

**American University**  
**Consolidated Financial Statements**  
**For the years ended June 30, 2020 and 2019**  
**And report of independent auditors**



## **Report of Independent Auditors**

To the Board of Trustees of  
American University:

We have audited the accompanying consolidated financial statements of American University (the "University") and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and of cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American University and its subsidiaries as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

November 16, 2020

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**American University**  
**Consolidated Statements of Financial Position**  
**Years ended June 30, 2020 and 2019**

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 81,913	\$ 141,737
Accounts and University loans receivable, net	50,058	40,651
Contributions receivable, net	16,093	16,442
Prepaid expenses, inventory and other assets	10,796	12,817
Investments	962,203	945,470
Property, plant, and equipment, net	913,506	874,567
Interest in perpetual trust	20,556	19,708
Total assets	<u>\$ 2,055,125</u>	<u>\$ 2,051,392</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 76,703	\$ 93,829
Deferred revenue and contract liabilities	31,022	24,823
Notes payable and long-term debt	634,548	634,333
Refundable advances from the U.S. government	10,853	10,553
Total liabilities	<u>\$ 753,126</u>	<u>\$ 763,538</u>
Net assets:		
Without donor restrictions	\$ 1,039,634	\$ 1,031,556
With donor restrictions	262,365	256,298
Total net assets	<u>\$ 1,301,999</u>	<u>\$ 1,287,854</u>
Total liabilities and net assets	<u>\$ 2,055,125</u>	<u>\$ 2,051,392</u>

*See accompanying notes to the financial statements.*

**American University**  
**Consolidated Statement of Activities**  
**Year ended June 30, 2020**

<i>(In thousands)</i>	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Operating revenues and support			
Tuition and fees	\$ 441,124	\$ -	\$ 441,124
Grants and contracts	36,704	-	36,704
Indirect cost recovery	3,428	-	3,428
Contributions	34,867	21,310	56,177
Endowment investment return	12,856	7,554	20,410
Investment return	9,153	471	9,624
Auxiliary enterprises	89,970	-	89,970
Other sources	9,307	-	9,307
Net asset release	15,661	(15,661)	-
Total operating revenues and support	<u>653,070</u>	<u>13,674</u>	<u>666,744</u>
Operating expenses			
Instruction	222,693	-	222,693
Research	66,808	-	66,808
Public service	31,789	-	31,789
Academic support	75,185	-	75,185
Student services	54,545	-	54,545
Institutional support	90,812	-	90,812
Auxiliary enterprises	86,278	-	86,278
Total operating expenses	<u>628,110</u>	<u>-</u>	<u>628,110</u>
Total operating activities	<u>24,960</u>	<u>13,674</u>	<u>38,634</u>
Nonoperating items			
Other nonoperating sources	(4,765)	(303)	(5,068)
Investment return, net of endowment spending	(12,117)	(7,304)	(19,421)
Total nonoperating activities	<u>(16,882)</u>	<u>(7,607)</u>	<u>(24,489)</u>
Change in net assets	8,078	6,067	14,145
Net assets at beginning of year	<u>1,031,556</u>	<u>256,298</u>	<u>1,287,854</u>
Net assets at end of year	<u>\$ 1,039,634</u>	<u>\$ 262,365</u>	<u>\$ 1,301,999</u>

*See accompanying notes to the financial statements.*

**American University**  
**Consolidated Statement of Activities**  
**Year ended June 30, 2019**

<i>(In thousands)</i>	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Operating revenues and support			
Tuition and fees	\$ 427,988	\$ -	\$ 427,988
Grants and contracts	29,170	-	29,170
Indirect cost recovery	3,537	-	3,537
Contributions	51,489	14,345	65,834
Endowment investment return	12,236	7,248	19,484
Investment return	10,269	724	10,993
Auxiliary enterprises	108,002	-	108,002
Other sources	10,077	-	10,077
Net asset release	19,546	(19,546)	-
Total operating revenues and support	<u>672,314</u>	<u>2,771</u>	<u>675,085</u>
Operating expenses			
Instruction	216,646	-	216,646
Research	66,407	-	66,407
Public service	29,976	-	29,976
Academic support	73,204	-	73,204
Student services	55,912	-	55,912
Institutional support	89,026	-	89,026
Auxiliary enterprises	94,611	-	94,611
Total operating expenses	<u>625,782</u>	<u>-</u>	<u>625,782</u>
Total operating activities	<u>46,532</u>	<u>2,771</u>	<u>49,303</u>
Nonoperating items			
Other nonoperating sources	(4,066)	(1,212)	(5,278)
Investment return, net of endowment spending	(1,350)	1,510	160
Total nonoperating activities	<u>(5,416)</u>	<u>298</u>	<u>(5,118)</u>
Change in net assets	41,116	3,069	44,185
Net assets at beginning of year	990,440	253,229	1,243,669
Net assets at end of year	<u>\$ 1,031,556</u>	<u>\$ 256,298</u>	<u>\$ 1,287,854</u>

*See accompanying notes to the financial statements.*

**American University**  
**Consolidated Statements of Cash Flows**  
**Year ended June 30, 2020 and 2019**

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 14,145	\$ 44,185
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Contributed art and property	(9,500)	(30,143)
Net realized and unrealized capital loss (gain)	8,799	(14,189)
Gain on the disposal of fixed assets	-	1,090
Depreciation, amortization and accretion	42,613	43,540
Changes in assets and liabilities		
(Increase) decrease in accounts and university loans receivable, net	(10,872)	3,474
Decrease (increase) in contributions receivable, net	349	(550)
Decrease (increase) in prepaid expenses, inventory and other assets	2,021	(3,009)
(Decrease) increase in accounts payable and accrued liabilities	(29,955)	1,463
Increase in deferred revenue, deposits and other refundable advance	6,499	1,999
Receipt of contributed securities	(1,184)	(4,138)
Sale of contributed securities	1,184	4,138
Contributions collected and revenues restricted for long-term investment	(7,604)	(9,825)
Net cash provided by operating activities	<u>16,495</u>	<u>38,035</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(1,194,571)	(655,301)
Proceeds from sales and maturities of investments	1,173,917	692,141
Purchases of property, plant, and equipment	(59,008)	(61,917)
Net cash used in investing activities	<u>(79,662)</u>	<u>(25,077)</u>
<b>Cash flows from financing activities</b>		
Student loans repaid	1,465	1,409
Issuance of debt	-	410,000
Repayment of bonds and notes and swaps termination	-	(410,614)
Debt issuance cost	-	(5,285)
Proceeds from contributions restricted for		
Investment in plant	161	1,395
Investment in endowment	7,443	8,430
Net cash provided by financing activities	<u>9,069</u>	<u>5,335</u>
Net (decrease) increase in cash and cash equivalents	<u>(54,098)</u>	<u>18,293</u>
Cash and cash equivalents at beginning of year	141,899	123,606
Cash and cash equivalents at end of year	<u>\$ 87,801</u>	<u>\$ 141,899</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during year for interest	\$ 21,152	\$ 23,047
Contributed art and property	9,500	30,143
Contributed securities	1,184	4,138
Accrued payment for property, plant & equipment	12,829	16,772
<b>Cash and cash equivalents reported on the statements of financial position</b>		
Cash and cash equivalents	\$ 81,913	\$ 141,737
Uninvested cash included in investments	5,724	-
Deposits with trustees	164	162
Total cash, cash equivalents, and restricted cash	<u>\$ 87,801</u>	<u>\$ 141,899</u>

