

American University
Consolidated Financial Statements
For the years ended June 30, 2022 and 2021
And report of independent auditors



Report of Independent Auditors

To the Board of Trustees of American University:

Opinion

We have audited the accompanying consolidated financial statements of American University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Washington, DC
November 22, 2022

American University
Consolidated Statements of Financial Position
As of June 30, 2022 and 2021

<i>(In thousands)</i>	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 123,639	\$ 83,125
Accounts and University loans receivable, net	42,351	46,370
Contributions receivable, net	20,406	20,227
Prepaid expenses, inventory and other assets	20,369	16,367
Investments	1,233,115	1,313,854
Property, plant, and equipment, net	874,599	902,268
Interest in perpetual trust	20,405	25,434
Right of use assets under operating leases	4,929	5,617
Right of use assets under finance leases	155	-
Total assets	<u>\$ 2,339,968</u>	<u>\$ 2,413,262</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 72,417	\$ 76,445
Deferred revenue and contract liabilities	39,228	35,395
Notes payable and long-term debt	749,069	749,372
Refundable advances from the U.S. government	7,870	14,736
Operating lease liabilities	4,739	5,546
Finance lease liabilities	167	-
Total liabilities	<u>\$ 873,490</u>	<u>\$ 881,494</u>
Net assets:		
Without donor restrictions	\$ 1,165,980	\$ 1,210,000
With donor restrictions	300,498	321,768
Total net assets	<u>\$ 1,466,478</u>	<u>\$ 1,531,768</u>
Total liabilities and net assets	<u>\$ 2,339,968</u>	<u>\$ 2,413,262</u>

See accompanying notes to the consolidated financial statements.

American University
Consolidated Statement of Activities
Year ended June 30, 2022

<i>(In thousands)</i>	Without donor restrictions	With donor restrictions	Total
Operating revenues and support			
Tuition and fees	\$ 461,813	\$ -	\$ 461,813
Grants and contracts	59,675	-	59,675
Indirect cost recovery	3,296	-	3,296
Contributions of cash and other financial assets	21,952	9,975	31,927
Contributions of nonfinancial assets	7,086	-	7,086
Endowment investment return	22,821	8,356	31,177
Investment return	27,449	759	28,208
Auxiliary enterprises	103,632	-	103,632
Other sources	7,226	-	7,226
Net asset release	17,170	(17,170)	-
Total operating revenues and support	<u>732,120</u>	<u>1,920</u>	<u>734,040</u>
Operating expenses			
Instruction	233,598	-	233,598
Research	63,968	-	63,968
Public service	28,025	-	28,025
Academic support	82,812	-	82,812
Student services	59,982	-	59,982
Institutional support	95,739	-	95,739
Auxiliary enterprises	97,466	-	97,466
Total operating expenses	<u>661,590</u>	<u>-</u>	<u>661,590</u>
Total operating activities	<u>70,530</u>	<u>1,920</u>	<u>72,450</u>
Nonoperating items			
Other nonoperating sources	626	1,222	1,848
Investment return, net of endowment spending	(115,176)	(24,412)	(139,588)
Total nonoperating activities	<u>(114,550)</u>	<u>(23,190)</u>	<u>(137,740)</u>
Change in net assets	(44,020)	(21,270)	(65,290)
Net assets at beginning of year	<u>1,210,000</u>	<u>321,768</u>	<u>1,531,768</u>
Net assets at end of year	<u>\$ 1,165,980</u>	<u>\$ 300,498</u>	<u>\$ 1,466,478</u>

See accompanying notes to the consolidated financial statements.

American University
Consolidated Statement of Activities
Year ended June 30, 2021

<i>(In thousands)</i>	Without donor restrictions	With donor restrictions	Total
Operating revenues and support			
Tuition and fees	\$ 396,287	\$ -	\$ 396,287
Grants and contracts	44,715	-	44,715
Indirect cost recovery	2,900	-	2,900
Contributions of cash and other financial assets	22,843	15,917	38,760
Contributions of nonfinancial assets	2,706	-	2,706
Endowment investment return	23,153	8,101	31,254
Investment return	7,594	759	8,353
Auxiliary enterprises	24,063	-	24,063
Other sources	9,077	-	9,077
Net asset release	19,398	(19,398)	-
Total operating revenues and support	552,736	5,379	558,115
Operating expenses			
Instruction	208,525	-	208,525
Research	62,026	-	62,026
Public service	28,950	-	28,950
Academic support	65,094	-	65,094
Student services	48,540	-	48,540
Institutional support	79,406	-	79,406
Auxiliary enterprises	68,404	-	68,404
Total operating expenses	560,945	-	560,945
Total operating activities	(8,209)	5,379	(2,830)
Nonoperating items			
Other nonoperating sources	3,330	(171)	3,159
Investment return, net of endowment spending	175,245	54,195	229,440
Total nonoperating activities	178,575	54,024	232,599
Change in net assets	170,366	59,403	229,769
Net assets at beginning of year	1,039,634	262,365	1,301,999
Net assets at end of year	\$ 1,210,000	\$ 321,768	\$ 1,531,768

See accompanying notes to the consolidated financial statements.

