Yavapai College

District Governing Board
Budget Work Session

Tuesday, January 12, 2021
9:00 a.m.

Online Only
Link: https://www.youtube.com/user/YavapaiCollege

The College is committed to protecting the health and safety of its students, employees, and other community members during the COVID-19 pandemic. Therefore, until further notice, all College District Governing Board meetings will be held online only via Zoom.

Pursuant to Arizona Revised Statutes (A.R.S.) §38-431.02, notice is hereby given to the members of the Yavapai College District Governing Board and to the general public that the Board will hold a public meeting, open to the public as specified below. The Board reserves the right to change the order of items on the agenda. One or more members of the Board may participate in the meeting by telephonic communication.

Pursuant to A.R.S. §38-431.03.A.2, A.3 and A.4, the Board may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on the agenda to review, discuss and consider records exempt by law from public inspection, including the receipt and discussion of information or testimony that is specifically required to be maintained as confidential by state or federal law; or to consult with and instruct its attorneys regarding its position on contracts, litigation or settlement discussions. If indicated in the agenda, the Board may also vote to go into executive session, which will not be open to the public, to discuss specific agenda items.

Persons with a disability may request a reasonable accommodation, such as a sign language interpreter or closed caption, by contacting the Executive Assistant at (928)776-2307. Requests should be made as early as possible to allow time to arrange the accommodation.

Please note that meeting conclusion time is included for planning purposes only and does not necessarily reflect the actual time of the agenda item. When regular board meetings, public hearings (both truth in taxation and budget adoption public hearings) and budget adoption special meetings are scheduled for the same date, each hearing or meeting will begin immediately upon adjournment of the preceding hearing or meeting.

AGENDA

1.0 General Functions: Procedural (Reference: Board Policy 3.4 Agenda Planning)

1.1 Call to Order (Reference: Board Policy 3.4 Agenda Planning) {Time: 1}

1.2 Oath of Office for New Board Members – Mr. Tim Carter, *Yavapai County School Superintendent* (Reference Board Policy: 3.1.1. Trustee Obligations) {Time: 20}

1.3 Election of Board Officers – Chair, Secretary, and Board Member Liaison Committee Appointments for 2021 - **DISCUSSION AND DECISION** (Reference: Board Policy 3.4.5 Elections/Appointments) {Time: 20}

1.4 Adoption of Agenda – **DECISION** (Reference: Board Policy 3.4 Agenda Planning) {Time: 5}

SHORT RECESS

2.0 New Business: (Reference Board Policy 3.2.1 Ownership Linkage)

 2.1 The Shifting Educational Landscape and Fiscal Responsibility – **INFORMATION AND/OR DISCUSSION** (Reference Board Policy 2.5 Financial Conditions & Activities) {Time: 150} (*Attached*)

3.0 Adjournment of Budget Work Session: Procedural - **DECISION** (Reference: Board Policy 3.4 Agenda Planning) {Time: 1}

Yavapai College Budget Work Session

Study Materials
January 2021

Please review the enclosed information prior to our meeting. It should allow for a more interactive presentation and discussion of the issues.

1. Strategic Issues Facing Higher Education: The Shifting Educational Landscape

   Numbers mean nothing without context. Based on the Environmental Scan and other issues arising out of the current Strategic Planning process, this brief will provide an overview of the challenges facing higher education in general, highlighting specific issues that affect Yavapai College. This topic will be covered in more depth during the first part of the budget retreat, as it impacts how YC may need to reallocate resources to address new challenges and opportunities.

2. Budget Data

   Several budget trends are presented with commentary to better explain how the College's budget reflects its Strategic Plan. Many facets of the budget will be explored in greater depth during the latter part of the budget retreat.

3. Glossary

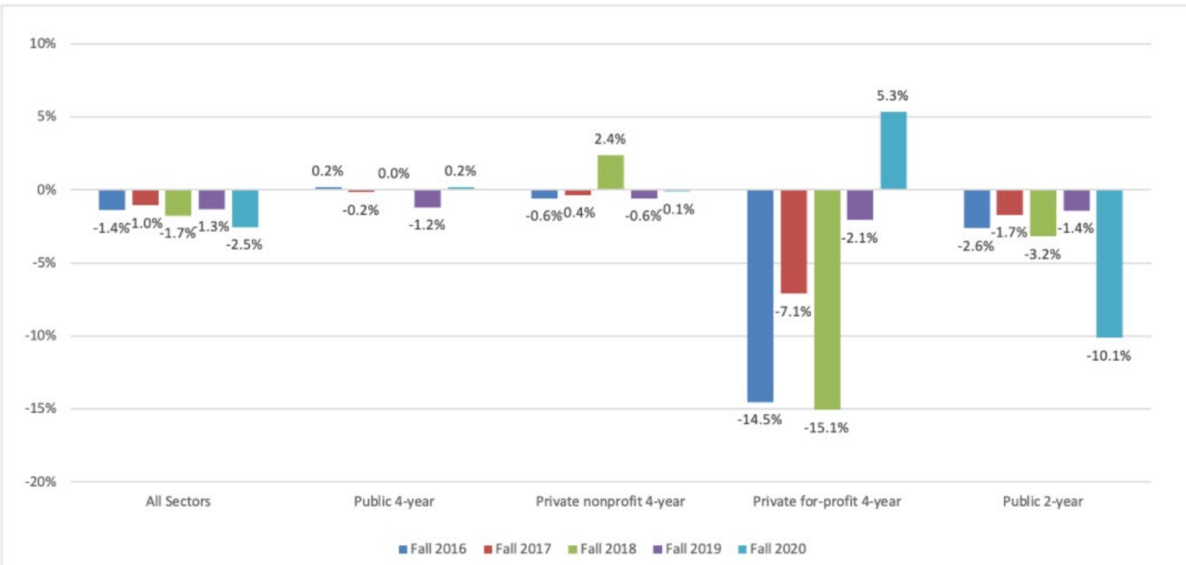
   Though undoubtedly dry reading, this section will help the reader better understand the analyses in the budget section and in reports presented by the College throughout the year.

Strategic Issues Brief

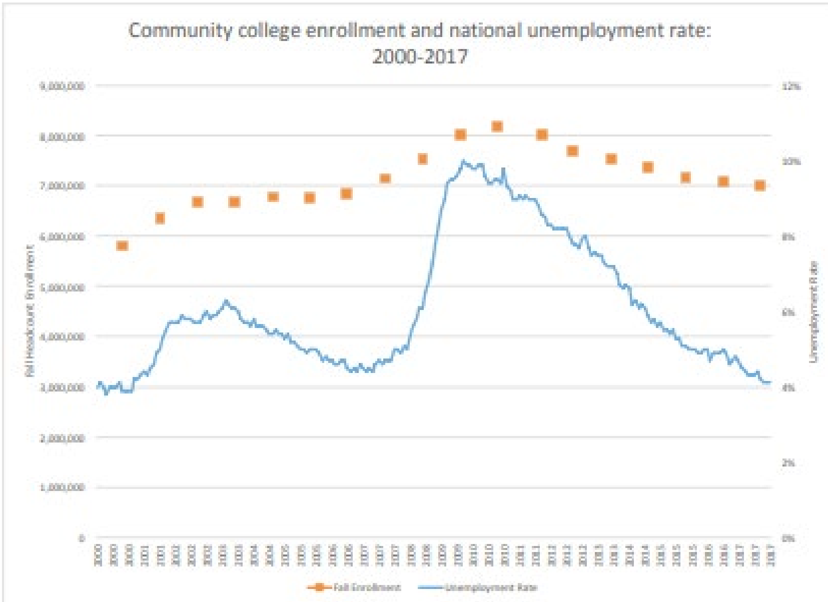
The Shifting Educational Landscape

1. Increasing competition:
Higher Education enrollments have been declining over the past 5 years as can be seen in this recently released report from the National Student Clearinghouse.

Percent Change in Enrollment from Previous Year by Institutional Sector: 2016 to 2020



Per the National Center for Educational Statistics, Community College enrollments peaked in 2010 during the Recession with 7.7M students then declined through 2018 to 5.7M. This 25% decline is directly related to the improving economy. As the following graph from the American Association of Community Colleges indicates, there is a direct relationship between unemployment and community college enrollments, as displaced workers seek to upskill to reenter the workforce.



Moreover, demographers anticipate a nationwide decline in traditional-aged (18-24) students beginning in 2025 due to the lower birthrates caused by the 2007 recession.

These forces increase competition in the marketplace, with colleges and universities vying for a shrinking traditional market of 18-24 year old students.

