

American University

**Report of Independent Auditors on
Financial Statements and Schedule of Expenditures
of Federal Awards in Accordance with
the OMB Uniform Guidance
For the year ended April 30, 2016
EIN # 530196549**

American University
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April 30, 2016

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Report of Independent Auditors

To the Board of Trustees of American University:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of American University and its subsidiaries ("the University"), which comprise the consolidated balance sheets as of April 30, 2016 and April 30, 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 consolidated financial position of American University and its subsidiaries as of April 30, 2016 and April 30, 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended April 30, 2016 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2016 on our consideration of American University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended April 30, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rievanterhanna Cooper LLP". The signature is written in a cursive, flowing style.

September 7, 2016

American University
Consolidated Balance Sheets
April 30, 2016 and 2015

<i>(In thousands)</i>	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 47,232	\$ 76,536
Accounts and University loans receivable, net	35,643	35,968
Contributions receivable, net	12,018	10,917
Prepaid expenses and inventory	2,093	2,036
Investments	842,261	876,401
Deposits with trustees/others	3,917	2,817
Deposits for collateralized swaps	41,934	34,816
Property, plant, and equipment, net	719,970	653,461
Deferred financing costs	2,730	2,870
Interest in perpetual trust	16,958	18,285
Total assets	<u>\$ 1,724,756</u>	<u>\$ 1,714,107</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 76,196	\$ 72,423
Deferred revenue and deposits	15,312	15,359
Notes payable and long-term debt	481,620	481,905
Swap agreements	85,645	76,181
Assets retirement obligations	1,781	2,217
Refundable advances from the U.S. government	9,425	9,102
Total liabilities	<u>669,979</u>	<u>657,187</u>
Net assets:		
Unrestricted	853,760	843,576
Temporarily restricted	92,138	107,986
Permanently restricted	108,879	105,358
Total net assets	<u>1,054,777</u>	<u>1,056,920</u>
Total liabilities and net assets	<u>\$ 1,724,756</u>	<u>\$ 1,714,107</u>

See accompanying notes to the financial statements.

American University
Consolidated Statement of Activities
Year ended April 30, 2016

<i>(In thousands)</i>	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Operating revenues and support				
Tuition and fees	\$ 507,583	\$ -	\$ -	\$ 507,583
Less scholarship allowances	(119,606)	-	-	(119,606)
Net tuition and fees	387,977	-	-	387,977
Federal grants and contracts	19,879	-	-	19,879
Private grants and contracts	16,943	-	-	16,943
Indirect cost recovery	2,593	-	-	2,593
Contributions	18,531	3,803	4,794	27,128
Endowment income	10,524	6,033	163	16,720
Investment income	7,199	706	-	7,905
Auxiliary enterprises	73,310	-	-	73,310
Other sources	3,367	-	-	3,367
Net asset release	11,111	(11,111)	-	-
Total operating revenues and support	551,434	(569)	4,957	555,822
Operating expenses				
Instruction	171,884	-	-	171,884
Research	51,881	-	-	51,881
Public service	24,908	-	-	24,908
Academic support	60,320	-	-	60,320
Student services	44,765	-	-	44,765
Institutional support	93,510	-	-	93,510
Auxiliary enterprises	58,313	-	-	58,313
Total operating expenses	505,581	-	-	505,581
Total operating activities	45,853	(569)	4,957	50,241
Nonoperating items				
Other nonoperating sources	(2,306)	(725)	147	(2,884)
Realized and unrealized net capital gains	(33,363)	(14,554)	(1,583)	(49,500)
Total nonoperating activities	(35,669)	(15,279)	(1,436)	(52,384)
Change in net assets	10,184	(15,848)	3,521	(2,143)
Net assets at beginning of year	843,576	107,986	105,358	1,056,920
Net assets at end of year	\$ 853,760	\$ 92,138	\$ 108,879	\$ 1,054,777

See accompanying notes to the financial statements

American University
Consolidated Statement of Activities
Year ended April 30, 2015

<i>(In thousands)</i>	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Operating revenues and support				
Tuition and fees	\$ 487,570	\$ -	\$ -	\$ 487,570
Less scholarship allowances	(113,087)	-	-	(113,087)
Net tuition and fees	374,483	-	-	374,483
Federal grants and contracts	20,457	-	-	20,457
Private grants and contracts	17,733	-	-	17,733
Indirect cost recovery	2,222	-	-	2,222
Contributions	18,915	3,762	4,796	27,473
Endowment income	9,871	5,662	130	15,663
Investment income	8,080	754	-	8,834
Auxiliary enterprises	72,475	-	-	72,475
Other sources	1,998	-	-	1,998
Net asset release	10,410	(10,410)	-	-
Total operating revenues and support	536,644	(232)	4,926	541,338
Operating expenses				
Instruction	163,494	-	-	163,494
Research	52,479	-	-	52,479
Public service	25,499	-	-	25,499
Academic support	56,258	-	-	56,258
Student services	43,604	-	-	43,604
Institutional support	90,220	-	-	90,220
Auxiliary enterprises	59,809	-	-	59,809
Total operating expenses	491,363	-	-	491,363
Total operating activities	45,281	(232)	4,926	49,975
Nonoperating items				
Other nonoperating sources	(2,501)	(246)	377	(2,370)
Realized and unrealized net capital gains	1,522	5,408	848	7,778
Total nonoperating activities	(979)	5,162	1,225	5,408
Change in net assets	44,302	4,930	6,151	55,383
Net assets at beginning of year	799,274	103,056	99,207	1,001,537
Net assets at end of year	\$ 843,576	\$ 107,986	\$ 105,358	\$ 1,056,920

See accompanying notes to the financial statements.

American University
Consolidated Statements of Cash Flows
April 30, 2016 and 2015

<i>(In thousands)</i>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (2,143)	\$ 55,383
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributed art and property	(7,462)	(7,502)
Net realized and unrealized capital losses and gains	44,412	(43,721)
Net gain on the disposal of fixed assets	(14,107)	-
Depreciation, amortization and accretion	(521)	(1,121)
Change in fair value of interest rate swaps	9,464	25,745
Depreciation, amortization and accretion	35,148	32,454
Changes in assets and liabilities		
Decrease (increase) in accounts and university loans receivable, net	161	(3,480)
(Increase) decrease in contributions receivable, net	(1,101)	918
(Increase) decrease in prepaid expenses	(57)	280
(Decrease) increase in accounts payable and accrued liabilities	(10,691)	10,877
Increase in deferred revenue, deposits and other refundable advance	276	3,229
Receipt of contributed securities	(787)	(864)
Contributions collected and revenues restricted for long-term investment	(3,436)	(6,980)
Sale of contributed securities	787	864
Net cash provided by operating activities	<u>49,943</u>	<u>66,082</u>
Cash flows from investing activities		
Purchases of investments	(173,617)	(235,175)
Proceeds from sales and maturities of investments	164,672	266,894
Proceeds from sale of property, plant and equipment	45,204	-
Purchases of property, plant, and equipment	(105,403)	(87,320)
Capitalized interest	(5,340)	(2,401)
Increase in deposits with trustees/other, net	(8,218)	(22,359)
Net cash used in investing activities	<u>(82,702)</u>	<u>(80,361)</u>
Cash flows from financing activities		
Student loans issued	(1,236)	(1,684)
Student loans repaid	1,400	1,329
Issuance of debt	30,000	163,500
Repayment of debt	(30,145)	(100,915)
Proceeds from contributions restricted for		
Investment in plant	1,348	1,856
Investment in endowment	2,088	5,124
Net cash provided by financing activities	<u>3,455</u>	<u>69,210</u>
Net (decrease) increase in cash and cash equivalents	(29,304)	54,931
Cash and cash equivalents at beginning of year	76,536	21,605
Cash and cash equivalents at end of year	<u>\$ 47,232</u>	<u>\$ 76,536</u>
Supplemental disclosure of cash flow information		
Cash paid during year for interest	\$ 19,795	\$ 15,283
Contributed securities	787	864
Contributed art and property	7,462	7,502
Accrued payment for property, plant & equipment	14,464	8,674

See accompanying notes to the financial statements.