*See accompanying notes to the financial statements.*

# American University

## Consolidated Notes to Financial Statements

### June 30, 2020 and 2019

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#### 1. American University

American University (the University) is an independent, coeducational university located on an 85-acre campus in northwest Washington, D.C. It was chartered by an Act of Congress in 1893 (the Act). The Act empowered the establishment and maintenance of a university for the promotion of education under the auspices of the Methodist Church. While still maintaining its Methodist connection, the University is nonsectarian in all its policies.

American University offers a wide range of graduate and undergraduate degree programs, as well as non-degree study. There are approximately 936 full-time faculty members in seven academic divisions, and approximately 14,300 students, of which 8,500 are undergraduate students and 5,800 are graduate students. The University attracts students from all 50 states, the District of Columbia, Puerto Rico, the Territories, and nearly 122 foreign countries.

#### 2. Summary of Significant Accounting Policies

##### *Basis of Presentation*

The financial statements of the University have been reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### *Principles of Consolidation*

Our consolidated financial statements include our accounts and that of our wholly owned and controlled subsidiaries after elimination of intercompany accounts and transactions.

In May 2012, the University became the sole member of American University at Connecticut Avenue LLC (the LLC). The LLC purchased an office building to house the University's public radio station, WAMU - 88.5 FM, and other administrative offices. The University has consolidated the results of the LLC in these consolidated financial statements. Additionally, the University acquired the Airlie Foundation (Airlie) on September 9, 2016 via a change of control. The results of Airlie from the acquisition date through June 30, 2020 are consolidated in the University's financial statements.

##### *Classification of Net Assets*

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

*Without donor restrictions* – Net assets not subject to donor-imposed stipulations. This classification also includes net assets earmarked for board designated endowments and investments in capital assets.

*With donor restrictions* – Net assets subject to donor-imposed stipulations that either expire by passage of time, can be fulfilled by actions of the University pursuant to those stipulations or are subject to donor-imposed stipulations that must be maintained permanently by the University.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions related to time or purpose recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Time or purpose restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Non-operating activities represent transactions relating to the University's long-term investments and plant activities, including contributions to be invested by the University to generate a return that will support future operations, contributions to be received in the future or to be used for facilities and equipment, investment gains or losses and derivative instrument gains or losses.

***Reclassification of Prior Year Presentation***

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities; (2) disclosure of contingent assets and liabilities at the date of the financial statements; and (3) the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions are the value of alternative investments, the asset retirement obligations, and the postretirement benefit plan. Actual results could differ materially, in the near term, from the amounts reported.

***COVID-19 Pandemic***

The outbreak of the COVID-19 pandemic has caused domestic and global disruptions in operations for institutions of higher education. The long-term effect to the University of the COVID-19 pandemic depends on various factors, including, but not limited to, the effect on student enrollment, the effect on demand for University programs that involve travel or that have international connections, and the long-term effect on financial markets and consequently the returns on and value of the University's investments, which cannot be fully quantified at this time. As of June 30, 2020, and through the date of these financial statements, the University evaluated its accounting estimates for any potential future impacts of the pandemic. While this evaluation did not result in a material effect to the University's financial statements as of June 30, 2020, future evaluations could result in a material effect depending on the eventual impact to the University of the pandemic in future periods.

***Accounting Pronouncements Adopted***

During the year ended June 30, 2020, the University adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2017-07, Compensation – Retirement Benefits (Topic 715) primarily to improve the presentation of net periodic pension cost and net periodic postretirement cost. The amendments in this update require that an employer reports the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Under this update, nonpublic entities shall disclose the components of the net periodic benefit cost other than the service cost either in a separate line item in the statement of activities or in notes to the financial statements. The retrospective adoption of this standard did not materially impact the financial statements of the University.

On July 1, 2019, the University adopted ASU 2016-18 Statement of Cash Flows - Restricted Cash (Topic 230). Under this new guidance, the University must identify all cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents within the consolidated statements of financial position for inclusion in the beginning and ending totals of cash and cash equivalents within the consolidated



**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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statement of cash flows. The adoption of this ASU is reflected in the 2020 and 2019 consolidated statements of cash flows.

***Recent Accounting Pronouncements***

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, Fair Value Measurement (Topic 820) to improve the effectiveness of disclosure in the notes to financial statements. The amendment in this update eliminates disclosure requirements for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the of the reporting period. It also modifies the requirements to disclose the transfers into and out of Level 3 of the fair value hierarchy and purchase and issues of Level 3 assets and liabilities and disclose the timing and date of liquidation of an investee's assets under certain circumstances. The new guidance is effective for fiscal years beginning after December 15, 2019. Although early adoption is permitted, the University is evaluating the impact this will have on the combined financial statements beginning in fiscal year 2021.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the lessees' statement of financial position and disclosing key information about leasing arrangements for leases classified as operating leases under the previous GAAP. Under this update, lessees should recognize in the statement of financial position as a liability to make lease payments and a right-of-use asset representing its right-to-use the underlying asset for the lease term. This new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The FASB later issued ASU 2020-05 to defer the effective date to fiscal years beginning after December 15, 2021, and interim periods within fiscal years, with early adoption permitted. The University elected the deferral of the effective date and is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2023.

***Cash and Cash Equivalents***

Cash and cash equivalents include U.S. currency and highly liquid short-term interest-bearing marketable instruments with original maturities of three months or less from the initial purchase date.