- Universities are re-examining both the list price of their published Tuition & Fee rates, as well as the Net Price (list price – scholarships or discounts) they can offer to attract more students.
- COVID has forced almost every school into the Online market. Schools are realizing they are no longer bound by physical distances or space limitations.
- Schools are actively experimenting with new delivery models such as Massive Open Online Courses to lower their costs, and their tuition prices. For example, ASU created the Global Freshman Academy where it provides courses through edX typically needed by college Freshmen. Through this platform, they have unlimited “seats.” A tenured full-time professor can record lectures and design assessments, then hire as many Teaching Assistants as needed for the manual grading, to supplement the automated grading. This lowers costs, which in turn allows ASU to offer this course at a lower price of $215 per credit, rather than their $560 list price for an online course. Because this price includes the study materials (eg., digital books), a 3-credit class would cost $615 compared to YC which might cost (3 x $100/ credit + $100 for books) $400. Though YC is still less expensive, the ASU price premium is much smaller.
- Schools such as GCU and ASU are actively seeking to create vertical supply chains through creating their own charter high schools such as ASU Digital Prep, or by offering deeply discounted dual credit (taught by high school teachers) and concurrent credit (taught by college faculty) courses to high school students. Until recently, providing Dual Credit or Concurrent Credit to high school students had been the purview of community colleges.
- Universities are expanding their offerings to include Associate degrees and Certificates, which had previously been uncontested market space for community colleges.
- Some learned to differentiate themselves, offering unique programs that the market values such as St. John’s College great books program, Berea College’s tuition-free degree, Northeastern University’s Co-Op program, or Thunderbird’s international business programs.

2. Listening to the Voice of the Customer: As was discussed in the Environmental Scan, new private sector players are emerging in the online teaching and learning market space to meet the changing needs of students and employers: students want affordable education that leads to employment in the shortest amount of time and in a manner that fits into their life, while employers want to quickly upskill their workforce with the specific skills their business needs to be more competitive.

Traditional colleges and universities that do not listen risk becoming obsolete. Yet some colleges are adapting by adopting some of the emerging best practices:

- In the age of Amazon and Google, students have been taught to expect to receive what they want, when they want it
    - More than 3 start dates per year (classes start every month, or even every week).
    - Learn on-demand: much like Netflix or Masterclass, students may watch recorded lectures at their convenience.
    - Progress at my own pace: subscribe for 6 months and pass as many courses as your schedule allows.
    - Shorter programs- 1 semester bootcamps leading to a certificate.
    - Self-service registration, advising, financial aid, payment, etc.
- Shorter courses (8-week courses to reduce the chances of life getting in the way).
- Workforce training options: creating customized non-credit just-in-time training taught in the workplace, or serving as a broker to the many existing private online workforce training providers.
- Cap associate degrees at 60 credits.
- Give credit for prior learning: in addition to courses taken at other colleges, some colleges allow for Advanced Placement credit or CLEP tests. Some schools give credit if the student can pass the final exam. Other colleges have systems in place to assess non-credit workforce training experiences (eg. military training), and awarding college credits to students as appropriate.
- Create stackable credentials: students take a series of noncredit courses that can be converted to credit when the series is successfully completed. Similarly, colleges design series of credit classes leading to a certificate, such that the right combination of certificates creates a degree.
- Align curriculum with workforce
    - Teach skills and knowledge needed to earn industry-recognized certifications.
    - Understand that students need human skills (humanities, communication, creativity) and technical skills (career, data literacy) to remain in demand during the Industrial Revolution 4.0 (automation and artificial intelligence).
    - Form strong industry partnerships
        - Create applied learning opportunities either through co-ops, apprenticeships, or internships
        - Program advisory boards with industry representatives
        - financial sponsorships through donations of cash or equipment
    - "Re-branding" liberal arts courses helping students connect the dots to the workplace.
- Actively controlling costs
    - Improved class scheduling techniques leading to higher completion and lower costs
    - MOOC's (edX, coursera)
    - More instruction by adjunct faculty
    - More online instruction and minimizing physical footprint
    - Partnering with other educational institutions to jointly offer online classes (eg. Acadeum)
    - Focusing Mission to create a distinctive competitive advantage, rather than trying to be everything to everyone

3. The Way Forward

This year's Strategic Planning Committee did a lot of reading to try to better understand our changing world and the evolving higher education market. One of the books was *Blue Ocean Strategy*, which discusses how some organizations are successful in highly competitive markets. Most organizations swim in red, shark-infested waters competing for the same fish. Other organizations seek out uncontested "Blue Ocean" space in the market by understanding which aspects of their service should be enhanced because they are most valued by their customers, and which aspects should be diminished in an effort to lower costs.

To remain relevant, every community college needs to differentiate their programs and services to meet the needs of its students, to provide skilled workers for the local economy, and to support the unique needs of its community. In their report, "The Future of Work in America," the McKinsey Global Institute calls communities like ours "Silver Cities" with higher than average retirement-age people (Yavapai County has twice the national average of people 65 and older!) This provides opportunities to both provide programming of interest to this largely untapped market segment (Community Events, OLLI, Literary Southwest, etc.), and to train workforce-age students to provide the products and services that retirees need such as healthcare, professional services, and technology.

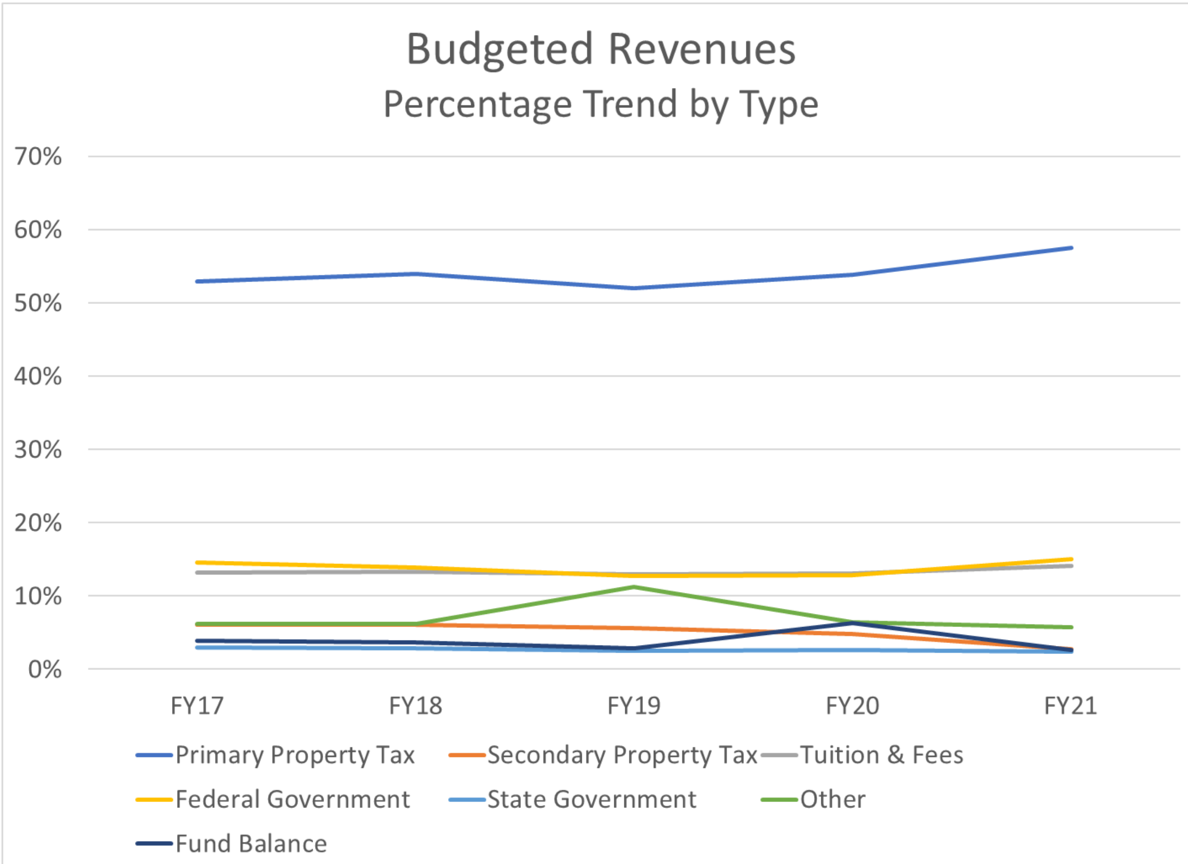
McKinsey's report also highlights that we are in the midst of the 4th Industrial Revolution, where Artificial Intelligence (AI) and automation are becoming more prevalent in the workplace. Both "white collar" and "blue collar" jobs are impacted. Workers/ Employers will need to continue to upskill to remain competitive in this new workspace. In "The Indispensable Institution," the authors advocate that community colleges are uniquely positioned to help people make these career transitions given the colleges' strong backgrounds in career and technical education programming.

