$2.4 million underestimation of Strategic Investment Priorities' (SIP) revenue, a \$1.7 million increase to international fee share revenues, and a variety of new efficiencies that lowered costs of operations. It is important to note that the Budget is approved annually in February and that before the Ministry of Training, Colleges and Universities released its funding for the college sector and that the College forecasts on a conservative, low risk basis.

Increases in expenses slightly outpaced increases in revenues — 3.3% vs. 3%. Revenues grew because of increases in: Post-Secondary Activity Grants, tuition and other fees, ancillary services revenue, and contract education services. The rise in expenses was due to a 3.5% increase in salaries and benefits and a 17% increase in building maintenance and utilities as the College tackled deferred maintenance and rising energy costs. As a result of increased demand, there were also increases in bursaries and student aid. Other needed infrastructure expenses were incurred with Information Technology (IT) equipment upgrades, accelerated evergreening and an expansion of network capabilities. The increase in IT costs is partly attributable to the foreign currency impact of the United States dollar for our U.S. IT sourced contracts.

A revised approach saw some investments, primarily excess working capital funds invested in fixed-income securities with maturities greater than a year, shift from short-term to long-term status. The College maintained a strong cash and short-term investments position of about \$67 million, an increase of about \$17 million over the previous year despite a decrease in long-term investments of about \$5 million.

Accounts receivable increased by about \$4.5 million. Student accounts receivable were up \$1.2 million. During the period, more student accounts carried outstanding balances and these balances were higher than previous years with the addition of e-textbook fees and new U-Pass program fees. The remainder is due to \$1.5 million outstanding for flow-through harmonized sales tax (HST) and receivables of \$1.6 million for the School to College Work initiative grant.

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The depreciation of the Canadian dollar relative to the U.S. dollar, as well as Market conditions from January–March 2016 resulted in a decrease of 5.3% in the Algonquin College Endowment Fund. However, the amount available for distribution in 2016–2017 remains positive and is approximately three times what is required for the year.

The Algonquin College campus in Saudi Arabia reported a loss of \$1.4 million for fiscal period from April 1, 2015 to March 31, 2016. The College is required to consolidate this twelve-month period into its financial statements, although the LLC (Algonquin College-Saudi Arabia) has a different fiscal year that ends on August 31st and is separately audited annually.

An increase of about \$2 million in accounts payable and accrued liabilities is due to the timing of invoices for e-textbooks and the new U-Pass program. The salaries and employee deductions accrual has increased by \$1.6 million because more days were accrued in 2015–2016 than the prior year with the timing of the March 31st year-end date within the bi-weekly payroll cycle.

Deferred revenue has increased by \$2 million of which \$1.5 million is due to a later start date of the winter term, resulting in a higher number of weeks of full-time fees deferred compared the previous year.

With no new debt assumed, the College's outstanding debt is \$54 million, down from \$56.6 million the previous year.

Unaudited statement of financial position ending March 31, 2016

	March 31, 2016 Actual (Unaudited)	March 31, 2015 Actual (Unaudited)
ASSETS		
Current Assets		
Cash	\$ 28,367	\$ 31,598
Accounts Receivable	22,982	18,674
Inventory	1,752	1,973
Prepaid Expenses	3,000	2,903
Total Current Assets	56,101	55,148
Investments	75,349	62,492
Endowment Assets	22,796	24,708
Capital Assets	256,799	266,178
TOTAL ASSETS	\$ 411,045	\$ 408,526
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts Payable & Accrued Liabilities	\$ 19,562	\$ 17,768
Accrued Salaries & Employee Deductions Payable	7,969	6,338
Deferred Revenue	27,734	25,487
Current Portion of Long Term Debt	2,758	2,599
Total Current Liabilities	58,023	52,192
Long Term Debt	51,202	53,960
Vacation, Sick Leave & Post-Employment Benefits	18,740	18,974
Deferred Capital Contributions	146,124	155,689
Interest Rate Swaps	10,611	11,444
Net Assets		
Unrestricted	1,000	1,000
Investment in Capital Assets	56,715	53,930
Vacation, Sick Leave & Post-Employment Benefits	(18,740)	(18,974)
Internally Restricted	75,744	67,047
Interest Rate Swaps	(11,170)	(11,444)
Endowment Fund	22,796	24,708
Total Net Assets	126,345	116,267
TOTAL LIABILITIES & NET ASSETS	\$ 411,045	\$ 408,526