American University

Consolidated Notes to Financial Statements

April 30, 2016 and 2015

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 of its policies.

American University offers a wide range of graduate and undergraduate degree programs, as well as non-degree study. There are approximately 862 full-time faculty members in seven academic divisions, and approximately 13,200 students, of which 8,100 are undergraduate students and 5,100 are graduate students. The University attracts students from all 50 states, the District of Columbia, Puerto Rico, and nearly 130 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.

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:

Unrestricted – Net assets not subject to donor-imposed stipulations.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the University pursuant to those stipulations.

Permanently Restricted – Net assets subject to donor-imposed stipulations that must be maintained permanently by the University.

Revenues are reported as increases in unrestricted net assets 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 unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

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.

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

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, and investment gains or losses.

Principles of Consolidation

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

Cash and Cash Equivalents

All highly liquid cash investments with maturities at date of purchase of three months or less are considered to be cash equivalents. Cash equivalents consist primarily of money market funds.

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 balance sheet date. Additionally, loans receivable are evaluated annually by looking at both unsecured and secured loans.

Deposits for Collateralized Swaps

Deposits consist of the cash held as collateral for the University's interest rate swaps.

Investments

Equity securities with readily determinable fair values and all debt securities are recorded at fair value in the balance sheet. See Note 6 for an explanation as to methodology for determining fair value. Endowment income included in operating revenues consists of annual amounts allocated for spending of endowment funds in accordance with the University's spending policy. All realized and unrealized gains and losses from investments of endowment funds are reported as non-operating revenues. Investment income included in operating revenues consists primarily of interest and dividends from investments of working capital funds and unexpended plant funds.

The University has interests in alternative investments consisting of limited partnerships. The alternative investments are carried at estimated fair value. See Note 6 for an explanation as to methodology for determining fair value. Alternative investments are less liquid than the University's other investments. Furthermore, the investments in these limited partnerships, as well as certain 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.

Investment income is reported net of management fees and rental real estate property expenses.

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

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 \$5,000 or more per unit and a useful life of two years or more.

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 42% and 43% of net tuition and fees revenue for the years ended April 30, 2016 and 2015, respectively, was funded by federal student financial aid programs (including loan, grant, and work-study programs).

Asset Retirement Obligations

The University records asset retirement obligations in accordance with the accounting standard for the Accounting for Conditional Asset Retirement Obligations. This standard requires the fair value of the liability for the asset retirement obligations (ARO) be recognized in the period in which it is incurred and the settlement date is estimable, even if the exact timing or method of settlement is unknown. The ARO is capitalized as part of the carrying amount of the long-lived asset retroactively to the time at which legal or contractual regulations created the obligation. The University's ARO is primarily associated with the cost of removal and disposal of asbestos, lead paint, and asset decommissioning. For the years ended April 30, 2016 and 2015, the accretion expenses were \$85,000 and \$42,000, respectively. The remediation for the current year ending April 30, 2016 was \$521,000. Obligations of \$1.9 million were settled during the fiscal year ended April 30, 2015, no obligations were settled in April 30, 2016.

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 fiscal years 2016 and 2015.

Functional 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 plant. 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 is 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. The allocation was determined through a study of departmental uses of the operations and maintenance budget within each category.

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

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, the postretirement benefit plan, and swap agreements. Actual results could differ materially, in the near term, from the amounts reported.

Recent Accounting Pronouncements

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (“ASU 2015-07”). The amendments in ASU 2015-07 remove the requirement to categorize, within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient (the “NAV practical expedient”), and also removes the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. A reporting entity must still disclose the amount of investments measured using the NAV practical expedient in order to permit reconciliation of the fair value of investments in the hierarchy to the corresponding line items in the balance sheet. The new guidance is effective for the University’s fiscal periods beginning after December 15, 2016 and for interim periods within those fiscal years, with early adoption permitted. The guidance shall be applied retrospectively for all periods presented. The University early adopted ASU No. ASU 2015-07 and the adoption did not affect the University’s financial condition, results of operations, or cash flows.

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this will have on the combined financial statements beginning in fiscal year 2020.

3. Accounts and University Loans Receivable, Net

Accounts and loans receivable, net, at April 30, 2016 and 2015, are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Accounts receivable		
Student	\$ 13,737	\$ 12,005
Grants, contracts, and other	9,290	11,369
Accrued interest	590	544
Student loans	<u>14,591</u>	<u>14,400</u>
	38,208	38,318
Less allowance for uncollectible accounts and loans	<u>(2,565)</u>	<u>(2,350)</u>
	<u>\$ 35,643</u>	<u>\$ 35,968</u>

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

At April 30, 2016 and 2015, the University had an outstanding student loans receivable balance in the amount of \$14.6 million and \$14.4 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 April 30, 2016 and 2015.

4. Contributions Receivable, Net

As of April 30, 2016 and 2015, unconditional promises to give were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 11,450	\$ 11,284
One year to five years	6,548	4,508
Over five years	<u>1,126</u>	<u>1,262</u>
	19,124	17,054
Less unamortized discount	(914)	(824)
Less allowance for doubtful accounts	<u>(6,192)</u>	<u>(5,313)</u>
	<u>\$ 12,018</u>	<u>\$ 10,917</u>

Contributions receivable over more than one year are discounted at rates ranging from 3.0% to 6.5%. New contributions received during fiscal years 2016 and 2015 were assigned a discount rate which is commensurate with the market and credit risk involved.

As of April 30, 2016 and 2015, the University had also received bequest intentions and conditional promises to give of \$35.2 million and \$31.7 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.

5. Property, Plant, and Equipment, Net

Property, plant, and equipment and related accumulated depreciation and amortization at April 30, 2016 and 2015, are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 47,587	\$ 57,153
Buildings	822,783	710,177
Equipment	132,674	122,914
Construction in progress	74,736	99,195
Library and art collections	<u>121,780</u>	<u>114,318</u>
	1,199,560	1,103,757
Less accumulated depreciation and amortization	<u>(479,590)</u>	<u>(450,296)</u>
	<u>\$ 719,970</u>	<u>\$ 653,461</u>

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

Construction in progress at April 30, 2016 and 2015 relates to building improvements and renovations.

Capitalized interest for the years ended April 30, 2016 and 2015 was \$5.3 million and \$2.4 million, respectively.

For the years ended April 30, 2016 and 2015, depreciation expense was approximately \$35.1 million and \$32.4 million, respectively.

6. 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.