The University places its cash and cash equivalents and investments in various financial institutions that are federally insured for \$250,000 and for \$500,000 under the Federal Depository Insurance Corporation Act (FDICA) and Securities Investor Protection Corporation (SIPC), respectively. At June 30, 2020, the aggregate balances were in excess of the insurance and therefore, bear some risk since they are not collateralized. The University has not experienced any losses on its cash and cash equivalents or investments to date as it relates to FDICA and SIPC insurance limits.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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***Receivables***

Receivables consist of tuition and fee charges to students and auxiliary enterprises' sales and services, loans receivable primarily related to donor-structured loans and federal student financial aid programs, and amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts. The University reviews the individual receivables as well as the history of collectability to determine the collectible amount as of the date of the statement of financial position. Additionally, university loans receivables are evaluated annually by looking at both unsecured and secured loans.

***Investments***

Investments are presented at fair value in the statement of financial position. Investments include endowment funds and university working capital funds. Endowment investment return included in operating revenues consists of annual amounts allocated for spending of endowment funds in accordance with the University's spending policy. Net realized and change in unrealized gains and losses are calculated using the average cost of investments. Gains and losses from investments of endowment funds are reported as non-operating revenues in the consolidated statements of activities. Investment return included in operating revenues consists primarily of interest and dividends from investments of working capital funds and unexpended plant funds. Additionally, the University has elected the policy that all short-term investments included within the investment portfolio are not cash equivalents and thus not included within cash and cash equivalents on the consolidated statement of cash flows.

Investments are valued based on quoted market price when available. The University has interests in alternative investments consisting of limited partnerships and limited companies. For these alternative investments, the University uses Net Asset Value ("NAV") as a practical expedient to determine fair value. Alternative investments are less liquid than the University's other investments. Furthermore, the investments held in these limited partnerships, as well as certain investment securities held in mutual funds classified as equity securities, may include derivatives and certain private investments which do not trade on public markets and therefore may be subject to greater liquidity risk. See Note 7 for an explanation as to methodology for determining fair value.

Endowment investment return includes both the pooled endowment and separately managed endowments. The return is reported in endowment investment return and investment return net of endowment spending in the statement of activities. Investment return is accrued as earned and is reported net of management fees.

***Property, Plant, and Equipment, Net***

Property, plant, and equipment are stated at cost on the date of acquisition or at estimated fair value if acquired by gift including interest capitalized on related borrowings during the period of construction, less accumulated depreciation. Certain costs associated with the financing of plant assets are deferred and amortized over the terms of the financing. Depreciation of the University's plant assets is computed using the straight-line method over the asset's estimated useful life, generally over 50 years for buildings, 20 years for land improvements, 5 years for equipment, 10 years for library collections, and 50 years for art collections. The University's capitalization policy is to capitalize all fixed assets and collection items that have a cost of \$10,000 or more per unit and a useful life of two years or more.

***Deferred Revenue and Contract Liabilities***

Deferred revenue and contract liabilities consists of amounts received by the University for tuition, housing and student fees and exchange transactions with customers before the commencement of the contract terms or the performance obligations are satisfied. Deferred revenue related to tuition, housing and student fees

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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was \$25.0 million and \$21.5 million in June 30, 2020 and 2019, respectively, and are recognized as revenue in the following fiscal year. Contract liabilities from exchange transactions were approximately \$6.8 million and \$3.2 million in June 30, 2020 and 2019, respectively, and are recognized as revenue when the performance obligations are satisfied, typically in the following fiscal year.

***Refundable Advances from the U.S. Government***

Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. Such funds are ultimately refundable to the government. Approximately 35% and 39% net tuition and fees revenue for the years ended June 30, 2020 and 2019, respectively, was funded by federal student financial aid programs (including loan, grant, and work-study programs).

***Tuition, Fees and Scholarships***

The University recognizes revenues from student tuition and fees within the fiscal year in which educational services are provided and the performance obligation is met. Students are billed upon registration and payment is due before the start of the term.

Tuition discounts in the form of scholarships, fellowship, and loans, including those funded by the endowment, research funds, and gifts, have been reported as a reduction of tuition revenues. Tuition and fees revenue is calculated as follows for the years ended June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Tuition and fees, gross	\$ 611,311	\$ 591,533
Less: Scholarship allowance	(170,187)	(163,545)
Tuition and fees	<u>\$ 441,124</u>	<u>\$ 427,988</u>

***Grants and Contracts***

The University receives grants and contracts revenue from various governmental and private sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large. The University considers the majority of its grants and contracts from governmental sources and private foundations to be nonreciprocal conditional contributions. The University recognizes revenues associated with these grants and contracts as the related costs are incurred in accordance with the terms of the grant agreements. All other grants and contracts are considered exchange transactions and the University recognizes revenue as performance obligations are satisfied. Total grants and contracts revenue for the years ended June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Governmental sources	\$ 25,070	\$ 21,089
Private foundations	5,809	3,616
Total contributions	<u>\$ 30,879</u>	<u>\$ 24,705</u>

  

	<u>2020</u>	<u>2019</u>
Governmental sources	\$ 4,387	\$ 3,580
Private foundations	1,438	885
Total exchange transactions	<u>\$ 5,825</u>	<u>\$ 4,465</u>

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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In addition, the University had remaining available award balances on federal and private conditional grants and contracts for sponsored projects of \$14.0 million and \$19.6 million as of June 30, 2020 and 2019, respectively. These award balances are not recognized as assets and will be recognized as revenue as the projects progress and conditions are met, generally as expenses are incurred.

***Indirect Cost Recovery***

Indirect costs recovered on federally sponsored programs are generally based on predetermined reimbursement rates negotiated with the University's cognizant federal agency, the Department of Health and Human Services. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. The University recognizes revenues for the recovery of indirect costs associated with these sponsored programs at the negotiated rates as the related direct costs are incurred.

***Auxiliary Enterprises***

The auxiliary enterprises revenue consists primarily of revenue received from students for housing and food services operations, parking revenue and commercial property rental income. Students are billed for housing and food services upon registration and payment is due before the start of the term. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as the performance obligations are satisfied. Revenues related to parking facilities and commercial property rental are recorded as the customer uses the space based on the terms of the contractual agreement.

***Contributions***

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as contribution revenue. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

***Income Taxes***

The University has been recognized by the Internal Revenue Service as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Such activities resulted in no net taxable income in the years ended June 30, 2020 and 2019.