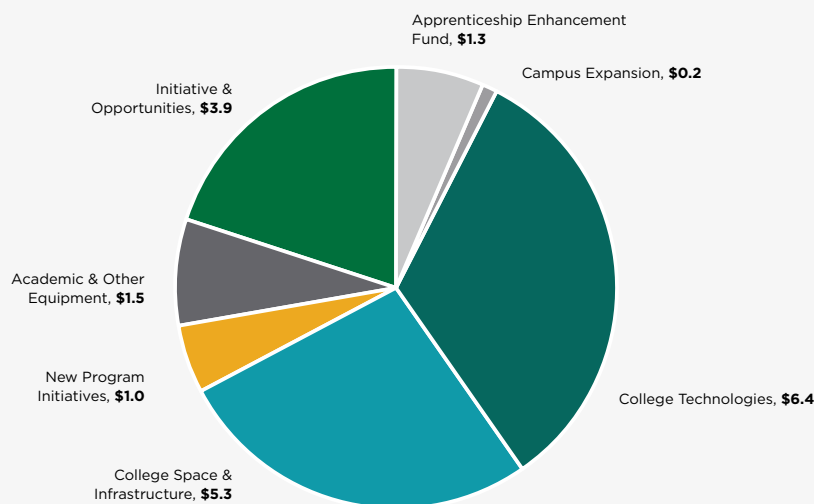
All figures in \$ 000's

Opportunities and Investments

Algonquin College successfully promoted an Ontario post-secondary education abroad and increased recruitment to our programs here at home. Our College's offshore activities are an investment in future returns for our College with expanding post-secondary partnerships overseas and early stage operations such as in Saudi Arabia and Kuwait.

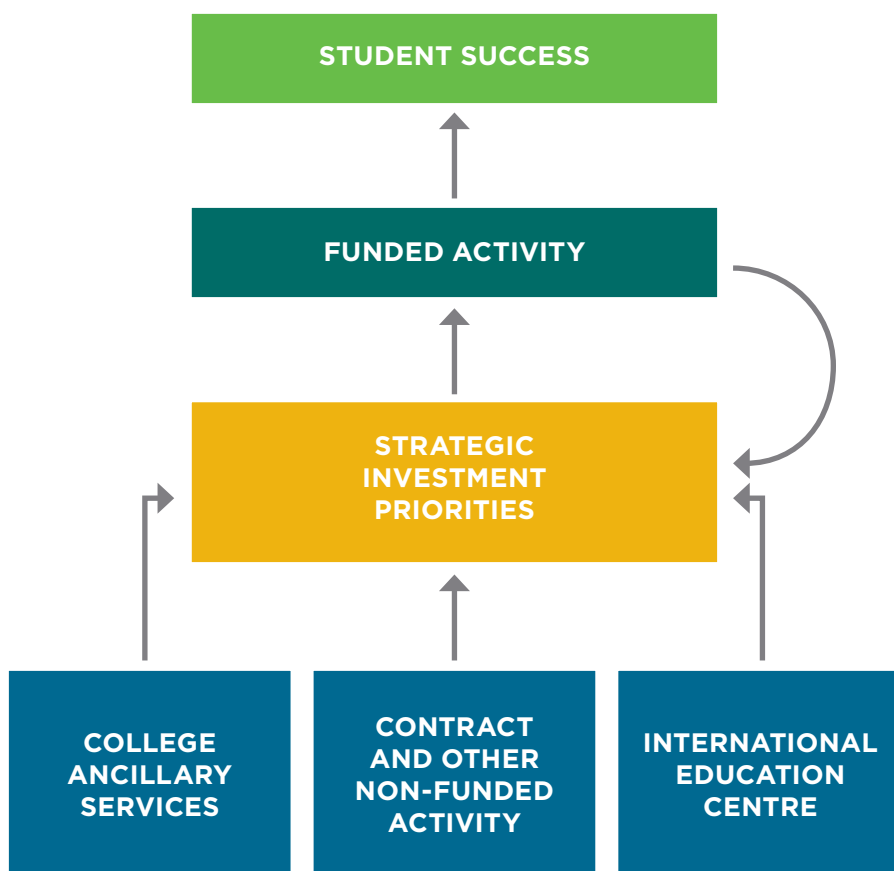
Our College invested \$19 million in strategic investment priorities. A large proportion of our investment supported physical infrastructure improvements, Information Technology (IT) evergreening, and residence renovations. Other investments included the automation of business processes and program marketing initiatives.

