

WAMU-FM

**(A noncommercial educational FM station
owned and operated by American University)**

Financial Statements

As of April 30, 2014 and 2013

And Report Thereon



Independent Auditor's Report

The Board of Trustees of American University:

We have audited the accompanying financial statements of WAMU-FM (the Station), which comprise the balance sheets as of April 30, 2014 and April 30, 2013, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Station's preparation and fair presentation of the 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 Station'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 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 financial statements referred to above present fairly, in all material respects, the financial position of WAMU-FM at April 30, 2014 and April 30, 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

October 8, 2014

WAMU-FM

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Balance Sheets

April 30, 2014 and 2013

	2014	2013
Assets		
Cash held on deposit by American University	\$ 4,072,831	\$ 8,721,169
Accounts receivable; net	2,107,332	1,772,040
Contributions receivable, net	111,460	82,498
Prepaid expenses	958,917	849,002
Investments	387,067	291,898
Station and studio improvements and equipment	30,475,531	27,391,016
Total assets	<u>\$ 38,113,138</u>	<u>\$ 39,107,623</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 3,687,944	\$ 3,356,643
Deferred revenue	296,427	161,366
Due to AU	6,250,000	6,250,000
Lease Obligation	12,870,400	12,680,840
Total liabilities	<u>23,104,771</u>	<u>22,448,849</u>
Net Assets:		
Unrestricted		
General operations	(15,937,586)	(11,109,140)
Designated funds functioning as endowments	290,485	275,170
Station and studio improvements and equipment	30,475,531	27,391,016
Total unrestricted	14,828,430	16,557,046
Temporarily restricted	129,937	51,728
Permanently restricted	50,000	50,000
Total net assets	<u>15,008,367</u>	<u>16,658,774</u>
Total liabilities and net assets	<u>\$ 38,113,138</u>	<u>\$ 39,107,623</u>

The accompanying notes are an integral part of these financial statements.

WAMU-FM**(A noncommercial educational FM station
owned and operated by American University)****Statements of Activities****Year ended April 30, 2014**

<i>(In thousands)</i>	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Contributions	9,930,649	100,000	-	10,030,649
Corporate underwriting	8,983,755	-	-	8,983,755
Community service grant from CPB	862,485	-	-	862,485
National program acquisition grant from CPB	250,080	-	-	250,080
Program grants	905,046	-	-	905,046
National public radio licensing fees	283,500	-	-	283,500
Facilities and other income	743,538	-	-	743,538
Donated services from American University	1,248,027	-	-	1,248,027
Donated goods and services	379,349	-	-	379,349
Endowment Income	12,073	-	-	12,073
Net Asset Release	27,508	(27,508)	-	-
Total operating revenues and support	<u>23,626,010</u>	<u>72,492</u>	<u>-</u>	<u>23,698,502</u>
Operating expenses				
Program services:				-
Programming and production	10,920,953	-	-	10,920,953
Broadcasting	1,557,427	-	-	1,557,427
Public information and promotion	1,898,045	-	-	1,898,045
Total program services	<u>14,376,425</u>	<u>-</u>	<u>-</u>	<u>14,376,425</u>
Supporting services:				
Management and general	4,283,776	-	-	4,283,776
Fund-raising and membership development	6,729,742	-	-	6,729,742
Total supporting services	<u>11,013,518</u>	<u>-</u>	<u>-</u>	<u>11,013,518</u>
Total operating expenses	<u>25,389,943</u>	<u>-</u>	<u>-</u>	<u>25,389,943</u>
Total operating activities	<u>(1,763,933)</u>	<u>72,492</u>	<u>-</u>	<u>(1,691,441)</u>
Nonoperating items				
Realized and unrealized net capital gains	<u>35,317</u>	<u>5,717</u>	<u>-</u>	<u>41,034</u>
Total nonoperating activities	<u>35,317</u>	<u>5,717</u>	<u>-</u>	<u>41,034</u>
Change in net assets	(1,728,616)	78,209	-	(1,650,407)
Net assets at beginning of year	<u>16,557,046</u>	<u>51,728</u>	<u>50,000</u>	<u>16,658,774</u>
Net assets at end of year	<u>14,828,430</u>	<u>129,937</u>	<u>50,000</u>	<u>15,008,367</u>

The accompanying notes are an integral part of these financial statements.

