



A Primer for Understanding APU's Budget

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Alanna Cajthaml, MBA, Vice President for
Finance and Business Strategy/CFO

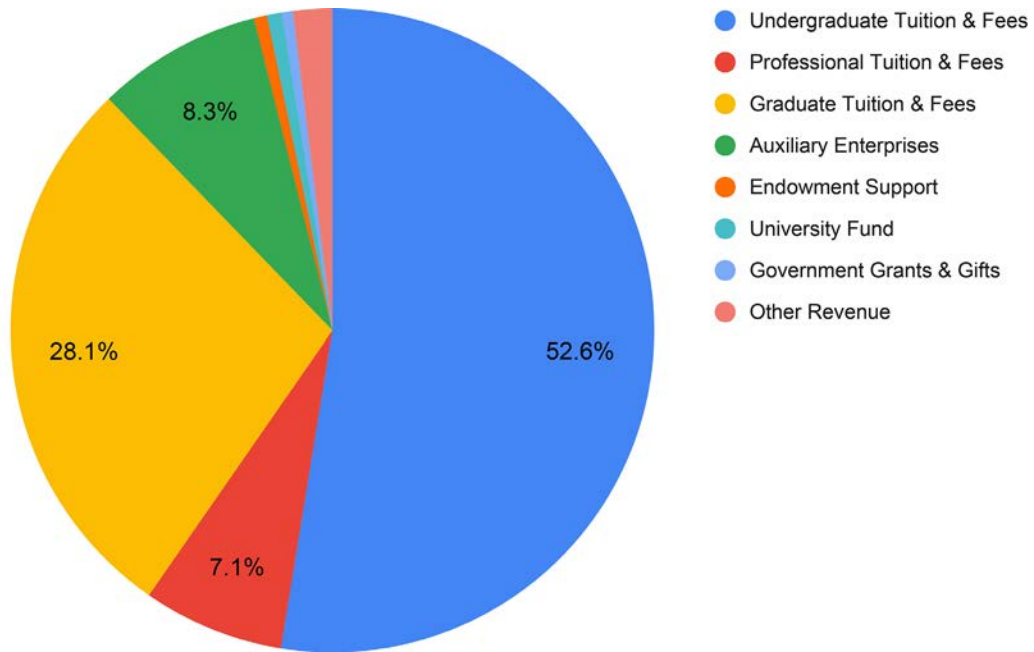


Introduction

Azusa Pacific University operates on an annual budget, in which annual operational revenue must be equal or greater than operating expenses. The goal each year is to be wise stewards of the revenue, regularly monitoring expenses, and strategically aiming for an operating surplus to invest in capital or other high-priority projects at the end of the fiscal year to benefit the growth and development of the APU Community. The figures discussed below represent the FY21 Board-approved budget, which outlines the projected revenue and expenses prior to any adjustments for COVID-19. Additionally, details are provided which outline how APU responded to the Fall 2020 budget reductions due to the loss of revenue and increased expenses for COVID-19.