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

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 April 30, 2016 (in thousands):

	Quoted Prices in Active Markets for (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV) as Practical Expedient	Total Fair Value as of April 30, 2016
Assets					
Investments					
Cash and Cash Equivalents	\$ 17,794	\$ -	\$ -	\$ -	\$ 17,794
Equity - Corporate Stocks	78,345	-	-	-	78,345
Equity - Domestic Funds	83,690	-	-	109,365	193,055
Equity - International Funds	90,403	-	-	86,863	177,266
Equity - Hedge Funds	-	-	-	102,436	102,436
Equity - Real Asset Funds	10,376	-	-	1,648	12,024
Equity - Private Equity Funds	-	-	-	35,850	35,850
Fixed Income - Corporate Bonds	-	20,919	-	-	20,919
Fixed Income - Government Agency Bonds	-	8,698	-	-	8,698
Fixed Income - International Bonds	-	80	-	-	80
Fixed Income - US Treasury Securities	21,809	-	-	-	21,809
Fixed Income - Domestic Bond Funds	173,415	115	-	455	173,985
Deposits with trustees	3,917	-	-	-	3,917
Interest in perpetual trust	-	-	16,958	-	16,958
Total assets at fair value	\$ 479,749	\$ 29,812	\$ 16,958	\$ 336,617	\$ 863,136
Liabilities					
Swap agreements	\$ -	\$ 85,239	\$ -	\$ -	\$ 85,239
	\$ -	\$ 85,239	\$ -	\$ -	\$ 85,239

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The following table displays the carrying value and estimated fair value of the University's financial instruments as of April 30, 2015 (in thousands):

	Quoted Prices in Active Markets for (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV) as Practical Expedient	Total Fair Value as of April 30, 2015
Assets					
Investments					
Cash and Cash Equivalents	\$ 11,590	\$ -	\$ -	\$ -	\$ 11,590
Equity - Corporate Stocks	91,974	-	-	-	91,974
Equity - Domestic Funds	82,638	-	-	113,028	195,666
Equity - International Funds	98,890	-	-	97,344	196,234
Equity - Hedge Funds	-	-	-	103,361	103,361
Equity - Real Asset Funds	23,723	-	-	4,893	28,616
Equity - Private Equity Funds	-	-	-	26,926	26,926
Fixed Income - Corporate Bonds	-	22,369	-	-	22,369
Fixed Income - Government Agency Bonds	-	9,644	-	-	9,644
Fixed Income - International Bonds	-	82	-	-	82
Fixed Income - US Treasury Securities	18,886	-	-	-	18,886
Fixed Income - Domestic Bond Funds	170,408	118	-	527	171,053
Deposits with trustees	2,817	-	-	-	2,817
Interest in perpetual trust	-	-	18,285	-	18,285
Total assets at fair value	\$ 500,926	\$ 32,213	\$ 18,285	\$ 346,079	\$ 897,503
Liabilities					
Swap agreements	\$ -	\$ 76,181	\$ -	\$ -	\$ 76,181
	\$ -	\$ 76,181	\$ -	\$ -	\$ 76,181

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:

- Cash Equivalents – Cash equivalents primarily consist of deposits in money market funds and short-term investments. These are priced using quoted prices in active markets and are classified as Level 1.
- 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 funds are commingled

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funds and limited partnerships and shares may not be readily redeemable. For these privately held funds, net asset value (NAV) as the practical expedient is used as fair value for investments which (a) have the attributes of an investment company or (b) the entity prepares its financial statements consistent with the measurement principles of an investment company. Fair value of each investment valued using NAV as the practical expedient is determined based on a review of the audited financial statements of the underlying funds, when available, and other information from independent third parties including information provided by the fund managers. 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 price for similar securities or using pricing model 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.
- 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.
- Swap Agreements - Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

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.

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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 April 30, 2016 and 2015 (in thousands):

	Interest in Perpetual Trust	
	2016	2015
Beginning Balance at May 1, 2015	\$ 18,285	\$ 17,826
Total gains or losses (realized/unrealized) included in earnings	(1,327)	459
Purchases, issuances, sales and settlements		
Purchases	-	-
Issuances	-	-
Sales	-	-
Settlements	-	-
Transfers into level 3	-	-
Transfers out of level 3	-	-
Ending Balance at April 30, 2016	<u>\$ 16,958</u>	<u>\$ 18,285</u>
Total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at period end	<u>\$ (1,327)</u>	<u>\$ 459</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 April 30, 2016.

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Investments that Calculate Net Asset Value

Investments in certain entities that calculate net asset values at April 30, 2016 and 2015 are as follows (in thousands):

	April 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Equity Funds	\$ 109,365	\$ -	Daily	Same Day
International Equity Funds	86,863	-	Daily, Bi-weekly	Same Day - 5 days
Domestic Bond Funds	455	-	Daily	Same Day
Real Asset Funds	1,648	18,080	N/A	N/A
Hedge Funds	102,436	1,447	Monthly, Annually	30 - 90 days
Private Equity Funds	35,850	39,896	N/A	N/A
Total	<u>\$ 336,617</u>	<u>\$ 59,423</u>		

	April 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Equity Funds	\$ 113,028	\$ -	Daily	Same Day
International Equity Funds	97,344	-	Daily, Bi-weekly	Same Day - 5 days
Domestic Bond Funds	527	-	Daily	Same Day
Real Asset Funds	4,893	-	Daily, Monthly	1 - 10 days
Hedge Funds	103,361	5,039	Monthly, Annually	30 - 90 days
Private Equity Funds	26,926	38,187	N/A	N/A
Total	<u>\$ 346,079</u>	<u>\$ 43,226</u>		

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

For the years ended April 30, 2016 and 2015, the University's investment management fees were approximately \$1.5 million and \$1.4 million, respectively.

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Investment Income

Total net investment income for the years ended April 30, 2016 and 2015 consist of the following (in thousands):

	2016			Total
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Endowment income	\$ 10,524	\$ 6,033	\$ 163	\$ 16,720
Investment income	7,199	706	-	7,905
Realized and unrealized net capital gains	(32,957)	(14,554)	(1,583)	(49,094)
Total	<u>\$ (15,234)</u>	<u>\$ (7,815)</u>	<u>\$ (1,420)</u>	<u>\$ (24,469)</u>
Operating				
Investment income	\$ 7,199	\$ 706	\$ -	\$ 7,905
Endowment income	2,670	856	6	3,532
Allocated from non-operating	7,854	5,177	157	13,188
Non-Operating				
Realized and unrealized net capital losses	(25,103)	(9,377)	(1,426)	(35,906)
Allocation to operations	(7,854)	(5,177)	(157)	(13,188)
Total	<u>\$ (15,234)</u>	<u>\$ (7,815)</u>	<u>\$ (1,420)</u>	<u>\$ (24,469)</u>
2015				
	2015			Total
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Endowment income	\$ 9,871	\$ 5,662	\$ 130	\$ 15,663
Investment income	8,080	754	-	8,834
Realized and unrealized net capital gains	1,522	5,408	848	7,778
Total	<u>\$ 19,473</u>	<u>\$ 11,824</u>	<u>\$ 978</u>	<u>\$ 32,275</u>
Operating				
Investment income	\$ 8,080	\$ 754	\$ -	\$ 8,834
Endowment income	3,293	1,066	7	4,366
Allocated from non-operating	6,578	4,596	124	11,298
Non-Operating				
Realized and unrealized net capital gains	8,100	10,004	971	19,075
Allocation to operations	(6,578)	(4,596)	(124)	(11,298)
Total	<u>\$ 19,473</u>	<u>\$ 11,824</u>	<u>\$ 978</u>	<u>\$ 32,275</u>

