FINANCIAL STATEMENTS

2017-2018

“The foundation for all our current achievements and future endeavors is our long-standing tradition of sound financial management, disciplined investment, and thoughtful planning.”

Douglas Kudravetz
CFO, Vice President and Treasurer

From the CFO, Vice President and Treasurer

Walking the grounds of American University, one always notices an air of energetic purpose and industry. This year, that atmosphere is especially palpable, as there is a unified and heightened sense of anticipation for the future. From President Burwell's five pillars for the future set forth in her inauguration speech to the new construction and revitalization of our infrastructure already underway, it is an exciting and exceedingly productive time for our community.

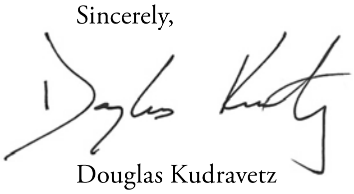
We reached a significant milestone in spring 2018 when we became the first urban campus and research university to achieve carbon neutrality—two years earlier than planned. Credit for this momentous accomplishment goes to the entire university community for its steadfast commitment, leadership, and innovative efforts to address climate change. As we look to the future to further reduce our carbon footprint, work already has begun on a massive two-year hot water and heat conversion project and the replacement of our current underground steam lines with low-temperature hot water lines to serve the university's heating needs. These upgrades will further reduce our use of fossil fuels and provide reliable energy and carbon savings long into the future.

To provide greater opportunities for research and teaching, and to support the increase in recent years of science and pre-med majors, we broke ground recently on the Hall of Science building. The state-of-the-art facility, expected to open in fall 2020, will be home to the biology, environmental sciences, chemistry, and neuroscience departments. The building's shared space and research laboratories are intended to foster collaboration across the various disciplines.

The foundation for all our current achievements and future endeavors is our long-standing tradition of sound financial management, disciplined investment, and thoughtful planning. For the first time in the university's history, total assets have surpassed $2 billion. Net assets are $1.28 billion. Standard & Poor's and Moody's reaffirmed AU's A+ and A1 credit ratings, respectively, and our total endowment stands at $708 million.

Significant progress was made in the past year to advance American University's goals and aspirations. As we develop our next five-year strategic plan, I look forward with anticipation to the innovative and collaborative ways in which the university community embraces the future and makes President Burwell's five pillars a reality.

Sincerely,



Douglas Kudravetz

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REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF TRUSTEES OF AMERICAN UNIVERSITY:

We have audited the accompanying consolidated financial statements of American University (the "University") and its subsidiaries, which comprise the consolidated balance sheets as of April 30, 2018, and April 30, 2017, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American University and its subsidiaries as of April 30, 2018, and April 30, 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 30, 2018

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CONSOLIDATED BALANCE SHEETS APRIL 30, 2018 AND 2017

	(IN THOUSANDS)	2018	2017
	ASSETS		
1	Cash and cash equivalents	$ 127,892	$ 17,482
2	Accounts and University loans receivable, net	37,742	43,841
3	Contributions receivable, net	15,613	11,470
4	Prepaid expenses and inventory	5,379	5,586
5	Investments	979,494	934,104
6	Deposits with trustees/others	252	1,269
7	Deposits for collateralized swaps	18,099	28,407
8	Property, plant, and equipment, net	797,374	785,336
10	Interest in perpetual trust	18,960	17,935
11	Deferred tax asset	-	-
12	Total assets	2,000,805	1,845,430
	LIABILITIES AND NET ASSETS		
	Liabilities:		
13	Accounts payable and accrued liabilities	64,269	65,679
14	Deferred revenue and deposits	25,270	20,894
15	Notes payable and long-term debt	558,674	478,720
16	Swap agreements	58,711	73,980
17	Assets retirement obligations	1,751	1,667
18	Refundable advances from the US government	10,144	9,805
19	Deferred tax liability	-	1,427
20	Total liabilities	718,819	652,172
	Net assets:		
21	Unrestricted	1,043,748	973,577
22	Temporarily restricted	119,417	104,184
23	Permanently restricted	118,821	115,497
24	Total net assets	1,281,986	1,193,258
25	Total liabilities and net assets	$2,000,805	$1,845,430

CONSOLIDATED STATEMENTS OF ACTIVITIES YEAR ENDED APRIL 30, 2018

	(IN THOUSANDS)	UNRESTRICTED NET ASSETS	TEMPORARILY RESTRICTED NET ASSETS	PERMANENTLY RESTRICTED NET ASSETS	TOTAL
	Operating revenues and support				
1	Tuition and fees	$ 557,566	$ -	$ -	$ 557,566
2	Less scholarship allowances	(156,138)	-	-	(156,138)
3	Net tuition and fees	401,428	-	-	401,428
4	Federal grants and contracts	22,039	-	-	22,039
5	Private grants and contracts	24,687	-	-	24,687
6	Indirect cost recovery	2,761	-	-	2,761
7	Contributions	21,840	8,237	1,596	31,673
8	Endowment income	11,767	6,732	143	18,642
9	Investment income	8,534	671	-	9,205
10	Auxiliary enterprises	90,365	-	-	90,365
11	Other sources	7,293	-	-	7,293
12	Net asset release	8,943	(8,943)	-	-
13	Total operating revenues and support	599,657	6,697	1,739	608,093
	Operating expenses				
14	Instruction	197,001	-	-	197,001
15	Research	56,031	-	-	56,031
16	Public service	28,193	-	-	28,193
17	Academic support	62,042	-	-	62,042
18	Student services	47,795	-	-	47,795
19	Institutional support	107,001	-	-	107,001
20	Auxiliary enterprises	87,392	-	-	87,392
21	Total operating expenses	585,455	-	-	585,455
22	Total operating activities	14,202	6,697	1,739	22,638
	Nonoperating items				
23	Other nonoperating sources	(4,000)	204	82	(3,714)
24	Realized and unrealized net investment gains	59,969	8,332	1,503	69,804
25	Total nonoperating activities	55,969	8,536	1,585	66,090
26	Change in net assets	70,171	15,233	3,324	88,728
27	Net assets at beginning of year	973,577	104,184	115,497	1,193,258
28	Net assets at end of year	$1,043,748	$ 119,417	$ 118,821	$1,281,986