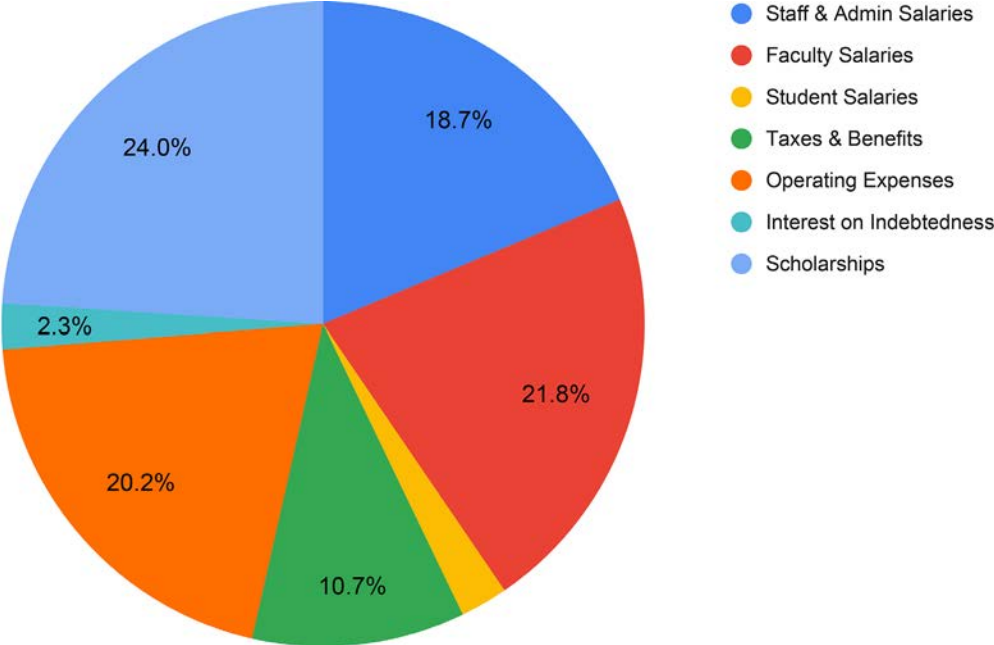
Revenue

APU's Revenue is primarily derived from student tuition dollars and auxiliary revenue (96.07%). Auxiliary revenue represents housing, dining, bookstore, and one card services. In FY21, a \$1.8M distribution from the University Endowment is projected to support the university operations. Additionally, \$2M has been budgeted for the University Fund, which primarily supports university operations from donor gifts. In order for APU to become less financially dependent on student generated revenue, it will be necessary to increase the total University Endowment, grow annual non-restricted fundraising, and find alternative revenue streams. Compared to other local higher education institutions, APU's unique revenue strength is that the University has very diverse student revenue from a diverse academic portfolio. For FY21, revenue was comprised of the following: Traditional Undergraduate Students 52.56% of total university revenue, Professional Undergraduate 7.09%, and Graduate 28.12% Tuition. As the Traditional Undergraduate population decreases, consistent with projected enrollment trends over the next five years, the need for other sources of revenue grows, including Professional and Graduate enrollment.



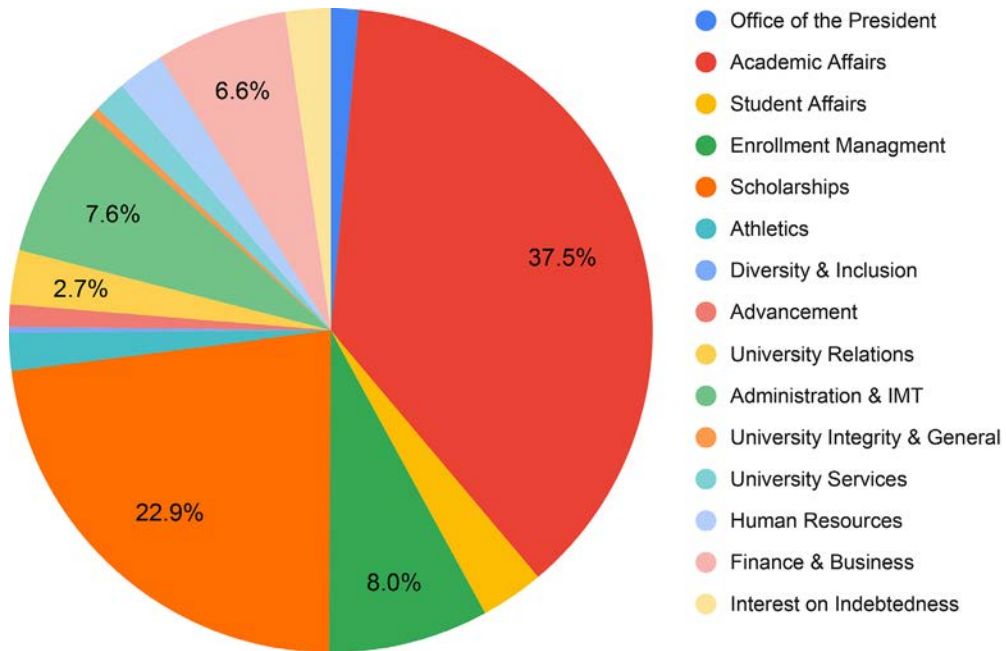
Expenses

APU's expense structure closely mirrors other higher education institutions. Personnel (including taxes and benefits) represents 53.54% of the institution's total operating expenses. Approximately \$61M is budgeted for Faculty and Adjunct expenses, and \$53M is budgeted for staff. Total benefit costs for APU total \$30M annually and grows year over year. Scholarships constitute 23.98% of the operating expenses, which leaves 22.48% for the remaining operating costs for the institution.



Expenses by Division

APU has 15 major divisions that comprise the operating budget. The largest division is Academic Affairs, which accounts for 37.5% of the university's operating budget. University scholarships is the second largest division, making up 22.92% of the operating budget. These two student-focused divisions represent more than half of the university's budget (60.4%).



Navigating COVID-19 in Fall 2020

COVID-19 impacted higher education tremendously. For APU, the enrollment held closely to what was budgeted, which was a substantial help to balancing the needs of the institution. However, there was a significant loss of revenue from Auxiliary Services (primarily Housing and Dining Services). Additionally, there was a substantial increase in expenses, including a major investment in technology and cleaning/sanitation, and increased Academic costs to respond to the remote environment. Lastly, the university's bondholders informed the institution that all debt covenants must be met despite the global pandemic, causing even more strain on the university's financial plan. This led leadership to evaluate how to find \$15M in operational savings. The loss of Auxiliary Revenue totaled approximately \$10M, while RTC/COVID compliance expenses were projected to be anywhere from \$6-9M.

The APU Community came together to find budget reductions for the Fall 2020 semester. In total, nearly \$15M was identified in one-time savings for the institution. Staff and Administration generated \$4.2M in savings through furloughs, voluntary salary reductions, and the hiring freeze. Faculty generated nearly \$2M from deferred starts on budgeted faculty positions and voluntary salary reductions. Additionally, \$4.2M came from payroll, taxes, and benefits lines, with \$3.1M coming from operational savings such as utilities, travel, and cost of goods sold.