WAMU-FM

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Statements of Activities

Year ended April 30, 2013

<i>(In thousands)</i>	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Contributions	9,870,747	50,000	50,000	9,970,747
Corporate underwriting	8,872,728	-	-	8,872,728
Community service grant from CPB	824,656	-	-	824,656
National program acquisition grant from CPB	291,252	-	-	291,252
Program grants	283,880	-	-	283,880
National public radio licensing fees	267,500	-	-	267,500
Facilities and other income	123,200	-	-	123,200
Donated services from American University	1,167,846	-	-	1,167,846
Donated goods and services	323,828	-	-	323,828
Total operating revenues and support	<u>22,025,637</u>	<u>50,000</u>	<u>50,000</u>	<u>22,125,637</u>
Operating expenses				
Program services:				-
Programming and production	9,893,587	-	-	9,893,587
Broadcasting	1,202,423	-	-	1,202,423
Public information and promotion	<u>1,614,917</u>	<u>-</u>	<u>-</u>	<u>1,614,917</u>
Total program services	<u>12,710,927</u>	<u>-</u>	<u>-</u>	<u>12,710,927</u>
Supporting services:				
Management and general	4,433,444	-	-	4,433,444
Fund-raising and membership development	<u>6,174,186</u>	<u>-</u>	<u>-</u>	<u>6,174,186</u>
Total supporting services	<u>10,607,630</u>	<u>-</u>	<u>-</u>	<u>10,607,630</u>
Total operating expenses	<u>23,318,557</u>	<u>-</u>	<u>-</u>	<u>23,318,557</u>
Total operating activities	<u>(1,292,920)</u>	<u>50,000</u>	<u>50,000</u>	<u>(1,192,920)</u>
Nonoperating items				
Realized and unrealized net capital gains	<u>31,066</u>	<u>1,728</u>	<u>-</u>	<u>32,794</u>
Total nonoperating activities	<u>31,066</u>	<u>1,728</u>	<u>-</u>	<u>32,794</u>
Change in net assets	(1,261,854)	51,728	50,000	(1,160,126)
Net assets at beginning of year	<u>17,818,900</u>	<u>-</u>	<u>-</u>	<u>17,818,900</u>
Net assets at end of year	<u>16,557,046</u>	<u>51,728</u>	<u>50,000</u>	<u>16,658,774</u>

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Statements of Cash Flows

Years ended April 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (1,650,407)	\$ (1,160,126)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,193,620	315,322
Allowance for Uncollectible Accounts	(145,131)	(166,156)
Changes in cash held on deposit with American University	4,648,338	4,877,868
Net realized and unrealized capital gains	(17,632)	(26,898)
(Gain) loss on sale of fixed assets	(613,437)	11,400
Due to AU	-	6,250,000
Interest payments on capital lease	2,225,554	2,012,816
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(219,123)	341,604
Decrease in prepaid expenses	(109,915)	(469,334)
Increase in accounts payable and accrued liabilities	221,706	237,004
Decrease in deferred revenue	135,061	5,796
Contributions collected and revenues restricted for long-term investment	-	(15,000)
Net cash provided by operating activities	<u>5,668,634</u>	<u>12,214,296</u>
Cash flows from investing activities		
Purchases of investments	(77,537)	(265,000)
Proceeds from sales of property, plant, and equipment	2,500,000	-
Purchases of property, plant, and equipment	(6,055,103)	(10,103,127)
Net cash provided by (used in) investing activities	<u>(3,632,640)</u>	<u>(10,368,127)</u>
Cash flows from financing activities		
Investment in Endowment	-	15,000
Principle payments on capital lease	(2,035,994)	(1,861,169)
Net cash provided by financing activities	<u>(2,035,994)</u>	<u>(1,846,169)</u>
Net (decrease) increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information		
Capital Lease Obligation	\$ -	\$ 12,529,193
Cash paid during the year for interest	2,217,225	2,012,816
Accrued payment for property, plant & equipment	109,595	2,610,657

The accompanying notes are an integral part of these financial statements.

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Notes to Financial Statements

April 30, 2014 and 2013

1. Organization

WAMU 88.5 FM (the Station or WAMU) is a 24-hour, 50,000 watt public radio station, licensed to American University (the University) since 1961. The Station serves more than 780,000 listeners in Virginia, Maryland, and the District of Columbia with news, talk programming, and traditional American music. WAMU is dependent for its continued operations on the financial support of the University.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

Revenues are reported as increases in unrestricted net assets unless restricted by time or purpose. Expenses are reported as decreases in unrestricted net assets.

Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same year they are received are included in unrestricted revenues. Contributions are classified as unrestricted if their usage is not limited to specific activities of the Station by the contributor. This treatment is consistent with appeals for contributions and pledges. WAMU engages in annual fundraising campaigns, including on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to WAMU for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. 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.

Cash

Cash held on deposit with American University represents funds held with the University on behalf of the Station.

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Accounts Receivable

Accounts receivable consists primarily of on-air acknowledgements of corporate underwriting. The allowance for doubtful accounts is determined based upon specific analysis of past due accounts and historical collection experience.

Investments

The Station invests their endowment assets in the American University Pooled Endowment fund. Equity securities with readily determinable fair values and all debt securities are recorded at fair value in the balance sheet. See Note 7 for an explanation as to methodology for determining fair value. All realized and unrealized gains and losses from investments of endowment funds are reported as non-operating revenues.

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

Station and Studio Improvements and Equipment

Station and studio improvements and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of receipt.

The Station depreciates station and studio improvements and equipment using the straight-line method over estimated useful lives of 50 and 5 years, respectively. Half of one year's depreciation expense is recognized in the year of acquisition.

Community Service Grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSG's) to qualifying public telecommunications entities. CSG's are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act. In any event, each CSG must be expended within two years of the initial grant authorization.

Under the Communications Act, funds may be used at the discretion of recipients. WAMU uses these funds for purposes relating primarily to production and acquisition of programming.

The CSG's are reported on the accompanying financial statements as unrestricted operating funds; however, certain guidelines must be satisfied in connection with application for and use of the CSG's to maintain eligibility and compliance requirements. These guidelines pertain to the use of CSG funds, record keeping, financial reporting, and licensee status with the Federal Communications Commission.

Indirect Support from American University

WAMU-FM reimburses the University for a portion of University indirect support that includes facilities and administrative support, based on a predetermined formula, and is allocated among program and supporting services expense in the accompanying statements of activities. Facilities support from the University includes occupancy costs at estimated fair value based on market rental rates for similar tower and occupancy space usage. Administrative support from the University includes allocated services and certain other expenses incurred by the University on behalf of the

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Notes to Financial Statements

April 30, 2014 and 2013

Station. For the years ended April 30, 2014, and 2013, WAMU-FM reimbursed the University \$3,028,000 and \$2,912,000 respectively, which has been recorded as expenses that have been allocated among program and supporting services in the statements of activities.

Donated Goods and Services

Donated goods and services are recorded as revenue and expense in the accompanying statements of activities at estimated fair value. Legal services donated to the station were valued at \$38,509 and \$25,162 for the years ended April 30, 2014 and 2013, respectively. Underwriting trade agreements with businesses to provide goods and/or services in trade for underwriting credit and/or other media recognition are included in this amount.

This section also includes the portion of indirect support from the University that was donated to the Station for the years ended April 30, 2014 and 2013. The University donated amount totaled \$1,248,027 and \$1,167,846 respectively for each year. Beginning with year ended April 30, 2007, WAMU began using the University's negotiated indirect cost rate as developed with the University's cognizant federal audit agency. The rate applicable to the Station in both 2014 and 2013 was 19.0% and was applied to the Station's net direct expenses. This rate is subject to change in the future given negotiation with the University's cognizant federal audit agency.

The following amounts included in expenses for the years ended April 30, 2014 and 2013 relate to donated goods and services (excluding University donated services):

	2014	2013
Public information and Promotion	\$ 230,245	\$ 193,899
Fundraising and Membership Development	82,055	63,493
Management and general	52,049	51,436
Broadcasting	<u>15,000</u>	<u>15,000</u>
Total donated goods and services	<u>\$ 379,349</u>	<u>\$ 323,828</u>

Functional Expenses

Costs related to facilities and administrative support and depreciation are allocated between the functional expenses based upon the number of full-time equivalent staff assigned to each function.

Income Taxes

The Station is exempt, as part of the University's exemption granted by the Internal Revenue Service, from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except on activities unrelated to its exempt purpose.

Accrual Basis

The financial statements have been prepared using the accrual basis of accounting.

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Notes to Financial Statements

April 30, 2014 and 2013

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ materially, in the near term, from the amounts reported.

