

Financial Statements Together with
Report of Independent Certified Public Accountants

GALLAUDET UNIVERSITY

September 30, 2019 and 2018

GALLAUDET UNIVERSITY

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1 - 2
Financial Statements:	
Statements of Financial Position as of September 30, 2019 and 2018	3
Statement of Activities for the year ended September 30, 2019, with comparative totals for 2018	4
Statement of Activities for the year ended September 30, 2018	5
Statements of Cash Flows for the years ended September 30, 2019 and 2018	6
Notes to Financial Statements	7 - 33

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Gallaudet University:

We have audited the accompanying financial statements of Gallaudet University (the "University"), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 these 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 the auditor's 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, the auditor considers internal control relevant to the University'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 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 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 Gallaudet University as of September 30, 2019 and 2018, 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.

Grant Thornton LLP

Washington, D.C.
December 23, 2019

GALLAUDET UNIVERSITY
Statements of Financial Position
As of September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 11,544,545	\$ 12,925,962
Accounts receivable, net (Note 4)	10,414,677	6,650,129
Receivable from U.S. government	15,410,403	2,100,661
Contributions receivable, net (Note 5)	3,508,665	3,420,507
Prepaid expenses and other assets	2,952,595	2,246,819
Deposits with trustee (Notes 6, 10, and 14)	2,511,181	2,435,566
Inventories, net	581,556	656,588
Student loans receivable (Note 4)	466,738	588,595
Investments (Note 6)	192,867,677	189,768,939
Split-interest agreements (Note 6)	602,730	896,128
Land, buildings, and other property, net (Note 7)	<u>213,427,388</u>	<u>221,493,864</u>
Total assets	<u>\$ 454,288,155</u>	<u>\$ 443,183,758</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 9,713,232	\$ 7,378,589
Accrued payroll	9,130,154	9,977,187
Deferred tuition revenue (Note 2)	8,870,382	5,170,000
Obligations under capital leases (Note 14)	1,086,627	1,220,793
Conditional asset retirement obligations (Note 7)	659,291	646,088
Bonds payable, net (Note 10)	33,454,135	34,252,659
Refundable advances under U.S. government loan program	<u>710,091</u>	<u>723,423</u>
Total liabilities	<u>63,623,912</u>	<u>59,368,739</u>
Commitments and contingencies (Notes 6 and 14)		
Net assets (Notes 11 and 12):		
Without donor restrictions	244,401,220	236,850,009
With donor restrictions	<u>146,263,023</u>	<u>146,965,010</u>
Total net assets	<u>390,664,243</u>	<u>383,815,019</u>
Total liabilities and net assets	<u>\$ 454,288,155</u>	<u>\$ 443,183,758</u>

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

GALLAUDET UNIVERSITY
Statement of Activities
For the year ended September 30, 2019, with comparative totals for 2018

	2019			2018
	Without donor restrictions	With donor restrictions	Total	Total
OPERATING REVENUES				
Student tuition, fees, room and board (Note 2)	\$ 32,289,191	\$ -	\$ 32,289,191	\$ 33,044,619
Governmental appropriations - operations	132,626,844	-	132,626,844	128,000,000
Governmental grants and contracts	2,839,003	-	2,839,003	3,130,752
Contributions	607,998	3,700,291	4,308,289	2,965,476
Investment return appropriated for operations (Notes 6 and 12)	2,252,418	6,045,935	8,298,353	8,100,712
Auxiliary enterprises	11,088,395	-	11,088,395	11,362,384
Gain on capital asset related activities (Note 7)	5,499,869	-	5,499,869	41,855
Other	1,146,440	-	1,146,440	1,235,991
Total operating revenues	188,350,158	9,746,226	198,096,384	187,881,789
Net assets released from restrictions (Note 11)	8,494,926	(8,494,926)	-	-
Total operating revenues and other support	196,845,084	1,251,300	198,096,384	187,881,789
EXPENSES				
Salaries and wages	87,926,402	-	87,926,402	89,640,752
Employee benefits	29,249,513	-	29,249,513	29,626,321
Utilities	6,488,915	-	6,488,915	6,159,701
Bond interest	1,875,143	-	1,875,143	1,905,089
Depreciation and amortization	15,273,805	-	15,273,805	15,568,488
Consultants, advisors and other professional fees	32,335,470	-	32,335,470	29,096,622
Supplies, travel and other expenses	15,148,203	-	15,148,203	15,315,140
Total expenses (Note 13)	188,297,451	-	188,297,451	187,312,113
Changes in net assets from operations, before transfers	8,547,633	1,251,300	9,798,933	569,676
Board-designated transfer from operations (Note 7)	(5,519,115)	-	(5,519,115)	-
Changes in net assets from operations, after transfers	3,028,518	1,251,300	4,279,818	569,676
NONOPERATING ACTIVITIES				
Investment (loss) income, net of amounts appropriated for operations (Notes 6 and 12)	(1,025,404)	(2,864,183)	(3,889,587)	2,729,539
Contributions for endowment	-	830,430	830,430	2,219,997
Contributions relating to split-interest agreements	-	-	-	3,570
Change in value of split-interest agreements	28,982	79,206	108,188	27,791
Recovery of uncollectible pledges	-	1,260	1,260	8,340
Changes in net assets from nonoperating activities before transfers	(996,422)	(1,953,287)	(2,949,709)	4,989,237
Board-designated transfer from operations (Note 7)	5,519,115	-	5,519,115	-
Changes in net assets from nonoperating activities, after transfers	4,522,693	(1,953,287)	2,569,406	4,989,237
Changes in net assets	7,551,211	(701,987)	6,849,224	5,558,913
Net assets, beginning of year	236,850,009	146,965,010	383,815,019	378,256,106
Net assets, end of year	\$ 244,401,220	\$ 146,263,023	\$ 390,664,243	\$ 383,815,019

The accompanying notes are an integral part of this financial statement.