American University
Consolidated Statements of Cash Flows
Years ended June 30, 2022 and 2021

<i>(In thousands)</i>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (65,290)	\$ 229,769
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Contributed art and property	(5,085)	(488)
Net realized and unrealized capital loss (gain)	106,277	(253,495)
Loss on the disposal of fixed assets	1,331	-
Depreciation, amortization and accretion	46,009	44,467
Amortization of operating lease right-of-use assets	3,446	3,254
Interest on finance lease	34	-
Changes in assets and liabilities		
Decrease in accounts and university loans receivable, net	2,957	2,486
Increase in contributions receivable, net	(179)	(4,134)
Increase in prepaid expenses, inventory and other assets	(4,002)	(5,571)
Decrease in accounts payable and accrued liabilities	(5,979)	(7,244)
(Decrease) increase in deferred revenue, deposits and other refundable advances	(3,033)	8,256
Decrease in operating lease liabilities	(3,566)	(3,325)
Receipt of contributed securities	(2,519)	(2,025)
Sale of contributed securities	2,519	2,025
Contributions collected and revenues restricted for long-term investment	(5,119)	(3,032)
Net cash provided by operating activities	<u>67,801</u>	<u>10,943</u>
Cash flows from investing activities		
Purchases of investments	(799,745)	(928,969)
Proceeds from sales and maturities of investments	780,971	824,422
Purchases of property, plant, and equipment	(12,918)	(25,782)
Net cash used in investing activities	<u>(31,692)</u>	<u>(130,329)</u>
Cash flows from financing activities		
Student loans repaid	1,062	1,202
Proceeds from issuance of debt	-	115,580
Debt issuance cost	-	(729)
Payments on finance leases	(42)	-
Proceeds from contributions restricted for		
Investment in plant	103	3
Investment in endowment	5,016	3,029
Net cash provided by financing activities	<u>6,139</u>	<u>119,085</u>
Net increase (decrease) in cash and cash equivalents	<u>42,248</u>	<u>(301)</u>
Cash and cash equivalents at beginning of year	<u>87,500</u>	<u>87,801</u>
Cash and cash equivalents at end of year	<u>\$ 129,748</u>	<u>\$ 87,500</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 27,548	\$ 24,928
Operating cash flows from operating leases	2,758	1,498
Financing cash flows from finance leases	42	-
Contributed art and property	5,085	488
Contributed securities	2,519	2,025
Accrued payment for property, plant & equipment	1,857	7,242
Cash and cash equivalents reported on the statements of financial position		
Cash and cash equivalents	\$ 123,639	\$ 83,125
Uninvested cash included in investments	5,945	4,211
Deposits with trustees	164	164
Total cash, cash equivalents, and restricted cash	<u>\$ 129,748</u>	<u>\$ 87,500</u>

See accompanying notes to the consolidated financial statements.

American University

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

1. American University

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

American University offers a wide range of graduate and undergraduate degree programs, as well as non-degree studies. There are approximately 913 full-time faculty members in seven academic divisions and approximately 14,900 students, of which 8,600 are undergraduate students and 6,300 are graduate students. The University attracts students from all fifty states, the District of Columbia, Puerto Rico, the Territories, and nearly 122 foreign countries.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the University accounts and its wholly owned and controlled subsidiaries after elimination of intercompany accounts and transactions.

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

Classification of Net Assets

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

Without donor restrictions – Net assets not subject to donor-imposed stipulations. This classification also includes net assets earmarked for board designated endowments and investments in capital assets. Board designated net assets without donor restrictions represent amounts designated by the Board to function as endowment assets to support the University's strategic objectives and future expenditures.

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

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use

American University

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

is restricted by explicit donor stipulations or by law. Expirations of restrictions related to time or purpose recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Contributions with donor restrictions that expire simultaneously with the satisfaction of the specified conditions are reported as net assets without donor restrictions. Time or purpose restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

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

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported change in net assets.

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 allowance for uncollectible accounts, the value of alternative investments, the lease obligation, and the postretirement benefit obligation. Actual results could differ materially, in the near term, from the amounts reported.

COVID-19 Pandemic

The University achieved its goal of returning to full in-person instruction and residential experiences for the fall 2021 semester, while promoting the health and safety of our community, progressing our educational and research mission, and supporting the broader response to COVID-19 in the DC region.

In 2020 and 2021, the United States government enacted the Coronavirus Aid, Relief and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, and the American Rescue Plan. These provided the University with \$32.5 million in federal grants, \$14.6 million was designated to provide direct financial aid to students and \$17.9 million to offset the University's COVID-19 expenses related to monitoring and suppression efforts as well as tuition and auxiliary revenue losses. As of June 30, 2022, the University distributed all \$14.6 million of available student financial aid funding.

Accounting Pronouncements Adopted

In September 2020, the FASB issued ASU 2020-07 to improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The amendment in this update should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. The University adopted ASU 2020-07 for the fiscal year ended June 30, 2022. There was no material impact on the University's financial statements as a result of this adoption.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13 Financial Instruments – Credit Losses (Topic 326) to provide financial statements users with more decision-useful information about the expected credit losses on

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance is effective for fiscal years beginning after December 15, 2022. Although early adoption is permitted, the University is evaluating the impact this will have on the consolidated financial statements beginning in the fiscal year 2024.

Cash and Cash Equivalents

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

The University places its cash and cash equivalents and investments in various financial institutions that are federally insured for \$250,000 and for \$500,000 under the Federal Depository Insurance Corporation Act (FDICA) and Securities Investor Protection Corporation (SIPC), respectively. At June 30, 2022, the aggregate balances were in excess of the insurance and therefore, bear some risk since they are not collateralized. The University has not experienced any losses on its cash and cash equivalents or investments to date as it relates to FDICA and SIPC insurance limits.

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 including the corresponding accrued interest, and amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts. The University reviews the individual receivables as well as the history of collectability to determine the collectible amount as of the date of the statement of financial position. Additionally, unsecured and secured university loans receivables are evaluated annually.