3. Accounts Receivable, Net

Accounts receivable, net, at April 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Accounts receivable		
Corporate Underwriting	\$ 2,129,001	\$ 1,979,515
Other	64,288	23,613
	<u>2,193,289</u>	<u>2,003,128</u>
Less allowance for uncollectible accounts	<u>(85,957)</u>	<u>(231,088)</u>
	<u>\$ 2,107,332</u>	<u>\$ 1,772,040</u>

4. Contributions Receivable, Net

As of April 30, 2014 and 2013, unconditional promises to give were as follows:

	<u>2014</u>	<u>2013</u>
Amounts due in:		
Less than one year	\$ 28,317	\$ 44,993
One year to five years	94,175	37,505
Over five years	-	-
	<u>122,492</u>	<u>82,498</u>
Less unamortized discount	(11,032)	-
Less allowance for doubtful accounts	-	-
	<u>\$ 111,460</u>	<u>\$ 82,498</u>

Contributions receivable over more than one year are discounted at a rate of 3.5%. New contributions received during fiscal years 2014 and 2013 were assigned a discount rate which is commensurate with the market and credit risk involved.

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Notes to Financial Statements

April 30, 2014 and 2013

5. Station, Studio Improvements and Equipment

Station, studio improvements, and equipment and related accumulated depreciation at April 30, 2014 and 2013, are as follows:

	2014	2013
Station & Studio Equipment	\$ 27,805,666	\$ 15,383,843
Other Equipment	4,585,082	1,003,246
Construction in Progress	89,201	12,772,830
	<u>32,479,949</u>	<u>29,159,919</u>
Accumulated depreciation	<u>(2,004,418)</u>	<u>(1,768,903)</u>
	<u>\$ 30,475,531</u>	<u>\$ 27,391,016</u>

For the years ended April 30, 2014 and 2013, depreciation expense was \$1,193,620 and \$315,322 respectively.

6. Capital Lease Agreement with American University

In June of 2012, the Station signed a 20 year lease with American University at 4401 Connecticut Ave NW, Washington DC 20016. WAMU's media center spans five floors and includes studio and broadcast space on all but one floor. The building is home to WAMU's talk shows – The Diane Rehm Show and The Kojo Nnamdi Show and Bluegrass Country 105.5. The community focused lower level includes a theater and a large open space with stage and a full kitchen for catered events.

The present value of the minimum lease payments over the life of the lease are greater than 90% of fair market value of the total space occupied. Therefore, the lease qualified as a capital lease.

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Notes to Financial Statements

April 30, 2014 and 2013

The total minimum lease payments are as follows:

Years ending April 30:	
2015	2,086,893
2016	2,139,065
2017	2,192,542
2018	2,247,356
2019	2,303,540
Later Years	32,068,547
	<u>\$ 43,037,943</u>
Less: Amount representing interest (a)	30,167,543
Present value of net minimum lease payments	<u>\$ 12,870,400</u>

(a) *Amount necessary to reduce the net minimum lease payments to present value calculated at the incremental borrowing rate at lease inception.*

7. Fair Value Measurements

The Station 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.

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Notes to Financial Statements

April 30, 2014 and 2013

Assets and Liabilities Measured at Fair Value

The following table displays the carrying value and estimated fair value of the Stations' financial instrument as of April 30, 2014:

	Quoted Prices in Active Markets for (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of April 30, 2014
Assets				
Investments				
American University Endowment Fund	\$ -	\$ -	\$ 387,067	\$ 387,067
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 387,067</u>	<u>\$ 387,067</u>

The following table displays the carrying value and estimated fair value of the University's financial instruments as of April 30, 2013:

	Quoted Prices in Active Markets for (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of April 30, 2013
Assets				
Investments				
American University Endowment Fund	\$ -	\$ -	\$ 291,898	\$ 291,898
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 291,898</u>	<u>\$ 291,898</u>

As the Station only invests in the American University Endowment Fund which has no active market, the assets are classified as Level 3.