The Airlie Foundation, a subsidiary acquired by the University in September 2016, remains a taxable non-stock corporation and is taxed as a C-Corporation and uses the liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The University's policy is to record interest and penalties as an increase in income taxes payable and corresponding increase to income tax expense. No penalties or interest have been recorded for the year ended June 30, 2020 or 2019.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**3. Liquidity**

The University strategically manages its fiscal assets to ensure adequate liquidity to meet its operating needs and other contractual commitments, while also maximizing the investment of its available funds. In addition to financial assets available in the next twelve months, the University anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Additionally, the University maintains line of credit facilities to provide additional liquidity should unanticipated needs arise.

As of June 30, 2020, and 2019, the following financial assets and liquidity resources could readily be made available within one year (in thousands):

	<u>2020</u>	<u>2019</u>
Financial assets and liquidity resources:		
Cash and cash equivalents	\$ 81,913	\$ 141,737
Accounts and University loans receivable, net	36,710	24,653
Contributions receivable, net	13,360	12,391
Working capital investments	<u>259,318</u>	<u>239,478</u>
Financial assets and liquidity resources available within one year	391,301	418,259
Other liquidity resources:		
Commercial Paper	<u>125,000</u>	<u>125,000</u>
 Total financial assets and liquidity resources	 <u>\$ 516,301</u>	 <u>\$ 543,259</u>

The University also has Board Designated funds of \$382,657 and \$393,565 at June 30, 2020 and 2019, respectively. These represent unrestricted operating funds that have been internally designated by the University. These could be liquidated over time, if necessary, to support operations.

**4. Accounts and University Loans Receivable, Net**

Accounts and loans receivable, net, at June 30, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Accounts receivable		
Student	\$ 21,219	\$ 12,296
Grants, contracts, and other	23,655	21,558
Accrued interest	739	707
Student loans	<u>7,031</u>	<u>8,354</u>
	52,644	42,915
Less allowance for uncollectible accounts and loans	<u>(2,586)</u>	<u>(2,264)</u>
	<u>\$ 50,058</u>	<u>\$ 40,651</u>

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

At June 30, 2020 and 2019, the University had an outstanding student loans receivable balance in the amount of \$7.0 and \$8.4 million, respectively. Management does not believe it has significant exposure to credit risk related to the federal student financial aid programs as these accounts receivable amounts are backed by the U.S. Government. Additionally, management has considered the credit and market risk associated with all other outstanding balances and believes the recorded cost of these loans approximates fair market value at June 30, 2020 and 2019.

**5. Contributions Receivable, Net**

As of June 30, 2020, and 2019, unconditional promises to give were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 13,360	\$ 12,391
One year to five years	10,364	10,779
Over five years	<u>1,375</u>	<u>2,120</u>
	25,099	25,290
Less unamortized discount	(1,862)	(2,274)
Less allowance for doubtful accounts	<u>(7,144)</u>	<u>(6,574)</u>
	<u>\$ 16,093</u>	<u>\$ 16,442</u>

Contributions receivable over more than one year are discounted at rates ranging from 3.0% to 6.5%. New contributions received during the years ended June 30, 2020 and 2019 were assigned a discount rate which is commensurate with the market and credit risk involved.

As of June 30, 2020, and 2019, the University had also received bequest intentions and conditional promises to give of \$4.6 million and \$11.4 million, respectively. These intentions to give are not recognized as assets. If the bequests are received, they will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, or general operating support of a particular department of the University. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

**6. Property, Plant, and Equipment, Net**

Property, plant, and equipment and related accumulated depreciation and amortization at June 30, 2020 and 2019, are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 55,799	\$ 51,551
Buildings	1,035,715	1,021,206
Equipment	132,212	130,439
Construction in progress	128,342	74,590
Library and art collections	179,221	172,557
	<u>1,531,289</u>	<u>1,450,343</u>
Less accumulated depreciation and amortization	<u>(617,783)</u>	<u>(575,776)</u>
	<u>\$ 913,506</u>	<u>\$ 874,567</u>

Construction in progress at June 30, 2020 and 2019 relates to building improvements and renovations.

For the years ended June 30, 2020 and 2019, depreciation expense was approximately \$42.4 million and \$41.7 million, respectively.

**7. Fair Value Measurements**

The University determines fair value in accordance with fair value measurement accounting standards. These standards establish a framework for measuring fair value, a fair value hierarchy based on the observability of inputs used to measure fair value, and disclosure requirements for fair value measurements. Financial assets and liabilities are classified and disclosed in one of the following three categories based on the lowest level input that is significant to the fair value measurement in its entirety:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than Level 1, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

***Assets and Liabilities Measured at Fair Value***

The following table displays the carrying value and estimated fair value of the University's financial instruments as of June 30, 2020 (in thousands):

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV) as Practical Expedient	Total Fair Value as of June 30, 2020
Assets					
Investments					
Cash and Short Term Investments	\$ 29,979	\$ -	\$ -	\$ -	\$ 29,979
Equity - Corporate Stocks	170,837	-	-	-	170,837
Equity - Domestic Funds	66,292	-	-	3,310	69,602
Equity - International Stocks	82,253	-	-	-	82,253
Equity - International Funds	65,001	-	-	-	65,001
Equity - Hedge Funds	-	-	-	158,776	158,776
Equity - Real Asset Funds	2,096	-	-	42,714	44,810
Equity - Private Equity Funds	-	-	-	93,515	93,515
Fixed Income - Corporate Bonds	-	74,463	-	-	74,463
Fixed Income - Government Agency Bonds	-	30,200	-	-	30,200
Fixed Income - International Bonds	-	30	-	-	30
Fixed Income - Treasury Securities	15,550	-	-	-	15,550
Fixed Income - Domestic Bond Funds	126,414	69	-	540	127,023
Deposits with trustees	164	-	-	-	164
Interest in perpetual trust	-	-	20,556	-	20,556
Total assets at fair value	\$ 558,586	\$ 104,762	\$ 20,556	\$ 298,855	\$ 982,759

The following table displays the carrying value and estimated fair value of the University's financial instruments as of June 30, 2019 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV) as Practical Expedient	Total Fair Value as of June 30, 2019
Assets					
Investments					
Cash and Short Term Investments	\$ 11,445	\$ -	\$ -	\$ -	\$ 11,445
Equity - Corporate Stocks	42,035	-	-	-	42,035
Equity - Domestic Funds	61,666	-	-	155,152	216,818
Equity - International Funds	131,103	-	-	30,425	161,528
Equity - Hedge Funds	-	-	-	160,835	160,835
Equity - Real Asset Funds	10,098	-	-	32,512	42,610
Equity - Private Equity Funds	-	-	-	83,674	83,674
Fixed Income - International Bonds	-	50	-	-	50
Fixed Income - Domestic Bond Funds	225,733	84	-	496	226,313
Deposits with trustees	162	-	-	-	162
Interest in perpetual trust	-	-	19,708	-	19,708
Total assets at fair value	\$ 482,242	\$ 134	\$ 19,708	\$ 463,094	\$ 965,178

The University determines a valuation estimate based on techniques and processes which have been reviewed for propriety and consistency with consideration given to asset type and investment strategy. In addition, the funds and fund custodians may also use established procedures for determining the fair value of securities which reflect their own assumptions. Management makes best estimates based on information available. The following estimates and assumptions were used to determine the fair value of the financial instruments listed above:

- Short Term Investments – Short term investments are priced using quoted prices in active markets and are classified as Level 1.