In the coming months, YC will finalize its annual Strategic Plan update. The revised plan will demonstrate we are listening to our students' needs and describe how we will differentiate (hyperlink) ourselves from our competitors, thereby creating more value for our students and our community.

As you will see in the following section describing YC Budget data, YC has a practice of reallocating resources to support emerging strategic priorities. The FY22 Budget will undoubtedly need to continue that tradition. The updated Strategic Plan will be shared with the DGB by the end of the spring term.

In the meantime, please feel free to visit our new Strategic Planning website to peruse all of the articles, books and data which are motivating YC to develop innovative strategies as we adjust to the shifting educational landscape.

Budget Data



	FY17	FY18	FY19	FY20	FY21	
Primary Property Tax	$ 43,033,500	$ 43,715,500	$ 45,514,700	$ 46,497,900	$ 47,516,000	10%
Secondary Property Tax	4,944,800	4,898,800	4,888,600	4,188,600	2,233,700	-55%
Tuition & Fees	10,751,000	10,746,500	11,355,000	11,341,000	11,647,000	8%
Federal Government	$ 11,805,000	$ 11,255,400	$ 11,122,000	$ 11,150,000	$ 12,435,000	5%
State Government	2,460,400	2,344,100	2,218,100	2,305,000	1,957,800	-20%
Other	5,071,900	5,041,800	9,849,900	5,506,300	4,722,100	-7%
Fund Balance	3,215,100	2,956,000	2,542,700	5,424,800	2,178,400	-32%
	81,281,700	80,958,100	87,491,000	86,413,600	82,690,000	2%

Discussion

Primary Property Taxes: As a political subdivision of the state, Yavapai College has the ability to levy property taxes pursuant to ARS 42-17

- A taxing district board may increase the levy up to 2% per year.
- The effect is cumulative, so if a district does not increase the levy one year, it may increase by 4% the following year.
- Over the past 5 years, the District Governing Board has approved a 2% increase to the levy (roughly $800k); the remaining increase in primary property tax revenues came from new construction in Yavapai County.
- Yavapai College's primary property tax rate is near the state community college average.
- Arizona has some of the lowest property taxes in the country.

Secondary Property Taxes: These are temporary additional taxes to pay for General Obligation (GO) Bonds that voters approved in 1999 to make a variety of capital improvements throughout the district.

- The Board approved College recommendations to refinance these GO Bonds, which saved taxpayers $1.9M.
- The Board approved Member Sigafoos' suggestion to use the proceeds from the sale of our PV condominium to paydown our GO Bond debt, creating an additional $500k taxpayer savings.

Tuition & Fees: To be more transparent, Yavapai College has moved away from general fees charged to all students as the AZ public universities do. The College has also discontinued course and program fees (except Aviation). Instead, the College has created 3 differentiated tuition rates. Our base tuition (Tier 1) covers general education courses, which are the majority of the courses we offer. In lieu of course fees, we charge $15 more per credit for classes with smaller class caps and/or that require lab spaces (Tier 2). We charge an $27 above base tuition per credit for Career Technical Education classes which typically have small classes, lab space, and state of the art equipment (Tier 3).

- There are a handful of programs that charge more than Tier 3. These programs charge Market Based tuition.
- To remain affordable and accessible, YC tuition is purposefully below the national average tuition rate for community colleges, as the median income in Yavapai County is 18% below the national average.
- YC has been raising tuition roughly 5% per year, yet YC tuition remains 25% below national community college rates.
- Tuition revenues only increased by 8% during this timeframe, not 20% as might be expected:
  - Enrollments shrank 2%.
  - The College recommended, and the Board approved, a 20% discount for full-time students (15 to Finish initiative) as an incentive for more students to attend full-

time—studies have shown that fulltime students are more likely to complete their certificate or degree, and reap the associated increase in earnings.
    - The College recommended, and the Board approved, a 25% discount for Senior Citizens taking credit classes.

Grants: These funds come with restrictions on how they may be spent. State Grants declined slightly, which were offset by Private grants and the hard work of our YC Foundation. The main growth came from the Federal Government. However without the COVID-related CARES grant, Federal grants would have been down over the 5 year span. Major grants include the following:

- PELL: Federal grant to help lower-income students pay for college tuition and related expenses.
- CARES: Federal grant to help students and colleges deal with COVID-19.
- TRIO ETS: Federal grant to support first-generation high school students be prepared for, and apply to, college.
- TRIO SSS: Federal grant to provide support services such as tutoring, advising, financial literacy, and transfer.
- Adult Basic Education (ABE): Federal and state grant to help adults earn their General Equivalency Diploma to be ready for college coursework.
- Substance Abuse: Federal grant to expand the availability of effective substance abuse treatment and recovery services, and to reduce the impact of addictions on families and communities.
- Carl D. Perkins: Federal grant to improve vocational and technical education programs.
- Small Business Administration (SBA): Federal grant which provides assistance to small and new businesses.
- OSHER: A private grant to support non-credit educational programs for people 55 and older.
- Yavapai College Foundation: Provides a variety of scholarships, as well as programmatic and capital support.

State Support: The state provides roughly $6 per student credit hour of operational support. In addition, the College receives Prop 301 funds for Workforce Development and a STEM grant to support technical programs.

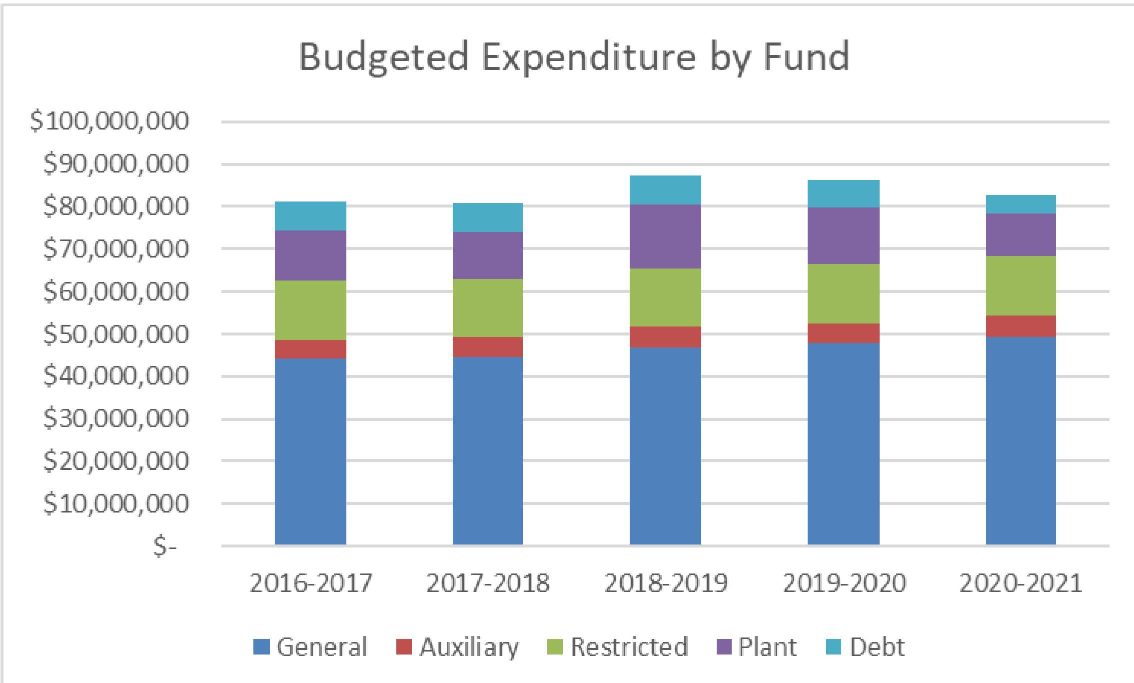
- Over the past 30 years, the State of Arizona has defunded community colleges, placing the financial burden on local communities through property taxes.
    - Only 3% of total funds for this state institution come from the State of AZ.

Sales & Services (part of Other):

- Sales and Services decreased because the FY20-21 budget was reduced due to the effects of COVID-19. Excluding the COVID-19 adjustments, Sales & Services would have been $3.5M, an increase of 18%. The increase relates to residence halls, summer conferences, wine sales, community events and musical productions revenues.

