

American University, District Of Columbia; CP; Joint Criteria; Private Coll/Univ - General Obligation

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Table Of Contents

Rationale

Outlook

Enterprise Profile

Financial Profile

Debt Derivative Profile

Related Criteria And Research

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Credit Profile		
US\$125.0 mil cp prog		
<i>Short Term Rating</i>	A-1	New
District of Columbia, District Of Columbia		
American Univ, District Of Columbia		
District of Columbia (American University) ICR		
<i>Long Term Rating</i>	A+/Stable	Affirmed
District of Columbia (American Univ) ser 2003		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A-1' short-term rating to the series 2011 commercial paper (CP) program for American University, D.C. In addition, Standard & Poor's affirmed its 'A+' long-term rating and underlying rating (SPUR) on the District of Columbia's revenue bonds issued for the university. Standard & Poor's also affirmed its 'A+' issuer credit rating (ICR) on the university.

The 'A-1' short-term rating reflects our view of American University's self-liquidity program. The university has committed several sources of funds, including its working capital and endowment to support its outstanding unenhanced CP program (\$125 million is authorized). As of Sept. 30, 2011, American University held cash, fixed-income and domestic equity assets in excess of \$490 million. Professional fixed-income and equity investment managers manage both the working capital and endowment funds. Standard & Poor's continues to monitor both the sufficiency and liquidity available on a monthly basis to ensure the university can cover a failed remarketing for the outstanding CP. Standard & Poor's considers the university's credit quality profile high, reflecting its high credit policy standards. In our opinion, there is ample liquidity provided through the money held in domestic equities, cash and high quality, short-term, fixed-income securities.

At the same time, Standard & Poor's affirmed its long-term 'AAA/A-1' ratings on the series 2003 and 2006 bonds, reflecting the application of low-correlation joint criteria with a letter of credit (LOC) from Bank of America N.A. (A+/A-1) and the 'A+' SPUR on American University's debt. The 'A-1' short-term component of the rating reflects the Bank of America LOCs, which expire May 2013 and May 20, 2013. The 'A-1' short-term component of the rating on the series 1999 bonds is based on the correlation of the university's 'A+' rating and the standby bond purchase agreement (SBPA) from TD Bank (AA-/A-1+), which expires July 2, 2013.

Though the outlook remains stable at this time given the strong operating performance and solid enrollment, it is our opinion that financial resources compared with pro forma debt are a bit light compared with historical levels, but still adequate for the rating. The additional debt is represented by a \$75 million term loan with JPMorganChase

Bank, and an estimated \$25 million of CP to be outstanding during the next year as construction begins on various capital projects. While financial resources have grown steadily since the fiscal 2009 decline related to investment market volatility, expendable resources compared with operations and outstanding debt remained adequate and a bit light, respectively as of April 30, 2011. Despite the lighter financial resources compared with pro forma debt, in our view, the university's healthy demand and continued robust operations allow the university to absorb the additional debt expense effectively.

We expect that the university's substantial operating surpluses and solid demand profile would allow for further balance sheet growth during the period of increased capital spending, such that the financial resources rebound to more robust levels, and in advance of expected additional debt two to three years from now. If the financial resources fail to rebound to more substantial levels, keeping pace with the additional debt issued in 2011 and beyond, we may view additional debt beyond the 2011 issuance negatively.

Credit factors that we believe support the rating include:

- Continued robust financial performance in fiscal 2011;
- Increasing demand and undergraduate enrollment in fiscal 2011, though total headcount remained flat with that of fall 2010;
- An increasing endowment through April 30, 2011, though the pro forma debt load is relatively high compared with the endowment value; and
- A still low pro forma debt burden in fiscal 2011.

In our opinion, partially offsetting credit factors at this time include the university's:

- Adequate financial resources compared with operating expenses that are a bit light compared with pro forma debt;
- Significant variable-rate demand debt exposure related to the \$255.9 million of bonds outstanding, and the \$125 million of authorized CP, which pose potential put risk in the event that American University must repurchase some or all of its debt if it cannot be remarketed;
- Upcoming increased capital spending and additional debt represented by the \$100 million in direct-purchase term loan and CP debt to be outstanding within the next few months and the expected additional \$100 million to be issued in two to three years to complete various capital projects; and
- Low matriculation rate, which reflects the competition for students in the greater D.C. area.