CONSOLIDATED STATEMENTS OF ACTIVITIES YEAR ENDED APRIL 30, 2017

	(IN THOUSANDS)	UNRESTRICTED NET ASSETS	TEMPORARILY RESTRICTED NET ASSETS	PERMANENTLY RESTRICTED NET ASSETS	TOTAL
	Operating revenues and support				
1	Tuition and fees	$ 524,894	$ -	$ -	$ 524,894
2	Less scholarship allowances	(130,802)	-	-	(130,802)
3	Net tuition and fees	394,092	-	-	394,092
4	Federal grants and contracts	18,307	-	-	18,307
5	Private grants and contracts	19,031	-	-	19,031
6	Indirect cost recovery	2,398	-	-	2,398
7	Contributions	19,867	3,547	4,806	28,220
8	Airlie Foundation contribution	17,410	-	-	17,410
9	Endowment income	11,451	6,587	143	18,181
10	Investment income	7,400	698	-	8,098
11	Auxiliary enterprises	81,996	-	-	81,996
12	Other sources	5,580	-	-	5,580
13	Net asset release	10,203	(10,203)	-	-
14	Total operating revenues and support	587,735	629	4,949	593,313
	Operating expenses				
15	Instruction	182,002	-	-	182,002
16	Research	50,830	-	-	50,830
17	Public service	27,726	-	-	27,726
18	Academic support	59,629	-	-	59,629
19	Student services	44,929	-	-	44,929
20	Institutional support	94,070	-	-	94,070
21	Auxiliary enterprises	75,531	-	-	75,531
22	Total operating expenses	534,717	-	-	534,717
23	Total operating activities	53,018	629	4,949	58,596
	Nonoperating items				
24	Other nonoperating sources	(1,254)	(149)	91	(1,312)
25	Realized and unrealized net investment gains	68,053	11,566	1,578	81,197
26	Total nonoperating activities	66,799	11,417	1,669	79,885
27	Change in net assets	119,817	12,046	6,618	138,481
28	Net assets at beginning of year	853,760	92,138	108,879	1,054,777
29	Net assets at end of year	$ 973,577	$ 104,184	$ 115,497	$1,193,258

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED APRIL 30, 2018 AND 2017

	(IN THOUSANDS)	2018	2017
	CASH FLOWS FROM OPERATING ACTIVITIES		
1	Increase in net assets	$ 88,728	$138,481
	Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
2	Contribution of Airlie Foundation	-	(17,410)
3	Contributed art and property	(58)	(119)
4	Net realized and unrealized investment (gains)/losses	(70,211)	(83,623)
5	Net gain on the disposal of fixed assets	(180)	-
6	Gain on asset retirement obligation	-	(193)
7	Change in fair value of interest rate swaps	(15,269)	(11,665)
8	Depreciation, amortization, and accretion	40,963	40,400
9	Changes in assets and liabilities		
10	Decrease (increase) in accounts and university loans receivable, net	5,244	(8,394)
11	(Increase) decrease in contributions receivable, net	(4,143)	548
12	Decrease (increase) in prepaid expenses	207	(3,249)
13	Decrease in accounts payable and accrued liabilities	(9,499)	(30,539)
14	Increase in deferred revenue, deposits, and other refundable advance	4,715	4,286
15	Receipt of contributed securities	(934)	(1,530)
16	Sale of contributed securities	934	1,530
17	Contributions collected and revenues restricted for long-term investment	(3,536)	(4,030)
18	Benefit from deferred taxes	(1,427)	(15)
19	Net cash provided by operating activities	35,534	24,478
	CASH FLOWS FROM INVESTING ACTIVITIES		
20	Purchases of investments	(471,210)	(186,086)
21	Proceeds from sales and maturities of investments	495,006	177,550
22	Acquisition of Airlie Foundation	-	3,867
23	Proceeds from sale of property, plant, and equipment	1,106	-
24	Purchases of property, plant, and equipment	(45,624)	(64,094)
25	Capitalized interest	(72)	(3,820)
26	Increase in deposits with trustees/other, net	11,325	16,175
27	Net cash used in investing activities	(9,469)	(56,408)
	CASH FLOWS FROM FINANCING ACTIVITIES		
28	Student loans issued	(642)	(1,030)
29	Student loans repaid	1,497	1,450
30	Issuance of debt	152,000	40,000
31	Repayment of debt	(71,936)	(42,409)
32	Debt issuance costs	(110)	139
33	Proceeds from contributions restricted for:		
34	Investment in plant	786	1,859
35	Investment in endowment	2,750	2,171
36	Net cash provided by financing activities	84,345	2,180
37	Net increase (decrease) in cash and cash equivalents	110,410	(29,750)
38	Cash and cash equivalents at beginning of year	17,482	47,232
39	Cash and cash equivalents at end of year	$127,892	$ 17,482
	SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
40	Cash paid during year for interest	$ 22,404	$ 19,812
41	Contribution of Airlie Foundation	-	13,543
42	Contributed art and property	58	119
43	Contributed securities	934	1,530
44	Accrued payment for property, plant, and equipment	8,089	19,235

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

1. AMERICAN UNIVERSITY

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

American University offers a wide range of graduate and undergraduate degree programs, as well as non-degree study. There are approximately 901 full-time faculty members in seven academic divisions, and approximately 13,900 students, of which 8,400 are undergraduate students and 5,500 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.

