



# AZUSA PACIFIC UNIVERSITY

Presentation to Investors

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## Azusa Pacific University – A Brief History

- In 2015, Azusa Pacific University (“APU” or “University”) issued two series of bonds – Series A, which was directly purchased by the Wells Fargo Municipal Credit Strategies, LLC (“Purchaser”) and Series B which was sold to the public market
- The combined issuance was used to defease or redeem the University’s outstanding Series 2011A and 2011B Bonds
- As part of the security package for the 2015 Bonds, the University is required to meet certain covenants which are tested on June 30 and December 31
  - Maintain minimum unrestricted and temporarily restricted net assets and unrestricted and temporarily restricted marketable securities of not less than \$50 million increasing to \$55 million as indicated in the table below
  - Maintain a debt service coverage ratio (“DSCR”) of 1.2x
- Until June 30, 2018\*, the University was in compliance with its covenants at each testing date

Date	Debt Service	Income Available for Debt Service	Coverage (Min: 1.2x)	Unrestricted and Temporarily Unrestricted Net Assets (Minimum Requirement)	Unrestricted and Temporarily Unrestricted Net Assets (Actual)
6/30/2015	11,904.4	21,429.8	1.8	50,000,000	67,644,396
12/31/2015*	10,904.6	24,777.1	2.3	50,000,000	63,435,259
6/30/2016	11,199.8	24,706.9	2.2	52,500,000	65,928,044
12/31/2016*	10,760.3	35,593.2	3.3	52,500,000	65,944,444
6/30/2017	11,293.8	15,562.7	1.4	52,500,000	79,327,718
12/31/2017*	10,472.4	14,925.1	1.4	52,500,000	91,291,135
6/30/2018*	10,608.4	5,143.3	0.5	55,000,000	67,341,094

\* Unaudited

Source: APU Records

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## Azusa Pacific University – A Brief History

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- FY18\* ended with a \$9.9 million GAAP operating deficit and \$5.14 million in Income Available for Debt Service (\$7.6 million shortfall versus the DSCR required minimum)
  - \$271.4 million Revenue versus \$281.3 million Expense (Consolidated GAAP)\*
- As a result of the deficit, as of June 30, 2018\*, the University's debt service coverage ratio dipped below 1.2x to 0.5x
- The University funded the operating deficit and capital expenditures with a \$17.5 million draw from the unrestricted endowment that occurred July 2018
- The University has identified and is implementing cost cutting measures as will be outlined in the following slides

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\* *Unaudited*

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## Management Team Update

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- In the summer of 2018, APU restructured its financial management team hiring Ross Allen, CPA (inactive) to the role of Chief Financial Officer and Acting Executive Vice President for Strategy and Finance
  - Mr. Allen previously served as a member of APU's board, as both chair of the Finance Committee and a member of its Executive Committee
  - Mr. Allen is a distressed entity specialist, having executed seven turnarounds during his career
- Tim Stripe, CPA (inactive) and co-president and co-owner of Grand Pacific Resorts, has returned as chair of the board's Finance Committee and a member of its Executive Committee
- In order to boost management and expense control functions, the University is currently looking to hire on a temporary basis (3-6 months) two positions in its finance department
- Further, the University is assessing its near term staffing needs and structure, and is considering adding a director-level position to the finance department
- The University's President, Dr. Jon Wallace, is taking medical leave beginning Tuesday, October 2, 2018. During Dr. Wallace's leave, the University's Provost, Dr. Mark Stanton, who has been overseeing the day-to-day operations of the University since Dr. Wallace began his medical treatment July 19 will now report directly to the Board of Trustees
- Other members of the University's Team include:
  - **Squire Patton Boggs**, Legal Counsel - Karol Denniston, Partner; Harriet Welch, Senior Partner
  - **Gresham Savage Nolan & Tilden, PC**, Legal Counsel – Jerome Grossman, Senior Counsel
  - **PFM Financial Advisors**, Financial Advisory – Jeremy Bass, Managing Director; Joe DaBreo, Senior Managing Consultant

## Immediate Actions to Cut Expenses from the FY19 Budget

- Last week APU's Board of Trustees received and approved management's plan to reduce FY19's expenditures by \$20.7 million