As of April 30, 2011, total outstanding debt was \$255.9 million compared with an endowment value of \$455 million, a ratio that we consider moderately high. Including the fixed-rate \$75 million of direct purchase debt and \$25 million of CP expected to be outstanding within the next year, total pro forma debt as of April 30, 2011, was \$355.9 million. Of total pro forma debt, 23% was fixed rate, and the remainder was variable rate. The \$255.9 million of variable-rate demand bonds have bullet maturities. Excluding those bullet maturities, the pro forma debt service burden was, in our opinion, low at 2.2% operating expenses in fiscal 2011. We believe there is a considerable degree of put risk associated with American's largely variable-rate debt structure because financial resources, which we currently consider a bit light for the rating compared with debt, could be stretched should the university need to purchase some or all of its debt in the event that it cannot be remarketed, or accelerated debt repayments should the debt become bank bonds. In addition, the bullet maturities associated with all of the long-term debt is an offsetting credit factor. A general obligation of the university secures the outstanding debt.

In June 2011, the university entered into a fixed-rate term loan for \$75 million with JPMorganChase Bank (AA-/A-1+), with a maturity of June 14, 2021. Upon an event of default, which is tied to events such as nonpayment of debt service and violation of covenants -- such as debt service coverage below 1.6x, and leverage above 85% -- JPMorganChase may accelerate the bonds immediately. American University had \$261 million in same-day and next-day liquidity as of April 30, 2011, offsetting the risk associated with acceleration of the series 2011 bonds.

Outlook

The stable outlook reflects our view of the university's continued robust operating performance, increasing demand, and consistent headcount enrollment. However, offsetting credit factors include what we consider light financial resources compared with pro forma debt, a measurable degree of event-driven risk associated with both its high level of variable-rate demand debt and direct purchase debt exposure, and upcoming increased capital spending.

We could consider a negative outlook during the next one to two years if expendable resources compared with debt falls significantly below the current level of 149%, or if there is a substantial decrease in enrollment or operating performance from current levels. A higher rating or positive outlook is unlikely during the next one to two years given the university's aggressive debt structure with a high level of variable-rate debt, currently adequate financial resources, and increasing pro forma debt load.

Enterprise Profile

American University is located on two campuses on 84 acres in northwest Washington D.C. As an independent, private, coeducational institution, the university offers both graduate and undergraduate degrees through six major divisions: the College of Arts and Sciences, School of Public Affairs, Kogod School of Business, School of International Service, School of Communication, and Washington College of Law.

Management and governance

The president of the university has been in place for the past four years, and the treasurer has been in place for the past 29 years. In our view, the detailed financial management and tenure of the management team as a whole provides stability at the current rating. Management provides two-year detailed operating budgets that, while they do not reflect generally accepted accounting principles (GAAP) accounting, do reflect contingencies, deferred maintenance, and routine plant renewal, which is less than annual depreciation expense. We view the detailed budgets and capital forecasts, as well as management's ongoing focus on revenue growth and cost control positively, as they all provide stability to the university as it enters a period of increased capital spending.

The board of trustees, which is self-perpetuating, numbers 30 members, with a limit of no more than 50 members. Trustees serve for a minimum of a three-year term. Board members are approved by both the General Board of Higher Education and the Ministry of the United Methodist Church.

Demand and enrollment

For fall 2011, total university headcount was 13,026 compared with 13,047 in fall 2010, of which 7,644 or 59% were undergraduates. Though total enrollment remained flat for fall 2011 as expected, undergraduate enrollment of 7,644 showed a 4% increase over fall 2010 undergraduate enrollment of 7,322. Increasing undergraduate enrollment is a key credit strength. Management expects undergraduate enrollment to continue to increase in fall 2012. After decreases for falls 2008 and 2009, applications increased 11% for fall 2011 to 18,709 from 16,925 for

fall 2010. American University accepted 42% of applicants for fall 2011, and 20%, or 1,554, chose to attend, which we consider low. Student quality is, in our view good, with average SAT scores of incoming graduates at 1264 and an average freshman-to-sophomore retention rate of 90%.