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Notes to Financial Statements

April 30, 2014 and 2013

Changes in Level 3 Assets

The following tables are 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, 2014 and 2013:

	Investment in AU Endowment Fund
Beginning Balance at May 1, 2013	\$ 291,898
Total gains or losses (realized/unrealized) included in earnings	17,632
Purchases, issuances, sales and settlements	
Purchases	77,537
Issuances	-
Sales	-
Settlements	-
Transfers into Level 3	-
Transfers out of level 3	-
Ending Balance at April 30, 2014	<u>\$ 387,067</u>

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

\$ 17,632

	Investment in AU Endowment Fund
Beginning Balance at May 1, 2012	\$ -
Total gains or losses (realized/unrealized) included in earnings	26,898
Purchases, issuances, sales and settlements	
Purchases	265,000
Issuances	-
Sales	-
Settlements	-
Transfers into Level 3	-
Transfers out of level 3	-
Ending Balance at April 30, 2013	<u>\$ 291,898</u>

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

\$ 26,898

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April 30, 2014 and 2013

Transfers into and out of Level 3 are typically the result of a change in the availability and the ability to observe market data which is considered a significant valuation input required by various models. Generally, as markets evolve, the data required to support valuations becomes more widely available and observable. There were no transfers into or out of Level 3 as of April 30, 2014.

There were no significant transfers between Levels 1 and 2 for the year ended April 30, 2014.

8. Endowments

The Station has two endowments established to provide support for the operations of the Station. These endowments are invested in the American University pooled endowment funds. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees of American University 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 of American University 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 as permanently restricted net assets (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 American University in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

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April 30, 2014 and 2013

The endowment net assets composition by type of fund at April 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 7,445	\$ 50,000	\$ 57,445
Board-designated endowment funds	287,085	-	-	287,085
Total endowment funds	<u>\$ 287,085</u>	<u>\$ 7,445</u>	<u>\$ 50,000</u>	<u>\$ 344,530</u>

The changes in endowment net assets for the year ended April 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 1, 2013	\$ 275,170	\$ 1,728	\$ 15,000	\$ 291,898
Investment return:				
Net appreciation on investments	31,917	5,717	-	37,634
Investment Net Income / (Expense)	(7,929)	-	-	(7,929)
Total investment return	23,988	5,717	-	29,705
Contributions to endowment	-	-	35,000	35,000
Appropriation of endowment assets for expenditure	(12,073)	-	-	(12,073)
Other changes:				
Transfers to create board-designated endowment funds	-	-	-	-
Endowment net assets, April 30, 2014	<u>\$ 287,085</u>	<u>\$ 7,445</u>	<u>\$ 50,000</u>	<u>\$ 344,530</u>

The endowment net assets composition by type of fund at April 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,728	\$ 15,000	\$ 16,728
Board-designated endowment funds	275,170	-	-	275,170
Total endowment funds	<u>\$ 275,170</u>	<u>\$ 1,728</u>	<u>\$ 15,000</u>	<u>\$ 291,898</u>

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The changes in endowment net assets for the year ended April 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 1, 2012	\$ -	\$ -	\$ -	\$ -
Investment return:				
Net appreciation on investments	31,066	1,728	-	32,794
Investment Net Income / (Expense)	(5,896)	-	-	(5,896)
Total investment return	25,170	1,728	-	26,898
Contributions to endowment	-	-	15,000	15,000
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Transfers to create board-designated endowment funds	250,000	-	-	250,000
Endowment net assets, April 30, 2013	<u>\$ 275,170</u>	<u>\$ 1,728</u>	<u>\$ 15,000</u>	<u>\$ 291,898</u>

Return Objectives, Risk Parameters, and Strategies

American 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

American 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. As part of the pooled endowment fund, the Station received its first distribution in 2014. In establishing this policy, the University considers 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.

9. Sub-carrier Frequency Rental Agreements

The Station had one rental agreement to broadcast the lessee's programming over a sub-carrier of the Station's broadcast signal. The total rental income for the fiscal year was \$22,500. The agreement was terminated effective January 31, 2014.

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10. Leases

The Station leases tower space from K2 Towers for the WRAU station in Whaleyville, Maryland. The station also leases a translator for the 105.5 signal. K2 Towers purchased the Clearview Tower Company on September 16, 2013. The future minimum lease payments for all operating leases are:

Years ending April 30:

2014	\$	114,044
2015		6,000
2016		1,200
Total	\$	<u>121,244</u>

Rental expense was \$125,384 and \$89,835 for fiscal years 2014 and 2013, respectively.

11. Commitments and Contingencies

In 2013, the Station entered into a loan agreement with American University to borrow \$6.25 million dollars to help fund the leasehold improvements at 4401 Connecticut Avenue. The loan is due in full on April 30, 2018 and carries a zero percent interest rate. As of April 30, 2014, the full amount of the loan was outstanding.