Other Sources: These revenues consist of a variety of things such as interest, facility rentals, payment plan fees, testing center fees, fitness and pool passes, federal indirect costs, and reimbursements from the YC foundation for staff salaries and benefits.

- Most of these revenues are fairly consistent from year to year, with various increases being offset by decreases.



Budgeted Expenditure by Fund	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	
General	$ 44,161,000	$ 44,608,000	$ 46,918,900	$ 47,927,700	$ 49,234,600	11%
Auxiliary	$ 4,300,900	$ 4,634,800	$ 4,752,000	$ 4,636,000	$ 5,089,000	18%
Restricted	$ 14,275,400	$ 13,840,500	$ 13,844,200	$ 13,889,000	$ 13,831,000	-3%
Plant	$ 11,648,400	$ 10,971,500	$ 15,088,200	$ 13,400,300	$ 10,405,500	-11%
Debt	$ 6,896,000	$ 6,903,300	$ 6,887,700	$ 6,560,600	$ 4,129,900	-40%
	$ 81,281,700	$ 80,958,100	$ 87,491,000	$ 86,413,600	$ 82,690,000	2%

Discussion

The General Fund and Auxiliary Fund will be discussed in detail below.

Restricted Fund:

- As mentioned in the revenues, these funds come with strings attached. The College receives the grant to be used for a specific purpose.
- This is the one area of expenses we would like to see increase as it brings more money into the Yavapai County community.
- The large majority of funds come through Federal Financial Aid grants such as PELL. These are pass-through funds that the College receives on behalf of lower income students,

which the student uses to pay for tuition, books, and possibly more depending on the award. This number fluctuates with enrollments.

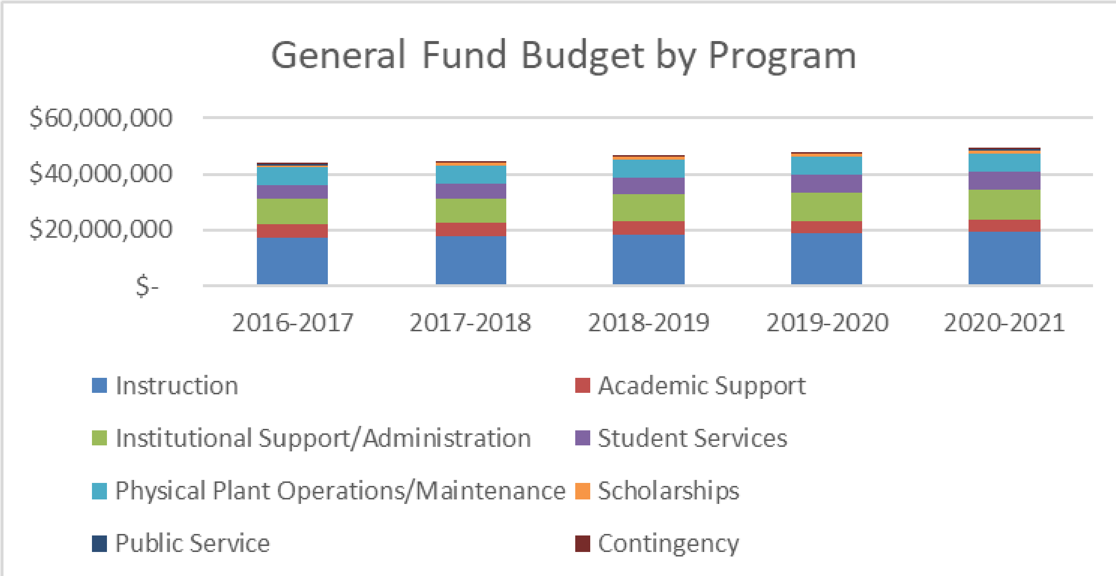
- Expenses go up or down as Grants are awarded in greater or fewer numbers to the College.

Debt Fund:

- College debt consists of General Obligation (GO) Bonds and Revenue Bonds.
- In 1999, Yavapai County voters approved the College issuing $69.5M of GO Bonds
  - The intent was to complete a variety of capital additions and renovations throughout the district—all of which have been completed
  - The GO Bonds will be fully paid at the end of FY22
- The College issued revenue bonds for two major projects
  - Renovation of two Residence Halls on Prescott Campus. The enhancements allowed YC to raise rent to market rates. The halls now generate enough cash flow to be financially self-sustaining, including the annual debt payment.
  - The creation of a Central Plant on the Verde Valley Campus and a Chiller Plant on the Prescott campus.
  - The revenue bonds will be fully paid at the end of FY28.

Plant Fund: There are several capital budgets monitored in this fund

- Planned Maintenance
  - These projects address deferred maintenance issues which extend the useful life of the asset and lower the Total Cost of Ownership.
  - Working with a consultant specializing in higher education facilities management (Sightlines), YC has created a list of assets, and assessed the condition and age of each asset. Based on Sightlines analyses and recommendations, the DGB has approved an average reinvestment of $3.9M in our assets. This budget increased since FY17, but is now stable.
- Unplanned Maintenance
  - Despite the best planning, systems fail unexpectedly. This budget is to address those issues. As our Planned Maintenance improved, we were able to lower our Unplanned Maintenance budget.
- Equipment
  - The College reinvests in classroom and operational equipment each year to ensure that students train on the equipment they will find in the work place, and that YC employees may be efficient. This budget is relatively flat.
- Furniture
  - The College systematically updates classroom and office furniture throughout the district, replacing a small portion each year. This budget is relatively flat.
- Capital Improvement Projects
  - This budget addresses the renovations and additions that are needed to meet the changing needs of our students and our community.
  - This budget has been primarily informed by the 2013 Campus Master Plan. We will update the CMP in FY22 as our environment and needs are quite different than when the previous plan was created.
  - This budget has been quite variable, changing from year to year based on which projects are being addressed.



General Fund Budget by Program	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	
Instruction	$ 17,516,000	$ 17,947,000	$ 18,476,900	$ 18,749,600	$ 19,327,900	10%
Academic Support	$ 4,745,000	$ 4,552,000	$ 4,743,000	$ 4,483,100	$ 4,432,200	-7%
Institutional Support/Administration	$ 8,775,000	$ 8,945,000	$ 9,683,000	$ 10,093,500	$ 10,487,100	20%
Student Services	$ 5,021,000	$ 5,260,000	$ 5,828,000	$ 6,182,900	$ 6,479,600	29%
Physical Plant Operations/Maintenance	$ 6,270,000	$ 6,328,000	$ 6,552,000	$ 6,580,700	$ 6,467,100	3%
Scholarships	$ 878,000	$ 877,000	$ 880,000	$ 940,500	$ 1,121,900	28%
Public Service	$ 156,000	$ 169,000	$ 186,000	$ 327,400	$ 348,800	124%
Contingency	$ 800,000	$ 530,000	$ 570,000	$ 570,000	$ 570,000	-29%
	$ 44,411,000	$ 44,608,000	$ 46,918,900	$ 47,927,700	$ 49,234,600	11%

General Fund Discussion

This chart and table present the College's budget by Program (sometimes called Function). All U.S. colleges and universities use these same categories to report to the federal Department of Education, and these Functions (Programs) are defined in the Glossary section of this report.

General Fund expenses increased $4.8M during this timeframe. The vast majority of the change can be explained through examining Salaries and Benefits:

- 3% raises per year to remain market-competitive with salaries and keep up with the increasing Cost of Living in Yavapai County: $3.2M
- Increases in Benefits: This includes required Fringes (Social Security, Federal and State Unemployment, Medicare and Workers Comp) as well as Medical, Retirement, Life Insurance and Tuition Waivers. $1.3M

However, this simple explanation masks the great amount of effort YC employees made to realign budgets in a manner which would produce better results. The following is an overview of various General Fund budget changes that were made to support the Yavapai College Strategic Plan during this 5-year timeframe.