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

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

In May 2012, the University became the sole member of American University at Connecticut Avenue LLC ("the LLC"). The LLC purchased an office building to house the University's public radio station, WAMU - 88.5 FM, and other administrative offices. The University has consolidated the rental revenue of the LLC in our consolidated financial statements.

As disclosed in Note 3, the University acquired the Airlie Foundation (Airlie) on September 9, 2016, via a change of control. The results of Airlie from the acquisition date through April 30, 2018, are consolidated in the University's financial statements.

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. Investments that qualify as cash equivalents are treated as investments in the consolidated balance sheet.

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

Investments are presented at fair value in the balance sheet. Investments include endowment funds and university working capital funds. Endowment income included in operating revenues consists of annual amounts allocated for spending of endowment funds in accordance with the University's spending policy. Net realized and change in unrealized gains and losses are calculated using the average cost of investments. Gains and losses from investments of endowment funds are reported as non-operating revenues in the Consolidated Statements of Activities. Investment income included in operating revenues consists primarily of interest and dividends from investments of working capital funds and unexpended plant funds.

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

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

PROPERTY, PLANT, AND EQUIPMENT, NET

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

REFUNDABLE ADVANCES FROM THE US 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 44% and 43% of net tuition and fees revenue for the years ended April 30, 2018 and 2017, 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 (ARO). This standard requires the fair value of the liability for the 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, 2018 and 2017, the accretion expenses were $83,000 and $79,000, respectively. There was no remediation during the current year ending April 30, 2018. No obligations were settled in April 30, 2018 and 2017.

TUITION, FEES, AND SCHOLARSHIPS

The University recognizes unrestricted revenues from student tuition and fees within the fiscal year in which the academic term is predominantly conducted. Deferred tuition and fees are included in deferred revenue liabilities in the statements of financial position.

Tuition discounts in the form of scholarships and grants-in-aid, including those funded by the endowment, research funds, and gifts, have been reported as a reduction of tuition revenues.

AUXILIARY ENTERPRISES

The auxiliary enterprises revenue consists primarily of revenue received from students for housing revenue and food services operations, parking revenue and commercial property rental income.

CONTRIBUTIONS

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

INCOME TAXES

The University has been recognized by the Internal Revenue Service as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Such activities resulted in no net taxable income in fiscal years 2018 and 2017.

The Airlie Foundation, a subsidiary acquired by the University in September 2016, remains a taxable non-stock corporation and is taxed as a C-Corporation and uses the liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The University's policy is to record interest and penalties as an increase in income taxes payable and corresponding increase to income tax expense. No penalties or interest have been recorded for the year ended April 30, 2018 or 2017.

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

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 June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The new guidance is effective for fiscal years beginning after June 15, 2018, for contributions received and

December 15, 2019, for contributions made. The University is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2020.

In March 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715) primarily to improve the presentation of net periodic pension cost and net periodic postretirement cost. The amendments in this update require that an employer reports the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Under this update, nonpublic entities shall disclose the components of the net periodic benefit cost other than the service cost either in a separate line item in the statement of activities or in notes to the financial statements. This new guidance is effective for the University's fiscal periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Although early adoption is permitted, the University is evaluating the impact this will have on the combined financial statements beginning in fiscal year 2020.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (Topic 958), which makes targeted changes to the not-for-profit financial reporting model. Under the new standard, the existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The standard also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The University is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments (Topic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01 eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The new guidance is effective for the University's fiscal periods beginning after December 15, 2018, and for interim periods within those fiscal years, with early adoption permitted. The University early adopted the portion of ASU 2016-01 related to fair value for debt disclosure and the adoption did not affect the University's consolidated financial condition, change in net assets, or cash flows.

In May 2014, the FASB issued ASU 2014-09, 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, 2017. The University is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

3. THE AIRLIE FOUNDATION ACQUISITION

THE AIRLIE FOUNDATION

The Airlie Foundation was incorporated in 1960 under the laws of the Commonwealth of Virginia, as a not for profit non-stock corporation and is required to pay corporate income tax. It is engaged in the operation of an educational conference center and hotel located in Warrenton, Virginia.

Airlie's organizational purpose is (1) to study, promote, encourage and foster knowledge, understanding and appreciation of the physical and social sciences; (2) in the field of adult education, to associate together and promote cooperation among administrators, scholars, scientific and professional groups, and others to engage in research and dissemination of impartial and authoritative findings on questions of national and international importance; and (3) to conduct an educational conference center for groups and organizations that have an educational purpose, and to hold, initiate, sponsor, aid in managing and directing, and to assist cooperative groups or organizations in holding meetings, assemblies, seminars and conferences of a local, state or national character.

CHANGE OF CONTROL

On September 9, 2016, Airlie's board of directors unanimously elected to admit the University as an additional member. Immediately thereafter, the existing members of the board of directors voluntarily resigned, effectively transferring control of Airlie to the University. The University's strategic goal for acquiring Airlie was to invest in the operations and help to further Airlie's mission and continue the environmental stewardship of the Airlie property.