Graduate demand and enrollment, after increasing for falls 2009 and 2010, decreased for fall 2011 due to lighter-than-expected law and business school applications in light of the ongoing economic recession. For fall 2011, graduate applicants decreased 4% to 6,441 from 6,708 for fall 2010, with 3,709 accepted and 1,295 attending for fall 2011 compared with 3,979 and 1,470 accepted and attending for fall 2010, respectively. Should graduate demand and enrollment continue to decrease and if undergraduate enrollment falters in the next few years, the resultant overall enrollment decline could limit future operating revenue and profitability and potentially weaken the overall financial profile, which could have negative rating implications.

Financial Profile

Operating performance

American University has demonstrated consistently positive operating performance, with a robust operating surplus of \$47.5 million in fiscal 2011, compared with a surplus of \$43.3 million in fiscal 2010. The university's operating performance lends considerable strength to the overall credit profile. We understand the surplus is the result of growth in net tuition revenue due to solid enrollment, consistent research revenue, and increased focus on fundraising. As with most private universities, American University relies heavily on tuition and other student-generated fees to support operations. For fiscal 2011, student-generated fees comprised 87% of operating revenues. In our opinion, the overall tuition discount rate is low at 22%, partly due to the university's graduate programs, though the discount rate is up from fiscal 2009 when it was 20%, due to the student body's greater financial need during the economic recession. The undergraduate tuition discount rate is more in line with peers, at 29%. For fall 2011, tuition was \$37,554, a 4% increase from fall 2010 tuition. Management expects solidly positive operating results for fiscal 2012.

Financial resources

Financial resources are adequate for the rating when compared with operating expenses and outstanding debt as of April 30, 2011, with expendable resources of \$530.4 million equal to 102% of operating expenses and 207% of outstanding debt. However, when compared to pro forma debt of \$355.9 million, expendable resources is, in our view, a bit light for the rating at 149% as of April 30, 2011. The healthy operating performance and maintenance of solid overall enrollment offset the lighter financial resources compared with debt. We expect financial resources to grow during the next one to two years due to continued solid cash flows and investment returns. It is our view that balance sheet growth will aid the absorption of the additional debt.

Endowment

The endowment increased to \$455 million as of April 30, 2011, up from \$385 million as of April 30, 2010, with a 15.2% return for the fiscal 2011 year. Of the total market value, a high 83% is unrestricted, which we view positively. The endowment asset allocation is 33% domestic equities, 16% international equities, 5% emerging markets, 5% real estate, 5% real assets, 19% hedge funds, 1% private equity, 4% cash and 12% fixed income. Approximately 18% of the investment portfolio as of April 30, 2011, was in level 1 assets, 77% of the portfolio was in level 2, and 5% of the portfolio was in level 3. Of the total portfolio, 2.9% is liquid on a same-day basis. The university's endowment spending policy is 5% of a three-year-moving average. The university closed its \$200

million capital campaign in November 2010, raising \$205 million.

Capital plans

During the next three to five years, management plans to construct new residence halls and academic buildings at a cost of \$260 million, and expand its law school campus, for a cost of \$140 million. Management plans to fund the \$400 million of projects with a mixture of fundraising, cash reserves, and \$200 million of debt represented by \$75 million of the series 2011 term loan and \$125 million of CP. Management plans for only \$25 million of CP to be outstanding during the next year, and to draw down the remaining \$100 million two to three years from now, as needed. It is our view that the capital plan and additional debt could stress balance sheet metrics during the next three to four years, particularly if financial resources do not show continued measurable growth.