GALLAUDET UNIVERSITY
Statement of Activities
For the year ended September 30, 2018

	2018		
	Without donor restrictions	With donor restrictions	Total
OPERATING REVENUES			
Student tuition, fees, room and board (Note 2)	\$ 33,044,619	\$ -	\$ 33,044,619
Governmental appropriations - operations	128,000,000	-	128,000,000
Governmental grants and contracts	3,130,752	-	3,130,752
Contributions	370,344	2,595,132	2,965,476
Investment return appropriated for operations (Notes 6 and 12)	1,838,760	6,261,952	8,100,712
Auxiliary enterprises	11,362,384	-	11,362,384
Gain on capital related activities (Note 7)	41,855	-	41,855
Other	1,235,991	-	1,235,991
Total operating revenues	<u>179,024,705</u>	<u>8,857,084</u>	<u>187,881,789</u>
Net assets released from restrictions (Note 11)	<u>12,014,032</u>	<u>(12,014,032)</u>	<u>-</u>
Total operating revenues and other support	<u>191,038,737</u>	<u>(3,156,948)</u>	<u>187,881,789</u>
EXPENSES			
Salaries and wages	89,640,752	-	89,640,752
Employee benefits	29,626,321	-	29,626,321
Utilities	6,159,701	-	6,159,701
Bond interest	1,905,089	-	1,905,089
Depreciation and amortization	15,568,488	-	15,568,488
Consultants, advisors and other professional fees	29,096,622	-	29,096,622
Supplies, travel and other expenses	15,315,140	-	15,315,140
Total expenses (Note 13)	<u>187,312,113</u>	<u>-</u>	<u>187,312,113</u>
Changes in net assets from operations	<u>3,726,624</u>	<u>(3,156,948)</u>	<u>569,676</u>
NONOPERATING ACTIVITIES			
Investment income, net of amounts appropriated for operations (Notes 6 and 12)	989,094	1,740,445	2,729,539
Contributions for endowment	-	2,219,997	2,219,997
Contributions relating to split-interest agreements	-	3,570	3,570
Change in the value of split-interest agreements	(5,529)	33,320	27,791
Net asset reclassification (Notes 2 and 12)	260,012	(260,012)	-
Recovery of uncollectible pledges	-	8,340	8,340
Total nonoperating activities	<u>1,243,577</u>	<u>3,745,660</u>	<u>4,989,237</u>
Changes in net assets	4,970,201	588,712	5,558,913
Net assets, beginning of year	<u>231,879,808</u>	<u>146,376,298</u>	<u>378,256,106</u>
Net assets, end of year	<u>\$ 236,850,009</u>	<u>\$ 146,965,010</u>	<u>\$ 383,815,019</u>

The accompanying notes are an integral part of this financial statement.

GALLAUDET UNIVERSITY
Statements of Cash Flows
For the years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 6,849,224	\$ 5,558,913
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities		
Depreciation and amortization	15,273,805	15,568,488
Commitment fee revenue	-	(697,162)
Amortization of deferred financing costs	40,490	41,716
Amortization of bond discount	25,986	22,034
Accretion of interest on conditional asset retirement obligations	13,203	12,479
Bad debt expense	1,516,547	412,859
Gain on capital asset related activities	(5,499,869)	(41,855)
Recovery of uncollectible pledges	(1,260)	(8,340)
Net gain on investments	(1,098,564)	(8,198,649)
(Increase) decrease in assets:		
Receivables	(18,677,735)	(2,723,696)
Split-interest agreements	293,398	13,159
Prepaid expenses	(705,776)	718,333
Inventories	75,032	101,342
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	129,112	(907,044)
Deferred tuition revenue	3,700,382	(80,000)
Contributions for donor-restricted endowment	(976,442)	(1,005,783)
Investment income reinvested to donor-restricted endowment	(101,396)	(31,638)
Net cash provided by operating activities	<u>856,137</u>	<u>8,755,156</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and redemptions of investments	71,238,569	90,742,581
Purchases of investments	(73,238,743)	(86,898,714)
Proceeds from the sale of property and equipment	5,616,812	244,730
Purchases of capital assets	(5,876,974)	(11,105,653)
Repayment of loans by students	121,857	117,064
Net cash used in investing activities	<u>(2,138,479)</u>	<u>(6,899,992)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in refundable advances from U.S. government	(13,332)	(118,375)
Proceeds from contributions and investment income restricted to donor-restricted endowment	1,077,838	1,037,421
Payments under capital leases	(222,966)	(158,351)
Payment of principal on bonds payable	(865,000)	(830,000)
(Increase) decrease in deposits with trustee	(75,615)	1,109,937
Net cash (used in) provided by financing activities	<u>(99,075)</u>	<u>1,040,632</u>
Net (decrease) increase in cash and cash equivalents	(1,381,417)	2,895,796
Cash and cash equivalents, beginning of year	<u>12,925,962</u>	<u>10,030,166</u>
Cash and cash equivalents, end of year	<u>\$ 11,544,545</u>	<u>\$ 12,925,962</u>
Supplemental disclosures:		
Capital asset purchases included in accounts payable	<u>\$ 1,280,219</u>	<u>\$ 459,776</u>
Capital asset acquired with capital leases	<u>\$ 179,457</u>	<u>\$ 759,770</u>
Construction retainage	<u>\$ 78,279</u>	<u>\$ 33,018</u>
Cash paid for interest	<u>\$ 2,211,672</u>	<u>\$ 2,292,950</u>

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

GALLAUDET UNIVERSITY

Notes to Financial Statements

September 30, 2019 and 2018

1. NATURE OF OPERATIONS

Gallaudet University was established by an Act of Congress in 1864. Gallaudet is the only accredited university in the world established exclusively for deaf or hard of hearing students. In addition to its undergraduate and graduate academic programs, the University offers national demonstration elementary and secondary education programs, continuing education programs, and a wide range of public service programs.