The University followed the guidance outlined in ASC 958-805-25-13 to record the acquisition of Airlie on the University's financial statements. As of the acquisition date there were no assets or liabilities noted that would fall outside the normal acquisition accounting guidance. Therefore, the University included all assets and liabilities of Airlie when assessing the fair value of the acquisition. As a result of the fair value assessment performed by the University, adjustments were recorded to reflect the fair value of the land and buildings using the property appraisal. The excess of the fair value of assets acquired over the liabilities assumed was $17,409,650 and is reflected in the statement of activities as Airlie Foundation contribution revenue. The fair value of the $17.4 million in assets and liabilities included the following (in thousands):

	Assets	
1	Cash and cash equivalents	$ 3,867
2	Property, plant, and equipment, net	18,419
3	Other assets	1,205
	Liabilities and Net Assets	
4	Accounts payable and accrued liabilities	$ 2,305
5	Notes payable and long-term debt	2,100
6	Deferred revenue and deposits	1,676
7	Unrestricted net assets	17,410

Airlie's revenue and changes in unrestricted net assets since the acquisition date included in the statement of activities for the year ending April 30, 2017, are as follows (in thousands):

8	Revenue	$ 5,898
9	Change in unrestricted net assets	(1,388)

SUPPLEMENTAL PRO FORMA INFORMATION

The University's unrestricted revenue and changes in unrestricted net assets for the years ending April 30, 2017, would have been the $592.1 million and $119.7 million, respectively, if the University had acquired Airlie on May 1, 2016.

PUSH DOWN ACCOUNTING

Additionally, under US GAAP, an acquirer of a business may decide to reflect the acquirer's "stepped up basis" for these assets in acquired financial statements by means of pushdown accounting pursuant to ASC 958-805-30-6. The University elected this option and pushed the fair value accounting adjustments down to Airlie's financial statements as of the acquisition date.

4. ACCOUNTS AND UNIVERSITY LOANS RECEIVABLE, NET

Accounts and loans receivable, net, at April 30, 2018 and 2017, are as follows (in thousands):

		2018	2017
	Accounts receivable		
1	Student	$14,649	$15,605
2	Grants, contracts, and other	14,491	15,411
3	Accrued interest	662	636
4	Student loans	9,407	14,474
5		39,209	46,126
6	Less allowance for uncollectible accounts and loans	(1,467)	(2,285)
7		$37,742	$43,841

At April 30, 2018 and 2017, the University had an outstanding student loans receivable balance in the amount of $9.4 million and $14.5 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, 2018 and 2017.

5. CONTRIBUTIONS RECEIVABLE, NET

As of April 30, 2018 and 2017, unconditional promises to give were as follows (in thousands):

		2018	2017
	Amounts due in		
1	Less than one year	$11,379	$10,131
2	One year to five years	9,560	6,421
3	Over five years	1,240	584
4		22,179	17,136
5	Less unamortized discount	(1,734)	(781)
6	Less allowance for doubtful accounts	(4,832)	(4,885)
7		$15,613	$11,470

Contributions receivable over more than one year are discounted at rates ranging from 3.0% to 6.5%. New contributions received during fiscal years 2018 and 2017 were assigned a discount rate that is commensurate with the market and credit risk involved.

As of April 30, 2018 and 2017, the University had also received bequest intentions and conditional promises to give of $66.6 million and $50.3 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 April 30, 2018 and 2017 are as follows (in thousands):

		2018	2017
1	Land and improvements	$ 51,551	$ 51,971
2	Buildings	999,498	960,141
3	Equipment	127,992	143,793
4	Construction in progress	12,210	20,083
5	Library and art collections	137,634	129,258
6		1,328,885	1,305,246
7	Less accumulated depreciation and amortization	(531,511)	(519,910)
8		$ 797,374	$ 785,336

Construction in progress at April 30, 2018 and 2017 relates to building improvements and renovations.

For the years ended April 30, 2018 and 2017, depreciation expense was approximately $40.8 million and $40.3 million, respectively.

CAPITALIZED INTEREST

Capitalized interest for the years ended April 30, 2018 and 2017 was approximately $72,000 and $3.8 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 April 30, 2018 (in thousands):

		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV) AS PRACTICAL EXPEDIENT	TOTAL FAIR VALUE AS OF APRIL 30, 2018
	Assets					
	Investments					
1	Cash and cash equivalents	$ 62,759	$ -	$ -	$ -	$ 62,759
2	Equity—Corporate Stocks	607	-	-	-	607
3	Equity—Domestic Funds	71,119	-	-	181,831	252,950
4	Equity—International Funds	106,669	-	-	110,198	216,867
5	Equity—Hedge Funds	-	-	-	155,574	155,574
6	Equity—Real Asset Funds	10,745	-	-	22,460	33,205
7	Equity—Private Equity Funds	-	-	-	60,061	60,061
8	Fixed income—Corporate Bonds	-	33,101	-	-	33,101
9	Fixed income—Government Agency Bonds	-	11,121	-	-	11,121
10	Fixed income—International Bonds	-	50	-	-	50
11	Fixed income—US Treasury Securities	7,847	-	-	-	7,847
12	Fixed income—Domestic Bond Funds	144,792	103	-	457	145,352
13	Deposits with trustees	252	-	-	-	252
14	Interest in perpetual trust	-	-	18,960	-	18,960
15	Total assets at fair value	$404,790	$ 44,375	$18,960	$530,581	$ 998,706
	Liabilities					
16	Swap agreements	$ -	$ 58,711	$ -	$ -	$ 58,711
17		$ -	$ 58,711	$ -	$ -	$ 58,711

The following table displays the carrying value and estimated fair value of the University's financial instruments as of April 30, 2017 (in thousands):