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7. 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 April 30, 2016 and 2015 consists of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Core Debt		
District of Columbia University Revenue Bonds, American University Issue Series 1999 maturing in fiscal year 2028	\$ 21,000	\$ 21,000
District of Columbia University Revenue Bonds, American University Issue Series 2003 maturing in fiscal year 2034	37,000	37,000
District of Columbia University Revenue Bonds, American University Issue Series 2006 maturing in fiscal year 2037	99,975	99,975
District of Columbia University Revenue Bonds, American University Issue Series 2008 maturing in fiscal year 2039	60,900	60,900
American University Taxable Bonds, Issue Series 2015 maturing in fiscal year 2045	128,500	128,500
Term Loan maturing in fiscal year 2022	75,000	75,000
Taxable Commercial Paper Note Program	-	-
Total core debt	<u>422,375</u>	<u>422,375</u>
Special Purpose Debt		
Note payable due in full in fiscal year 2022	22,000	22,000
Note payable due in full in fiscal year 2020	15,000	15,000
Mortgage payable due in full in fiscal year 2018	22,245	22,530
Total special purpose debt	<u>59,245</u>	<u>59,530</u>
Total indebtedness	<u>\$ 481,620</u>	<u>\$ 481,905</u>

The principal balance of notes payable and long-term debt outstanding as of April 30, 2016 is due as follows (in thousands):

Year ending April 30:	
2017	\$ 308
2018	21,937
2019	-
2020	15,000
2021	-
Thereafter	444,375
	<u>\$ 481,620</u>

Due to the nature of certain variable rate bond agreements, the University may receive notice of an optional tender on some of its variable rate bonds. In that event, the University would have an obligation to purchase

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the tendered bonds if they were unable to be remarketed. The University has entered into a letter of credit agreement with a financial institution to support the 2006 series variable rate demand obligations, totaling \$99.975 million. The letter of credit agreement expires in fiscal year 2018. Under the agreement, the financial institution has agreed to purchase the bonds if the bonds are unable to be remarketed. Should that occur, payment would be accelerated and ultimately differ from the dates stated above. In accordance with the terms of the agreement, \$99.975 million would convert to a term loan with principal and interest payable over two years. The University has entered into three direct purchase agreements with two financial institutions for its 1999, 2003, and 2008 variable rate bonds. Under the agreements, the bonds were purchased directly by the banks and cannot be tendered back to the University until the expiration of the agreements in fiscal years 2018 (1999 and 2003 series) and 2020 (2008 series).

The estimated fair value of the University's notes payable and long-term debt at April 30, 2016 and 2015 was \$486.9 million and \$486.3 million, respectively. Taxable Commercial Paper, the District of Columbia revenue bonds, and the American University taxable bonds were valued using fair market prices. The Term Loan and Special Purpose debt were valued using the discounted cash flow method.

As of April 30, 2016, the University was in compliance with all debt covenants.

District of Columbia Bonds Payable

In October 2008, the University refunded and reissued the Series 1985 and Series 1985A bonds as Series 2008 variable rate demand bonds with interest payable weekly. These bonds are general unsecured obligations of the University. The interest rate at April 30, 2016 was 0.30%.

The Series 1999 bonds are general unsecured obligations of the University and bear interest at a variable rate, payable weekly. The proceeds from the bonds were used to repay a mortgage note prior to its scheduled maturity. The interest rate at April 30, 2016 was 0.41%.

The Series 2003 bonds are general unsecured obligations of the University and bear interest at a variable rate, payable weekly. The proceeds were used to fund construction and renovation of Katzen Arts Center and Greenburg Theatre. The interest rate at April 30, 2016 was 0.41%.

The Series 2006 bonds are general unsecured obligations of the University and bear interest at a variable rate, payable weekly. The proceeds were used to advance refund the Series 1996 bond issue, thus reducing the University's overall interest costs, and to fund construction and renovation projects including Nebraska Hall and the School of International Service building. The interest rate at April 30, 2016 was 0.42%.

On December 23, 2014, the University replaced the existing letter of credit for the 2006 bonds with a new letter of credit from Royal Bank of Canada, expiring in fiscal year 2018. Additionally, on February 2, 2015, the existing letters of credit for the 1999 and 2003 Bonds were replaced with direct purchase agreements from Wells Fargo Bank N.A. and the existing letter of credit for the 2008 Bond was replaced with a direct purchase agreement from U.S. Bank, N.A, expiring in fiscal years 2018 and 2020, respectively.

American University Bonds Payable

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.

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Term Loan

In 2011, the University entered into a \$75 million term loan with JPMorgan Chase Bank, N.A. to fund its facilities development projects. The term loan is due in full in June 2021 and has a fixed 4.19% interest rate, payable monthly.

Taxable Commercial Paper Note Program

On December 15, 2011, the University established a \$125.0 million taxable commercial paper note program to fund long-term projects for a temporary period until long-term financing is implemented. The notes can be issued for a maximum of 270 days and carry a floating taxable interest rate. During the current year, the University borrowed and repaid \$30 million of commercial paper. As of April 30, 2016, there were no borrowings under the commercial paper note program.

Notes Payable

In 2001, the University issued a \$22.0 million note for the purchase of a building. The note is payable in full in September 2021 and bears an interest rate of LIBOR plus 0.45%, payable monthly. The interest rate at April 30, 2016 was 0.884%.

In 2003, the University issued a \$15.0 million note payable to replace a 1998 note incurred for the purchase of a building. The note is payable in full in April 2020 and bears an interest rate of LIBOR plus 0.45%, payable monthly. The interest rate at April 30, 2016 was 0.884%.

Mortgage Payable

In 2012, the LLC purchased an office building to house its public radio station, WAMU - 88.5 FM, and other administrative offices. The University, as the sole owner of the LLC, assumed the existing mortgage on the property of \$23.2 million, which is payable in full in August 2017. The interest rate on April 30, 2016 was 6.37%.

8. Interest Rate Swaps

The University has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate long term debt. The interest rate swap agreements were not entered into for trading or speculative purposes. At April 30, 2016, the University had outstanding interest rate swap agreements with Bank of America and Morgan Stanley Capital Services. The interest rate swap agreement with Bank of America has a total notional principal amount of approximately \$61 million. This agreement effectively changes the interest rate to a 4.31% fixed rate for the Series 2008 bonds. Four interest rate swap agreements are in place with Morgan Stanley with a total notional principal amount of approximately \$134 million. These agreements effectively change the University's interest rate to a 4.12% fixed rate for the Series 1999 bonds, fixed rates of 5.26% and 4.37% on portions of the Series 2006 bonds, and a fixed rate of 4.46% on a portion of the Series 2003 bonds.

The interest rate swap agreements contain provisions that require the University's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the University's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The University is currently in compliance with these provisions.

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The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on April 30, 2016 is \$85.6 million, for which the University has posted collateral of \$41.9 million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on April 30, 2016, the University would be required to post an additional \$43.7 million of collateral to its counterparties. The University is also exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the University does not anticipate nonperformance by the counter parties.

Derivatives at April 30, 2016 and 2015 are as follows (in thousands):

		Liability Derivatives	
Balance Sheet Location		2016	2015
		Fair	Fair
		Value	Value
Derivatives not designated as hedging instruments:			
	Swap		
Interest rate contracts	Agreements	\$ 85,645	\$ 76,181

Location of Gain (Loss) Recognized in Statement of	Amount of Gain (Loss) Recognized in		
Activities	Statement of Activities		
		2016	2015

Derivatives not designated as hedging instruments:

	Realized and unrealized net		
Interest rate contracts	capital gains	\$ (9,464)	\$ (25,745)

9. 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.