The Gallaudet University Foundation (the “Foundation”) was formed in 2012 to benefit, promote and support, by gift or otherwise, Gallaudet University in the ownership and/or development of real estate on campus or around the University. The Foundation is incorporated in the District of Columbia and is recognized under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, as a tax-exempt organization and Gallaudet University serves as its sole corporate member. The activities of the Foundation consolidate with Gallaudet University and have been limited principally to administrative costs incurred in connection with its development. During fiscal 2019, the Foundation did not perform any activities or incur any costs. During fiscal 2018, administrative costs totaled approximately \$56,000. Gallaudet University, together with the Foundation, is collectively referred to as the “University” or “Gallaudet.”

Gallaudet University is a private university that receives a substantial proportion of its annual revenue by direct appropriation from the federal government under the authority of the Education of the Deaf Act. In fiscal years 2019 and 2018, approximately 70% and 68%, respectively, of the University’s operating revenues and other support without donor restrictions were derived from federal appropriations.

Gallaudet University is divided into two major component programs for budgeting and operating purposes: the University and the Laurent Clerc National Deaf Education Center (“Clerc Center”). The Clerc Center consists of the Model Secondary School for the Deaf and the Kendall Demonstration Elementary School. In the fall of academic year 2018-2019, the University enrolled 1,589 undergraduate and graduate students, and the Clerc Center enrolled 271 elementary and secondary school students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Gallaudet have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles (“GAAP”) and with the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958, *Not-for-Profit Entities*.

Net Assets

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

Without donor restrictions - Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenses are reported as decreases in net assets without donor restrictions.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

With donor restrictions - Net assets subject to donor-imposed restrictions are subject to donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the University pursuant those stipulations. Also included in this category are certain net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the University, the earnings of which are subject to the Board-approved spending policy and available for general or specific purposes as stipulated by the respective donors of such funds.

Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions. Pledges for buildings and equipment not yet placed in service which remain outstanding are included in net assets with donor restrictions until received.

Measure of Operations

The accompanying statements of activities distinguish between operating and nonoperating activities. Operating activities principally include all revenues and expenses that are an integral part of the University's educational programs and supporting activities, investment return pursuant to the University's spending policy, and interest income on operating cash balances. Nonoperating activities include investment return (loss) net of amounts used for operations, contributions for capital or endowment purposes, net assets released for capital expenditures, change in value of split-interest agreements, and other activities which are considered to be nonrecurring in nature.

Concentrations of Credit Risk

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. The University maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, the University places its cash accounts with high credit quality financial institutions and the University's investment portfolio is diversified with several investment managers in a variety of asset classes. The University regularly evaluates its depository arrangements and investments, including performance thereof.

Fair Value of Financial Instruments

As required by U.S. generally accepted accounting principles for fair value measurements, Gallaudet uses a fair value hierarchy which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of inputs used by Gallaudet to measure fair value include:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the measurement date.

Level 2 - Observable inputs, other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these financial instruments include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In certain instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The categorization within the hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to the University's perceived risk of that instrument.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash Equivalents - The carrying value of cash equivalents, such as money market funds, approximates fair value because of the short maturity of these investments. These amounts are included in Level 1.

Fixed Income Securities - Gallaudet's investment in fixed income securities includes direct investments in exchange-traded funds ("ETFs") focused on fixed income securities, mutual funds which invest in fixed income securities, and individual corporate bonds. The estimated fair values of direct investments in ETFs and individual corporate bonds are based on actively-traded market prices which are available on a daily basis. The fair value of fixed income mutual funds is based on the net asset value ("NAV") of the applicable funds, which are actively traded and priced daily. Direct investments in exchange-traded fixed income securities, fixed income mutual funds, and individual corporate bonds are included in Level 1.

Equity Securities - Gallaudet's investment in equity securities include direct investments in ETFs focused on equity securities, equity mutual funds, and individual stocks. Fair values of ETFs and individual stocks have been determined by Gallaudet from observable market quotations on major trade exchanges. The fair value of equity mutual funds is estimated based on the NAV of the applicable funds, which are actively traded and priced daily. Direct investments in exchange-traded equity securities, equity mutual funds, and individual stocks are included in Level 1.

Global Real Estate - This class includes investments in real estate mutual funds which are valued using quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.

Private Equity Funds, Private Real Asset Funds, and Hedge Funds - The fair value of these investments is based on the fund managers' reported NAVs. When necessary, Gallaudet adjusts NAVs for contributions, distributions, or general market conditions subsequent to the latest NAV valuation date when determining fair value as of the measurement date.

Split-Interest Agreements - For charitable gift annuity investments in which Gallaudet acts as the trustee, the assets are held in debt and equity mutual funds with readily determinable fair values and therefore included in Level 1. For beneficial interests in remainder and perpetual trusts which are held by a third party, Gallaudet estimates the fair value of its beneficial interests based on a

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

discounted cash flow methodology using a discount rate that is commensurate with risks of the underlying trust assets and other risks such as non-performance by the trustee. Since the most significant valuation inputs are not observable in the market place, the beneficial interests held by third-party trustees are included in Level 3.

Deposits with Trustee - Funds held on deposit with a trustee are held in money market funds. Since money market funds approximate fair value due to the short maturity of these investments, these deposits are included in Level 1.

Cash Equivalents

The University considers all highly liquid financial instruments with original maturities of three months or less from the date of purchase to be cash equivalents. Gallaudet has classified any cash or money market accounts held by external endowment managers as investments, as these amounts are not readily available for operations and are part of the long-term investment strategy of the University.

Deferred Financing and Lease Charges

During fiscal 2011, Gallaudet capitalized bond financing costs incurred in connection with a bond issuance, from which the proceeds were used in support of certain capital improvement projects. Gallaudet is amortizing the deferred financing costs of the bond issuance over the life of the bonds using the effective interest method. Amortization expense for the years ended September 30, 2019 and 2018 totaled \$40,490 and \$41,716, respectively.