Investments

Investments are presented at fair value in the statement of financial position. Investments include endowment funds and university working capital (non-endowment) funds. Endowment investment return included in operating revenues consists of annual amounts allocated for spending of endowment funds in accordance with the University's spending policy. The realized gains and losses, and the change in unrealized gains and losses are calculated using the average cost of investments. Gains and losses from investments of endowment funds are reported as non-operating revenues in the consolidated statements of activities. Endowment investment return includes both the pooled endowment and separately managed endowments. The return is reported in endowment investment return and investment return net of endowment spending in the statement of activities. Investment return is accrued as earned and is reported net of management fees. Income and realized gains and losses on investments of working capital are reported as investment return included in operating revenues. Additionally, the University has elected the policy that all short-term investments included within the investment portfolio are not cash equivalents and thus not included within cash and cash equivalents on the consolidated statement of cash flows.

Investments are valued based on the quoted market price when available. The University has interests in alternative investments consisting of limited partnerships and limited liability companies. For these alternative investments, the University uses Net Asset Value ("NAV") as a practical expedient to determine fair value. Alternative investments are less liquid than the University's other investments. Furthermore, the investments held in these limited partnerships and limited liability companies, as well as certain investment securities held in mutual funds classified as equity securities, may include derivatives and certain private

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

investments which do not trade on public markets and therefore may be subject to greater liquidity risk. See Note 7 for an explanation of the methodology for determining fair value.

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, 25 years for building improvements, 20 years for land improvements, 5 years for equipment, 10 years for special library collections (which includes the archives and special collections), and 50 years for art collections. The University's capitalization policy is to capitalize all fixed assets and collection items that have a cost of \$10,000 or more per unit and useful life of two years or more.

Leases

The University analyzes each lease agreement to determine whether it should be classified as an operating lease or a finance lease. For right-of-use assets under operating leases, both the asset and lease liabilities are recognized at the commencement date of the lease based on the estimated present value of lease payments over the lease term. For right-of-use assets under finance leases, the University initially records the assets and lease liabilities at the present value of the future minimum lease payments. As most of the University's leases do not provide an implicit rate, the University uses its collateralized incremental borrowing rate in effect at the commencement date of the lease agreement in determining the present value of leases payments. The University elects to apply the short-term lease recognition and measurement exemption for all leases with terms of 12 months or less.

The portion of payments on operating lease liabilities related to interest, along with the amortization of the related right-of-use assets, is recognized as rent expense. This rent expense is recognized on a straight-line basis over the term of the lease. The portion of payments on finance lease liabilities related to interest is recognized as interest expense. The amortization of the right-of-use assets under finance leases is recognized as depreciation and amortization expense.

Deferred Revenue and Contract Liabilities

Deferred revenue and contract liabilities consists of amounts received by the University for tuition, housing and student fees, and exchange transactions with customers before the commencement of the contract terms or the performance obligations are satisfied. Deferred revenue related to tuition, housing and student fees was \$26.0 million and \$27.0 million in June 30, 2022 and 2021, respectively, and are recognized as revenue in the following fiscal year as performance obligations are satisfied. Contract liabilities from exchange transactions were approximately \$11.8 million and \$7.7 million in June 30, 2022 and 2021, respectively, and are recognized as revenue when the performance obligations are satisfied, typically in the following fiscal year.

Refundable Advances from the U.S. Government

Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students. The Federal Perkins Loan program was not reauthorized by the federal government in September 2017, and therefore, collected funds will be returned to the United States Government and the University proportionate to their original funding. Such funds are ultimately refundable to the government. Approximately 33% and 37% net tuition and fees revenue for the years ended June 30, 2022 and 2021,

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

respectively, was funded by federal student financial aid programs (including loan, grant, and work-study programs).

Tuition, Fees and Scholarships

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

Tuition discounts in the form of scholarships, fellowship, and loans, including those funded by the endowment, research funds, and gifts, have been reported as a reduction of tuition revenues. Tuition and fees revenue is as follows for the years ended June 30, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Tuition and fees, gross	\$ 664,215	\$ 569,216
Less: Scholarship allowance	<u>(202,402)</u>	<u>(172,929)</u>
Tuition and fees	<u>\$ 461,813</u>	<u>\$ 396,287</u>

Grants and Contracts

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

Total grants and contracts revenue for the years ended June 30, 2022 and 2021 are as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Governmental sources	\$ 44,338	\$ 32,947
Private foundations	<u>10,067</u>	<u>7,525</u>
Total contributions	<u>\$ 54,405</u>	<u>\$ 40,472</u>

	<u>2022</u>	<u>2021</u>
Governmental sources	\$ 4,432	\$ 2,289
Private foundations	<u>838</u>	<u>1,954</u>
Total exchange transactions	<u>\$ 5,270</u>	<u>\$ 4,243</u>

In addition, the University had remaining available award balances on federal and private conditional grants and contracts for sponsored projects of \$37.4 million and \$21.4 million as of June 30, 2022 and 2021, respectively. These award balances are not recognized as assets and will be recognized as revenue as the projects progress and conditions are met, generally as expenses are incurred.

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

Indirect Cost Recovery

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

Auxiliary Enterprises

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

Contributions of Cash & Other Financial Assets

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 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.

Contributed Nonfinancial Assets

The University records contributed nonfinancial assets at their estimated fair value at the date of the gift. The general policy regarding the disposition of contributed nonfinancial assets is that the university divests itself of gifts as rapidly as possible unless the gift-in-kind is placed in use by the university.

For the years ended June 30, contributed nonfinancial assets recognized within the statement of activities included (in thousands):

	<u>2022</u>	<u>2021</u>
Artwork	\$ 5,085	\$ 321
Equipment	17	-
Rare Books and Collections	-	167
Services	56	113
Software License	13	13
Vehicles	1,914	2,091
	<u>\$ 7,086</u>	<u>\$ 2,706</u>

The University recognized contributed nonfinancial assets within revenue, including contributed artwork, equipment, gift cards, household goods, instrument, rare books and collections, software licenses, vehicles, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

American University

Notes to the Consolidated Financial Statements

June 30, 2022 and 2021

It is University's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the year ended June 30, 2022 and 2021 were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

Contributed services recognized comprise professional services from attorneys advising the University's public radio station WAMU-88.5 FM on various administrative, and legal matters. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar legal services.