Permanently Restricted Net Assets – 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 permanently restricted net assets 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 permanently restricted net assets

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is classified as temporarily restricted net assets 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

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The endowment net assets composition by type of fund at April 30, 2016 is as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 76,300	\$ 97,452	\$ 173,752
Board-designated endowment funds	384,337	-	-	384,337
Total endowment funds	\$ 384,337	\$ 76,300	\$ 97,452	\$ 558,089
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 1, 2015	\$ 402,930	\$ 90,854	\$ 96,102	\$ 589,886
Investment return:				
Net depreciation on investments	(25,395)	(9,377)	(1,292)	(36,064)
Interest, dividends, and capital distributions	2,671	1,588	-	4,259
Total investment return	(22,724)	(7,789)	(1,292)	(31,805)
Contributions to endowment	160	-	2,642	2,802
Appropriation of endowment assets for expenditure	(10,525)	(6,765)	-	(17,290)
Other changes:				
Transfers to create board-designated endowment funds	14,496	-	-	14,496
Endowment net assets, April 30, 2016	\$ 384,337	\$ 76,300	\$ 97,452	\$ 558,089

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The endowment net assets composition by type of fund at April 30, 2015 is as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 90,854	\$ 96,102	\$ 186,956
Board-designated endowment funds	402,930	-	-	402,930
Total endowment funds	\$ 402,930	\$ 90,854	\$ 96,102	\$ 589,886
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 1, 2014	\$ 370,606	\$ 85,446	\$ 90,078	\$ 546,130
Investment return:				
Net appreciation on investments	25,901	10,003	723	36,627
Interest, dividends, and capital distributions	3,288	1,846	-	5,134
Total investment return	29,189	11,849	723	41,761
Contributions to endowment	323	-	5,301	5,624
Appropriation of endowment assets for expenditure	(9,846)	(6,441)	-	(16,287)
Other changes:				
Transfers to create board-designated endowment funds	12,658	-	-	12,658
Transfers to remove board-designated endowment funds	-	-	-	-
Endowment net assets, April 30, 2015	\$ 402,930	\$ 90,854	\$ 96,102	\$ 589,886

Funds with Deficiencies

From time to time, the fair value of the assets associated with individual 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 unrestricted net assets were \$353,000 at April 30, 2016. These deficiencies resulted from market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs deemed prudent by the Board of Trustees. There were no deficient funds as of April 30, 2015.

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

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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.

10. Employee Benefit Plans

Eligible employees of the University may participate in two contributory pension and 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 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 \$16.2 million for the years ended April 30, 2016 and 2015. The University expects to contribute approximately \$16.7 million to the plans in fiscal year 2017.

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 April 30, 2016 and April 30, 2015, respectively.

Net periodic postretirement benefit cost for the years ended April 30, 2016 and 2015 includes the following components (in thousands):

	<u>2016</u>	<u>2015</u>
Service cost	\$ 498	\$ 977
Interest cost	726	979
Amortization of transition obligation over 20 years	-	-
Amortization of net loss	-	206
Net periodic postretirement benefit cost	<u>\$ 1,224</u>	<u>\$ 2,162</u>

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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 April 30, 2016 and 2015 using a measurement date of April 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Change in Accumulated Postretirement Benefit Obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 21,348	\$ 25,104
Service Cost	498	977
Interest Cost	726	979
Net actuarial (gain)/loss	(436)	(4,360)
Plan participants' contributions	699	597
Benefits paid	(1,771)	(1,949)
Accumulated postretirement benefit obligation at end of year	<u>\$ 21,064</u>	<u>\$ 21,348</u>

Change in Fair Value of Plan Assets:

Fair value of plan assets at beginning of year	\$ -	\$ -
Plan participants' contributions	699	597
Employer contributions	1,072	1,352
Benefits paid	(1,771)	(1,949)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

Reconciliation of Funded Status:

Funded status	(21,064)	(21,348)
Postretirement benefit liability	<u>\$ (21,064)</u>	<u>\$ (21,348)</u>

The following table sets forth the amounts not recognized in the net periodic benefit cost for the years ended April 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Amounts not Recognized in Net Periodic Benefit Cost:		
Net actuarial loss	\$ 643	\$ 1,079
Transition obligation	-	-
Amounts included in unrestricted net assets	<u>\$ 643</u>	<u>\$ 1,079</u>

American University
Consolidated Notes to Financial Statements
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Reclassifications to net periodic benefit cost of amounts previously recognized as changes in unrestricted net assets arising from a defined benefit plan but not included in net periodic benefit cost when they arose are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Amortization of net actuarial gain/(loss)	\$ -	\$ (206)

Amounts that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
New actuarial loss/(gain)	\$ (436)	\$ (4,360)
New prior service (cost)/credit	\$ -	\$ -

The weighted discount rate used in the actuarial valuation at the April 30, 2016 and April 30, 2015 measurement dates is as follows:

	<u>2016</u>	<u>2015</u>
End of year benefit obligation	3.30%	3.50%
Net periodic postretirement benefit cost	3.50%	4.00%

A 7% healthcare cost trend rate was assumed for fiscal year 2016, with the rates in the following fiscal years assumed to be 6.5%, 6.0%, 5.5%, 5.2% and 5.1% until reaching an ultimate rate of 5% in fiscal year 2022, and thereafter. An increase in the assumed healthcare cost trend rate of 1% would increase the aggregate of the service and interest cost by approximately \$122,000 and \$236,000 for 2016 and 2015, respectively and the accumulated postretirement benefit obligation at April 30, 2016 and 2015, by approximately \$998,000 and \$992,000, respectively. A decrease in the assumed healthcare cost trend rate of 1% would decrease the net periodic postretirement benefit cost by approximately \$101,000 and \$197,000 for 2016 and 2015, respectively, and the accumulated postretirement benefit obligations at April 30, 2016 and 2015 by approximately \$867,000 and \$864,000, respectively.

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Consolidated Notes to Financial Statements
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The expected contributions by the University to the plan are as follows:

Year ending April 30	Payment with Medicare Part D Subsidy	Payment without Medicare Part D Subsidy	Medicare Part D Subsidy Receipts
2017	\$ 1,208,257	\$ 1,306,325	\$ 98,068
2018	1,252,748	1,360,813	108,065
2019	1,267,130	1,380,096	112,966
2020	1,409,670	1,409,670	-
2021	1,414,200	1,414,200	-
2022-2026	7,146,816	7,146,816	-

Special Termination Benefits

During fiscal year 2015, 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 \$2.3 million and \$2.5 million, respectively, for the fiscal year ended April 30, 2016 and 2015.

11. Expenses

For the years ended April 30, 2016 and 2015, the University's program services and supporting services were as follows (in thousands):

	2016	2015
Program services		
Instruction	\$ 171,884	\$ 163,494
Research	51,881	52,479
Public service	24,908	25,499
Academic support	60,320	56,258
Student services	44,765	43,604
Total program services	353,758	341,334
Supporting services		
Institutional support	93,510	90,220
Auxiliary enterprises	58,313	59,809
	\$ 505,581	\$ 491,363

For the years ended April 30, 2016 and 2015, the University's fundraising expenses totaled approximately \$19.2 million. The expenses are included in institutional support in the accompanying statements of activities.