In preparation for a long-term ground lease with a developer, as discussed further in Note 14, Gallaudet capitalized initial direct costs which totaled approximately \$1,260,000 at both September 30, 2019 and 2018 and are included as a component of prepaid expenses and other assets on the accompanying statements of financial position. Gallaudet will amortize the deferred lease costs on a straight-line basis over the life of the ground lease. No amortization expense has been recorded for the years ended September 30, 2019 and 2018, as the lease has not yet been executed.

Inventories

Inventories, consisting of books, supplies, and clothing, are reported using the retail inventory method on a first in, first out basis.

Split-Interest Agreements

Gallaudet's split-interest agreements consist of its beneficial interest in remainder and perpetual trusts and charitable gift annuities. Gallaudet records its beneficial interest in remainder and perpetual trusts as revenue in the period in which the University is notified of the irrevocable nature of the trust and the proceeds are measurable. Changes in the value of Gallaudet's interest are recorded in each subsequent period in the net asset category to which the contribution relates.

Changes in the life expectancy of the donor or beneficiary, amortization of the discount, and other changes in the estimates of future annuity payments are recognized annually by the University and are reported as change in value of split-interest agreements in the statement of activities. For the years ended September 30, 2019 and 2018, the discount rates used to value split-interest agreements were 2.46% and 3.85%, respectively, and represented the applicable Internal Revenue Service ("IRS") discount rate at the

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

time of the original gifts. Upon termination of a life interest, the share of the corpus attributable to the life-interest holder becomes available to the University (see Note 6).

Land, Buildings, and Other Property

Land, buildings, and other property are reported at cost less accumulated depreciation and amortization. The University capitalizes buildings, building improvements, outside improvements, and software with a cost over \$25,000 and furniture and equipment with a cost over \$5,000 with depreciable lives greater than three years. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

<u>Asset Class</u>	<u>Estimated Lives (Years)</u>
Land stabilization improvements	60
Buildings	40 to 60
Building improvements	10 to 60
Outside improvements	10 to 40
Furniture and equipment	5
Software	3

New buildings are assigned an estimated life of 40 years. Improvements to certain historic structures have been assigned depreciable lives of 60 years.

Assets, consisting primarily of office equipment, acquired under capital leases are depreciated over the shorter of their economic useful life or the respective lease.

Conditional Asset Retirement Obligations

Costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued. Gallaudet has identified asbestos abatement and other required disposals as conditional asset retirement obligations. Asbestos abatement costs were estimated using an external consulting firm's walk-through inspection and observation of the presence of asbestos in campus buildings.

Refundable Advances

Funds provided by the U.S. government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. government and are therefore reported as liabilities.

On September 30, 2017, the authority for schools to make new loans under the Federal Perkins Loan Program ended and final disbursements to students were permitted through June 30, 2018. The University intends to continue servicing the outstanding loans and to remit the federal share of repayments to the U.S. Department of Education.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Income Taxes

Gallaudet University has been recognized as public charities generally exempt from federal income taxation under provisions of Section 501(a) as described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) of 1986, as amended. The organization is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Gallaudet has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

Gallaudet follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the income tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The tax years ending September 30, 2019, 2018, 2017 and 2016 are still open to audit for both federal and state purposes. Gallaudet has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements for the years ending September 30, 2019 and 2018.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts for student accounts, loans, and contributions receivable; the determination of year-end operating accruals; the useful lives assigned to fixed assets; conditional asset retirement obligations; and, the reported fair values of certain of the University’s financial instruments, particularly non-exchange traded alternative investments, such as private equity, real asset and hedge fund investments. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In August, 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The main provisions of this ASU include presentation of two classes of net assets versus the previously required three, recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service, and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board-designated net assets, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The University adopted the amendments in this ASU for the year ended September 30, 2019, using the retrospective method.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

The net asset reclassifications recorded as a result of the adoption of ASU 2016-14 as of September 30, 2018 are as follows:

Net assets classifications	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total net assets
As previously presented:			
Unrestricted	\$ 236,589,997	\$ -	\$ 236,589,997
Temporarily restricted	-	19,562,603	19,562,603
Permanently restricted	-	127,662,419	127,662,419
Net assets as previously presented	236,589,997	147,225,022	383,815,019
Reclassification to implement ASU 2016-14:			
Underwater endowments	260,012	(260,012)	-
Net assets, as reclassified	\$ 236,850,009	\$ 146,965,010	\$ 383,815,019

The reclassification of net assets relating to underwater endowments as of September 30, 2018 are included within “Net asset reclassification” in the accompanying statement of activities for the year ended September 30, 2018.

During fiscal 2019, Gallaudet also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance provided in this ASU will assist in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and whether a contribution is conditional. As required by ASU 2018-08, Gallaudet applied the requirements on a modified prospective basis to agreements that either are not completed as of October 1, 2018 or entered into after October 1, 2018. Upon adoption of ASU 2018-08, Gallaudet determined that the governmental appropriation as well as certain grants and contracts previously treated as exchange transactions meet the new definition of conditional contributions. The adoption of this ASU did not materially impact the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires an entity to recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity is expected to be entitled in exchange for those goods or services. On October 1, 2018, Gallaudet adopted ASU 2014-09, using the modified retrospective approach. Gallaudet applied the five-step revenue model stipulated by ASC 606 to all of its significant revenue streams in order to determine when revenue is earned and recognized. The five-step model requires Gallaudet to i.) identify contracts with customers, ii.) identify performance obligations related to those contracts, iii.) determine the transaction price, iv.) allocate that transaction price to each performance obligation, and v.) recognize revenue when or as the University satisfies a performance obligation.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

The adoption of this ASU did not materially impact the timing or amount of revenue recognized by Gallaudet in its financial statements. Accordingly, Gallaudet's fiscal 2018 statement of activities has been revised to conform with the fiscal 2019 presentation.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 clarifies the definition of a lease, requires recognition of all types of leases on the statement of financial position, and modifies disclosure requirements to provide financial statement users with key information about lease arrangements. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018 for not-for-profit entities that have issued conduit debt. Entities may adopt ASU 2016-02 using a modified retrospective method or current-period adjustment method and elect to apply a number of optional practical expedients. Gallaudet is currently evaluating the impact of the adoption of this ASU on its financial statements.