**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

- Equity Investments – Equity investments consist of, but are not limited to separate accounts, common trust funds and hedge funds. These assets consist of both publicly traded and privately held funds.
  - Publicly traded securities – These investments consist of domestic and foreign equity holdings. Securities traded on active exchanges are priced using unadjusted market quotes for identical assets and are classified as Level 1. Securities that are traded infrequently or that have comparable traded assets are priced using available quotes and other market data that are observable and are classified as Level 2.
  - Privately held funds – These investments consist of domestic, international, hedge, real asset, and private equity funds which are privately held. The valuations of the funds are calculated by the investment managers based on valuation techniques that take into account the market value of the underlying assets to arrive at a net asset value or interest in the fund shares. The investment shares or ownership interests in these funds may not be readily redeemable. If an active market exists for the fund and shares are redeemable at net asset value, these investments are classified as Level 2. In the absence of readily determinable fair value, those investments are valued using NAV as the practical expedient as outlined in ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent). Investments in such funds do carry certain risks including lack of regulatory oversight, interest rate risk and market risk.
- Fixed Income Investments – Fixed income securities include, but are not limited to, U.S. Treasury issues, U.S. Government Agency issues, corporate debt, and domestic and international bond funds. Fixed income security assets are valued using quoted prices in active markets and are classified as Level 1. Fixed income securities valued using quoted prices for similar securities or using pricing models based on observable market inputs are classified as Level 2. For investments in private bond funds, NAV as the practical expedient is used as fair value.
- Deposits with Trustees - Deposits with trustees consist of debt service funds and the unexpended proceeds of certain bonds payable. These funds are invested in short term, highly liquid securities and will be used for construction of, or payment of debt service on, certain facilities. These deposits are classified as Level 1.
- Interest in Perpetual Trust - Beneficial interest in perpetual trust held by third parties are valued using the fair value of the trust assets. The trust assets are priced using unadjusted market quotes. Based on the terms of the existing agreement, the University must retain the assets in perpetuity. Therefore, they are classified within Level 3.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

***Changes in Level 3 Assets***

The following table is a roll-forward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above for the years ended June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Beginning Balance at July 1	\$ 19,708	\$ 19,196
Total gains or losses (realized/unrealized) included in earnings	848	512
Purchases, issuances, sales and settlements		
Purchases	-	-
Issuances	-	-
Sales	-	-
Settlements	-	-
Transfers into level 3	-	-
Transfers out of level 3	-	-
Ending Balance at June 30	<u>\$ 20,556</u>	<u>\$ 19,708</u>
Total gains or losses for the year included in earnings attributable to the change in unrealized gains or losses relating to assets still held at period end	<u>\$ 848</u>	<u>\$ 512</u>

Transfers into and out of Level 3 are typically the result of a change in the availability and the ability to observe market data which is considered a significant valuation input required by various models. Generally, as markets evolve, the data required to support valuations becomes more widely available and observable.

There were no significant transfers between Levels 1 and 2 or between Level 3 for the year ended June 30, 2020 and 2019.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

***Investments that Calculate Net Asset Value***

Investments in certain entities that calculate net asset values at June 30, 2020 and 2019 are as follows (in thousands):

	<b>June 30, 2020</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Domestic Equity Funds	\$ 3,310	\$ -	Daily	Same Day
Domestic Bond Funds	540	-	Daily	Same Day
Real Asset Funds	42,714	47,649	N/A	N/A
Hedge Funds	158,776	-	Monthly, Annually	30 - 90 days
Private Equity Funds	93,515	110,600	N/A	N/A
<b>Total</b>	<b>\$ 298,855</b>	<b>\$ 158,249</b>		

	<b>June 30, 2019</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Domestic Equity Funds	\$ 155,152	\$ -	Daily	Same Day
International Equity Funds	30,425	-	Daily, Tri-Monthly	Same Day - 10 days
Domestic Bond Funds	496	-	Daily	Same Day
Real Asset Funds	32,512	40,742	N/A	N/A
Hedge Funds	160,835	-	Monthly, Annually	2 - 90 days
Private Equity Funds	83,674	88,354	N/A	N/A
<b>Total</b>	<b>\$ 463,094</b>	<b>\$ 129,096</b>		

Investments in debt securities and equity securities consist primarily of investments in funds managed by external investment managers.

For the years ended June 30, 2020 and 2019, the University's investment management fees directly paid to external managers were approximately \$1.2 million and \$0.6 million, respectively.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**8. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at June 30, 2020 and 2019 consists of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Trade payables	\$ 18,286	\$ 29,287
Accrued construction liabilities	12,829	16,772
Accrued payroll and related liabilities	22,413	24,797
Accumulated postretirement benefit	19,623	18,716
Asset retirement obligations	1,751	1,751
Other payables	<u>1,801</u>	<u>2,506</u>
Total accounts payable and accrued liabilities	<u>\$ 76,703</u>	<u>\$ 93,829</u>

**9. Notes Payable and Long-term Debt**

The University classifies its notes payable and long-term debt into two categories: core debt and special purpose debt. Core debt represents debt that will be repaid from the general operations of the University and includes borrowings for educational and auxiliary purposes. Special purpose debt represents debt that is repaid from sources outside of general operations and includes borrowings for buildings, which house some administrative offices, along with rental space.