12. Related Parties

In addition to the capital lease and loan, the University sponsored a \$500,000 grant to support the Station's programming and outreach opportunities.

Additionally, a member of the American University Board of Trustees was the President and General Counsel of Clearview Tower Company until it was sold to K2 Towers. Aside from the rental payments noted in footnote 10, no other transactions were entered into with this party during 2014.

13. Subsequent Events

The Station has performed an evaluation of subsequent events through October 8, 2014, which is the date the financial statements were issued. No events were noted which would affect the financial statements as of April 30, 2014.

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14. Expenses

For the year ended April 30, 2014, expenses were incurred for:

	Programming and Production	Broadcasting	Public Information and Promotion	Total Program Services	Management and General	Fundraising and Membership Development	Total Supporting Services	Total
Salaries, wages, and benefits	\$ 4,682,163	\$ 774,615	\$ 1,006,776	\$ 6,463,554	\$ 1,120,561	\$ 2,626,715	\$ 3,747,276	\$ 10,210,830
Production costs	951,204	100,618	20,169	1,071,991	243,996	1,431,490	1,675,486	2,747,477
National Public Radio dues	1,923,512	-	-	1,923,512	-	-	-	1,923,512
Travel	66,915	6,242	3,033	76,190	2,703	51,695	54,398	130,588
Telecommunications	166,686	45,935	16,292	228,913	2,948	23,193	26,141	255,054
Facilities and administrative	2,276,620	335,482	405,656	3,017,758	2,632,733	1,235,353	3,868,086	6,885,844
Printing	8,861	124	5,684	14,669	21,857	402,488	424,345	439,014
Professional services	76,809	750	26,065	103,624	2,215	3,300	5,515	109,139
Supplies	182,128	182,934	70,847	435,909	92,744	420,482	513,226	949,135
Postage	2,972	2,147	123	5,242	1,202	133,083	134,285	139,527
Telemarketing	-	-	-	-	-	26,854	26,854	26,854
Subtotals	10,337,870	1,448,847	1,554,645	13,341,362	4,120,959	6,354,653	10,475,612	23,816,974
Depreciation	583,083	93,580	113,155	789,818	110,768	293,034	403,802	1,193,620
Donated legal and other services	-	15,000	230,245	245,245	52,049	82,055	134,104	379,349
Total	\$ 10,920,953	\$ 1,557,427	\$ 1,898,045	\$ 14,376,425	\$ 4,283,776	\$ 6,729,742	\$ 11,013,518	\$ 25,389,943

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For the year ended April 30, 2013, expenses were incurred for:

	Programming and Production	Broadcasting	Public Information and Promotion	Total Program Services	Management and General	Fundraising and Membership Development	Total Supporting Services	Total
Salaries, wages, and benefits	\$ 4,457,301	\$ 712,333	\$ 834,317	\$ 6,003,951	\$ 1,301,924	\$ 2,320,257	\$ 3,622,181	\$ 9,626,132
Production costs	980,146	23,427	16,118	1,019,691	380,685	1,573,147	1,953,832	2,973,523
National Public Radio dues	1,806,353	-	-	1,806,353	-	-	-	1,806,353
Travel	65,319	5,513	7,946	78,778	5,406	57,959	63,365	142,143
Telecommunications	155,874	47,264	14,642	217,780	4,914	28,661	33,575	251,355
Facilities and administrative	2,060,731	309,077	369,034	2,738,842	2,415,953	1,347,569	3,763,522	6,502,364
Printing	4,251	299	4,292	8,842	14,045	278,631	292,676	301,518
Professional services	147,108	723	28,281	176,112	11,135	534	11,669	187,781
Supplies	123,153	72,406	128,575	324,134	101,745	227,998	329,743	653,877
Postage	2,983	420	294	3,697	1,450	164,525	165,975	169,672
Telemarketing	-	-	-	-	-	64,689	64,689	64,689
Subtotals	9,803,219	1,171,462	1,403,499	12,378,180	4,237,257	6,063,970	10,301,227	22,679,407
Depreciation	90,368	15,961	17,519	123,848	144,751	46,723	191,474	315,322
Donated legal and other services	-	15,000	193,899	208,899	51,436	63,493	114,929	323,828
Total	\$ 9,893,587	\$ 1,202,423	\$ 1,614,917	\$ 12,710,927	\$ 4,433,444	\$ 6,174,186	\$ 10,607,630	\$ 23,318,557