

MOMENTS

Learning. Growing. Exploring.

Experience some of the many memorable moments that make up a day at Pepperdine University.

▶ LEADERSHIP



▶ FINANCIALS



▶ YEAR IN REVIEW



[ANNUAL REPORT 2010](#)

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[HOME](#)
[CHAIR'S MESSAGE](#)
[PRESIDENT'S MESSAGE](#)
[SENIOR ADMINISTRATION](#)
[FINANCIALS](#)
[YEAR IN REVIEW](#)
[BOARDS](#)

LETTER FROM THE CHAIR

The Mission is in the Moment



Edwin L. Biggers

With student, faculty, and alumni output as our measure, Pepperdine just completed a very successful year. Our students are performing at high levels in the arts, sciences, communications, athletics, business, education, and the law. Faculty members from each of our schools are producing quality scholarly work and adding to the body of knowledge. We see evidence through our alumni that a Pepperdine education is preparing students to make meaningful contributions in their communities.

Through the hard work and sacrifice of faculty, staff, parents, alumni, and friends, the world is being positively changed one student at a time. Pepperdine faculty mentors reach well beyond the classroom to support students in their educational journey. They provide an education that serves the whole student—mind, body, and soul. The administration and staff work tirelessly to provide the systems and structure that keep our students productive, happy, and safe. Alumni reach out to offer advice and to hire Waves who are looking to get a jumpstart in this competitive world. Our friends and donors share their wisdom and their wealth to make sure our students have the resources they need to complete their education. Together, this community unites to nurture, discipline, train, educate, encourage, and support each Pepperdine student.

Though the mission of Pepperdine is presented in our official written materials, it is most evident in the moments of everyday life. When a student group volunteers at the Union Rescue Mission or a professor offers extra guidance to a struggling student, the mission shines most brightly. When an alumnus mentors a student job seeker or a counselor takes an extra step to secure an internship, the mission reveals itself more clearly. It can be seen in weekly chapel or on the court of competition. It is found in a classroom in West Los Angeles and in the dorms in Lausanne.

As you review this annual report and discover some of the hidden moments in the daily life of this University, I hope you will see the strength of our mission. This past year I have had numerous opportunities to visit with students and the parents of current and former students. Without exception they were all thankful for the Pepperdine experience. They were most grateful for the academic and spiritual impact that was made in their lives by Pepperdine.

I hope that this annual report will provide you with a fair appraisal of Pepperdine's current financial standing at the close of the fiscal year ending July 31, 2010. It has been a difficult year, especially for faculty and staff who have risen to meet the challenge of reducing expenses to keep tuition increases as low as possible. Even so, I believe that the presentation of activities and financial statements will demonstrate that Pepperdine accomplished much last year with fewer resources.

In the face of a fragile economic environment, we are confident that President Benton's team will continue to conservatively manage the University's resources with cautious optimism as they have during the difficult period beginning in 2008. We expect them to continue to manage carefully while firmly positioning Pepperdine for success in the future.

As we turn the calendar, we anticipate that 2011 will open new doors of opportunity for Pepperdine. We will begin a yearlong commemoration of our 75th Anniversary, celebrating the University's journey to count among the finest universities in the world. We will continue to stride boldly forward, and welcome another year at Pepperdine with hope and gratitude.

Edwin L. Biggers
Chair

[HOME](#)
[CHAIR'S MESSAGE](#)
[PRESIDENT'S MESSAGE](#)
[SENIOR ADMINISTRATION](#)
[FINANCIALS](#)
[YEAR IN REVIEW](#)
[BOARDS](#)

LETTER FROM THE PRESIDENT

Big Promises Made Everyday



Andrew K. Benton

One of the campus shuttle buses that roam our mountainous Malibu campus day and night, transporting students from classes to rehearsals and other destinations, moved up the hill that I was descending. As it passed, I noticed printed on its side the words I've seen thousands of times—"strengthening lives for purpose, service, and leadership." I will admit that my first thought was a bit juvenile, "Wow, even our buses are committed to the University's mission!" My second thought was a bit more sobering. "Wow, we are making a big promise everyday to thousands of students, parents, alumni, and supporters."

The challenge of reducing our mission to a simple tagline on banners, brochures, and even buses is that it can become so commonplace that in our hurried, everyday world we drive right past it and occasionally lose sight of its significance. If we are not careful, commonplace becomes complacency.

So, how well are we fulfilling the grand claim we make everyday? We are promising each student that their Pepperdine experience will prepare them to compete and contribute in this challenging world. Implied in all of this is a pledge that each student will have the opportunity to become more knowledgeable, skilled, thoughtful, spiritual, balanced, and healthy. In short, we are promising positive personal transformation—changed lives.

To keep the challenge of our mission fresh, over the past year Pepperdine has given a great deal of attention to the important work of self-assessment and strategic planning. The process has been rigorous and ambitious. We turned our attention first to the question of performance in the classroom. How do we know that our students are being prepared to contend in a highly competitive environment? How do we know they are being prepared for lives of purpose, service, and leadership? We learned where we are strong and where we need to do some work.

Secondly, we turned our attention to evaluating Pepperdine's physical plant. The facilities on our Malibu campus are aging and lack some of the features required to serve our student scholars and athletes at the highest levels. We identified areas where a sense of community, a vital element of the Pepperdine promise, can be fostered. Recently, having completed a very important assessment of the environmental impact of our Campus Life Project, we introduced our early plans to address these facility issues to the Pepperdine and Malibu communities. We look forward to sharing more detailed plans soon.

In our graduate communities, we took immediate steps to elevate the image and improve the academic and student spaces in our Encino Graduate Campus with the intention of duplicating this model in other graduate campuses. Pepperdine must commit itself to providing both our undergraduate and graduate students with excellent spaces for learning and growing together.