Yavapai College identified 5 Strategic Areas to be improved in its FY16-20 Strategic Plan. This plan was later extended through FY23:

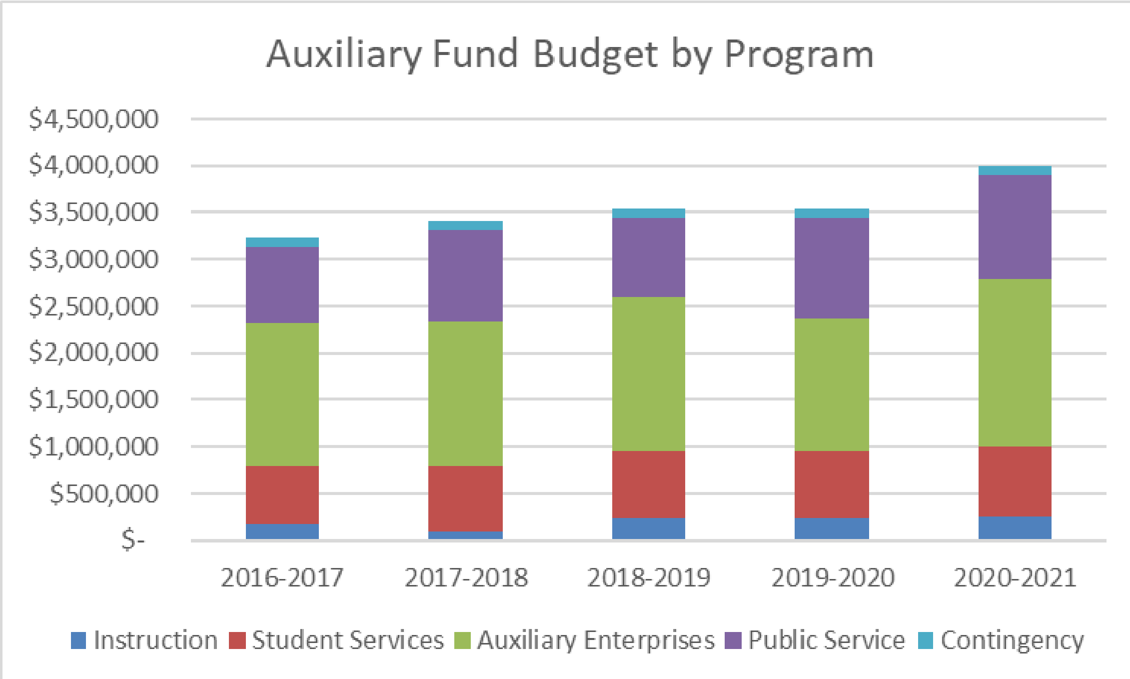
- **Student Success**
    - Our primary goal is to help more students stay in school, transfer to another school or complete a certificate/ degree. The College has taken many steps in the past 5 years to improve in this area.
        - Processes: The College focused on optimizing our processes.
            - Academic Pathways was the primary initiative to ensure we simplified and communicated the steps students needed to take to be successful.
        - Technology: The College invested in a variety of software and hardware to improve efficiency and to enhance the service levels we provided to our students. These costs primarily impact Institutional Support Function budget.
        - People:
            - As positions opened, YC has purposefully shifted resources to Student Development, hiring 2 Advisors and a student development Technical Team member.
            - These costs primarily impact Student Services Function budget.
        - Incentives: Within the past 5 years, the Board approved programs that have had a proven impact on student success and enrollment:
            - 15 to Finish is a national program to encourage students to attend school full time as they are much more likely to complete their certificate or degree before life gets in the way. YC offers a full-time student discount. This program decreased tuition revenues.
            - Promise Programs is another national program focused on allowing students to get their first 2 years of college for free. At YC, we have created a scholarship to reimburse students who complete their degree within 2 years of high school graduation. We have over 100 students in our first Promise Cohort that are expected to complete this Fall, with over 300 students in Promise Cohort 2. This program's costs impact Student Services Function budget.
    - Results: completers grew 17% as enrollments grew 1%.

- **Economic Responsiveness**
    - Expanded the Regional Economic Development Center (REDC) capability to provide service with the addition of the REDC Manager role. This impacts Public Service Function budget.
    - The College continues to shift resources into workforce development training programs including Allied Health, Automotive, CNT, Cyber Security, 3D Construction, EMS, Fermentation, Medical Assistant, and Technical Theater. These impact Instruction Function budget.
    - The College expanded its capacity to offer a variety of Advanced Manufacturing programs in the Verde Valley including Pre-Engineering and Precision Machining which impacts Instruction Function.

- **Community Engagement**
  - YC invests $240k more in marketing than it did 5 years ago, impacting Institutional Support.
  - In tandem outreach efforts, Student Enrollment Management added a Recruiter, a Promise Scholarship Coordinator, and a Community Outreach Coordinator, impacting Student Services Function.
  - The College expanded its foundation providing a Coordinator and creating an Alumni outreach. This impacts Institutional Support.
  - Like its four-year counterparts, YC uses athletics to attract students and engage with the community. To comply with the Affordable Care Act, part-time athletics staff became full-time. As shared with the DGB last year, YC plans to fully fund athletic scholarships with donations and sponsorships within 5 years (FY25). To do that, YC has created an Assistant Athletic Director and a Major Gifts Officer to fundraise. This impacts the Student Services Function.

- **Organizational Development**
  - The College has budgeted more for employee professional development over the past few years which impacts Institutional Support.

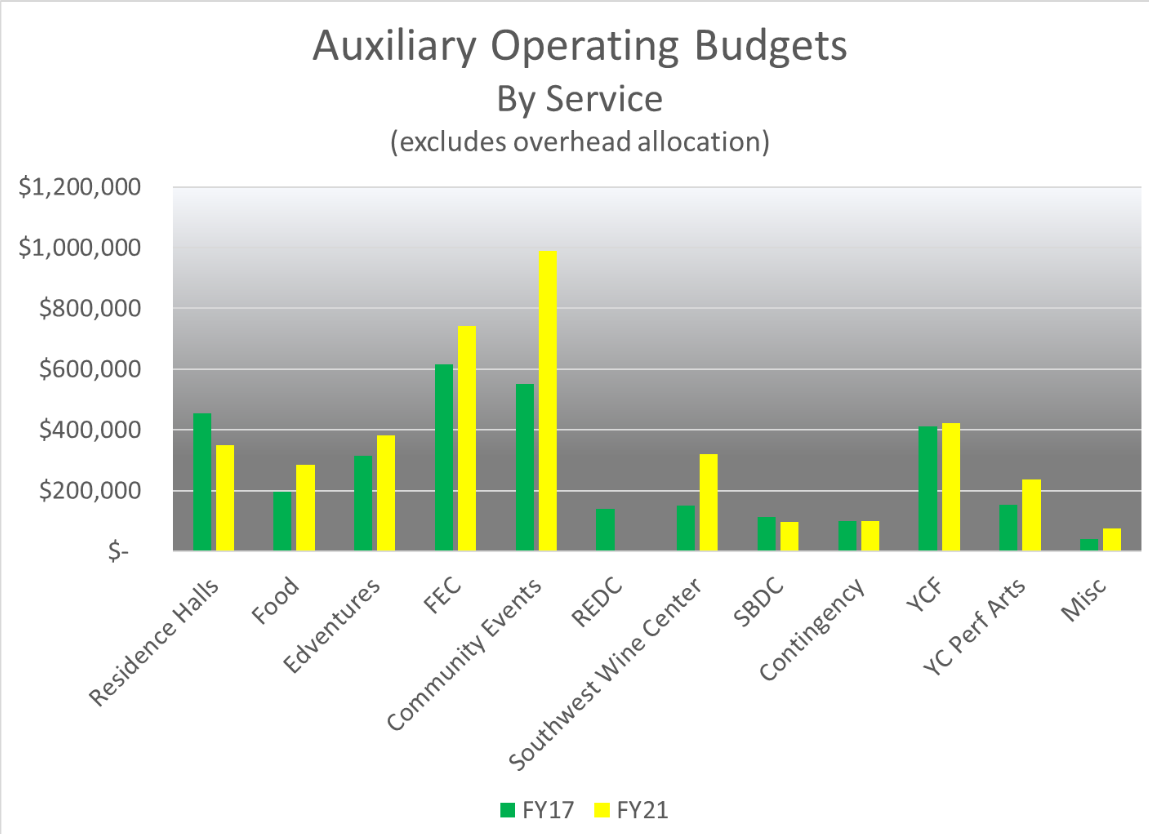
- **Fiscal Stewardship**
  - Processes have been enhanced to provide additional transparency and we have invested in better software analysis tools which impacts Institutional Support.



Auxiliary Fund Budget by Program	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	
Instruction	$ 171,900	$ 99,600	$ 235,200	$ 238,400	$ 255,350	49%
Student Services	$ 616,000	$ 689,200	$ 713,900	$ 722,700	$ 741,800	20%
Auxiliary Enterprises	$ 1,528,700	$ 1,541,200	$ 1,644,200	$ 1,415,400	$ 1,789,450	17%
Public Service	$ 819,000	$ 974,500	$ 849,700	$ 1,068,700	$ 1,111,600	36%
Contingency	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	0%
	$ 3,235,600	$ 3,404,500	$ 3,543,000	$ 3,545,200	$ 3,998,200	24%

Auxiliary Fund Discussion

The Auxiliary Fund tracks a variety of college departments that charge a fee for their non-core service. Rather than the traditional Expense by Function (Program) report above, this discussion will be more meaningful by looking at the following report looking at the expenses for each of these unique services.