Revenue Recognition

Gallaudet's significant revenue recognition policies are:

Governmental Appropriations - Amounts received under the federal appropriation, which is considered a nonreciprocal transaction primarily available for general University and Clerc Center operations, are recognized as revenue when qualifying reimbursable expenses have been incurred and conditions under the agreements are met. At September 30, 2019, unrecognized conditional contributions relating to the federal appropriation totaled \$1,734,156 and are conditioned on incurring allowable expenditures for an early language acquisition partnership with the Alabama Institute of the Deaf and Blind. There were no unrecognized conditional contributions relating to the federal appropriation as of September 30, 2018.

Student Tuition, Fees, Room and Board – Student tuition, fees, room and board revenue are recognized as revenues over the academic terms to which they relate, which coincides with the satisfaction of the specific performance obligation to the student. Student tuition and fees and related expenses pertaining to incomplete terms are apportioned, deferred and recognized in the fiscal year in which the instruction occurs. Room and board pertaining to incomplete terms are apportioned, deferred and recognized in the fiscal year in which the housing and dining services are provided. Generally, enrollment and instructional services are billed when a course or term begins, and are payable within thirty days of the bill date. The University provides for potentially uncollectible student accounts and notes receivables based on historical collection experience.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

In the following table, revenue is disaggregated by type of service provided:

	<u>Tuition and fees</u>	<u>Room and board</u>	<u>Total</u>
For the year ended September 30, 2019:			
Revenue	\$ 29,221,828	\$ 13,331,954	\$ 42,553,782
Institutional Scholarships and Fellowships	<u>(7,048,730)</u>	<u>(3,215,861)</u>	<u>(10,264,591)</u>
Total student tuition, fees, room and board	<u>\$ 22,173,098</u>	<u>\$ 10,116,093</u>	<u>\$ 32,289,191</u>
For the year ended September 30, 2018:			
Revenue	\$ 29,302,250	\$ 13,577,579	\$ 42,879,829
Institutional Scholarships and Fellowships	<u>(6,720,964)</u>	<u>(3,114,246)</u>	<u>(9,835,210)</u>
Total student tuition, fees, room and board	<u>\$ 22,581,286</u>	<u>\$ 10,463,333</u>	<u>\$ 33,044,619</u>

Gallaudet has taken a portfolio approach in determining whether institutional scholarships and fellowships should apply across student tuition, fees, room and board. In general, the University awards institutional scholarships and fellowships by factoring in the total cost of attendance including student tuition, fees, room and board, expected vocational rehabilitation funding, and the students expected ability to contribute towards such charges. Accordingly, institutional scholarships and fellowships have been applied against all student services revenues.

The University has elected, as a practical expedient, not to disclose additional information about unsatisfied performance obligations for contracts with customers that have an expected duration of one year or less.

Grants and Contracts - Grants and contracts awarded by federal and other sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying reimbursable expenses have been incurred and conditions under the agreements are met. Gallaudet has elected the simultaneous release policy available under ASU 2018-08 for donor-restricted contributions that were initially conditional contributions, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized.

Based on the adoption of ASU 2018-08, approximately 5% and 100% of the total governmental grants and contracts, were considered exchange transactions for the years ended September 30, 2019 and 2018, respectively. For the contracts treated as exchange transactions, the University has the right to consideration from the sponsoring organization in an amount that corresponds directly with the value to the sponsoring organization of the University's performance completed to date (costs incurred). For these agreements, the University recognizes revenue in the amount to which the University has the right to invoice.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

For grants and contracts treated as nonreciprocal transactions, Gallaudet had approximately \$4,500,000 in unrecognized conditional contributions as of September 30, 2019. The revenue related to these awards is conditioned on incurring allowable expenditures under the terms of the respective agreements.

For exchange transactions associated with governmental grants and contracts, which are recognized based on the right to invoice, the University has elected the practical expedient not to disclose information about unsatisfied performance obligations.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. 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. Contributed services are recorded at their estimated fair value if they would otherwise be purchased if not provided by donation and provided by professionals in their field.

Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Contributions to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Contribution receivables are written-off when deemed uncollectible.

Auxiliary Enterprises - Auxiliary enterprises include a variety of services that enhance the quality of student life on campus. Auxiliary enterprises revenue, which includes bookstore operations, the University Press, conference activities, community interpreting, hearing and speech clinic operations, and lease-related income, are received and recognized when the goods and services are rendered, and typically occur in the same fiscal year.

In the following table, revenue is disaggregated by type of services provided for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Kellogg Conference Hotel	\$ 7,653,261	\$ 7,249,334
Press and other publications	742,597	698,475
Bookstore	639,979	618,641
Hearing and speech center	620,151	572,480
Other space rentals	533,625	741,804
Commitment revenue	-	644,444
Other auxiliary revenue	<u>898,782</u>	<u>837,206</u>
Total auxiliary enterprises	<u>\$ 11,088,395</u>	<u>\$ 11,362,384</u>

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Deferred Tuition Revenue

Deferred tuition revenue at September 30, 2019 and 2018 totaling \$8,870,382 and \$5,170,000, respectively, represents the University's performance obligations to transfer future enrollment and instructional services to students. For the years ended September 30, 2019 and 2018, the University recognized as revenue the entire amount that was included in deferred revenues at the end of the preceding year. As discussed in Note 4, the adoption of ASU 2014-09 resulted in the recognition of non-refundable amounts of \$4,209,950 as of September 30, 2019 due under student tuition, fees and housing contracts for which the associated performance obligations are unsatisfied.