Contributed household goods, gift cards, and software licenses were used to assist incoming students and faculty with their needs. Contributed equipment will be used for general and administrative activities. In valuing these items, the University estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

Contributed artwork and instruments will be displayed in Katzen Arts Center for various exhibitions for the University's community. Contributed rare books and collections will be used by the University Library. In valuing the contributed artwork, instrument, and rare books and collections, the University used an independent appraisal.

Income Taxes

The University has been recognized by the Internal Revenue Service as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Such activities resulted in no net taxable income in the years ended June 30, 2022 and 2021.

The University considers uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) management evaluates whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the University recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon settlement within the related tax authority. The University has concluded that there are no material uncertain tax positions as of June 30, 2022 and 2021.

The Airlie Foundation, a subsidiary acquired by the University in September 2016, remains a taxable non-stock corporation and is taxed as a C-Corporation and uses the liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The University's policy is to record interest and penalties as an increase in income taxes payable and a corresponding increase to income tax expense. No penalties or interest have been recorded for the year ended June 30, 2022 or 2021.

3. Liquidity

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

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

University has commercial paper facilities available to provide additional liquidity should unanticipated needs arise.

As of June 30, 2022, and 2021, the following financial assets and liquidity resources could readily be made available within one year (in thousands):

	<u>2022</u>	<u>2021</u>
Financial assets and liquidity resources:		
Cash and cash equivalents	\$ 123,639	\$ 83,125
Accounts and University loans receivable, net	25,928	27,597
Contributions receivable, net	7,816	6,744
Non-Endowment Investments	<u>322,007</u>	<u>430,152</u>
Financial assets available within one year	479,390	547,618
Other liquidity resources:		
Commercial Paper	<u>125,000</u>	<u>125,000</u>
 Total financial assets and liquidity resources	 <u>\$ 604,390</u>	 <u>\$ 672,618</u>

The University also has Board Designated funds of \$438,302 and \$458,319 at June 30, 2022 and 2021, respectively. These represent unrestricted operating funds that have been internally designated by the University. These could be liquidated over time, if necessary, to support operations.

4. Accounts and University Loans Receivable, Net

Accounts and loans receivable, net, at June 30, 2022 and 2021 are as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Accounts receivable		
Student	\$ 13,891	\$ 15,791
Grants, contracts, and other	25,581	27,603
Accrued interest	794	784
Student loans	<u>4,726</u>	<u>5,788</u>
	44,992	49,966
Less allowance for uncollectible accounts and loans	<u>(2,641)</u>	<u>(3,596)</u>
	<u>\$ 42,351</u>	<u>\$ 46,370</u>

At June 30, 2022 and 2021, the University had an outstanding student loans receivable balance in the amount of \$4.7 million and \$5.8 million, respectively. Management does not believe it has significant exposure to credit risk related to the federal student financial aid programs as these accounts receivable amounts are backed by the U.S. Government. Additionally, management has considered the credit and market risk associated with all other outstanding balances and believes the recorded cost of these loans approximates fair market value at June 30, 2022 and 2021.

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

5. Contributions Receivable, Net

As of June 30, 2022 and 2021, unconditional promises to give were as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 12,827	\$ 11,755
One year to five years	13,477	15,513
Over five years	605	1,555
	<u>26,909</u>	<u>28,823</u>
Less unamortized discount	(2,102)	(2,483)
Less allowance for doubtful accounts	(4,401)	(6,113)
	<u>\$ 20,406</u>	<u>\$ 20,227</u>

Contributions receivable over more than one year are discounted at rates ranging from 3.0% to 6.5%. New contributions received during the years ended June 30, 2022 and 2021 were assigned a discount rate which is commensurate with the market and credit risk involved.

As of June 30, 2022, and 2021, the University had also received bequest intentions and conditional promises to give of \$17.5 million and \$10 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.

6. Property, Plant, and Equipment, Net

Property, plant, and equipment and related accumulated depreciation and amortization at June 30, 2022 and 2021, are as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 54,844	\$ 55,799
Buildings	1,190,981	1,163,497
Equipment	77,932	136,556
Construction in progress	6,959	21,696
Library and art collections	189,342	183,628
	<u>1,520,058</u>	<u>1,561,176</u>
Less accumulated depreciation and amortization	(645,459)	(658,908)
	<u>\$ 874,599</u>	<u>\$ 902,268</u>

The university periodically performs fixed asset inventories to confirm that items recorded in the fixed asset subledger physically exist and are being appropriately maintained and utilized as intended. The results of the inventory and subsequent write-off of unused assets are reflected in the table above.

Construction in progress at June 30, 2022 and 2021 relates to building improvements and renovations.

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

For the years ended June 30, 2022 and 2021, depreciation expense was approximately \$45.1 million and \$44.5 million, respectively.