Strategic Investment Priorities 2015-2016



How Net Contributions Provide Funds for Strategic Investment Priorities (SIP)

The College's Strategic Investment Priorities are initiatives that support Funded Activity and promote student success. These initiatives include activities such as new program development, the purchase of new academic equipment, campus expansions and enhancements, and investments in new technologies. The funding for these initiatives come from the contributions generated through the non-funded activities that the College engages in such as Ancillary Services, Contract and Other Non-Funded Activity and the International Education Centre. Each year, the Funded Activity also produces a small surplus which is also invested in the ongoing development of the College. These new initiatives ensure the College continues to evolve and to deliver high quality education and services that help students succeed.



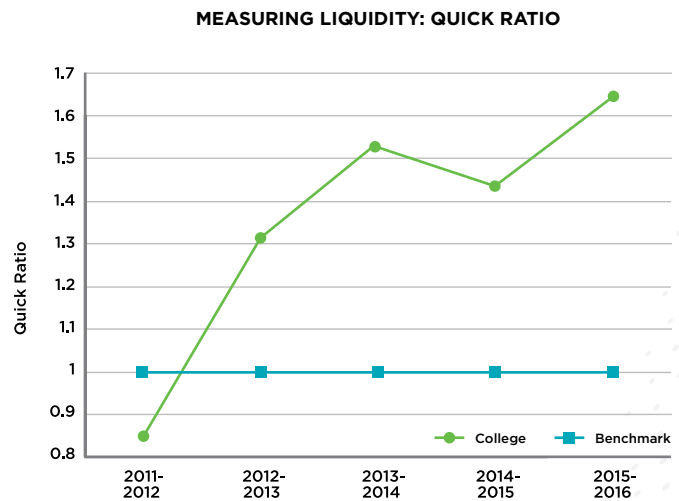
Financial Health Indicators

Overall the College demonstrated positive financial health according to all six indicators established by Colleges Ontario financial officers, remaining better than benchmarks, and with four of the indicators showing year over year improvement.

Measuring Liquidity

The Quick Ratio indicator measures the College's ability to pay short-term financial obligations such as biweekly payroll, using liquid or near-liquid assets.

- Our College is maintaining a strong cash and short-term investment position just under \$68 million.
- Algonquin College invests considerable sums of surplus operating cash for terms of more than a year, meaning that while they are excluded from the ratio, they are in fact available to settle short-term obligations if and when needed.



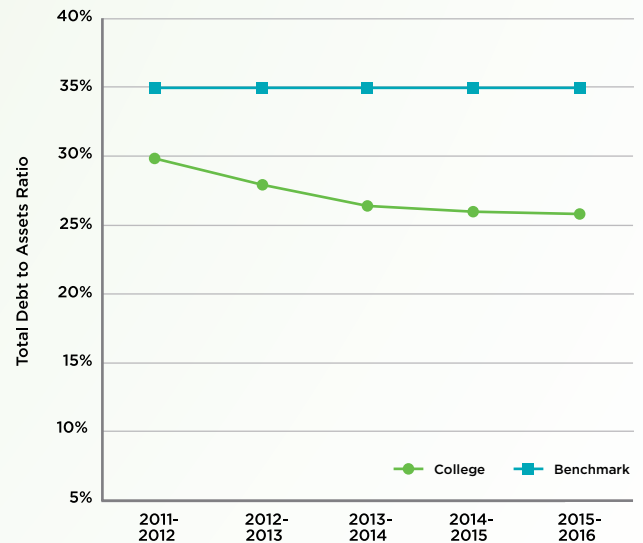
Financial Health Indicators

Managing Debt

The Total Debt to Assets Ratio measures the proportion of the College's total assets that are financed by debt.