Subsequent Events

The University evaluated its subsequent events (events occurring after September 30, 2019) through December 23, 2019, which represents the date the financial statements were issued. The University is not aware of any subsequent events that require recognition or disclosure in the accompanying financial statements.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available within one year of the statement of financial position as of September 30, 2019 for general expenditure are as follows:

Financial assets, at year end		
Cash and cash equivalents		\$ 11,544,545
Accounts receivable, net		10,414,677
Receivable from U.S. government		15,410,403
Contributions receivable, net		3,508,665
Investments		<u>192,867,677</u>
		<u>233,745,967</u>
Less:		
Board-designated endowments not expected to be used for operations		(46,384,397)
Restricted by donors in perpetuity		(128,621,622)
Restricted by donor for time or purpose		(17,495,413)
Cash restricted for Perkins loan program		<u>(243,354)</u>
		<u>(192,744,786)</u>
Add:		
Endowment return appropriated for spending in the following year for general purposes		<u>5,267,698</u>
		<u>5,267,698</u>
Financial assets available to meet cash needs for general expenditures within one year		<u><u>\$ 46,268,879</u></u>

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

A significant portion of Gallaudet’s annual expenditures are funded by the direct appropriation from the federal government. Gallaudet’s practice is to draw down appropriation funding every two weeks to align with the timing of payroll needs of the University. Gallaudet’s annual expenditures are also supported by current-year operating revenues including student tuition, fees, room and board, grants and contracts, and sales of services of auxiliary enterprises. Gallaudet has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Gallaudet also maintains a line of credit of \$20 million (as further discussed in Note 9) that can be drawn upon during the year, as needed, to manage cash flows. As of September 30, 2019, there were no amounts outstanding on the line of credit. In addition, Gallaudet has \$46.4 million in board-designated endowments, which could be made available for general expenditure with appropriate Board of Trustees approval.

4. STUDENT ACCOUNTS, GRANTS, LOANS, AND OTHER RECEIVABLES, NET

Receivables (student, grants, loans and other), as of September 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Student accounts	\$ 7,366,415	\$ 2,269,343
Vocational Rehabilitation	4,807,550	5,236,431
Other	741,372	748,349
Grants and contracts	<u>206,757</u>	<u>274,423</u>
Total accounts receivable	13,122,094	8,528,546
Less: Allowance for doubtful accounts		
Student accounts	(2,179,624)	(1,734,833)
Vocational Rehabilitation	(487,878)	(103,507)
Other	<u>(39,915)</u>	<u>(40,077)</u>
Total allowance for doubtful accounts	<u>(2,707,417)</u>	<u>(1,878,417)</u>
Total accounts receivable, net	<u>\$ 10,414,677</u>	<u>\$ 6,650,129</u>
Student loans, gross	<u>\$ 466,738</u>	<u>\$ 588,595</u>

As required under ASU 2014-09, Gallaudet recorded non-refundable amounts of \$4,209,950 due under student tuition, fees and housing contracts for which the associated performance obligations are unsatisfied at September 30, 2019. This amount is included as a component of accounts receivable and deferred revenue in the accompanying statement of financial position as of September 30, 2019 and as student accounts in the table above. Prior to the adoption of ASU 2014-19, Gallaudet did not record such amounts in its financial statements. The unrecognized amount of non-refundable student tuition, fees and housing under student contracts at September 30, 2018 totaled \$3,722,255.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Amounts due under the Federal Perkins Loan Program, which total \$466,738 and \$588,595 as of September 30, 2019 and 2018, respectively, and not included in the table above, are guaranteed by the government. At September 30, 2019 and 2018, the following amounts were past due under the Federal Perkins Loan Program:

<u>Fiscal year ending September 30:</u>	<u>1 - 119 days past due</u>	<u>120 - 719 days past due</u>	<u>720 + days past due</u>	<u>Total past due</u>
2019	\$ 28,080	\$ 72,585	\$ 195,007	\$ 295,672
2018	\$ 15,669	\$ 43,909	\$ 198,013	\$ 257,591

5. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of September 30, 2019 and 2018 are expected to be received as follows:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 2,558,138	\$ 2,425,202
Between one and five years	<u>1,011,367</u>	<u>1,082,749</u>
	3,569,505	3,507,951
Less: Unamortized discount (1.100% - 3.613%)	(58,800)	(83,944)
Allowance for doubtful accounts	<u>(2,040)</u>	<u>(3,500)</u>
Total contributions receivable, net	<u>\$ 3,508,665</u>	<u>\$ 3,420,507</u>

During the year ended September 30, 2019, Gallaudet satisfied the remaining conditions contained in a donor agreement totaling \$1 million and recorded the previously unrecognized contribution revenue of \$800,000 as contributions with donor restrictions. As of September 30, 2019, Gallaudet has received \$600,000.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

6. INVESTMENTS

At September 30, 2019 and 2018, investments consist of the following:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 637,226	\$ 501,208
Equity securities:		
U.S. Large Cap	62,965,920	54,133,118
U.S. Small Cap	9,505,399	9,433,335
International (developed countries)	32,448,202	44,218,793
International (emerging markets)	6,013,429	6,134,534
Fixed income securities:		
U.S. bonds	33,201,239	27,196,112
High yield bonds	-	701,893
World bonds	1,247,419	3,226,741
Global real estate	4,112,291	3,827,197
Hedge funds	28,141,033	27,968,586
Private equity funds	12,172,927	9,325,530
Private real asset funds	2,422,592	3,101,892
Total investments	<u>\$ 192,867,677</u>	<u>\$ 189,768,939</u>

Gallaudet's investment policy for its pooled endowment emphasizes growth. The University follows the total return concept, which combines interest and dividends with market appreciation to measure investment return. The University's investment policy states that it will spend annually 4.8% of the three-year average fair value of the pooled funds.

Interest and dividends are reported net of investment expenses. Investment expenses for fiscal 2019 and 2018 totaled approximately \$773,000 and \$880,000, respectively. For the years ended September 30, 2019 and 2018, return on investments, which primarily related to the University's endowment, as further discussed in Note 12, consists of the following:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gain	\$ 1,098,564	\$ 8,198,649
Interest and dividends, net	3,310,202	2,631,602
Total return on investments	<u>\$ 4,408,766</u>	<u>\$ 10,830,251</u>
Operating investment income without donor restrictions	\$ 2,252,418	\$ 1,838,760
Nonoperating investment (loss) gain without donor restrictions	(1,025,404)	989,094
Operating investment income with donor restrictions	6,045,935	6,261,952
Nonoperating investment (loss) gain with donor restrictions	(2,864,183)	1,740,445
Total return on investments	<u>\$ 4,408,766</u>	<u>\$ 10,830,251</u>

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Interest earned on cash and cash equivalents for the years ended September 30, 2019 and 2018, which is included as part of operations in other revenue, totaled \$98,417 and \$55,241, respectively.