7. Fair Value Measurements

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

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

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

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

Assets and Liabilities Measured at Fair Value

The following table displays the carrying value and estimated fair value of the University's financial instruments as of June 30, 2022 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV) as Practical Expedient	Total Fair Value as of June 30, 2022
Assets					
Investments					
Cash and Short Term Investments	\$ 81,106	\$ -	\$ -	\$ -	\$ 81,106
Equity - Corporate Stocks	217,332	-	-	-	217,332
Equity - Domestic Funds	74,742	-	-	4,162	78,904
Equity - International Stocks	87,363	-	-	-	87,363
Equity - International Funds	71,669	-	-	-	71,669
Equity - Hedge Funds	-	-	-	189,710	189,710
Equity - Real Asset Funds	2,786	-	-	60,158	62,944
Equity - Private Equity Funds	-	-	-	190,996	190,996
Fixed Income - Corporate Bonds	-	67,884	-	-	67,884
Fixed Income - Government Agency Bonds	-	17,954	-	-	17,954
Fixed Income - International Bonds	-	-	-	-	-
Fixed Income - Treasury Securities	16,831	-	-	-	16,831
Fixed Income - Domestic Bond Funds	149,744	32	-	482	150,258
Deposits with trustees	164	-	-	-	164
Interest in perpetual trust	-	-	20,405	-	20,405
Total assets at fair value	<u>\$ 701,737</u>	<u>\$ 85,870</u>	<u>\$ 20,405</u>	<u>\$ 445,508</u>	<u>\$ 1,253,520</u>

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

The following table displays the carrying value and estimated fair value of the University's financial instruments as of June 30, 2021 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV) as Practical Expedient	Total Fair Value as of June 30, 2021
Assets					
Investments					
Cash and Short Term Investments	\$ 33,950	\$ -	\$ -	\$ -	\$ 33,950
Equity - Corporate Stocks	249,139	-	-	-	249,139
Equity - Domestic Funds	128,366	-	-	4,659	133,025
Equity - International Stocks	98,903	-	-	-	98,903
Equity - International Funds	125,279	-	-	-	125,279
Equity - Hedge Funds	-	-	-	186,316	186,316
Equity - Real Asset Funds	2,835	-	-	45,640	48,475
Equity - Private Equity Funds	-	-	-	157,357	157,357
Fixed Income - Corporate Bonds	-	73,310	-	-	73,310
Fixed Income - Government Agency Bonds	-	12,707	-	-	12,707
Fixed Income - International Bonds	-	20	-	-	20
Fixed Income - Treasury Securities	16,594	-	-	-	16,594
Fixed Income - Domestic Bond Funds	178,025	52	-	538	178,615
Deposits with trustees	164	-	-	-	164
Interest in perpetual trust	-	-	25,434	-	25,434
Total assets at fair value	<u>\$ 833,255</u>	<u>\$ 86,089</u>	<u>\$ 25,434</u>	<u>\$ 394,510</u>	<u>\$ 1,339,288</u>

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

- Short Term Investments – Short term investments are priced using quoted prices in active markets and are classified as Level 1.
- Equity Investments – Equity investments consist of, but are not limited to separate accounts, common trust funds and hedge funds. These assets consist of both publicly traded and privately held funds.
 - Publicly traded securities – These investments consist of domestic and foreign equity holdings. Securities traded on active exchanges are priced using unadjusted market quotes for identical assets and are classified as Level 1. Securities that are traded infrequently or that have comparable traded assets are priced using available quotes and other market data that are observable and are classified as Level 2.
 - Privately held funds – These investments consist of domestic, international, hedge, real asset, and private equity funds which are privately held. The valuations of the funds are calculated by the investment managers based on valuation techniques that take into account the market value of the underlying assets to arrive at a net asset value or interest in the fund shares. The investment shares or ownership interests in these funds may not be readily redeemable. If an active market exists for the

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

fund and shares are redeemable at net asset value, these investments are classified as Level 2. In the absence of readily determinable fair value, those investments are valued using NAV as the practical expedient as outlined in ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent). Investments in such funds do carry certain risks including lack of regulatory oversight, interest rate risk and market risk.

- Fixed Income Investments – Fixed income securities include, but are not limited to, U.S. Treasury issues, U.S. Government Agency issues, corporate debt, and domestic and international bond funds. Fixed income security assets are valued using quoted prices in active markets and are classified as Level 1. Fixed income securities valued using quoted prices for similar securities or using pricing models based on observable market inputs are classified as Level 2. For investments in private bond funds, NAV as the practical expedient is used as fair value.
- Deposits with Trustees - Deposits with trustees consist of debt service funds and the unexpended proceeds of certain bonds payable. These funds are invested in short term, highly liquid securities and will be used for construction of, or payment of debt service on, certain facilities. These deposits are classified as Level 1.
- Interest in Perpetual Trust - Beneficial interest in perpetual trust held by third parties are valued using the fair value of the trust assets. The trust assets are priced using unadjusted market quotes. Based on the terms of the existing agreement, the University must retain the assets in perpetuity. Therefore, they are classified as Level 3.

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

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

Changes in Level 3 Assets

The following table is a roll-forward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above for the years ended June 30, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Beginning Balance at July 1	\$ 25,434	\$ 20,556
Total gains or losses (realized/unrealized) included in earnings	(5,029)	4,878
Purchases, issuances, sales and settlements		
Purchases	-	-
Issuances	-	-
Sales	-	-
Settlements	-	-
Transfers into level 3	-	-
Transfers out of level 3	-	-
Ending Balance at June 30	<u>\$ 20,405</u>	<u>\$ 25,434</u>

Total gains or losses for the year included in earnings attributable to the change in unrealized gains or losses relating to assets still held at period end

\$ (5,029)	\$ 4,878
------------	----------

Transfers into and out of Level 3 are typically the result of a change in the availability and the ability to observe market data which is considered a significant valuation input required by various models. Generally, as markets evolve, the data required to support valuations becomes more widely available and observable. There were no significant transfers between Levels 1 and 2 or between Level 3 for the year ended June 30, 2022 and 2021.