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

12. Net Assets

Temporarily restricted net assets consist of the following at April 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Unspent contributions and related investment income for instruction and faculty support	\$ 87,422	\$ 102,891
Gifts received for construction of facilities	4,716	5,095
	<u>\$ 92,138</u>	<u>\$ 107,986</u>

Permanently restricted net assets were held, the income of which will benefit the following at April 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Permanent endowment funds, for scholarships and related academic activity	\$ 85,270	\$ 80,238
Interest in trust assets	16,958	18,285
Student loans	6,651	6,835
	<u>\$ 108,879</u>	<u>\$ 105,358</u>

13. Operating Lease

The University leases office space and buildings used for student housing with terms ranging from one to ten years. One of the leases for office space expires in 2017 and the remainder in 2018. The leases for student housing do not expire until 2018. Additionally, we lease radio station space which does not expire until 2020. Minimum lease payments under these agreements are as follows (in thousands):

Year ending April 30:	
2017	\$ 1,290
2018	378
2019	87
2020	84
2021	83
Thereafter	357
	<u>\$ 2,279</u>

Rent expense in 2016 and 2015 was approximately \$2.2 million and \$3.3 million, respectively.

14. Commitments and Contingencies

At April 30, 2016 and 2015, commitments of the University under contracts for construction of plant facilities amounted to approximately \$63.1 million and \$129.3 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.

American University
Consolidated Notes to Financial Statements
April 30, 2016 and 2015

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 financial position, changes in net assets or cash flows.

15. Related Parties

Members of the University's Board of Trustees and their related entities contributed approximately \$722,000 and \$742,000 million during the years ended April 30, 2016 and 2015, respectively, which is included in contribution revenue in the accompanying statements of operations. Also for the years ended April 30, 2016 and 2015, approximately \$3.4 million and \$4.4 million, respectively, were included in contribution receivable in the accompanying balance sheets.

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. Capitol is governed by the Steering Committee which is composed of six members; three from American University and three from Shorelight Education, LLC. As of April 30, 2016, the University had an outstanding receivable balance of \$45,000 from Shorelight-Capitol LLC.

16. Subsequent Events

The University has performed an evaluation of subsequent events through September 7, 2016 which is the date the financial statements were issued. Subsequent to April 30, 2016, the University entered into commitments with various investment fund managers totaling \$13.1 million. Nothing was noted which affect the financial statements as of April 30, 2016.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Student Financial Assistance Cluster							
DEPARTMENT OF EDUCATION							
Federal Direct and Direct PLUS Student Loans	84.268	\$ 154,874,800	\$ -			\$ 154,874,800	\$ -
Federal Pell Grant Program	84.063	5,567,484	-			5,567,484	-
Federal Perkins Loan Program							
Outstanding Loans as of May 1, 2015	84.038	12,068,735				12,068,735	-
New Loans Issued during FY2016	84.038	1,236,319	-			1,236,319	-
Federal Supplemental Educational Opportunity Grants	84.007	560,829	-			560,829	-
Federal Work Study Program	84.033	1,382,593	-			1,382,593	-
Teacher Education Assistance for College and Higher Education Grants - TEACH	84.379	29,694	-			29,694	-
Total Student Financial Assistance Cluster		<u>175,720,454</u>	<u>-</u>			<u>175,720,454</u>	<u>-</u>
Research and Development Cluster							
AGENCY FOR INTERNATIONAL DEVELOPMENT							
Agency for International Development							
Subcontract from William and Mary for USAID Colombia Project	98.001	-	204,352	College of William and Mary	AID-0AA-A12-00096	204,352	125,351
USAID Foreign Assistance for Programs Overseas	98.001	-	9,717	International Food Policy Research Institute	2012X342.AUD	9,717	-
		<u>-</u>	<u>214,069</u>			<u>214,069</u>	<u>125,351</u>
DEPARTMENT OF AGRICULTURE							
Department of Agriculture							
Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations	10.250	47,825	-			47,825	-
The Food Insecurity Experience Scale and Regional Correlates of Food Insecurity in Latin America	10.250	24,477	-			24,477	-
Using Natural Experiments to Identify the Impacts of SNAP on Child and Adult Health	10.253	-	83	Boston University	4500001975 (34268)	83	-
What Drives Uncertainty and Volatility Expectations in Agricultural Markets?	10.250	141,429	-			141,429	-
		<u>213,731</u>	<u>83</u>			<u>213,814</u>	<u>-</u>

See accompanying notes to this schedule.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
DEPARTMENT OF DEFENSE							
Air Force Office of Scientific Research							
Air Force Defense Research Sciences Program	12.800	\$ 44,256	\$ -			\$ 44,256	\$ -
Army Research Office							
Basic Scientific Research	12.431	-	104,947	Cornell University	66220-9898	104,947	-
Department of Defense							
Research and Technology Development	12.910	-	16,564	University of Pennsylvania	560288 (FA9550-12-1-0416)	16,564	-
National Security Agency							
Mathematical Sciences Grants Program	12.901	62,564	-			62,564	-
Office of Naval Research							
Topological investigation of target/clutter features in mine countermeasures sonar data	12.300	66,309	-			66,309	-
		<u>173,129</u>	<u>121,511</u>			<u>294,640</u>	<u>-</u>
DEPARTMENT OF EDUCATION							
Department of Education							
Fulbright - Hays Doctoral Dissertation Research Abroad	84.022	17,218	-			17,218	-
Fulbright-Hays Doctoral Dissertation Research Abroad	84.022	21,555	-			21,555	-
The Effect of Dual-Language Immersion□ on Student Achievement in the Portland Public Schools	84.305	-	38,739	Rand Corporation	9920150039	38,739	-
		<u>38,773</u>	<u>38,739</u>			<u>77,512</u>	<u>-</u>
DEPARTMENT OF ENERGY							
Department of Energy							
Topological Data Modeling for Cyber Data Analytics	81.Unknown	-	43,063	Battelle Memorial Institute	257876 (DE-AC05-76RL01830)	43,063	-
		<u>-</u>	<u>43,063</u>			<u>43,063</u>	<u>-</u>