Notes payable and long-term debt at June 30, 2020 and 2019 consists of the following (in thousands):

	<u>2020</u>	<u>2019</u>
<b>Core Debt</b>		
American University Taxable Bonds, Issue Series 2015 maturing in fiscal year 2045	\$ 128,500	\$ 128,500
American University Taxable Bonds, Issue Series 2017 maturing in fiscal year 2048	80,000	80,000
American University Taxable Bonds, Issue Series 2019 maturing in fiscal year 2049	<u>410,000</u>	<u>410,000</u>
Total core debt	<u>618,500</u>	<u>618,500</u>
<b>Special Purpose Debt</b>		
American University Taxable Bonds, Issue Series 2017 maturing in fiscal year 2028	<u>22,000</u>	<u>22,000</u>
Total special purpose debt	<u>22,000</u>	<u>22,000</u>
Total debt	640,500	640,500
Deferred Financing Fees	(5,952)	(6,167)
Total notes payable and long-term debt	<u>\$ 634,548</u>	<u>\$ 634,333</u>

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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The principal balance of notes payable and long-term debt outstanding as of June 30, 2020 is due as follows (in thousands):

Year ending June 30:		
2021	\$	-
2022		-
2023		-
2024		-
2025		-
Thereafter		640,500
	\$	<u>640,500</u>

***American University Bonds Payable***

In June 2019, the University issued the Series 2019 taxable bonds to refinance certain existing indebtedness, to make termination payments with respect to certain related interest rate swap agreements and pay costs of issuance of the bonds. The 2019 bonds are general unsecured obligations of the University and bear a fixed 3.67% interest rate, payable semiannually commencing October 1, 2019 and its due in full in April 1, 2049.

In October 2017, the University issued the Series 2017 taxable bonds to finance or refinance the costs of various capital projects across campus. The 2017 bonds are general unsecured obligations of the University, of which \$22.0 million of the bonds bear interest at 3.12%, with a term of 10 years and \$80.0 million of the bonds bear interest at 3.86%, with a term of 30 years.

In March 2015, the University issued the Series 2015 taxable bonds to fund facilities development projects. The 2015 bonds are general unsecured obligations of the University and bear a fixed 4.32% interest rate, payable semi-annually.

***Taxable Commercial Paper Note Program***

On December 15, 2011, the University established a \$125.0 million taxable commercial paper note program. This program was established to provide short-term funding for capital projects and backup liquidity for operating needs. In some cases, the CP for capital projects will be refunded when a longer-term financing is implemented. The notes can be issued for a maximum of 270 days, without being refinanced, and carry a floating taxable rate. At June 30, 2020, there were no borrowings under the commercial paper note program.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

**10. Endowments**

The University's endowment consists of approximately 450 individual funds established for scholarships and related academic activities. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

The Board of Trustees has interpreted the District of Columbia enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies net assets with donor restrictions as (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in net assets with donor restrictions is classified as net assets with donor restriction until purpose and timing restrictions are met and amounts are appropriated for expenditure by the Board of Trustees of the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

The endowment net assets composition by type of fund at June 30, 2020 is as follows (in thousands):

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 218,118	\$ 218,118
Board-designated endowment funds	483,190		483,190
Total endowment funds	<u>\$ 483,190</u>	<u>\$ 218,118</u>	<u>\$ 701,308</u>

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, July 1, 2019	\$ 490,117	\$ 214,910	\$ 705,027
Total investment return	(2,142)	817	(1,325)
Contributions to endowment	848	10,375	11,223
Appropriation of endowment assets for expenditure	(12,860)	(7,984)	(20,844)
Other changes:			
Transfers to create board-designated endowment funds	7,227	-	7,227
Endowment net assets, June 30, 2020	<u>\$ 483,190</u>	<u>\$ 218,118</u>	<u>\$ 701,308</u>

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

---

The endowment net assets composition by type of fund at June 30, 2019 is as follows (in thousands):

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 214,910	\$ 214,910
Board-designated endowment funds	490,117	-	490,117
Total endowment funds	<u>\$ 490,117</u>	<u>\$ 214,910</u>	<u>\$ 705,027</u>

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, July 1, 2018	\$ 478,437	\$ 205,628	\$ 684,065
Total investment return	21,851	9,355	31,206
Contributions to endowment	181	7,783	7,964
Appropriation of endowment assets for expenditure	(12,215)	(7,856)	(20,071)
Other changes:			
Transfers to create board-designated endowment funds	1,863	-	1,863
Endowment net assets, June 30, 2019	<u>\$ 490,117</u>	<u>\$ 214,910</u>	<u>\$ 705,027</u>

***Funds with Deficiencies***

From time to time, the fair value of the assets associated with donor-restricted endowments may fall below the level the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature reported in net assets without donor restrictions were \$221,212 and \$31,829 at June 30, 2020 and 2019, respectively. These deficiencies resulted from market fluctuations that occurred shortly after the investment of new donor-restricted endowment funds and continued appropriation for certain programs deemed prudent by the Board of Trustees. The aggregate original amount of the funds with deficiencies is \$5.7 million and the aggregate fair value \$5.3 million as of June 30, 2020. The aggregate original amount of the funds with deficiencies is \$115,888 and the aggregate fair value \$84,059 as of June 30, 2019.



# American University

## Consolidated Notes to Financial Statements

### June 30, 2020 and 2019

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#### ***Return Objectives, Risk Parameters, and Strategies***

The University's objective is to earn a predictable, long-term, risk-adjusted total rate of return to support the designated programs. The University recognizes and accepts that pursuing such a rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The University has established a policy portfolio, or normal asset allocation. The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-time horizons based upon long-term expected returns.

#### ***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The University has a policy of appropriating for distribution each year 5% of the endowment fund's average fair value calculated on an annual basis over the preceding three fiscal years. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the University's objective to provide additional real growth through new gifts and investment return.

## **11. Employee Benefit Plans**

Eligible employees of the University may participate in two contributory retirement plans, one administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund and the other administered by Fidelity Investments. Under these plans, contributions are fully vested immediately and are transferable by the employees to other covered employer plans. Participating employees contribute a minimum of 1% up to a maximum of 5% of their base salary. The University contributes an amount equal to twice the employee's contribution.

The University's contribution to these plans was approximately \$20.0 million and \$19.7 million for the years ended June 30, 2020 and 2019, respectively. The University expects to contribute approximately \$2 million to the plans in fiscal year 2021.

#### ***Postretirement Healthcare Plan***

The University provides certain healthcare benefits for retired employees. The plan is contributory and requires payment of deductibles. The University's policy is to fund the cost of medical benefits on the pay-as-you-go basis. The plan's measurement dates are June 30, 2020 and June 30, 2019, respectively.