- Our College aims to lower the ratio below the benchmark figure of 35% to continue our ability to finance ongoing operations.
- Algonquin College's Total Debt to Assets Ratio is stable, and well below this benchmark at nearly 26%.

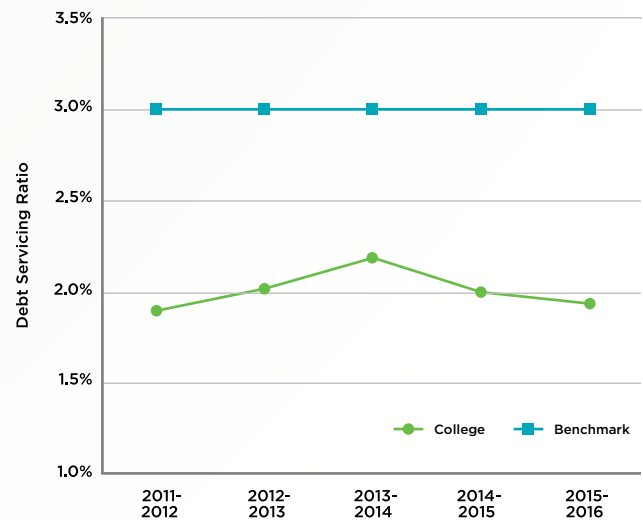
MANAGING DEBT: TOTAL DEBT TO ASSETS RATIO



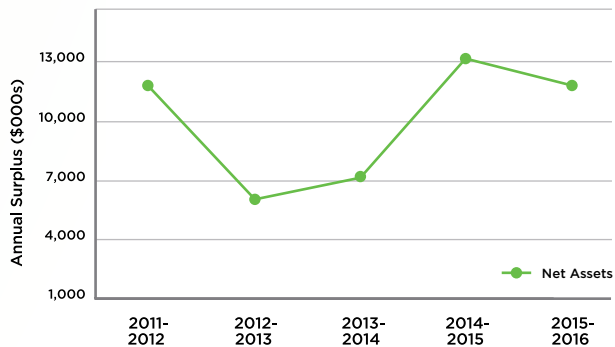
The Debt Servicing Ratio indicates how much of the College's revenues are required to service debt payments.

- Our College aims to ensure that at least 97% of revenues are being spent on core services to students.
- The benchmark is a ratio of 3% or lower.
- Thanks to increased revenues due to innovation, Algonquin College's ratio is 2% even after incorporating the impact of new debt incurred for the Student Commons expansion in 2013.