		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV) AS PRACTICAL EXPEDIENT	TOTAL FAIR VALUE AS OF APRIL 30, 2017
	Assets					
	Investments					
1	Cash and cash equivalents	$ 16,508	$ -	$ -	$ -	$ 16,508
2	Equity—Corporate Stocks	92,472	-	-	-	92,472
3	Equity—Domestic Funds	98,590	-	-	116,173	214,763
4	Equity—International Funds	96,875	-	-	98,749	195,624
5	Equity—Hedge Funds	-	-	-	115,256	115,256
6	Equity—Real Asset Funds	10,422	-	-	15,334	25,756
7	Equity—Private Equity Funds	-	-	-	45,163	45,163
8	Fixed income—Corporate Bonds	-	28,560	-	-	28,560
9	Fixed income—Government Agency Bonds	-	9,311	-	-	9,311
10	Fixed income—International Bonds	-	70	-	-	70
11	Fixed income—US Treasury Securities	14,811	-	-	-	14,811
12	Fixed income—Domestic Bond Funds	175,188	163	-	459	175,810
13	Deposits with trustees	1,269	-	-	-	1,269
14	Interest in perpetual trust	-	-	17,935	-	17,935
15	Total assets at fair value	$506,135	$ 38,104	$ 17,935	$391,134	$953,308
	Liabilities					
16	Swap agreements	$ -	$ 73,980	$ -	$ -	$ 73,980
17		$ -	$ 73,980	$ -	$ -	$ 73,980

The University determines a valuation estimate based on techniques and processes that 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 that 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.

- o Privately held funds: These investments consist of domestic, international, hedge, real asset, and private equity funds that are privately held. The valuations of the funds are calculated by the investment managers based on valuation techniques that take into account the market value of the underlying assets to arrive at a net asset value or interest in the fund shares. The investment shares or ownership interests in these funds may not be readily redeemable. If an active market exists for the fund and shares are redeemable at net asset value, these investments are classified as Level 2. In the absence of readily determinable fair value, those investments are valued using NAV as the practical expedient as outlined in ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent). Investments in such funds do carry certain risks including lack of regulatory oversight, interest rate risk and market risk.

- Fixed Income Investments: Fixed income securities include, but are not limited to, U.S. Treasury issues, U.S. government agency issues, corporate debt, and domestic and international bond funds. Fixed income security assets are valued using quoted prices in active markets and are classified as Level 1. Fixed income securities valued using quoted prices for similar securities or using pricing models based on observable market inputs are classified as Level 2. For investments in private bond funds, NAV as the practical expedient is used as fair value.

- Deposits with Trustees: Deposits with trustees consist of debt service funds and the unexpended proceeds of certain bonds payable. These funds are invested in short term, highly liquid securities and will be used for construction of, or payment of debt service on, certain facilities. These deposits are classified as Level 1.

- Interest in Perpetual Trust: Beneficial interest in perpetual trust held by third parties are valued using the fair value of the trust assets. The trust assets are priced using unadjusted market quotes. Based on the terms of the existing agreement, the University must retain the assets in perpetuity. Therefore, they are classified within Level 3.

- 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 that 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.

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, 2018 and 2017 (in thousands):

		INTEREST IN PERPETUAL TRUST	
		2018	2017
1	Beginning balance at May 1	$17,935	$16,958
2	Total gains or losses (realized/unrealized) included in earnings	1,025	977
	Purchases, issuances, sales, and settlements		
3	Purchases	-	-
4	Issuances	-	-
5	Sales	-	-
6	Settlements	-	-
7	Transfers into level 3	-	-
8	Transfers out of level 3	-	-
9	Ending balance at April 30	$18,960	$17,935
10	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	$ 1,025	$ 977

Transfers into and out of Level 3 are typically the result of a change in the availability and the ability to observe market data that 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, 2018.

INVESTMENTS THAT CALCULATE NET ASSET VALUE

Investments in certain entities that calculate net asset values at April 30, 2018 and 2017 are as follows (in thousands):

		APRIL 30, 2018			
		FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
1	Domestic equity funds	$181,831	$ -	Daily	Same Day
2	International equity funds	110,198	-	Daily, Biweekly	Same Day–5 days
3	Domestic bond funds	457	-	Daily	Same Day
4	Real asset funds	22,460	42,026	N/A	N/A
5	Hedge funds	155,574	-	Monthly, Annually	2–90 days
6	Private equity funds	60,061	88,914	N/A	N/A
7	Total	$530,581	$130,940		

		APRIL 30, 2017			
		FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
1	Domestic equity funds	$116,173	$ -	Daily	Same Day
2	International equity funds	98,749	-	Daily, Biweekly	Same Day–5 days
3	Domestic bond funds	459	-	Daily	Same Day
4	Real asset funds	15,334	34,148	N/A	N/A
5	Hedge funds	115,256	-	Monthly, Annually	2–90 days
6	Private equity funds	45,163	38,408	N/A	N/A
7	Total	$391,134	$ 72,556		

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

For the years ended April 30, 2018 and 2017, the University's investment management fees directly paid to external managers were approximately $0.9 million and $1.4 million, respectively.

INVESTMENT INCOME

Total net investment income for the years ended April 30, 2018 and 2017 consists of the following (in thousands):

		2018			
		UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
1	Endowment income	$ 11,767	$ 6,732	$ 143	$ 18,642
2	Investment income	8,534	671	-	9,205
3	Realized and unrealized net capital gains	59,969	8,332	1,503	69,804
4	Total	$ 80,270	$15,735	$1,646	$ 97,651
	Operating				
5	Investment income	$ 8,534	$ 671	$ -	$ 9,205
6	Endowment income	2,333	706	5	3,044
7	Allocated from nonoperating	9,434	6,026	138	15,598
	Non-operating				
8	Realized and unrealized net capital gains	69,403	14,358	1,641	85,402
9	Allocation to operations	(9,434)	(6,026)	(138)	(15,598)
10	Total	$ 80,270	$15,735	$ 1,646	$ 97,651