FY19 Expected Actions to Close Budget Gap		
Actions	\$ Millions	Notes
Annual wage increase freezes	\$2.0	Cost avoidance
Retirement contribution	5.0	Cost savings begin 11/1
Health insurance	0.4	Cost avoidance (employee absorbs higher premiums)
OOP and PC Contributions	0.2	Cost avoidance
Vacation policy change	0.3	Cost savings - policy change began 7/1
Overtime reduction	0.3	Cost savings began 9/15
Travel reductions	1.0	Cost savings began 9/15
Meal reductions	0.4	Cost reduction began 9/15 (eliminate catering for employee functions and meal reimbursement)
Cell phones	0.2	Cost savings
Marketing expense reduction	0.5	Cost savings
API South Africa Grants	0.5	Cost savings
Close High Sierra Regional Center	0.3	Cost savings
TUG enrollment initiatives savings	0.6	Cost savings
Utilities	0.1	Cost savings
Target identified by departments	<u>5.6</u>	Cost savings
<b>Subtotal Operating Cuts</b>	<b>\$17.4</b>	
Capital	<u>3.3</u>	Cost avoidance
<b>Total Projected Savings</b>	<b>\$20.7</b>	

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## Proactive Management and Procedural Changes

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- The University has identified a need for additional Management and Expense Controls, Policies and Procedures
- APU is in the process of implementing a new Management and Expense Control Policy
  - University is instituting new, monthly reporting for budgeting from each business unit
  - Assumptions underlying budgeting will be replaced with more conservative measures
  - Provide regular reporting to the Board and Administration
  - Implementing forecasting processes including input from those responsible for the activity
  - Report actual and forecast results to assess performance and provide accountability
- In addition to a new Management and Expense Control Policy, the University is drafting and implementing new Investment and Debt Management Policies
  - Information disclosure will now be governed under APU's disclosure policy (incorporated as part of the new Debt Management Policy)

## An Update on Fall 2018 Enrollment

- The consolidated FTE for the APU System demonstrate a year-over-year growth of 303 FTE to date
  - Note: Fall enrollment in both institutions continues through November 2018
- Following national trends, budgeted goals and year-over-year actuals represent an anticipated flattening of the traditional undergraduate market and growth in graduate and professional undergraduate programs throughout the system
- Student FTE and revenue goals for all student populations within the APU System have already been exceeded with final fall data available in December

Academic Year	Consolidated APU					
	Undergraduate		Graduate		Total	
	Head count	FTE*	Head count	FTE*	Head count	FTE*
2014-15	7,054	6,419	4,188	2,677	11,242	9,096
2015-16	7,159	6,827	4,182	3,219	11,341	10,046
2016-17	7,560	6,843	4,543	3,396	12,103	10,239
2017-18**	7,717	6,853	4,671	3,686	12,388	10,539
2018-19***	7,518	7,085	4,880	3,757	12,398	10,842

\*FTE = Graduate (PT units/9)+ FT enrollment. Undergraduate (PT units/12)+ FT enrollment

\*\* Total FTE enrollment updated after January 2018 EMMA posting

\*\*\* Fall 2018 actual and Spring 2019 projected

"Undergraduate" data consists of traditional, professional and LAPU online undergraduate populations

"Graduate" data consist of APU graduate and LAPU online graduate populations

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## Expectations for Spring/Summer 2019 Enrollment and FY20

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- Graduate and professional undergraduate programs are expected to meet or exceed spring/summer 2019 revenue budgets
- The traditional undergraduate market continues to soften, which will likely result in a shortfall in budgeted revenue for spring/summer 2019 (shortfall currently estimated at \$1.5 million)
  - To mitigate the estimated undergraduate shortfall, additional retention and new student recruitment strategies across all revenue streams are being implemented
  - Regardless of the success of these new strategies, revenue goals for fiscal year 2019 can still be met due to both revenue streams exceeding Fall 2018 budgeted revenue goals
- Going forward, new forecasting methodology for traditional undergraduate will be implemented by the new vice president of enrollment management who previously oversaw graduate and professional enrollment
  - FY20 enrollment and revenue goals will be forecast similar to graduate and professional enrollment by disaggregated market segments
  - Traditional undergraduate enrollment will move from a growth model to a strategic enrollment management approach that is conservative in nature and takes into account current and future market shifts in this student population

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## Next Steps

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- The University will continue to provide additional information as it becomes available
- Final FY18 Audited Financials will be posted after they have been approved and accepted by the Board
- The University expects to work with Wells Fargo Municipal Credit Strategies LLC and the Trustee on behalf of bondholders to negotiate a Forbearance Agreement