See accompanying notes to this schedule.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Centers for Disease Control and Prevention							
Occupational Safety and Health Program	93.262	\$ -	\$ 21,414	University of Wisconsin	143405504	\$ 21,414	\$ -
Department of Health and Human Services							
Expanding Leadership Opportunities in the Domestic Violence Field for Member of Underrepresented Groups Project	93.592	-	10,000	Women of Color Network	None	10,000	-
HHS 2016 Leading Up Women of Color Leadership Academy Continuation Grant	93.592	-	1,500	Women of Color Network	N/A	1,500	-
Proposed Interagency Personnel Agreement	93.Unknown	170,232	-			170,232	-
IPA with DHHS Office of the Assistant Secretary for Planning and Evaluation	93.Unknown	(9,126)	-			(9,126)	-
Cancer Research Manpower	93.398	168,953	-			168,953	-
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	98,013	-			98,013	36,542
National Institutes of Health							
A Pilot Legal Intervention to Increase HIV Service Use Among Immigrant Latino MSM	93.855	-	45,098	Emory University	T453286	45,098	-
Alcohol Research Programs	93.273	531,127	-			531,127	334,469
Allergy, Immunology and Transplantation Research	93.855	174,746	637	George Washington University	11-M28R	175,383	84,963
District of Columbia Center for AIDS Research	93.855	-	24,697	George Washington University	15-M40 (P30AI117970-01)	24,697	-
Cerebellum and autism: Neural mechanisms and modulation of predictive processing	93.242	50,294	-			50,294	8,000
Child Health and Human Development Extramural Research	93.865	75,448	-			75,448	-
Tpl2 in Carcinogenesis-Related Inflammation	93.393	(53)	-			(53)	-
Drug Abuse and Addiction Research Programs	93.279	817,435	-			817,435	66,512
Exploring the Ethics of a Social Network intervention to Reduce HIV risk among young Tanzanian Men	93.279	-	19,427	Fordham University	FORD0001 - 5R25DA031608-05	19,427	12,961
Racial Health Disparities from Aging in Changing Places	93.866	-	253	University of Michigan	3003770186	253	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	244,228	-			244,228	6,078
Looming Vulnerability and Smoking Cessation Attempts	93.393	29,660	-			29,660	-
Mechanisms Controlling Cellular Differentiation and Proliferation in a Plant Stem Cell Microenvironment	93.859	67,245	-			67,245	-
Mental Health Research Grants	93.242	-	24,826	University of North Carolina	5033073	24,826	-
Multisite School-Based Evaluation of a Brief Screener for Underage Drinking	93.273	123,581	-			123,581	123,581
Tpl2 in Carcinogenesis-Related Inflammation	93.396	117,478	-			117,478	-
		<u>2,659,261</u>	<u>147,852</u>			<u>2,807,113</u>	<u>673,106</u>

See accompanying notes to this schedule.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
DEPARTMENT OF INTERIOR							
Department of Interior							
Does hydraulic fracturing pose a threat to DC's water supply? A field and modeling study	15.805	\$ -	\$ 9,955	University of the District of Columbia	2015DC169B	\$ 9,955	\$ -
Evaluation of "green roof" effectiveness for nitrogen, phosphorus and suspended solid reduction in runoff from precipitation events	15.805	-	6,279	University of the District of Columbia	2015DC170B	6,279	-
Recreation Resource Management	15.225	13,329	-			13,329	-
Fish and Wildlife Service							
Stormwater, Foam, Energy and Fire: A Rooftop Solution	15.Unknown	-	20,695	DC Fire and Emergency Medical Services	DCFD052012	20,695	-
Geological Survey							
Assistance to State Water Resources Research Institutes	15.805	-	8,365	University of the District of Columbia	2014DC161B	8,365	-
National Park Service							
Cooperative Research and Training Programs Resources of the National Park System	15.945	39,529	-			39,529	-
		<u>52,858</u>	<u>45,294</u>			<u>98,152</u>	<u>-</u>
DEPARTMENT OF JUSTICE							
Department of Justice							
Corrections Training and Staff Development	16.601	19,951	-			19,951	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	274,532	-			274,532	115,476
Special Data Collections and Statistical Studies	16.734	60	-			60	-
National Institute of Justice							
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	119,905	-			119,905	-
		<u>414,448</u>	<u>-</u>			<u>414,448</u>	<u>115,476</u>
DEPARTMENT OF STATE							
Department of State							
Land Use Impact Assessment and Organizing in Cambodia and Vietnam	19.345	163,917	-			163,917	122,621
Office of Global Women's Issues	19.801	195,510	-			195,510	-
		<u>359,427</u>	<u>-</u>			<u>359,427</u>	<u>122,621</u>

See accompanying notes to this schedule.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION							
National Aeronautics and Space Administration							
Aeronautics	43.002	\$ 112,630	\$ -			\$ 112,630	\$ -
Education	43.008	367,876	-			367,876	118,733
Laser, Fiber Optics, and Optical	43.001	184,990	-			184,990	-
National Space Grant College and Fellowship Program (SPACE Grant) Training Grant 2015-2018	43.008	66,727	-			66,727	14,520
		<u>732,223</u>	<u>-</u>			<u>732,223</u>	<u>133,253</u>
NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY							
National Institute of Standards and Technology							
Measurement and Engineering Research and Standards	11.609	102,104	-			102,104	-
		<u>102,104</u>	<u>-</u>			<u>102,104</u>	<u>-</u>
NATIONAL SCIENCE FOUNDATION							
National Science Foundation							
ATD: Efficient online detection based on multiple sensors, with applications to cybersecurity and discovery of biological threats	47.049	134,135	-			134,135	47,018
Biological Sciences	47.074	89,262	-			89,262	-
CAREER: Integrated Research and Education on Gravitational Wave Detector Optics	47.049	83,133	-			83,133	-
Dynamics of Change after Forced Resettlement: Long-term Outcomes at Manantali, Mali	47.075	2,575	-			2,575	-
Education and Human Resources	47.076	560,498	-			560,498	206,044
Electro catalysis on Structure Controlled Metal Nanocrystals: Unraveling Particle Structure-Catalytic Activity Relationships	47.049	63,862	-			63,862	-
Geosciences	47.050	25,938	-			25,938	19,680
IPA at The National Science Foundation	47.Unknown	266,086	-			266,086	-
Office of International Science and Engineering	47.079	11,336	-			11,336	-
Social, Behavioral, and Economic Sciences	47.075	137,739	-			137,739	23,475
Support for US Participants at CIRM Representation Theory Conference	47.049	3,237	-			3,237	-
Trans-NSF Recovery Act Research Support	47.082	45,486	-			45,486	45,486
		<u>1,423,287</u>	<u>-</u>			<u>1,423,287</u>	<u>341,703</u>

See accompanying notes to this schedule.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
SMITHSONIAN INSTITUTION							
National Aeronautics and Space Administration							
Space Operations	43.007	\$ -	\$ 23,421	Smithsonian Institution	NNX15AB99G	\$ 23,421	\$ -
		-	23,421			23,421	-
Total Research and Development Cluster		6,169,241	634,032			6,803,273	1,511,510
Other Sponsored Programs							
AGENCY FOR INTERNATIONAL DEVELOPMENT							
Agency for International Development							
USAID Development Partnerships for University Cooperation and Development	98.012	-	151,998	Higher Education for Development	HED085-9751-LAC-12-05	151,998	42,843
		-	151,998			151,998	42,843
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE							
Corporation for National and Community Service							
AmeriCorps	94.006	-	23,246	Jumpstart for Young Children	930200	23,246	-
Jumpstart for Young	94.006	-	48,540	Jumpstart for Young Children	930200	48,540	-
		-	71,786			71,786	-
DEPARTMENT OF AGRICULTURE							
Department of Agriculture							
Farm to School Evaluation	10.575	-	11,560	DC Office of State Superintendent of Education	PO495878-FY14	11,560	-
Washington Internships for Native Students - USDA 2015	10.Unknown	79,352	-			79,352	-
		79,352	11,560			90,912	-
DEPARTMENT OF DEFENSE							
Department of Air Force							
Conference: Sampling Theory and Applications (SampTA 2015)	12.800	11,174	-			11,174	-
Department of Defense							
Conference: Sampling Theory and Applications (SampTA 2015)	12.431	13,506	-			13,506	-
SIMPLEX: Conglomeration of Heterogeneous Content using Local Topology (CHCLT)	12.Unknown	140,814	-			140,814	71,867
		165,494	-			165,494	71,867