		2017			
		UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
11	Endowment income	$ 11,451	$ 6,587	$ 143	$ 18,181
12	Investment income	7,400	698	-	8,098
13	Realized and unrealized net capital gains	68,053	11,566	1,578	81,197
14	Total	$ 86,904	$18,851	$ 1,721	$107,476
	Operating				
15	Investment income	$ 7,400	$ 698	$ -	$ 8,098
16	Endowment income	2,973	915	(19)	3,869
17	Allocated from nonoperating	8,478	5,672	162	14,312
	Non-operating				
18	Realized and unrealized net capital gains	76,531	17,238	1,740	95,509
19	Allocation to operations	(8,478)	(5,672)	(162)	(14,312)
20	Total	$ 86,904	$18,851	$ 1,721	$107,476

8. 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, 2018 and 2017 consists of the following (in thousands):

		2018	2017
	Core debt		
1	District of Columbia University Revenue Bonds, American University Issue Series 1999 maturing in fiscal year 2028	$ 21,000	$ 21,000
2	District of Columbia University Revenue Bonds, American University Issue Series 2003 maturing in fiscal year 2034	37,000	37,000
3	District of Columbia University Revenue Bonds, American University Issue Series 2006 maturing in fiscal year 2037	99,975	99,975
4	District of Columbia University Revenue Bonds, American University Issue Series 2008 maturing in fiscal year 2039	60,900	60,900
5	American University Taxable Bonds Issue Series 2015 maturing in fiscal year 2045	128,500	128,500
6	American University Taxable Bonds Issue Series 2017 maturing in fiscal year 2047	80,000	-
7	Term loan maturing in fiscal year 2022	75,000	75,000
8	Taxable commercial paper note program	-	-
9	Total core debt	502,375	422,375
	Special purpose debt		
10	Note payable due in full in fiscal year 2022	22,000	22,000
11	Note payable due in full in fiscal year 2020	15,000	15,000
12	Mortgage payable due in full in fiscal year 2018	-	21,936
13	Issue Series 2017 maturing in fiscal year 2027	22,000	-
14	Total special-purpose debt	59,000	58,936
15	Total debt	$561,375	$481,311
16	Deferred financing fees	(2,701)	(2,591)
17	Total notes payable and long-term debt	$558,674	$478,720

The principal balance of notes payable and long-term debt outstanding as of April 30, 2018, is due as follows (in thousands):

	Year ending April 30	
18	2019	$ -
19	2020	15,000
20	2021	-
21	2022	97,000
22	2023	-
23	Thereafter	449,375
24		$561,375

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 the tendered bonds if they were unable to be remarketed. The University has entered into four direct purchase agreements with three financial institutions for its 1999, 2003, 2006, 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 2020 (2008 series), 2021 (1999 and 2003 series), and 2023 (2006 series).

As of April 30, 2018, 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, 2018, was 2.09%.

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, 2018, was 1.98%.

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 Greenberg Theatre. The interest rate at April 30, 2018, was 1.98%.

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, 2018, was 1.98%.

On February 2, 2015, the existing letter of credit for the 2008 Bond was replaced with a direct purchase agreement from U.S. Bank, N.A, expiring in 2020. On December 21, 2017, the University replaced the existing letter of credit for the 2006 bonds with a direct purchase agreement with BB&T, expiring in fiscal year 2023. Additionally, on February 1, 2018, the existing direct purchase agreements for the 1999 and 2003 Bonds were renewed with Wells Fargo Bank N.A. and will expire in fiscal year 2021.

AMERICAN UNIVERSITY BONDS PAYABLE

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

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

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. As of April 30, 2018, 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, 2018 was 2.33 %.

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, 2018, was 2.33%.

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. The University repaid the remaining balance of the mortgage in August 2017.

9. 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, 2018, 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.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on April 30, 2018, is $58.7 million, for which the University has posted collateral of $18.1 million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on April 30, 2018, the University would be required to post an additional $40.6 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, 2018 and 2017, are as follows (in thousands):

LIABILITY DERIVATIVES

			2018	2017
		BALANCE SHEET LOCATION	FAIR VALUE	FAIR VALUE
	Derivatives not designated as hedging instruments			
1	Interest rate contracts	Swap agreements	$58,711	$73,980

			AMOUNT OF GAIN (LOSS) RECOGNIZED IN STATEMENT OF ACTIVITIES	
		LOCATION OF GAIN (LOSS) RECOGNIZED IN STATEMENT OF ACTIVITIES	2018	2017
	Derivatives not designated as hedging instruments			
2	Interest rate contracts	Realized and unrealized net capital gains	$15,269	$11,665

10. ENDOWMENTS

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

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 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

The endowment net assets composition by type of fund at April 30, 2018, is as follows (in thousands):

		UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
1	Donor-restricted endowment funds	$ -	$96,198	$109,205	$205,403
2	Board-designated endowment funds	471,027	-	-	471,027
3	Total endowment funds	$471,027	$96,198	$109,205	$676,430

		UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
4	Endowment net assets, May 1, 2017	$429,625	$87,866	$104,509	$622,000
	Investment return				
5	Net appreciation on investments	39,802	14,394	1,337	55,533
6	Interest, dividends, and capital distributions	2,248	1,370	-	3,618
7	Total investment return	42,050	15,764	1,337	59,151
8	Contributions to endowment	111	-	3,359	3,470
9	Appropriation of endowment assets for expenditure	(11,742)	(7,432)	-	(19,174)
	Other changes				
10	Transfers to create board-designated endowment funds	10,983	-	-	10,983
11	Endowment net assets, April 30, 2018	$471,027	$96,198	$109,205	$676,430

The endowment net assets composition by type of fund at April 30, 2017, is as follows (in thousands):

		UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
12	Donor-restricted endowment funds	$ -	$87,866	$104,509	$192,375
13	Board-designated endowment funds	429,625	-	-	429,625
14	Total endowment funds	$429,625	$87,866	$104,509	$622,000

		UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
15	Endowment net assets, May 1, 2016	$384,337	$76,300	$97,452	$558,089
	Investment return				
16	Net appreciation on investments	47,452	17,276	1,348	66,076
17	Interest, dividends, and capital distributions	2,892	1,603	-	4,495
18	Total investment return	50,344	18,879	1,348	70,571
19	Contributions to endowment	196	-	5,709	5,905
20	Appropriation of endowment assets for expenditure	(11,425)	(7,313)	-	(18,738)
	Other changes				
21	Transfers to create board-designated endowment funds	6,173	-	-	6,173
22	Endowment net assets, April 30, 2017	$429,625	$87,866	$104,509	$ 622,000

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 $13,403 at April 30, 2018. 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. Deficient funds as of April 30, 2017, were $6,280.

RETURN OBJECTIVES, RISK PARAMETERS, AND STRATEGIES

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

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

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

11. EMPLOYEE BENEFIT PLANS

Eligible employees of the University may participate in two contributory 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 $17.8 million and $16.8 million for the years ended April 30, 2018 and 2017, respectively. The University expects to contribute approximately $17.8 million to the plans in fiscal year 2019.

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, 2018, and April 30, 2017, respectively.

Net periodic postretirement benefit cost for the years ended April 30, 2018 and 2017 includes the following components (in thousands):

		2018	2017
1	Service cost	$ 512	$ 508
2	Interest cost	681	675
3	Amortization of transition obligation over 20 years	-	-
4	Amortization of net loss	-	-
5	Net periodic postretirement benefit cost	$ 1,193	$ 1,183

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, 2018 and 2017 using a measurement date of April 30 (in thousands):

		2018	2017
	Change in accumulated postretirement benefit obligation		
6	Accumulated postretirement benefit obligation at beginning of year	$20,042	$21,064
7	Service cost	512	508
8	Interest cost	681	675
9	Net actuarial (gain)/loss	(1,337)	(869)
10	Plan participants' contributions	698	616
11	Benefits paid	(1,753)	(1,952)
12	Accumulated postretirement benefit obligation at end of year	$18,843	$20,042
	Change in fair value of plan assets		
13	Fair value of plan assets at beginning of year	$ -	$ -
14	Plan participants' contributions	698	616
15	Employer contributions	1,055	1,336
16	Benefits paid	(1,753)	(1,952)
17	Fair value of plan assets at end of year	$ -	$ -
	Reconciliation of funded status		
18	Funded status	(18,843)	(20,042)
19	Postretirement benefit liability	$(18,843)	$(20,042)

The following table sets forth the amounts not recognized in the net periodic benefit cost for the years ended April 30, 2018 and 2017 (in thousands):

		2018	2017
	Amounts not recognized in net periodic benefit cost		
20	Net actuarial gain/(loss)	$ 1,563	$ 226
21	Transition obligation	-	-
22	Amounts included in unrestricted net assets	$ 1,563	$ 226

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):

		2018	2017
23	Amortization of net actuarial gain/(loss)	$ -	$ -

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):

		2018	2017
24	New actuarial loss/(gain)	$ (1,337)	$ (869)
25	New prior service (cost)/credit	$ -	$ -

The weighted discount rate used in the actuarial valuation at the April 30, 2018, and April 30, 2017, measurement dates is as follows:

		2018	2017
26	End of year benefit obligation	3.90%	3.50%
27	Net periodic postretirement benefit cost	3.50%	3.30%

A 7% healthcare cost trend rate was assumed for fiscal years 2018 through 2020, with the rates in the following fiscal years assumed to be 6.7%, 6.4% and 6.1% until reaching an ultimate rate of 4.5% in fiscal year 2028, and thereafter. An increase in the assumed healthcare cost trend rate of 1.0% would increase the aggregate of the service and interest cost by approximately $121,000 and $131,000 for 2018 and 2017, respectively and the accumulated postretirement benefit obligation at April 30, 2018 and 2017, by approximately $908,000 and $950,000, respectively. A decrease in the assumed healthcare cost trend rate of 1.0% would decrease the net periodic postretirement benefit cost by approximately $102,000 and $111,000 for 2018 and 2017, respectively, and the accumulated postretirement benefit obligations at April 30, 2018 and 2017 by approximately $788,000 and $833,000, respectively.

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

	YEAR ENDING APRIL 30	PAYMENT WITH MEDICARE PART D SUBSIDY	PAYMENT WITHOUT MEDICARE PART D SUBSIDY	MEDICARE PART D SUBSIDY RECEIPTS
28	2019	$1,076	$1,170	$94
29	2020	1,264	1,264	-
30	2021	1,308	1,308	-
31	2022	1,351	1,351	-
32	2023	1,378	1,378	-
33	2024–2028	7,082	7,082	-

12. EXPENSES

For the years ended April 30, 2018 and 2017, the University's program services and supporting services were as follows (in thousands):

		2018	2017
	Program services		
1	Instruction	$ 197,001	$ 182,002
2	Research	56,031	50,830
3	Public service	28,193	27,726
4	Academic support	62,042	59,629
5	Student services	47,795	44,929
6	Total program services	391,062	365,116
	Supporting services		
7	Institutional support	107,001	94,070
8	Auxiliary enterprises	87,392	75,531
9		$ 585,455	$ 534,717

For the years ended April 30, 2018 and 2017, the University's fundraising expenses totaled approximately $19.9 million and $16.4 million, respectively. The expenses are included in institutional support in the accompanying statements of activities.