Effective January 1, 2020, the University ended its traditional Medicare coverage options through Kaiser and Carefirst BCBS, and extended access to individual medical and prescription drug coverage available through Mercer's Private Medicare Exchange. Retirees who enrolled in the AARP Medigap plan prior to this change are allowed to continue in that coverage or enroll in a new plan through the Private Medicare Exchange. Medicare retirees eligible for University subsidy under the plan will receive a University-funded Health Reimbursement Account (HRA). The impact of this plan change was measured as a negative plan amendment as of December 31, 2019 and is included in the liabilities presented in this report. The plan change resulted in a prior service credit of \$824,000.

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

Net periodic postretirement benefit cost for the years ended June 30, 2020 and 2019 includes the following components (in thousands):

	<u>2020</u>	<u>2019</u>
Service cost	\$ 564	\$ 512
Interest cost	555	714
Amortization of transition obligation over 20 years	-	-
Amortization of net loss	-	-
Amortization of prior service (credit)/cost	<u>(32)</u>	<u>-</u>
Net periodic postretirement benefit cost	<u>\$ 1,087</u>	<u>\$ 1,226</u>

The components of net periodic benefit cost other than the service cost component are included in the line item "Other nonoperating sources" in the statement of activity.

The following table sets forth the postretirement benefit plan's funded status and the amount of accumulated postretirement benefit plan costs for the years ended June 30, 2020 and 2019 using a measurement date of June 30 (in thousands):

	<u>2020</u>	<u>2019</u>
Change in Accumulated Postretirement Benefit Obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 18,716	\$ 18,868
Service Cost	564	512
Interest Cost	555	714
Net actuarial loss/(gain)	1,734	(203)
Plan participants' contributions	509	645
Benefits paid	(1,631)	(1,820)
Plan amendment	<u>(824)</u>	<u>-</u>
Accumulated postretirement benefit obligation at end of year	<u>\$ 19,623</u>	<u>\$ 18,716</u>

Change in Fair Value of Plan Assets:

Fair value of plan assets at beginning of year	\$ -	\$ -
Plan participants' contributions	509	645
Employer contributions	1,122	1,175
Benefits paid	<u>(1,631)</u>	<u>(1,820)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

Reconciliation of Funded Status:

Funded status	<u>(19,623)</u>	<u>(18,716)</u>
Postretirement benefit liability	<u>\$ (19,623)</u>	<u>\$ (18,716)</u>

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

The following table sets forth the amounts not recognized in the net periodic benefit cost for the years ended June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Amounts not Recognized in Net Periodic Benefit Cost:		
Net actuarial (loss)/gain	\$ (32)	\$ 1,766
Transition obligation	-	-
Prior service credit	(792)	-
Amounts included in unrestricted net assets	<u>\$ (824)</u>	<u>\$ 1,766</u>

Reclassifications to net periodic benefit cost of amounts previously recognized as changes in net assets without donor restrictions arising from a defined benefit plan but not included in net periodic benefit cost when they arose are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Amortization of net actuarial gain/(loss)	\$ -	\$ -
Amortization of prior service credit	\$ (32)	\$ -

Amounts that have been recognized as changes in net assets without donor restrictions arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
New actuarial loss	\$ 1,734	\$ 203
New prior service credit	\$ (824)	\$ -

The weighted discount rate used in the actuarial valuation at the June 30, 2020 and June 30, 2019 measurement dates is as follows:

	<u>2020</u>	<u>2019</u>
End of year benefit obligation	2.10%	3.10%
Net periodic postretirement benefit cost	3.10%	3.90%
Remearsurement for plan amendment	2.90%	N/A

A 7.0% healthcare cost trend rate was assumed for the year ended June 30, 2020, with the rates in the following fiscal years assumed to be 6.7%, 6.4%, 6.1% and 5.8% until reaching an ultimate rate of 4.5% in fiscal year 2028. An increase in the assumed healthcare cost trend rate of 1.0% would increase the aggregate of the service and interest cost by approximately \$113,000 and \$130,000 for the years ended June 30, 2020 and 2019, respectively, and the accumulated postretirement benefit obligation at June 30, 2020 and 2019 by approximately \$784,000 and \$906,000, respectively. A decrease in the assumed healthcare cost trend rate of 1.0% would decrease the net periodic postretirement benefit cost by approximately \$92,000 and \$107,000

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

for the years ended June 30, 2020 and 2019, respectively, and the accumulated postretirement benefit obligations at June 30, 2020 and 2019 by approximately \$674,000 and \$781,000, respectively. The expected contributions by the University to the plan are as follows (in thousands):

**Year ending June 30,**

2021	\$	1,032
2022		1,118
2023		1,171
2024		1,206
2025		1,232
2026-2030		6,314

***Special Termination Benefits***

During fiscal year 2019, the University offered a one-time voluntary retirement incentive opportunity for faculty members who met certain criteria. The cost of providing the one-time voluntary retirement incentive program was \$2.8 million for the fiscal year ended June 30, 2019.

**12. Expenses**

The University has developed and implemented a system of allocating expenses related to more than one function. These expenses are depreciation, interest and operations and maintenance of facility. Depreciation is allocated by individual fixed assets to the function utilizing that asset. Interest is allocated based on the use of borrowed money in the individual functional category. The operations and maintenance of plant and technology are divided into expenses used for the total institution not charged back to the operating units, and those expenses charged to some units but not all units. Technology costs include expenses associated with the operation and maintenance of administrative systems, network and telecommunications systems and related support for students, staff and faculty. The allocation was determined through a study of departmental uses of the operations and maintenance, and technology budgets within each category.

For the year ended June 30, 2020, the University's program services and supporting services were as follows (in thousands):

Natural Account	June 30, 2020					
	Instruction	Research	Public Service	Student & Academic Support	Institutional & Auxiliary Support	Total Expenses
Salaries and benefits	\$ 143,944	\$ 50,875	\$ 15,299	\$ 91,308	\$ 66,131	\$ 367,557
Professional services and fees	47,529	4,803	11,770	11,623	36,403	112,128
Occupancy and other office expenses	9,188	5,804	2,775	17,238	35,909	70,914
Grants Expense	-	3,743	-	-	15	3,758
Travel	2,293	1,583	121	3,651	571	8,219
Depreciation	12,669	-	1,171	3,793	24,894	42,527
Interest	7,070	-	653	2,117	13,167	23,007
<b>Total operating expenses</b>	<b>222,693</b>	<b>66,808</b>	<b>31,789</b>	<b>129,730</b>	<b>177,090</b>	<b>628,110</b>
Other nonoperating expenses	129	35	100	1,522	3,282	5,068
<b>Total expenses</b>	<b>\$ 222,822</b>	<b>\$ 66,843</b>	<b>\$ 31,889</b>	<b>\$ 131,252</b>	<b>\$ 180,372</b>	<b>\$ 633,178</b>