	Op Expense	Op Expense	
	FY17	FY21	
Residence Halls	$ 453,700	$ 348,936	-23%
Food	$ 196,000	$ 286,000	46%
Edventures	$ 313,600	$ 382,600	22%
FEC	$ 616,000	$ 741,800	20%
Community Events	$ 549,900	$ 989,300	80%
REDC	$ 140,800	$ -	-100%
Southwest Wine Center	$ 149,200	$ 319,300	114%
SBDC	$ 113,300	$ 97,300	-14%
Contingency	$ 100,000	$ 100,000	0%
YCF	$ 410,000	$ 422,600	3%
YC Perf Arts	$ 152,800	$ 236,150	55%
Misc	$ 40,300	$ 74,200	84%
	$ 3,235,600	$3,998,186	24%

Residence Halls: The College operates 2 halls with approximately 220 beds on the Prescott campus. We enjoy a high fill rate with Resident Assistants, NARTA cadets, and student Athletes occupying more than ½ of the beds. The balance of the beds is filled primarily by traditional-aged (18-24) Yavapai County residents seeking on-campus living as part of their college experience. We reduced staffing due to COVID; otherwise expenses would have been $414k.

Food: The College contracts with Sodexo to operate the Rider Diner cafeteria and the Café in the library on the Prescott Campus. During this time period, Sodexo has also contracted to operated food services on the Verde Valley Campus and the Sedona Center, both of which have added to the subsidy. Beginning in FY22, Chef Barr and the students of the Sedona Culinary Institute will operate food services at the Sedona Center and Verde Valley Campus. Also, the College is in the middle of an RFP process to operate the Prescott campus food services. With the loss of 100 diners when we tore down the 3rd Residence Hall, food service has moved from a breakeven to a subsidized department. Some of the subsidy comes from the way the contract is structured, which we will address through the aforementioned RFP process. When we decreased anticipated Sales due to COVID, the subsidy expense went up.

Edventures: This Community Education program educates non-credit students while traveling internationally. The costs are highly dependent on the destination and the size of the group, so it can vary from year to year. (Likewise, associated revenues go up and down depending on the destination of the program.)

Family Enrichment Center (FEC): The College runs an accredited pre-school which serves as a hands-on learning lab for adult students in our Early Childhood Education program. Our practice has been to allocate some of the costs to the General Fund (Instruction Function) with the balance in the Auxiliary Fund. We periodically reassess how much is allocated to the General Fund, and during this timeframe the allocation to the General Fund decreased, which makes the Auxiliary Fund increase look larger than it really was.

Community Events: In 1992, the voters of Yavapai County asked YC to build a 1000+ seat Performing Arts Center. This state of the art venue is unique in Yavapai County (and at most community colleges), allowing residents to enjoy a variety of programs ranging from movies and satellite events, to College produced concerts and shows, to local events like Prescott's Got Talent, regional shows like the Phoenix Symphony, and touring national artists.

Community Events primarily encompasses programming at the YCPAC, but in recent years at the community's request, has brought performing arts programs to the Verde Valley both on campus and in a variety of community venues.

The College subsidizes this operation, but the subsidy has been declining. YCPAC consulted with TRG Arts which specializes in helping performing arts venues to operate more efficiently. Following their recommendations, we have increased marketing expenses and staffing—yet as TRG projected, our increased revenues more than offset these incremental costs.

Regional Economic Development Center (REDC): This department was accounted for as an Auxiliary in FY17, but has since been moved to the General Fund (Public Service Function).

Southwest Wine Center: After discussions with the SWC Director, we determined to allocate the costs of operating the vineyard to the SWC in the Auxiliary Fund rather than Instruction in the General Fund. As more of our vineyard matures, we anticipate wine and grape sales will allow this department to break even.

Small Business Development Center (SBDC): This budget represents the mandatory matching institutional funds that must be provided in order to receive the grant.
Yavapai College Foundation (YCF): YCF uses a portion of several YC employees' work hours to raise funds and community awareness. YCF provides an offsetting amount of revenue to the College to compensate the college for the use of these employee's time and talents.

YC Performing Arts Productions: YC has a Performing Arts program which is accounted for in the Instruction Function of the General Fund. However, our practice is to treat their performances as an Auxiliary. For many years, this had been limited to various vocal and instrumental performances throughout the year. In recent years, the Performing Arts Program has expanded to include drama and musical theater. Budgeted expenses have been increased, as have Auxiliary Fund revenues to partially offset these new expenses.

Budget by Natural Expense Class

All Funds

	2017	2018	2019	2020	2021	Delta 2021 vs 2017	%
Salaries	$ 28,546,991	$ 29,298,813	$ 31,161,228	$ 31,903,518	$ 32,945,051	$ 4,398,060	15%
Benefits	$ 9,262,660	$ 9,679,961	$ 10,037,656	$ 10,474,799	$ 10,587,915	$ 1,325,255	14%
Utilities	$ 2,209,020	$ 2,209,020	$ 2,209,020	$ 2,102,520	$ 2,103,061	$ (105,959)	-5%
Supplies & Services	$ 9,481,589	$ 9,487,090	$ 9,751,763	$ 9,458,701	$ 9,639,340	$ 157,751	2%
Contingency	$ 1,150,000	$ 880,000	$ 982,000	$ 932,500	$ 986,800	$ (163,200)	-14%
Scholarships	$ 10,874,340	$ 10,432,315	$ 10,274,433	$ 10,383,062	$ 11,095,183	$ 220,843	2%
Depreciation	$ 6,401,955	$ 6,599,726	$ 7,174,803	$ 7,588,582	$ 7,600,000	$ 1,198,045	19%
Capital Projects, Maintenance & Equipm	$ 12,864,100	$ 12,070,600	$ 16,190,200	$ 14,600,900	$ 11,206,700	$ (1,657,400)	-13%
Interest Payments on Debt	$ 1,273,000	$ 1,125,300	$ 914,700	$ 592,600	$ 395,950	$ (877,050)	-69%
Principal Payments on Debt	$ 5,620,000	$ 5,775,000	$ 5,970,000	$ 5,965,000	$ 3,730,000	$ (1,890,000)	-34%
	$ 87,683,655	$ 87,557,826	$ 94,665,803	$ 94,002,182	$ 90,290,000	$ 2,606,345	3%

The National Association of College and University Business Officers recommends reporting expenses in the following Natural Expense Classes which are defined in the Glossary section of this report.

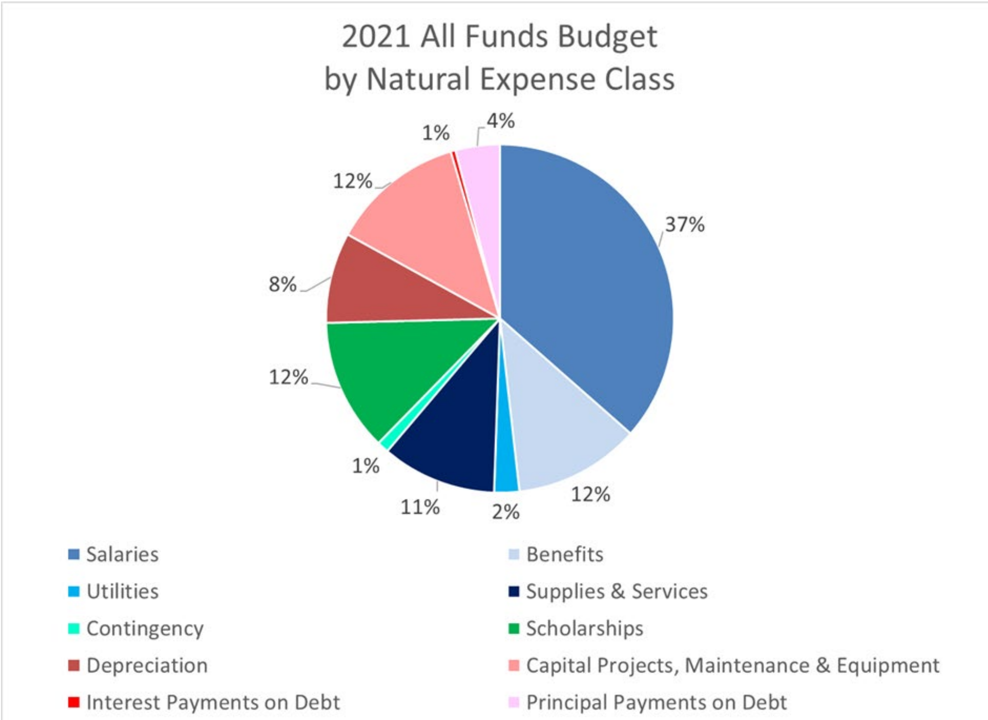
Traditionally, YC looks at these expenses in their separate funds:

- BLUE tends to be General & Auxiliary Funds, with some in Restricted
- GREEN tends to be Restricted Fund
- RED tends to be Plant Fund and Debt

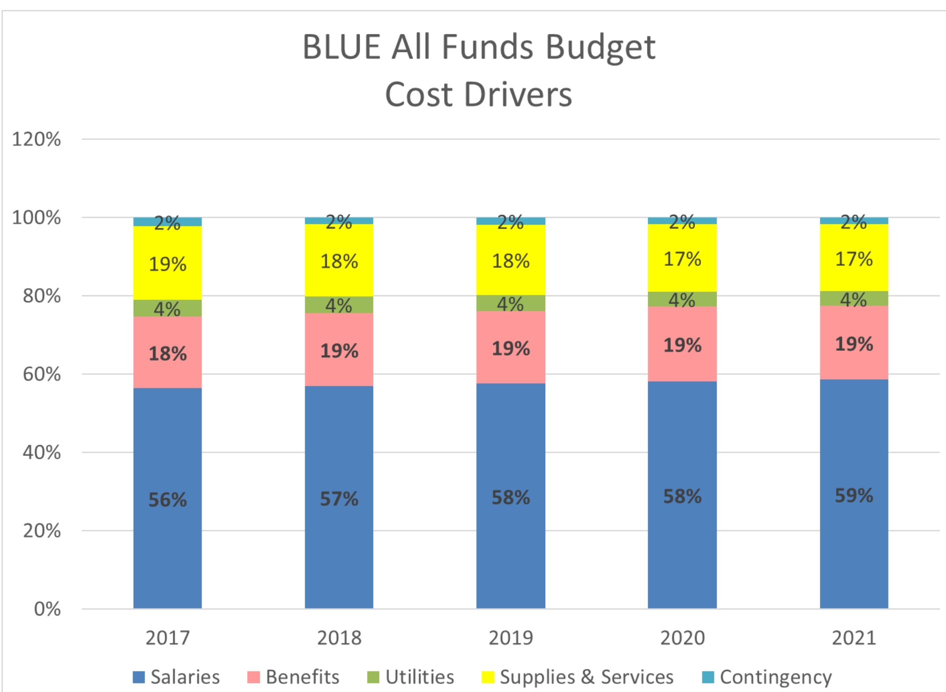
As we have discussed in previous exhibits

- Debt is being paid off in a relatively short period of time.
- Capital expenses are lower as most of the 2013 Campus Master Plan has been completed. The College plans to update the CMP in FY22 to re-assess priorities given available resources. We will go into more depth regarding Capital at the March DGB meeting.
- Scholarships increased due to CARES grant and the Promise Scholarship.
- Benefits increased $1.3M as healthcare, retirement, and mandatory fringes increased. Also, there were federally mandated changes to which employees qualify for benefits.
- The College has given raises every year. In addition, the College reviews 1/3 of the workforce every year, adjusting salaries as needed to remain market competitive. There were 2 new positions, costs associated with promotions, and mandatory increases in minimum wages.

The following graph is a visual representation of the College's FY2020-21 Budget:

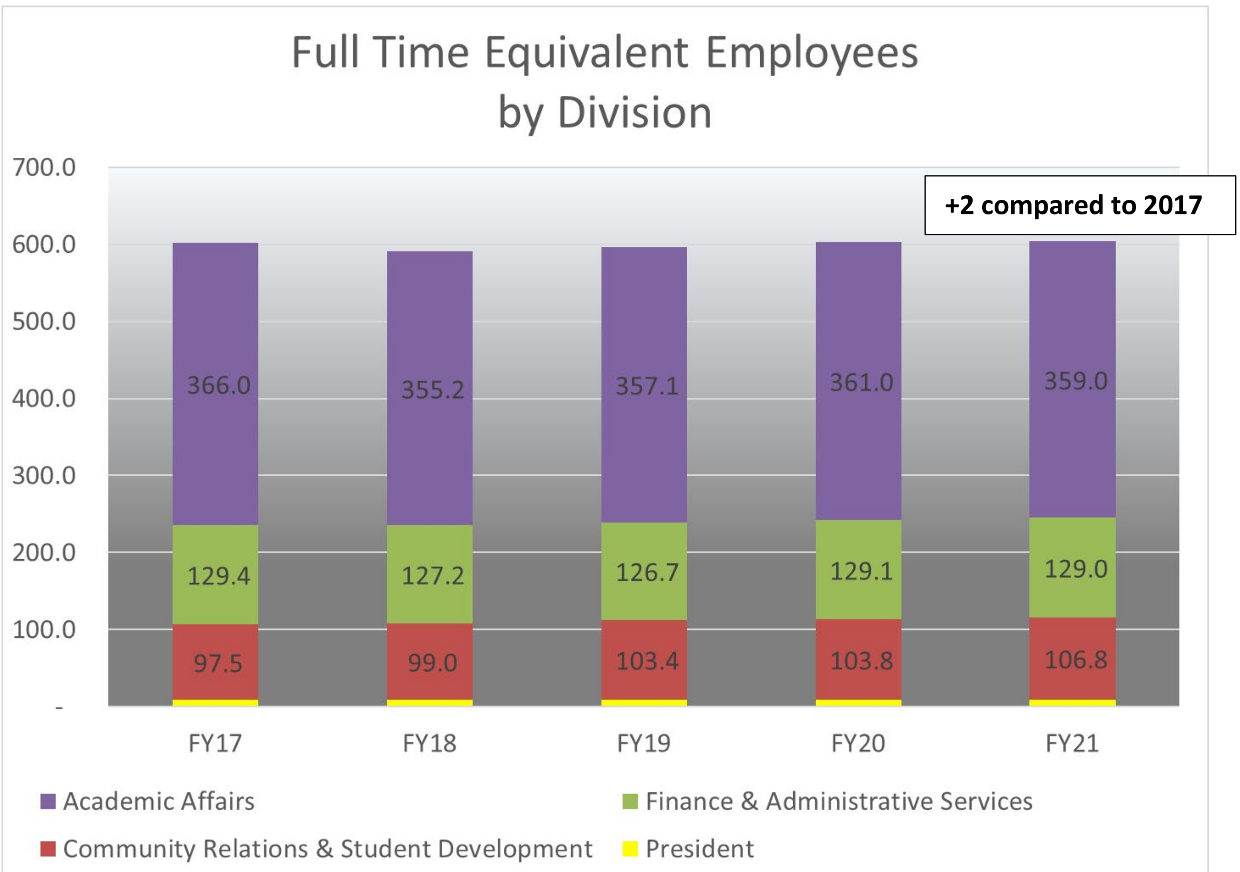


As a service organization, it is not surprising that salaries and benefits are our driving cost factor accounting for 78% of the BLUE expense classes. (see graph below)