American University Financial And Demand Statistics					
	--Fiscal year ended April 30--				
	2011	2010	2009	2008	2007
Enrollment and demand					
Headcount (HC)	13,047	12,705	12,183	11,869	11,883
Full-time equivalent	11,498	11,135	10,503	10,090	10,115
Freshman selectivity (%)	43.5	53.2	52.9	53.2	53.5
Freshman matriculation (%)	20.4	19.3	19.3	15.3	17.2
Undergraduate HC to total HC (%)	56.1	56.0	55.9	54.5	54.4
Income statement					
Adjusted operating revenue (\$000s)	569,343	537,172	491,955	467,466	428,605
Adjusted operating expense (\$000s)	521,854	493,859	441,185	426,495	386,801
Operating income (\$000s)	47,489	43,313	50,770	40,971	41,804
Operating margin (%)	9.1	8.8	11.5	9.6	10.8
Change, unrestricted net assets (\$000s)	77,659	113,312	(68,884)	23,116	66,322
Bottom-line change, UNA (%)	14.9	22.9	(15.6)	5.4	17.1
Institution tuition discount (%)	21.7	22.2	20.1	20.9	20.4
Debt					
Outstanding debt (\$000s)	255,875	255,875	255,875	181,350	255,875
Net available for debt service (\$000s)	81,314	75,872	80,900	71,411	71,691
Pro forma MADS (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Pro forma MADS coverage (x)	N.A.	N.A.	N.A.	N.A.	N.A.
MADS as % of expenses (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Liquidity ratios					
Endowment market value (\$000s)	421,836	360,635	270,817	405,000	395,725
Cash and investments (\$000s)	668,158	587,463	459,831	496,593	553,574
Unrestricted resources (UR) (\$000s)	442,427	370,974	296,395	388,038	470,313
Expendable resources (ER) (\$000s)	530,357	443,100	339,325	400,799	483,511
UR to pro forma debt (%)	124.3	145.0	115.8	214.0	183.8
UR to expenses (%)	84.8	75.1	67.2	91.0	121.6
ER to pro forma Debt (%)	149.0	173.2	132.6	221.0	189.0
ER to expenses (%)	101.6	89.7	76.9	94.0	125.0
Net fixed assets (\$000s)	434,090	427,884	389,151	359,968	329,102

American University Financial And Demand Statistics (cont.)

Average age of plant (years)	15.0	14.7	14.1	13.8	13.7
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UR--Unrestricted net assets - (net plant and equipment - outstanding debt). ER--UR + temporarily restricted net assets. Average age of plant: accumulated depreciation /annual depreciation expense. Net available for debt service--Change in UNA + depreciation expense + interest expense. MADS--Maximum annual debt service. N.A.--Not available.

Debt Derivative Profile

American University has entered into six floating-to-fixed swaps with Morgan Stanley ('A') and Bank of America ('A+') with a total notional amount of \$216.7 million. Standard & Poor's assigned the university a Debt Derivative Profile score of '2' on a scale of '1' to '4', with '1' representing the lowest risk and '4', the highest.

The score of '2' reflects a low credit risk at this time, due to:

- Good economic viability of the swap portfolio over stressful economic cycles;
- Sound management practices, including monthly monitoring of the swap portfolio;
- Moderate counterparty risk, due to the adequate counterparty ratings; and
- Moderate involuntary risk of collateralization related to the \$155.8 million Morgan Stanley swap portfolio, due to the somewhat narrow spread between the 'A+' long-term rating on American University and the full collateralization rating trigger of 'BBB+', and wide spread between the 'A+' long-term rating on American University and the involuntary termination trigger of 'BB+' for the entire swap portfolio.

American University posted \$5 million of collateral against its swap portfolio on April 30, 2011, due to a negative \$37 million mark-to-market value.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

Ratings Detail (As Of November 3, 2011)

American Univ cp prog		
<i>Short Term Rating</i>	A-1	Affirmed
District of Columbia, District Of Columbia		
American Univ, District Of Columbia		
District of Colu rev bnds (American Univ) ser 2006		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed
Series 1999		

Ratings Detail (As Of November 3, 2011) **(cont.)**

Long Term Rating	A+/A-1/Stable	Affirmed
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