The following tables present Gallaudet's fair value hierarchy for those investment assets measured at fair value on a recurring basis at September 30, 2019 and 2018:

	2019				Total
	Level 1	Level 2	Level 3	Investments reported at NAV	
Investments					
Money market funds	\$ 637,226	\$ -	\$ -	\$ -	\$ 637,226
Equity securities:					
U.S. Large Cap	62,965,920	-	-	-	62,965,920
U.S. Small Cap	9,505,399	-	-	-	9,505,399
International (developed countries)	32,448,202	-	-	-	32,448,202
International (emerging markets)	6,013,429	-	-	-	6,013,429
Fixed income securities:					
U.S. bonds	33,201,239	-	-	-	33,201,239
World bonds	1,247,419	-	-	-	1,247,419
Global real estate	4,112,291	-	-	-	4,112,291
Hedge funds	-	-	-	28,141,033	28,141,033
Private equity funds	-	-	-	12,172,927	12,172,927
Private real asset funds	-	-	-	2,422,592	2,422,592
Total investments	<u>150,131,125</u>	<u>-</u>	<u>-</u>	<u>42,736,552</u>	<u>192,867,677</u>
Deposits with trustee (money market funds)	2,511,181	-	-	-	2,511,181
Split-interest agreements	275,959	-	326,771	-	602,730
Total investment and similar assets	<u>\$ 152,918,265</u>	<u>\$ -</u>	<u>\$ 326,771</u>	<u>\$ 42,736,552</u>	<u>\$ 195,981,588</u>

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

	2018				Total
	Level 1	Level 2	Level 3	Investments reported at NAV	
Investments					
Money market funds	\$ 501,208	\$ -	\$ -	\$ -	\$ 501,208
Equity securities:					
U.S. Large Cap	54,133,118	-	-	-	54,133,118
U.S. Small Cap	9,433,335	-	-	-	9,433,335
International (developed countries)	44,218,793	-	-	-	44,218,793
International (emerging markets)	6,134,534	-	-	-	6,134,534
Fixed income securities:					
U.S. bonds	27,196,112	-	-	-	27,196,112
High yield bonds	701,893	-	-	-	701,893
World bonds	3,226,741	-	-	-	3,226,741
Global real estate	3,827,197	-	-	-	3,827,197
Hedge funds	-	-	-	27,968,586	27,968,586
Private equity funds	-	-	-	9,325,530	9,325,530
Private real asset funds	-	-	-	3,101,892	3,101,892
Total investments	<u>149,372,931</u>	<u>-</u>	<u>-</u>	<u>40,396,008</u>	<u>189,768,939</u>
Deposits with trustee (money market funds)	2,435,566	-	-	-	2,435,566
Split-interest agreements	304,517	-	591,611	-	896,128
Total investments and similar assets	<u>\$ 152,113,014</u>	<u>\$ -</u>	<u>\$ 591,611</u>	<u>\$ 40,396,008</u>	<u>\$ 193,100,633</u>

The following table summarizes the changes in assets classified as Level 3 for the years ended September 30, 2019 and 2018:

	<u>Split-Interest Agreements</u>
Balance as of September 30, 2017	\$ 599,342
Investment loss	<u>(7,731)</u>
Balance as of September 30, 2018	591,611
Cash received from trust liquidation	(345,531)
Investment gain	<u>80,691</u>
Balance as of September 30, 2019	<u>\$ 326,771</u>

Annuities payable totaled \$142,501 and \$198,556 at September 30, 2019 and 2018, respectively, and are included in accounts payable and accrued expenses on the accompanying statements of financial position.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

The following table summarizes the changes in the annuities payable for the years ended September 30, 2019 and 2018:

	Payable to beneficiaries
Balance as of September 30, 2017	\$ 243,077
Contributions	6,422
Payments	(15,421)
Present value adjustment	<u>(35,522)</u>
Balance as of September 30, 2018	198,556
Payments	(28,558)
Present value adjustment	<u>(27,497)</u>
Balance as of September 30, 2019	<u>\$ 142,501</u>

The following table presents the nature and risk of investment assets held at September 30, 2019 and 2018 with fair values reported using a NAV:

Investment description	2019		Unfunded commitments	2018 Fair value	Redemption frequency (if currently eligible)	Redemption notice period
	# of Funds	Fair value				
Hedge funds (a)	5	\$ 28,141,033	N/A	\$ 27,968,586	Quarterly	62-72 days
Private equity funds (b)	11	12,172,927	\$ 18,958,975	9,325,530	Upon Liquidation	
Private real asset funds (c)	<u>2</u>	<u>2,422,592</u>	<u>1,262,130</u>	<u>3,101,892</u>	Upon Liquidation	
Total	<u>18</u>	<u>\$ 42,736,552</u>	<u>\$ 20,221,105</u>	<u>\$ 40,396,008</u>		

Gallaudet's unfunded commitments to certain private equity and private real asset funds are expected to be satisfied by fiscal 2022.

Redemption frequency and notice periods and strategy for each of the respective funds presented in the above chart are as follows as of September 30, 2019 and 2018.

- (a) This class includes investments in single manager hedge funds and investments in hedge funds across several strategies. The investment objective of the hedge fund allocation is to target attractive risk-adjusted returns with volatility lower than that of the broad equity markets. To achieve its objective, the hedge fund allocation invests in investment funds managed by independent investment managers that employ a broad range of alternative investment strategies, primarily within the equity long/short, event driven and tactical trading hedge fund sectors.