Investments that Calculate Net Asset Value

Investments in certain entities that calculate net asset values at June 30, 2022 and 2021 are as follows (in thousands):

	<u>June 30, 2022</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Domestic Equity Funds	\$ 4,162	\$ -	Daily	Same day
Domestic Bond Funds	482	-	Daily	Same day
Real Asset Funds	60,158	71,388	N/A	N/A
Hedge Funds	189,710	-	Monthly, quarterly, annually	30 - 90 days
Private Equity Funds	190,996	142,582	N/A	N/A
Total	<u>\$ 445,508</u>	<u>\$ 213,970</u>		

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

	June 30, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Equity Funds	\$ 4,659	\$ -	Daily	Same day
Domestic Bond Funds	538	-	Daily	Same day
Real Asset Funds	45,640	78,119	N/A	N/A
Hedge Funds	186,316	-	Monthly, annually	30 - 90 days
Private Equity Funds	157,357	147,723	N/A	N/A
Total	<u>\$ 394,510</u>	<u>\$ 225,842</u>		

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

For the years ended June 30, 2022 and 2021, the University's investment management fees directly paid to external managers were approximately \$11.6 million and \$3.7 million, respectively.

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2022 and 2021 consists of the following (in thousands):

	2022	2021
Trade payables	\$ 26,456	\$ 22,455
Accrued construction liabilities	1,857	7,242
Accrued payroll and related liabilities	26,898	26,552
Accumulated postretirement benefit	12,703	16,055
Asset retirement obligations	1,977	1,883
Other payables	2,526	2,258
Total accounts payable and accrued liabilities	<u>\$ 72,417</u>	<u>\$ 76,445</u>

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

9. Notes Payable and Long-term Debt

Notes payable and long-term debt at June 30, 2022 and 2021 consists of the following (in thousands):

	<u>2022</u>	<u>2021</u>
American University Taxable Bonds, Issue Series 2015 maturing in fiscal year 2045	\$ 128,500	\$ 128,500
American University Taxable Bonds, Issue Series 2017 maturing in fiscal year 2048	102,000	102,000
American University Taxable Bonds, Issue Series 2019 maturing in fiscal year 2049	<u>510,000</u>	<u>510,000</u>
Total debt	<u>740,500</u>	<u>740,500</u>
Series 2019 Tap premium	14,786	15,339
Deferred Financing Fees	<u>(6,217)</u>	<u>(6,467)</u>
Total notes payable and long-term debt	<u>\$ 749,069</u>	<u>\$ 749,372</u>

The principal balance of notes payable and long-term debt outstanding as of June 30, 2022 is due as follows (in thousands):

Year ending June 30:	
2023	\$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	<u>740,500</u>
	<u>\$ 740,500</u>

American University Bonds Payable

In June 2019, the University issued \$410.0 million in Series 2019 taxable bonds to refinance certain existing indebtedness, to make termination payments with respect to certain related interest rate swap agreements and pay costs of issuance of the bonds. In January 2021, the University issued an additional \$100.0 million in Series 2019 taxable bonds to finance or refinance the costs of various capital improvement projects of the University, to finance certain operating expenditures of the University and to pay costs of issuance. The 2019 bonds are general unsecured obligations of the University and bear a fixed 3.67% interest rate, payable semiannually and are due in full on April 1, 2049.

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

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

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

Taxable Commercial Paper Note Program

On December 15, 2011, the University established a \$125.0 million taxable commercial paper note program. This program was established to provide short-term funding for capital projects and backup liquidity for operating needs. In some cases, the commercial paper for capital projects will be refunded when a longer-term financing is implemented. The notes can be issued for a maximum of 270 days, without being refinanced, and carry a floating taxable rate. At June 30, 2022 and 2021, there were no borrowings under the commercial paper note program.

10. Endowments

The University's endowment consists of approximately 593 individual funds established for scholarships and related academic activities. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

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

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

The endowment net assets composition by type of fund at June 30, 2022 is as follows (in thousands):

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 256,626	\$ 256,626
Board-designated endowment funds	652,279	-	652,279
Total endowment funds	<u>\$ 652,279</u>	<u>\$ 256,626</u>	<u>\$ 908,905</u>

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, July 1, 2021	\$ 609,088	\$ 275,217	\$ 884,305
Total investment return	(32,557)	(15,150)	(47,707)
Contributions to endowment	542	5,527	6,069
Appropriation of endowment assets for expenditure	(22,822)	(8,968)	(31,790)
Other changes:			
Transfers to create board-designated endowment funds	98,028	-	98,028
Endowment net assets, June 30, 2022	<u>\$ 652,279</u>	<u>\$ 256,626</u>	<u>\$ 908,905</u>

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

The endowment net assets composition by type of fund at June 30, 2021 is as follows (in thousands):

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 275,217	\$ 275,217
Board-designated endowment funds	609,088		609,088
Total endowment funds	<u>\$ 609,088</u>	<u>\$ 275,217</u>	<u>\$ 884,305</u>

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, July 1, 2020	\$ 483,190	\$ 218,118	\$ 701,308
Total investment return	148,166	62,148	210,314
Contributions to endowment	721	3,691	4,412
Appropriation of endowment assets for expenditure	(23,124)	(8,740)	(31,864)
Other changes:			
Transfers to create board-designated endowment funds	135	-	135
Endowment net assets, June 30, 2021	<u>\$ 609,088</u>	<u>\$ 275,217</u>	<u>\$ 884,305</u>

Funds with Deficiencies

From time to time, the fair value of the assets associated with donor-restricted endowments may fall below the level the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature reported in net assets without donor restrictions were \$374 thousand and \$64 thousand on June 30, 2022 and 2021, respectively. These deficiencies resulted from market fluctuations that occurred shortly after the investment of new donor-restricted endowment funds and continued appropriation for certain programs deemed prudent by the Board of Trustees. The aggregate original amount of the funds with deficiencies is \$4.6 million and the aggregate fair value \$4.3 million as of June 30, 2022. The aggregate original amount of the funds with deficiencies is \$116 thousand and the aggregate fair value \$52 thousand as of June 30, 2021.