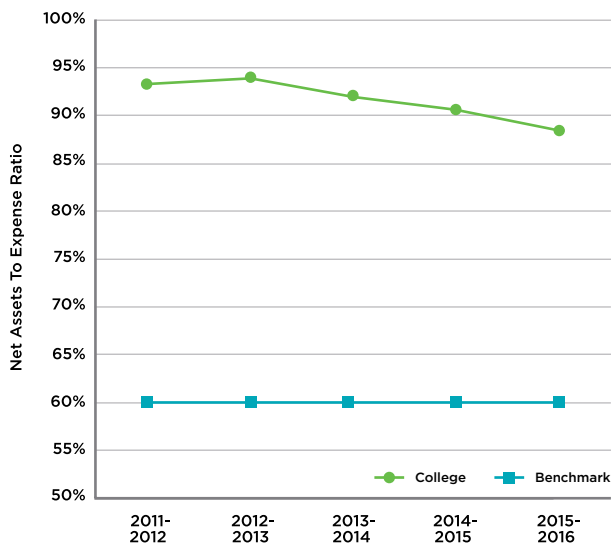
MANAGING DEBT: DEBT SERVICING RATIO



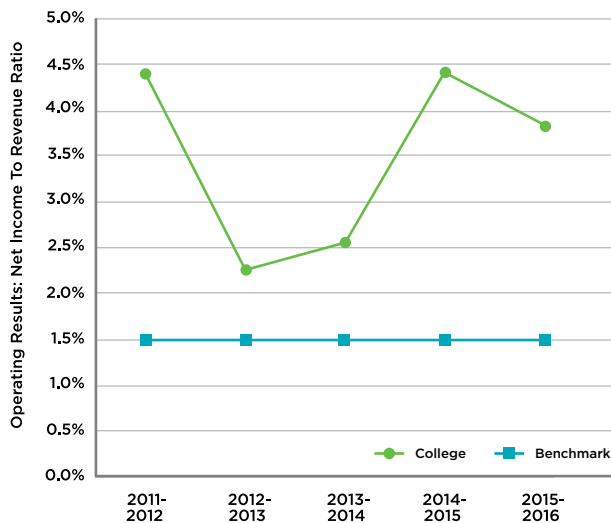
OPERATING RESULTS: ANNUAL SURPLUS



OPERATING RESULTS: NET ASSETS TO EXPENSE RATIO



OPERATING RESULTS: NET INCOME TO REVENUE RATIO



Operating Results

The Annual Surplus or Net Asset Summary measures the balance of assets for operations.

- The positive net asset summary indicates that our College has an accumulated surplus.
- Algonquin College's Net Asset Summary shows a significant increase from the College's position in 2010.

The Net Assets to Expense Ratio ascertains the College's ability to continue operations if revenues are delayed.

- Algonquin College's ratio is trending down from its peak in 2011-2012.
- Although that trend is expected to continue, the ratio is still well above the benchmark of 60%.

The Net Income to Revenue Ratio measures the extent the organization is able to balance its budget.

- A less than 1.5% net income to revenue ratio may indicate the college would struggle to recover from a deficit position.
- The College Net Income to Revenue Ratio is well above the benchmark.

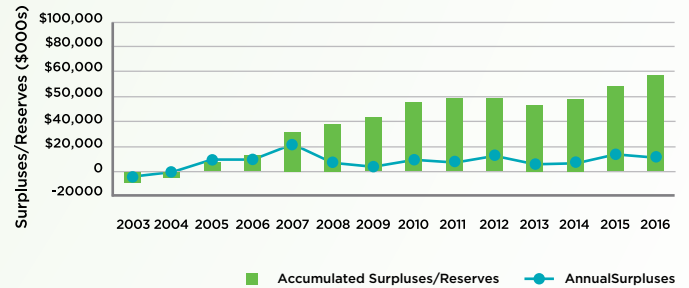
Annual Surplus and Reserves

The Annual Surplus figure measures excess assets including income, profits, capital and goods above expenses incurred.

A related indicator, the Accumulated Surplus (or Reserves), measures the amount of cumulative wealth the College controls to pay for its operations.

- Substantially above the benchmark of \$0, the Accumulated Surplus has risen consistently for the past ten years.
- Our College has continued to accumulate surpluses in the Internally Restricted Net Asset accounts.
- These accounts are managed carefully to fund Strategic Investment Priorities and realize our vision as a global leader of post-secondary student learning experiences.

ANNUAL SURPLUSES VS ACCUMULATED SURPLUSES/RESERVES



Economic Conditions, Challenges and Risks

Our enterprise risk management framework was updated in 2014 to support a consistent approach for the identification, management and effective mitigation of risk College-wide.



Risk describes the effect that uncertainty can have on the College's ability to execute strategies and/or achieve business objectives. After an external assessment of our risk, the College Risk Management Committee (CRMC) updated the enterprise risk management framework in 2014 to support a consistent approach for the identification, management and effective mitigation of risk College-wide.

With an eye to the future and a rapidly changing present, Algonquin College continues to anticipate and meet the challenges facing Ontario post-secondary education institutions. Given the province's goal of eliminating its deficit by 2017-2018, public funding decline will continue to affect our College.

