District of Columbia
American University; Private Coll/Univ - General Obligation

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Credit Profile

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| American Univ, District Of Columbia | | |
| District of Columbia (American Univ) ser 2003 (FGIC ins) | | |
| Unenhanced Rating | A(SPUR)/Positive | Outlook Revised |

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| American Univ, District Of Columbia | | |
| District of Columbia rev bnds (American Univ) ser 2006 (XL CAPITAL) | | |
| Unenhanced Rating | A(SPUR)/Positive | Outlook Revised |
| District of Columbia (American Univ) univ ser 1999 | | |
| Long Term Rating | A/A-1/Positive | Outlook Revised |
| Issuer Credit Rating: American Univ | | |
| Long Term Rating | A/Positive | Outlook Revised |

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor’s Ratings Services has revised its rating outlook on the District of Columbia’s revenue bonds, issued for American University, to positive from stable, reflecting the university’s consistently strong operating performance and improved liquidity. Standard & Poor’s also affirmed its ‘A’ standard long-term rating and ‘A’ underlying rating (SPUR) on the bonds.

The ‘A’ ratings reflects the university’s:

• Strong financial performance in fiscal 2007, with an adjusted operating surplus of $41.8 million;
• Growing endowment, with a market value of $435 million as of Oct. 31, 2007;
• Stable enrollment growth; and
• Low debt service burden.

Offsetting factors include sizeable debt compared to endowment, with $256 million of debt outstanding, and a weakening matriculation rate, indicative of the competitive environment in which the university operates.

American University recently appointed a new president, Dr. Cornelius Kerwin, who previously served as provost of the university. The 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.
Outlook

The positive outlook reflects our expectation of the university's continued strong operating performance and steady enrollment. Manageable additional debt issuance coupled with maintenance of liquidity would be viewed positively and may lead to an upgrade.

Stable Enrollment

For fall 2007, total university headcount was 11,869 students, of which 6,463, or 55%, were undergraduates. Freshman applications have been increasing 10% annually on average for the past five years, with 15,847 applications for fall 2007, an increase of 5% from the previous year. American University accepted 53% of applicants, and a low 15%, or 1,287 students, chose to attend. Student quality is good, with average SAT scores of incoming undergraduates at 1,263 and an average freshman to sophomore retention rate of 86%. Graduate student demand is also strong, with 5,610 applications for fall 2007, a 3% increase from the previous year. The university accepted 3,550 students, or 63% of applicants, and a healthy 37% chose to attend.

Strong Financial Performance

American University has consistently demonstrated positive operating performance, with an operating surplus of $41.8 million, or 11% of operating expenses, in fiscal 2007. The surpluses are a result of increased net tuition revenue, an increased focus on fundraising, and good fiscal management practices that include budgeting for contingencies and deferred maintenance. As with most private universities, American relies heavily on tuition and other student-generated fees to support operations. For fiscal 2007, student-generated fees comprised 84% of operating expenses. The overall tuition discount rate is low at 20%, in part due to the university's graduate programs. The undergraduate tuition discount rate is more in line with peers, though still moderate, at 29%. For fall 2007, tuition was $30,958, a 6% increase from fall 2006. Management expects positive operating results for fiscal 2008.

Liquidity is good for the rating category, with unrestricted resources equal to 122% of adjusted operating expenses and 184% of outstanding debt. As of June 20, 2007, total debt was a moderately high $255 million compared with an endowment of $435 million. Excluding the bullet maturities, the debt service burden was a low 3% of operating expenses. Standard & Poor's assigned the university a Debt Derivative Profile of '2' on a scale of '1' to '4', with '1' representing the lowest risk and '4' the highest. The score of '2' indicates that the swaps indicate low risk at this time. Endowment asset allocation is 40% domestic equities, 20% alternative assets, 15% fixed income, 13% international equities, 7% emerging market equities, and 5% real estate. The university recently changed the endowment spending policy to 5% of a three-year moving average.

The university is nearing the end of a $200 million capital campaign and has raised $143 million to date. Management indicated that the university may issue additional debt in the next two years.