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

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

11. Employee Benefit Plans

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

The University's contribution to these plans was approximately \$20.0 million and \$2.1 million for the years ended June 30, 2022 and 2021, respectively. In July 2021, the University restarted the matching contribution to employee retirement accounts that was suspended from August 2020 to June 2021 to mitigate effects of the pandemic. The University expects to contribute approximately \$20.0 million to the plans in fiscal year 2023.

Postretirement Healthcare Plan

The University provides certain healthcare benefits for retired employees. The plan is contributory and requires payment of deductibles. The University's policy is to fund the cost of medical benefits on the pay-as-you-go basis. The plan's measurement dates are June 30, 2022 and June 30, 2021, respectively.

Net periodic postretirement benefit cost for the years ended June 30, 2022 and 2021 includes the following components (in thousands):

	<u>2022</u>	<u>2021</u>
Service cost	\$ 313	\$ 651
Interest cost	358	401
Amortization of transition obligation over 20 years	-	-
Amortization of net loss	(151)	-
Amortization of prior service (credit)/cost	(64)	(64)
Net periodic postretirement benefit cost	<u>\$ 456</u>	<u>\$ 988</u>

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

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

The following table sets forth the postretirement benefit plan's funded status and the amount of accumulated postretirement benefit plan costs for the years ended June 30, 2022 and 2021 using a measurement date of June 30 (in thousands):

	<u>2022</u>	<u>2021</u>
Change in Accumulated Postretirement Benefit Obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 16,055	\$ 19,623
Service Cost	313	651
Interest Cost	358	401
Net actuarial (gain) loss	(3,007)	(3,588)
Plan participants' contributions	194	196
Benefits paid	(1,210)	(1,228)
Plan amendment	-	-
Accumulated postretirement benefit obligation at end of year	<u>\$ 12,703</u>	<u>\$ 16,055</u>
Change in Fair Value of Plan Assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Plan participants' contributions	194	196
Employer contributions	1,016	1,032
Benefits paid	(1,210)	(1,228)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Funded Status:		
Funded status	<u>\$ (12,703)</u>	<u>\$ (16,055)</u>
Current liabilities	(1,000)	(1,016)
Noncurrent liabilities	(11,703)	(15,039)
Postretirement benefit liability	<u>\$ (12,703)</u>	<u>\$ (16,055)</u>

The following table sets forth the amounts not recognized in the net periodic benefit cost for the years ended June 30, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Amounts not Recognized in Net Periodic Benefit Cost:		
Net actuarial gain	\$ (6,476)	\$ (3,620)
Transition obligation	-	-
Prior service credit	(664)	(728)
Amounts included in unrestricted net assets	<u>\$ (7,140)</u>	<u>\$ (4,348)</u>

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Amortization of net actuarial gain (loss)	\$ (151)	\$ -
Amortization of prior service credit	\$ (64)	\$ (64)

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

	<u>2022</u>	<u>2021</u>
New actuarial (gain) loss	\$ (3,007)	\$ (3,588)
New prior service credit	\$ -	\$ -

The weighted discount rate used in the actuarial valuation at the June 30, 2022 and June 30, 2021 measurement dates is as follows:

	<u>2022</u>	<u>2021</u>
End of year benefit obligation	4.30%	2.30%
Net periodic postretirement benefit cost	2.30%	2.10%
Remearsurement for plan amendment	N/A	N/A

A 8.0% healthcare cost trend rate was assumed for the year ended June 30, 2022, with the rates in the following fiscal years assumed to be 8.0%, 7.0%, 6.8% and 6.6% until reaching an ultimate rate of 4.5% in fiscal year 2032.

The expected benefit payments by the University to the plan are as follows (in thousands):

Year ending June 30,	
2023	\$ 1,000
2024	1,010
2025	1,015
2026	1,016
2027	1,037
2028-2032	5,027

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

12. Expenses

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

For the year ended June 30, 2022, the University's program services and supporting services were as follows (in thousands):

Natural Account	June 30, 2022						Total Expenses
	Instruction	Research	Public Service	Student & Academic Support	Institutional & Auxiliary Support		
Salaries and benefits	\$ 149,226	\$ 50,238	\$ 14,138	\$ 95,764	\$ 63,692	\$	\$ 373,058
Professional services and fees	50,519	5,891	9,652	7,723	42,064		115,849
Occupancy and other office expenses	11,011	6,808	2,192	29,650	45,152		94,813
Travel	879	1,031	33	3,094	264		5,301
Depreciation	13,476	-	1,233	4,014	26,265		44,988
Interest	8,487	-	777	2,549	15,768		27,581
Total operating expenses	233,598	63,968	28,025	142,794	193,205		661,590
Other nonoperating expenses	-	393	12	(438)	1,849		1,816
Total expenses	\$ 233,598	\$ 64,361	\$ 28,037	\$ 142,356	\$ 195,054		\$ 663,406

For the year ended June 30, 2021, the University's program services and supporting services were as follows (in thousands):

Natural Account	June 30, 2021						Total Expenses
	Instruction	Research	Public Service	Student & Academic Support	Institutional & Auxiliary Support		
Salaries and benefits	\$ 133,237	\$ 49,799	\$ 15,464	\$ 81,665	\$ 55,025	\$	\$ 335,190
Professional services and fees	46,210	6,094	9,415	6,462	17,807		85,988
Occupancy and other office expenses	7,936	5,961	2,133	18,605	34,287		68,922
Travel	31	172	6	646	30		885
Depreciation	13,384	-	1,225	3,966	26,306		44,881
Interest	7,727	-	707	2,290	14,355		25,079
Total operating expenses	208,525	62,026	28,950	113,634	147,810		560,945
Other nonoperating expenses	-	-	108	208	744		1,060
Total expenses	\$ 208,525	\$ 62,026	\$ 29,058	\$ 113,842	\$ 148,554		\$ 562,005

For the years ended June 30, 2022 and 2021, the University's fundraising expenses totaled approximately \$21.5 million and \$19.3 million, respectively. The expenses are included in institutional support in the accompanying statements of activities.