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

For the year ended June 30, 2019, the University's program services and supporting services were as follows (in thousands):

Natural Account	June 30, 2019					
	Instruction	Research	Public Service	Student & Academic Support	Institutional & Auxiliary Support	Total Expenses
Salaries and benefits	\$ 131,668	\$ 48,894	\$ 14,011	\$ 84,462	\$ 69,898	\$ 348,933
Professional services and fees	44,702	4,612	11,924	11,001	37,408	109,647
Occupancy and other office expenses	18,173	6,964	2,898	21,205	36,126	85,366
Grants Expense	-	3,532	-	-	-	3,532
Travel	1,940	2,405	173	5,128	1,072	10,718
Depreciation	10,341	-	970	4,066	26,370	41,747
Interest	9,822	-	-	3,254	12,763	25,839
<b>Total operating expenses</b>	<b>216,646</b>	<b>66,407</b>	<b>29,976</b>	<b>129,116</b>	<b>183,637</b>	<b>625,782</b>
Other nonoperating expenses	3,067	69	(41)	1,321	862	5,278
<b>Total expenses</b>	<b>\$ 219,713</b>	<b>\$ 66,476</b>	<b>\$ 29,935</b>	<b>\$ 130,437</b>	<b>\$ 184,499</b>	<b>\$ 631,060</b>

For the years ended June 30, 2020 and 2019, the University's fundraising expenses totaled approximately \$23.6 million and \$25.3 million, respectively. The expenses are included in institutional support in the accompanying statements of activities.

### 13. Net Assets

Net assets with donor restrictions related to time or purpose consist of the following at June 30, 2020 and 2019 (in thousands):

	2020	2019
Unspent contributions and related investment income for instruction and faculty support	\$ 114,563	\$ 114,958
Gifts received for construction of facilities	9,042	14,434
	<b>\$ 123,605</b>	<b>\$ 129,392</b>

Net assets with donor restrictions in perpetuity were held, the income of which will benefit the following at June 30, 2020 and 2019 (in thousands):

	2020	2019
Permanent endowment funds, for scholarships and related academic activity	\$ 111,627	\$ 100,755
Interest in trust assets	20,556	19,708
Student loans	6,577	6,443
	<b>\$ 138,760</b>	<b>\$ 126,906</b>

**American University**  
**Consolidated Notes to Financial Statements**  
**June 30, 2020 and 2019**

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**14. Operating Lease**

The University leases office space and buildings used for student housing with terms ranging from one to ten years. Minimum lease payments under these agreements are as follows (in thousands):

Year ending June 30:		
2021	\$	5,776
2022		787
2023		168
2024		79
2025		36
Thereafter		-
	\$	<u>6,846</u>

Rent expense in the years ended June 30, 2020 and 2019 was approximately \$3.2 million and \$2.0 million, respectively.

**15. Income Taxes**

The Airlie Foundation, a subsidiary acquired by the University in September 2016, is a taxable non-stock corporation. The University accounts for income taxes based on the liability method, and deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred taxes are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in results of operations in the period that includes the enactment date. Valuation allowances are recorded against deferred tax assets when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. As Airlie has historically generated operating losses and, therefore, has no earnings history, a full valuation allowance has been applied against the US net deferred tax assets during the years ended June 30, 2020 and 2019. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in evaluating whether it is more likely than not that deferred tax assets will be realized.

The University has analyzed its filing positions related to Airlie in each jurisdiction where required to file income tax returns and believes that its income tax filing positions will be sustained on audit. To date, Airlie has not been audited by the IRS or any state jurisdictions and remains subject to examination by U.S. federal and various state authorities for the years 2014 forward. Additionally, Airlie has not been assessed interest or penalties by taxing jurisdictions. In the event Airlie is assessed interest and/or penalties, those costs will be classified in the consolidated statements of activities as income tax expense.

The Airlie Foundation paid \$0 for income taxes for the years ending June 30, 2020 and June 30, 2019.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The Cares Act is an emergency economic stimulus package that includes spending and tax

# **American University**

## **Consolidated Notes to Financial Statements**

### **June 30, 2020 and 2019**

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breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. While the CARES Act provides sweeping tax changes in response to the COVID-19 pandemic, some of the more significant provisions which are expected to impact the University's financial statements include removal of certain limitations on utilization of net operating losses and increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. Due to the recent enactment of the CARES Act, the University is unable to quantify the impact, if any, that the CARES Act will have on its financial position, results of operations or cash flows.

#### **16. Commitments and Contingencies**

At June 30, 2020 and 2019, commitments of the University under contracts for construction of plant facilities amounted to approximately \$21.5 million and \$52.0 million, respectively.

Amounts received and expended by the University under various federal programs are subject to audit by governmental agencies. In the opinion of the University's administration, audit adjustments, if any, will not have a significant effect on the financial position, changes in net assets, or cash flows of the University.

The University is a party to various litigations, arising out of the normal conduct of its operations. In the opinion of the University's administration, the ultimate resolution of these matters will not have a materially adverse effect on the University's consolidated financial position, changes in net assets or cash flows.

#### **17. Related Parties**

Members of the University's Board of Trustees and their related entities may contribute to the University and their contributions are included in contribution revenue in the accompanying statements of activities. The University received \$1.4 million and \$11.4 million of contributions from the Board of Trustees during the years ended June 30, 2020 and 2019, respectively. Also, for the years ended June 30, 2020 and 2019, approximately \$12.9 million and \$15.1 million, respectively, were included in contribution receivable in the accompanying statement of financial position.

On October 1, 2015 the University, Shorelight Education, LLC, and Shorelight-Capitol, LLC signed an agreement to establish the International Accelerator Program at the University to increase the international student population. Shorelight-Capitol LLC is a wholly owned subsidiary of Shorelight Education, LLC, with shared governance and shared economic upside participation by the University. Shorelight-Capitol LLC is governed by the Steering Committee which is composed of six members; three from American University and three from Shorelight Education, LLC. As of June 30, 2020, and 2019, the University had outstanding receivable balance of approximately \$1.3 million and \$0.3 million, respectively, from Shorelight-Capitol LLC.

#### **18. Subsequent Events**

The University has performed an evaluation of subsequent events through November 16, 2020 which is the date the financial statements were available to be issued. Nothing was noted which affect the financial statements as of June 30, 2020.