13. NET ASSETS

Temporarily restricted net assets consist of the following at April 30, 2018 and 2017 (in thousands):

		2018	2017
1	Unspent contributions and related investment income for instruction and faculty support	$ 113,751	$ 100,743
2	Gifts received for construction of facilities	5,666	3,441
3		$ 119,417	$ 104,184

Permanently restricted net assets were held, the income of which will benefit the following at April 30, 2018 and 2017 (in thousands):

		2018	2017
4	Permanent endowment funds, for scholarships and related academic activity	$ 93,545	$ 90,593
5	Interest in trust assets	18,960	17,935
6	Student loans	6,316	6,969
7		$118,821	$115,497

14. 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 expired in 2017 and the remainder expired in 2018. The leases for student housing do not expire until 2020. Additionally, the University leases radio station space that does not expire until 2020. Minimum lease payments under these agreements are as follows (in thousands):

	Year ending April 30	
1	2019	$1,361
2	2020	377
3	2021	300
4	2022	302
5	2023	214
6	Thereafter	184
7		$2,738

Rent expense in 2018 and 2017 was approximately $2.0 million and $1.9 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. 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.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which allows entities to classify deferred tax assets or liabilities as non-current rather than allocating the balance between a current and non-current balance. This new guidance is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods, with early adoption permitted. The University decided to early adopt this new guidance in 2017.

The University recognizes the financial statement benefit of an income tax position only after determining the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant taxing authority.

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

Airlie has U.S. federal and state Net Operating Loss carryforwards of approximately $15 million, which will begin expiring in 2030. The timing and manner in which Airlie will utilize the NOL carryforwards in any year, or in total, may be limited in the future as changes in Airlie's ownership and any limitations imposed by the states in which Airlie operates.

On December 22, 2017, the United States enacted comprehensive tax reform legislation, commonly known as the Tax Cuts and Jobs Act (the "Act"), resulting in significant modifications to existing tax law. A significant change, among other provisions, reduced the U.S. corporate income tax rate from 34% to 21%, effective for tax years beginning after December 31, 2017. Staff Accounting Bulletin 118 was also issued on December 22, 2017, to provide additional clarification regarding the application of FASB ASC Topic 740, Income Taxes in situations where a company may not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act for the reporting period in which the Act was enacted. Accounting for the income tax effect of the Act that impacts the Airlie's tax provision has been completed as of the current year and included in the University's consolidated financial statements as of April 30, 2018. As a result of Airlie's full valuation allowance, there is no net income statement impact to Airlie's financial statements as a result of the Act.

Airlie's net loss before income taxes for the year ended April 30, 2018, and the post-acquisition period ended April 30, 2017, are $2,802,797 and $1,230,072 respectively.

A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes for the period ended April 30, 2018 and 2017 follows:

		APRIL 30, 2018		APRIL 30, 2017	
		EFFECTIVE INCOME TAX RATE	INCOME TAX	EFFECTIVE INCOME TAX RATE	INCOME TAX
1	Amount at the statutory federal income tax rate	29.67%	$ (831,497)	34.00%	$ (418,224)
2	State income taxes, net of federal tax benefit	4.22%	(118,278)	3.96%	(48,711)
3	Tax Reform Impact – Rate change on deferred items	-38.82%	1,088,055	-	-
4	Change in valuation allowance for deferred tax assets	56.41%	(1,581,020)	-35.26%	433,733
5	Others	-0.55%	15,361	-0.19%	190
6	Total	50.93%	$(1,427,379)	2.51%	$ (33,012)

Significant components of deferred tax assets and liabilities are shown in the following table as of April 30, 2018 and 2017:

		APRIL 30, 2018	APRIL 30, 2017
	Deferred tax assets		
7	NOL carryforwards	$ 3,924,651	$ 4,143,850
8	Others	54,096	76,764
9	Credits	11,303	11,303
10		3,990,050	4,231,917
	Deferred tax liabilities		
11	Depreciation	(1,449,193)	(1,537,418)
12		(1,449,193)	(1,537,418)
13	Valuation allowance	(2,540,857)	(4,121,878)
14	Net deferred tax liabilities	$ -	$ (1,427,379)

A valuation allowance is recorded to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The utilization of NOL carryforwards and other deferred tax assets is subject to Airlie's ability to generate future taxable income. 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. Certain tax attributes are subject to an annual limitation as a result of the acquisition by American University, which constitutes a change of ownership as defined under Internal Revenue Code Section 382.

The Airlie Foundation paid $0 for income taxes for the years ending April 30, 2018, and April 30, 2017.

The components of income tax expense for the period from May 1, 2017 through April 30, 2018, and January 1, 2017 through April 30, 2017:

		2018	2017
	Current		
1	Federal	$ -	$ -
2	State	-	-
3		$ -	$ -
	Deferred		
4	Federal	(1,296,975)	$ (29,568)
5	State	(130,404)	(3,444)
6		$(1,427,379)	$ (33,012)

16. COMMITMENTS AND CONTINGENCIES

At April 30, 2018 and 2017, commitments of the University under contracts for construction of plant facilities amounted to approximately $48.1 million and $19.2 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 contributed approximately $8.0 million and $2.0 million during the years ended April 30, 2018 and 2017, respectively, which is included in contribution revenue in the accompanying statements of activities. Also, for the years ended April 30, 2018 and 2017, approximately $10.7 million and $3.1 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. Shorelight-Capitol LLC is governed by the Steering Committee, which is composed of six members: three from American University and three from Shorelight Education, LLC. As of April 30, 2018 and 2017, the University had outstanding receivable balances of $1.7 million and $1.6 million, respectively, from Shorelight-Capitol LLC.

18. SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through August 30, 2018, which is the date the financial statements were issued. Nothing was noted that affects the financial statements as of April 30, 2018.