Algonquin College faces a considerable and growing deferred maintenance liability, with some buildings and equipment in need of repair or replacement. General reserves continue to increase; they will be shepherded prudently to help fund future capital expansion.

Declining enrolment among the College's demographic of new high school graduates will need to be offset, and our programs and services will need to adapt to suit a breadth of learner preferences. Algonquin College will foster strategic growth in its entrepreneurial activities to support both targeted investments in new programs to attract new learners, and new efforts to improve the retention of students through their studies at Algonquin College.

Looking Forward

At Algonquin College, high-quality learning, strategic investments and healthy operating margins are not separate items; they are linked. Funded activities are and will continue to be self-sustaining. Our entrepreneurial activities will continue to enable strategic investments that will provide a wide array of learners access to the post-secondary programs and services that will lead to a fulfilling future.

In 2016-2017, College goals are to increase employee engagement, modernize our business processes and grow our alternate revenue sources.

Algonquin College is the first College in Canada to implement a full Responsibility Center Management (RCM) model. RCM is designed to align control and fiscal responsibility. RCM practices rely on data-informed decisions that are decentralized, fair, and transparent. RCM methods optimize resources and facilitate collaborative growth, with surplus sharing and deficit repayments, to drive innovation and entrepreneurship. With enhanced organizational effectiveness and a focus on contribution margins, the model supports our College's financial sustainability with increases to net contributions.

Investing in our future

In 2016-2017, the College plans to draw down \$10-million from College reserves for capital projects to invest in new facilities and infrastructure. There are three major capital projects in progress at Algonquin College: Energy Services Contract (ESCO II), Healthy Living Education (HLE), and Enterprise Resource Planning (ERP) - Project Fusion.

The innovative multi-phase ESCO project, undertaken in partnership with Siemens in 2012, is examining renewable energy opportunities, power generation retrofits, and other energy efficient renovations to achieve both energy savings and increased revenue once complete. Not only will the project reduce Algonquin College's energy costs and greenhouse gas emissions, it will clear up a substantial portion of the deferred maintenance backlog and continue to reduce energy consumption with Phase four of the Energy Services Contract set for completion in May 2017.

The College plans to use significant capital reserves for capital projects with investments in new facilities and infrastructure over the next few years.



The Healthy Living Education initiative is a response to Canada's aging population which will bring multiple chronic health issues, increasing health care costs, shifts to community- and home-based care, and a renewed focus on disease prevention and promotion of health and wellness. Algonquin College plans to create a community-integrated learning and innovation hub to help Canadians live healthier lives, and enrich student experiences with new applied research projects and applied programs.

The College is laying the groundwork to modernize business practices and provide better service through Project Fusion, an enterprise resource planning (ERP) initiative. Project Fusion will transform business processes from paper-based (e.g. paper time sheets, paper travel claims) to new systems for Human Resources, Payroll and Finance to improve service levels and empower employees throughout our College.

At Algonquin College, high-quality learning, strategic investments and healthy operating margins are not separate items; they are linked.

A new capital campaign anticipated to launch in 2017 will be an invaluable source of funds for investments in our programs and services offered to our College and our broader communities. To guide us on our investment journey, the consultative process of the Algonquin College Strategic Plan 2020 is slated for completion in 2016. The Five Year Woodroffe Campus Master Development Plan 2020 will be revisited and updated to ensure timely alignment with these strategic initiatives.

Employers need people who are creative, flexible and open to change. We have responded with proposals for the Post-secondary Institutions Strategic Investment Fund (SIF) to create cross-disciplinary projects such as the Algonquin College Innovation, Entrepreneurship and Learning Centre, and the Algonquin College Institute for Indigenous Entrepreneurship, the first of its kind in the province.

At Algonquin College, we pursue excellence to enrich the student experience despite fiscal pressures. We are prudent stewards of our funds, ensuring healthy operating margins. Our entrepreneurial activities will support our innovation. To ensure the right match between our graduates and the needs of employers, we will continue to strengthen partnerships with business, government and other post-secondary institutions. Our College's fiscal approach will provide the widest range of post-secondary education and career development opportunities to the broadest array of learners.