The work we have done over the last year has revealed strengths that we can build upon to increase the value of our offerings, as well as opportunities for improvement. Addressing both will secure our future as a leading provider of world-class post-secondary and graduate education.

At the conclusion of this, my 10th year as president, I am most grateful for the dedication of the faculty, staff, and administrators at this institution who have prepared Pepperdine to enter the second decade of the third millennium with confidence and a sense of excitement that a new leg of a journey is about to begin.

Andrew K. Benton



HOME

CHAIR'S MESSAGE

PRESIDENT'S MESSAGE

SENIOR ADMINISTRATION

FINANCIALS

YEAR IN REVIEW

BOARDS

SENIOR ADMINISTRATION

With steadfast commitment to the University's mission, the senior administrators and deans of Pepperdine provide stable leadership, prioritize the holistic development of students, and help the University achieve ever-greater heights.

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Senior Vice President for Investments & Chief Investment Officer



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Interim Dean, School of Law



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[HOME](#)
[CHAIR'S MESSAGE](#)
[PRESIDENT'S MESSAGE](#)
[SENIOR ADMINISTRATION](#)
[FINANCIALS](#)
[YEAR IN REVIEW](#)
[BOARDS](#)

FINANCIALS

Message from the Chief Financial Officer



Paul B. Lasiter

[View Consolidated Financial Statements](#)

Fiscal 2010 unfolded as a year of recovery and stabilization for Pepperdine University. Following fiscal 2009, a year that proved to be one of the most challenging in our history, we were able to reallocate funds to improve operating efficiency and institutional liquidity, recover a significant balance of the net assets lost from investments in the prior year, and begin the reinvestment of resources into areas of strategic importance. The challenge we faced at the beginning of fiscal 2010 was indeed significant, but thanks to the guidance of God, we have not only survived the recent economic tumult, but have emerged a stronger, more vibrant, and more nimble institution.

As a result of both positive operating results and investment increases, the University's net assets increased 8.8 percent or \$75 million to total \$929 million at fiscal year end.

During fiscal 2010, the University's endowment funds increased \$36 million, or 7 percent from one year ago, to total \$565 million. It is important to note that this is the increase net of accounting for the expenditure of more than \$30 million to support student aid and operating costs. If endowment assets remain at their current levels, we expect a modest decrease in endowment support in future years since the University distributes endowment support based on a five-year moving average of endowment value multiplied by a 5 percent payout rate.

Endowment support totaled \$32 million in fiscal 2010, or approximately 13 percent of total expenses. Though still significant in absolute terms, the University's endowment provides a comparatively low level of support for operations, which has been advantageous in the midst of a challenging investment environment. Net tuition and fees combined with room and board revenues totaled \$209 million in fiscal 2010, or approximately 71 percent of total revenues. Strong demand for the vast majority of our academic offerings, in light of this comparatively high level of student-related revenues, has provided the University with a stable source of operating cash flow.

We have continued to improve our liquidity position through positive operating results and increases in investment values. At the same time, we have continued to invest in property, facilities, and equipment. Investments in facilities have been funded through the use of existing reserve funds and gifts from friends and alumni.

At the end of fiscal 2010, we had no exposure to variable-rate debt, completely insulating the University from potential higher interest costs resulting from rate increases. The University's long-term debt-to-total capitalization ratio totaled approximately 19.7 percent at the end of fiscal 2010.

During the past two fiscal years, we took decisive steps to curtail operating costs and invest those funds in student aid. In fiscal 2010 we reduced total operating expenses by 4.2 percent or \$11 million, and increased student aid by 13.5 percent or \$9 million. Additionally we were able to set aside reserves that can be used to shore up declines in future endowment support, fund even more student aid should that need arise, make strategic investments in scholarship and instruction, or reduce student enrollment targets in future years.

The University's results from operations improved significantly in fiscal 2010, as a result of the generosity of our alumni and friends, as well as reductions of management and general expenses which declined 12 percent from the prior year as we reduced controllable costs in response to the economic crisis.

Additionally, we have undertaken tremendous efforts to curtail increases in the cost of a Pepperdine education. Net tuition revenues increased only 1.4 percent or \$2 million to total \$177 million in fiscal 2010. From a student's perspective, net tuition and fee revenues amounted to \$28,612 per full-time-equivalent student in fiscal 2010. At the same time, expenses that directly affect each student's experience—such as instruction, research, academic support, and student services—amounted to \$27,228 per full-time-equivalent student, representing approximately 95.2 percent of each net tuition-and-fee dollar paid.

Private gift and grant revenues increased 82.6 percent to \$38 million thanks to the tremendous generosity of our alumni and friends. With an increase in the total volume of private gift and grant revenues, our cost to raise each dollar of support

decreased to 20.1 percent in fiscal 2010 from 35.3 percent in fiscal 2009. It is vitally important to the future of the University that we maintain and sustain this higher level of private gift and grant revenues to both increase the value of our endowment and support current operations. We continue to need the support of our alumni and friends, as the University's ability to provide additional student financial aid has emerged as a key concern for students.

God has continued to bless this University and the people who dedicate their lives to the service of our students. I sincerely thank all of you who support Pepperdine University in furthering our mission of equipping students for lives of purpose, service, and leadership.

A handwritten signature in black ink, appearing to read "Paul B. Lasiter". The signature is stylized and cursive.

Paul B. Lasiter
Chief Financial Officer

[ANNUAL REPORT 2010](#)

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HOME

CHAIR'S MESSAGE

PRESIDENT'S MESSAGE

SENIOR ADMINISTRATION

FINANCIALS

YEAR IN REVIEW

BOARDS

BOARDS

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