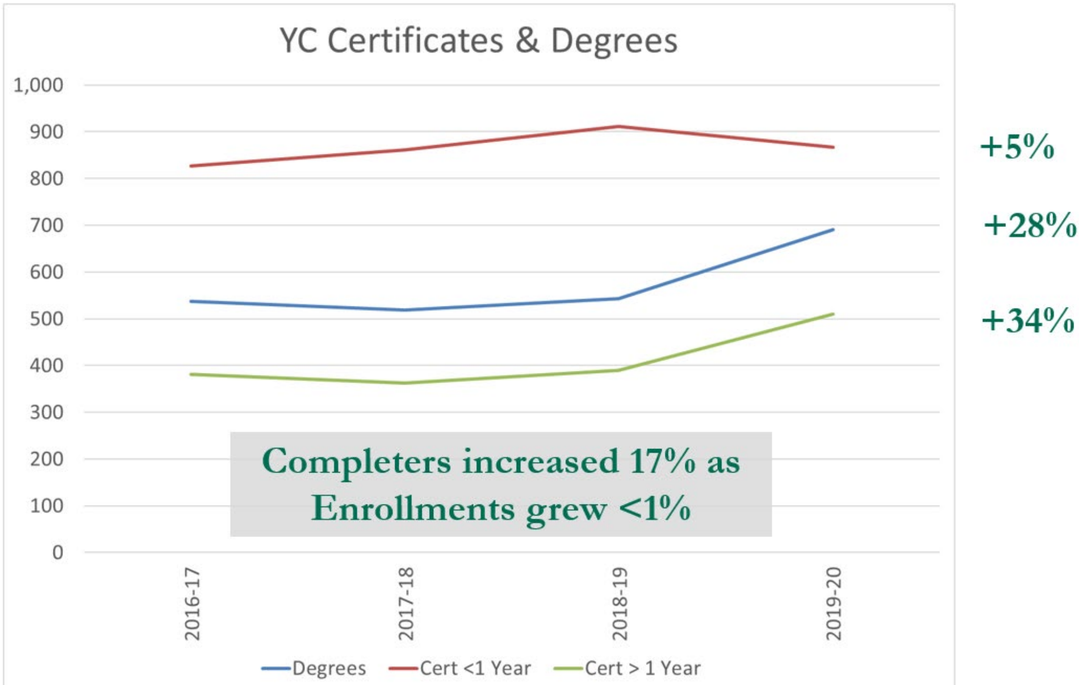


As we share in our Monitoring Reports, we have processes in place to ensure we are not overpaying—or underpaying-- employees. As you may recall, after a position is defined, Human Resources finds the market value for that job using 3rd party tools. Based on that evaluation, the position is placed in the YC salary grade with the midpoint that best matches the average market value of the position. Each grade provides a minimum and maximum salary so that employees may earn more throughout their careers as they become more experienced and skilled.

As discussed previously, the College has processes in place to help us monitor and control the number of positions we manage.



As discussed in the General Fund Expenses section above, there has been a purposeful re-allocation of resources into the Community Relations & Student Development division in an effort to increase enrollments and student success. Overall, positions and enrollments were relatively flat during a time period when county unemployment had further declined to 4.3% (pre-COVID); however, completion rates improved dramatically as demonstrated in the following graph:



Glossary

1. Fund Accounting

Fund accounting is an accounting and reporting system required to be used by independent colleges and universities to keep track of resources whose use is limited by donors, granting agencies, law, other outside individuals or entities or by governing boards. A fund is maintained for each specific purpose.

1a. Current Funds

The current funds group consists of funds expendable for current operating purposes, and is divided into two unrestricted funds, General and Auxiliary, as well as Restricted Funds.

1b. General Fund

This fund records revenues and expenses which fund the primary operations (education and related services) of the college.

1c. Auxiliary Fund

This fund reports activities for which a fee is charged for non-core goods or services.

1d. Restricted Fund

Restricted funds are operating funds for which the use has been limited for a specific purpose by external parties, contracts, or legislation. Externally imposed restrictions are different from internally created designations established by the governing board on unrestricted funds because restrictions cannot be removed without the external parties' consent.

1e. Plant Fund

This fund tracks resources and expenditures related to capital outlays, including the acquisition or construction of facilities, high dollar renovations or repairs, and equipment over a certain threshold.

1f. Debt Fund

This fund tracks revenues and expenditures related to the payment of principal, interest, and related charges on outstanding bonds and capital leases.

2. Functional Expenses
A functional (or program) expense classification is a method of grouping expenses according to the purpose for which the costs are incurred. The classifications tell why an expense was incurred rather than what was purchased. Reporting expenses by functional classification helps donors, granting agencies, creditors, and other readers of the financial statements to understand the various mission-related activities of the institution and their relative importance. The following Functions (Programs) are the standard categories used by colleges and universities to report expenses to the federal Department of Education:

2a. Instruction
The instruction classification includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and non-credit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions are included.

Expenses for departmental research and public service that are not separately budgeted also are included in this classification.

This classification excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans.

2b. Public Service
The public service classification includes expenses for activities established primarily to provide non-instructional services for the benefit of individuals and groups that are external to the institution. These activities include community service programs (excluding instructional activities) and cooperative extension services. Included in this classification are conferences, institutes, general advisory services, reference bureaus, radio and television, consulting, and similar non-instructional services to particular sectors of the community.

2c. Student Services
The student services classification includes expenses incurred for offices of admissions and the registrar and activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. This classification includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is not operated as an auxiliary enterprise), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an auxiliary enterprise).

2d. Academic Support
The academic support classification includes expenses incurred to provide support services for the institution's primary programs of instruction, research, and public service. It includes the following activities:

- The retention, preservation, and display of educational materials, such as libraries, museums, and galleries
- The provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education
- Media, such as audio-visual services, and technology, such as computing support
- Academic administration (including academic deans but not department chairpersons) and personnel providing administrative support and management direction to the three primary missions
- Separately budgeted support for course and curriculum development

Also included are information technology expenses related to academic support activities; if an institution does not separately budget and expense information technology resources, the costs associated with the three primary programs (Instruction, Research, Public Service) will be applied to this function, with the remainder to institutional support.

2e. Institutional Support
The institutional support classification includes expenses for central, executive-level activities concerned with management and long-range planning for the entire institution, such as the governing board, planning and programming operations, and legal services; fiscal operations, including the investment office; administrative information technology (when not accounted for in other categories); space management; employee personnel and records; logistical activities that provide procurement, storerooms, printing, and transportation services to the institution; support services to faculty and staff that are not operated as auxiliary enterprises; and activities concerned with community and alumni relations, including development and fundraising.

Appropriate allocations of institutional support should be made to auxiliary enterprises, hospitals, and any other activities not directly related to the primary programs—instruction, research, and public service—or their related support classifications.

2f. Operation and Maintenance of Plant (O&M)
The Operation and Maintenance of Plant category includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. These expenses include items such as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; safety; hazardous waste disposal; property, liability, and all other insurance relating to property; space and capital leasing; facility planning and management; and central receiving.

2g. Auxiliary enterprises
An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The

distinguishing characteristic of an auxiliary enterprise is that it is managed to operate as a self-supporting activity. Over time, the revenues will equal or exceed the expenses, although in any individual year there may be a deficit or a surplus. Examples are residence halls, food services, intercollegiate athletics (if operated as essentially self-supporting), college stores, faculty clubs, parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.

3. Natural Expense Classifications

These classifications generally represent the largest areas of expenses incurred by institutions. Based on examining current reporting practices by higher education institutions, NACUBO suggests that an institution use the following classifications to describe what goods and services are purchased.

- salaries and wages
- employee benefits
- scholarships and fellowships
- travel
- supplies
- utilities
- contractual services
- depreciation
- interest
- other

3a. Salaries & Wages

The salaries and wages classification includes expenses for all amounts paid and owed to faculty, staff and student-workers, including full-time and part-time employees.

3b. Benefits

This classification includes expenses for all benefits paid to or on behalf of faculty, staff, and student employees. It includes amounts required by law, contractual agreement, or institutional practice. These benefits include the institution's portion of Social Security, payroll taxes, pension, health care, workers' compensation, disability insurance, life insurance, tuition remission, vacations, sick pay, sabbaticals, and other employee-related benefit programs.

3c. Scholarships and Fellowships

Scholarships and fellowships expense may be considered both a functional and natural expense classification. Institutions generally report tuition discounts and allowances and scholarships as reductions of tuition and fees revenues. Certain amounts may still be reported as a natural expense classification in financial statements. Institutional resources provided to students as financial aid are recorded as scholarship allowances up to amounts owed by students. In some circumstances, the amount of aid awarded may exceed the tuition and fees, housing, and meals provided by or procured from the institution. In those circumstances, the excess of aid over tuition and fees and institutional housing and meals should be treated as an expense.

3d. Travel

This classification includes travel for all personnel for institutional activities such as meetings, training, recruiting, fund raising, and sporting competitions.

3e. Supplies
This classification is very broad and includes supplies for administration, instruction, research, and medical purposes. It also includes equipment purchased that does not meet the institution's capitalization threshold.

3f. Utilities
This classification includes expenses related to heating, cooling, light and power, gas, water, telephone, and any other utilities necessary for the operation of the physical plant.

3g. Contractual services
This classification generally is significant monetarily and covers a broad range of expenses including legal, audit, custodial, security, maintenance, repairs, postage, mailing and messenger, printing and duplicating, freight, advertising, rental of real and personal property, professional fees, professional development, and dues.

3h. Depreciation
This classification includes both depreciation of the institution's plant, property, and equipment, depletion, and amortization of assets acquired by capital lease.

3i. Interest
This classification includes interest expense on capital debt, the portion of payments on capital leases that is classified as interest expense, and interest expense on other borrowings, such as those for working capital or student loans.

3j. Other
Expenses that do not fit in any of the classifications above are included in this classification.