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

13. Net Assets

Net assets with donor restrictions related to time or purpose consist of the following at June 30, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Unspent contributions and related investment income for instruction and faculty support	\$ 135,198	\$ 157,744
Gifts received for construction of facilities	10,190	9,134
	<u>\$ 145,388</u>	<u>\$ 166,878</u>

Net assets with donor restrictions in perpetuity were held, the income of which will benefit the following at June 30, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Permanent endowment funds, for scholarships and related academic activity	\$ 127,658	\$ 122,291
Interest in trust assets	20,405	25,434
Student loans	7,047	7,165
	<u>\$ 155,110</u>	<u>\$ 154,890</u>

14. Leases

The University leases equipment and properties under the terms of operating leases. The terms of these operating leases vary and could provide for increasing rent over the term of the lease. Variable lease payments consist of payments of non-lease components based on usage of equipment and are excluded from the right of use assets and lease liabilities. Variable lease payments are recognized as rent expense when incurred. The University's operating leases had a weighted average discount rate of 0.71% and 4.8% as of June 30, 2022 and 2021 and weighted average remaining terms of 3.8 years and 2.5 years as of June 30, 2022, and 2021, respectively.

The total cost of operating leases (in thousands) included in occupancy and other office expenses consists of the following for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Operating lease costs	\$ 3,617	\$ 3,357
Variable lease costs	169	89
Short term lease costs	1,531	22
	<u>\$ 5,317</u>	<u>\$ 3,468</u>

The University leases equipment under the terms of finance leases. The weighted average discount rate and weighted average remaining term for the University's finance leases as of June 30, 2022 were 1.83% and 4.2 years, respectively.

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

The total cost of finance leases (in thousands) consists of the following for the year ended June 30, 2022:

Amortization on finance lease assets		
included in depreciation and amortization	\$	20
Interest on Finance lease liabilities		
included in interest on indebtedness		<u>34</u>
Total	\$	<u>54</u>

Minimum lease payments under these agreements are as follows (in thousands) as of June 30, 2022:

	Finance Lease	Operating Leases
Year ending June 30:		
2023	\$ 66	\$ 3,306
2024	66	769
2025	66	261
2026	66	213
2027	24	68
Thereafter	<u>-</u>	<u>175</u>
Total minimum lease payments	288	4,792
Less: amounts representing interest	<u>(121)</u>	<u>(53)</u>
Present value of lease liabilities	<u>\$ 167</u>	<u>\$ 4,739</u>

Rent expense in the years ended June 30, 2022 and 2021 was approximately \$5.2 million and \$5.8 million, respectively.

15. Income Taxes

The Airlie Foundation, a subsidiary acquired by the University in September 2016, is a taxable non-stock corporation. The University accounts for income taxes based on the liability method, and deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred taxes are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in results of operations in the period that includes the enactment date. Valuation allowances are recorded against deferred tax assets when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. As Airlie has historically generated operating losses and, therefore, has no earnings history, a full valuation allowance has been applied against the US net deferred tax assets during the years ended June 30, 2022 and 2021. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in evaluating whether it is more likely than not that deferred tax assets will be realized.

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

The University has analyzed its filing positions related to Airlie in each jurisdiction where required to file income tax returns and believes that its income tax filing positions will be sustained on audit. To date, Airlie has not been audited by the IRS or any state jurisdictions and remains subject to examination by U.S. federal and various state authorities for the years 2016 forward. Additionally, Airlie has not been assessed interest and/or penalties by taxing jurisdictions. In the event Airlie is assessed interest and/or penalties, those costs will be classified in the consolidated statements of activities as income tax expense.

Airlie Foundation paid \$0 for income taxes for the years ending June 30, 2022 and June 30, 2021.

16. Commitments and Contingencies

At June 30, 2022 and 2021, commitments of the University under contracts for construction of plant facilities amounted to approximately \$8.7 million and \$14.4 million, respectively.

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

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

17. Related Parties

Members of the University's Board of Trustees and their related entities may contribute to the University and their contributions are included in contribution revenue in the accompanying statements of activities. The University received \$4.3 million and \$7.1 million of contributions from the Board of Trustees during the years ended June 30, 2022 and 2021, respectively. Also, for the years ended June 30, 2022 and 2021, approximately \$14.0 million and \$16.0 million, respectively, were included in contribution receivable in the accompanying statement of financial position.

18. Paycheck Protection Program

The University's radio station and the University subsidiary, Airlie Foundation, received Paycheck Protection Program (PPP) loans in the amount of \$3.7 million during the year ended June 30, 2021 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. The University recognized the amount received as refundable advances from the United States government until the notice of forgiveness is received from the lender. Applications for forgiveness of the loans have been approved as of June 30, 2022. The University recognized the amount forgiven by the lender as grant revenue as qualified expenses occurred and barriers to entitlement were met.

American University
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

19. Subsequent Events

The University has performed an evaluation of subsequent events through November 22, 2022 which is the date the financial statements were issued. Nothing was noted which affect the financial statements as of June 30, 2022.