See accompanying notes to this schedule.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
DEPARTMENT OF EDUCATION							
Department of Education							
Learning and Teaching Science with Scientists	84.366	\$ -	\$ 176,135	DC Office of State Superintendent of Education	52366B	\$ 176,135	\$ -
		-	176,135			176,135	-
DEPARTMENT OF HOMELAND SECURITY							
Department of Homeland Security							
Centers for Homeland Security	97.061	-	10,000	University of Maryland	11913-Z9373005	10,000	-
		-	10,000			10,000	-
DEPARTMENT OF JUSTICE							
Department of Justice							
PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735	-	99,150	National Council on Crime and Delinquency	PRC-038	99,150	-
Community Court Grant Project - CCI	16.738	-	10,000	Center for Court Innovation	BJA: 2015-DC-NY-K002	10,000	-
Drug Court Discretionary Grant Program	16.585	1,313,036	-			1,313,036	-
Edward Byrne Memorial Competitive Grant Program	16.751	495,897	-			495,897	63,676
OVW Technical Assistance Initiative	16.526	389,170	-			389,170	-
Improving Access to Services and Legal Options for Immigrant Survivors	16.526	76,841	-			76,841	-
Public Safety Partnership and Community Policing Grants	16.710	854	-			854	-
Review of Magistrate Court Process in Nashville, Tennessee Court of General Sessions	16.Unknown	40,103	-		20140609-130946-TN	40,103	-
		2,315,901	109,150			2,425,051	63,676
DEPARTMENT OF STATE							
Department of State							
IPET-Morocco II: Police Professional Standards and Accountability	19.703	-	32,944	International Association of Chiefs of Police	None	32,944	-
Academic Exchange Programs - Hubert H. Humphrey Fellowship Program	19.010	-	2,774	Institute of International Education	None	2,774	-
ASEAN US 2014-2015 Symposium Workshop	19.124	(10)	-			(10)	-
ASEAN US 2015 Symposium Workshop	19.124	44,313	-			44,313	-
Legal Capacity Development in Cuba	19.345	-	68,176	National Endowment for Democracies	2015-514	68,176	-
Public Diplomacy Programs for Afghanistan and Pakistan	19.501	447,416	-			447,416	192,714
The Humphrey Fellowship Program 2015-2016	19.010	-	244,388	Institute of International Education	3067_AU_S-ECAGD015-CA-1017_07012015	244,388	-
		491,719	348,282			840,001	192,714

See accompanying notes to this schedule.

American University
Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

Federal Program	CFDA	Direct	Pass Through	Pass-Through Entity Sponsor	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
ENVIRONMENTAL PROTECTION AGENCY							
Environmental Protection Agency							
Industrial Economics Incorporated	66.Unknown	\$ -	\$ 12,042	Industrial Economics Incorporated	1110-AU	\$ 12,042	\$ -
		-	12,042			12,042	-
INTERNAL REVENUE SERVICE							
Internal Revenue Service							
LITC/Spragens Federal Tax Clinic	21.008	23,694	-			23,694	-
Low Income Taxpayer Clinics	21.008	64,150	-			64,150	-
		87,844	-			87,844	-
NATIONAL ENDOWMENT FOR THE HUMANITIES							
National Endowment for the Humanities							
NEH Enduring Questions Course on Suffering	45.163	20,106	-			20,106	-
Community Voice	45.Unknown	-	1,636	Humanities Council of Washington DC	15-WWG-09	1,636	-
		20,106	1,636			21,742	-
NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY							
National Institute of Standards and Technology							
NIST SURF Program Gaithersburg Campus	11.620	26,208	-			26,208	-
		26,208	-			26,208	-
Total Other Sponsored Programs		3,186,624	892,589			4,079,213	371,100
Total Federal Award Expenditures		\$ 185,076,319	\$ 1,526,621			\$ 186,602,940	\$ 1,882,610

See accompanying notes to this schedule.

American University
Notes to Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of American University (the "University") under programs of the federal government for the year ended April 30, 2016. Because the Schedule presents only the federal award activity of the University, it is not intended to and does not present the financial position, changes in net assets and cash flows of the University.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered directly between the University and agencies and departments of the federal government and all sub-awards to the University by non-federal organizations pursuant to federal grants, contracts and similar agreements.

Negative numbers in the Schedule represent adjustments to amounts reported in prior years in the normal course of business. CFDA numbers and pass-through numbers are provided when available.

2. Summary of Signification Accounting Policies for Federal Award Expenditures

Expenditures for the federal programs are recognized as incurred. Expenditures for student financial aid include Pell program grants to students, the federal share of students' FSEOG program grants and FWS program earnings, loan disbursements to students, and administrative cost allowances, where applicable.

Expenditures for other federal awards are determined using the cost accounting principles and procedures set forth in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) as applicable. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Direct costs are recognized as incurred using the accrual method of accounting.

Expenditures for non-financial aid awards include indirect costs, relating primarily to facilities operation and maintenance and general administration services, which are allocated to direct cost objectives (including federal award programs) based on negotiated formulas commonly referred to as indirect cost rates. The University applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimis cost rate as described in Section 200.414 of the Uniform Guidance. Indirect costs allocated to such awards for the year ended April 30, 2016 were based on predetermined rates negotiated with the University's cognizant federal agency, the Department of Health and Human Services.

American University
Notes to Schedule of Expenditures of Federal Awards
For the year ended April 30, 2016

3. Federal Student Loan Programs

The Federal Perkins Loan Program (Perkins) is administered directly by the University and the balance and transactions relating to this program are included in the University's basic financial statements. The amount of Federal Perkins loans outstanding at April 30, 2016 totaled \$11,950,356. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule.

The University is responsible only for the performance of certain administrative duties with respect to federal direct loans disbursed by the Department of Education on behalf of University students under the direct loan programs (Federal Stafford, Federal Parents Loans for Undergraduate and Graduate Students, and Unsubsidized Federal Stafford Loans). These loan programs collectively are CFDA # 84.268. It is not practical to determine the balance of loans outstanding to students and former students of the University under these federally guaranteed loan programs at April 30, 2016.



Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees of American University:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of American University and its subsidiaries ("the University"), which comprise the consolidated balance sheet as of April 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ricardo Hernandez Lopez SLP

September 7, 2016



**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees of American University:

Report on Compliance for Each Major Federal Program

We have audited American University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended April 30, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, American University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2016.



Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Ricardo Hernandez Lopez SLP".

January 30, 2017

American University
Schedule of Findings and Questioned Costs
for the year ended April 30, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported
- Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

IDENTIFICATION OF MAJOR PROGRAMS

CFDA Number(s)

Various
 16.585
 19.501

Name of Federal Program or Cluster

Student Financial Assistance Cluster
 Drug Court Discretionary Grant Program
 Public Diplomacy Programs for Afghanistan and Pakistan

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

American University
Schedule of Findings and Questioned Costs, continued
for the year ended April 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

No findings to be reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings to be reported.

American University

Summary of Status of Findings from Prior Audits for the year ended April 30, 2016

Finding 2015-001: Reporting

Subaward reporting under FFATA was not performed in a timely manner for certain grants during the fiscal year.

PwC recommended that the University improve its monitoring procedures over required reporting submissions. Specifically, the University should enhance its policies and procedures for identifying and reporting new subawards, particularly those which require reporting under FFATA. Revised procedures and policies should specifically address ensuring tracking new subawards to ensure required reporting occurs within the timeframe required by the regulations.

Status

A process was developed and documented to ensure that as modifications were completed the information was provided to the individual responsible for updating the FSRS database, and the information was entered into the system. The University has implemented the new monitoring procedures and has submitted all reports as required under FFATA during the fiscal year.

This finding is considered to be resolved.