This class includes several private equity funds that invest in either domestic or international limited partnerships. These investments are geographically diversified among the United States, Europe, Latin America and Asia. Allocations consist of leveraged buy-outs, venture capital expansion opportunities, recapitalization, distressed and special situation investments. The fair values of these investments have been estimated using the NAV of Gallaudet's ownership interest in partners'

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

capital. These investments can never be redeemed with the funds. Instead, the nature of investments in this class is that distributions are received through liquidation of the underlying assets of the funds at the direction of the fund managers. It is estimated that the underlying assets of the funds will be liquidated over 1 to 10 years.

- (b) This class includes investments in limited partnerships with several underlying holdings in private investment partnerships, limited liability companies, or similar entities that invest in real assets, also known as inflation hedging investments. Real asset allocations are primarily in natural resources, power, infrastructure and to a smaller extent, real estate. The fair values of these investments have been estimated using the NAV of Gallaudet's ownership interest in partners' capital. These investments can never be redeemed with the funds. Instead, distributions are received through liquidation of the underlying assets of the funds at the discretion of the fund manager. It is estimated that the underlying assets of the funds will be liquidated over the following 3 to 10 years.

7. LAND, BUILDINGS, AND OTHER PROPERTY, NET

At September 30, 2019 and 2018, land, buildings, and other property consist of the following:

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 334,811,369	\$ 331,702,334
Outside improvements	44,032,404	42,047,859
Furniture and equipment	39,784,917	38,045,837
Land stabilization improvements	6,190,017	6,190,017
Software	<u>7,281,947</u>	<u>6,590,124</u>
	432,100,654	424,576,171
Less: Accumulated depreciation and amortization	<u>(221,557,756)</u>	<u>(206,864,206)</u>
	210,542,898	217,711,965
Land	1,410,480	1,468,119
Construction in progress	<u>1,474,010</u>	<u>2,313,780</u>
Land, buildings, and other property, net	<u>\$ 213,427,388</u>	<u>\$ 221,493,864</u>

Included in furniture and equipment is copier equipment acquired under capital lease arrangements for five years with a cost of \$1,554,000 and \$1,519,000 and accumulated depreciation of \$640,038 and \$437,770 as of September 30, 2019 and 2018, respectively.

In fiscal year 2019, Gallaudet sold a parcel of land located on 5th Street NE for \$5,519,115 resulting in a gain of \$5,461,476 which is reported as an operating gain on capital asset related activities in the accompanying statement of activities for the year ended September 30, 2019. In February 2019, the Board of Trustees approved use of the proceeds from the land sale to create a new quasi-endowment fund to support the general operations of the University. The establishment of this board-designated fund of \$5,519,115 is included in the accompanying statement of activities for the year ended September 30, 2019 as board-designated transfer from operating activities to non-operating activities.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

In fiscal years 2019 and 2018, Gallaudet recognized net gains of \$38,393 and \$41,855, respectively, associated with the replacement of existing leased copiers.

The following table represents the activity for the conditional asset retirement obligations for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 646,088	\$ 633,609
Accretion expense	<u>13,203</u>	<u>12,479</u>
Balance, end of year	<u>\$ 659,291</u>	<u>\$ 646,088</u>

8. RETIREMENT PLANS

Although Gallaudet is a private institution, legislation enacted by the U.S. Congress permits regular status employees to be covered by federal retirement programs. Under these arrangements, employees contribute a percentage of their salaries to one of two retirement systems, and Gallaudet matches a certain percentage of each employee's contributions. The University contributed \$12,853,206 and \$12,867,300 for the years ended September 30, 2019 and 2018, respectively, to these retirement programs which is included as a component of benefits expense in the accompanying statements of activities. Employee and matching contributions are paid to the U.S. Office of Personnel Management, the administrator of the plans. Gallaudet has no unfunded pension costs under these plans.

9. LINE OF CREDIT

In April 2019, Gallaudet renewed its unsecured line of credit with PNC Bank, National Association of \$20 million and extended the expiration date to April 2020. Amounts drawn on this line accrue interest at a floating interest rate that ranged from 1.13% to 3.20% during each of the years ended September 30, 2019 and 2018. During fiscal year 2019, Gallaudet drew on this line on two occasions for a total of \$10 million. Interest expense incurred on these draws totaled \$18,412 for the year ended September 30, 2019. During fiscal year 2018, Gallaudet drew on this line on three occasions for a total of \$16.5 million. Interest expense incurred on these draws totaled \$5,758 for the year ended September 30, 2018. There was no outstanding balance on this line of credit at September 30, 2019 and 2018.

10. TAX-EXEMPT REVENUE BONDS

In May 2011, the District of Columbia issued Series 2011 tax-exempt revenue bonds in the amount of \$40,000,000 on behalf of Gallaudet. These bonds were sold to finance the costs of (i) building a new student housing facility, (ii) renovating and improving heating and lighting systems and controls in campus buildings, (iii) upgrading technology infrastructure, and (iv) renovating resident halls, classroom buildings, and other campus facilities. These projects were all completed before September 30, 2016.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Gallaudet is obligated under the revenue bonds as follows:

	<u>2019</u>	<u>2018</u>
Series 2011 revenue bonds, serial, with interest rates ranging from 4.000% to 4.875%, maturing at various dates from April 1, 2018 to April 1, 2026	\$ 7,155,000	\$ 8,020,000
Series 2011 revenue bonds, term		
Interest rate 5.5%, maturing April 1, 2034	11,885,000	11,885,000
Interest rate 5.5%, maturing April 1, 2041	<u>15,510,000</u>	<u>15,510,000</u>
Total bonds, at face value	34,550,000	35,415,000
Less: Unamortized discount and premium	(513,164)	(539,150)
Unamortized deferred financing costs	<u>(582,701)</u>	<u>(623,191)</u>
Total bonds payable	<u>\$ 33,454,135</u>	<u>\$ 34,252,659</u>

The serial and term bonds represent unsecured general obligations of Gallaudet.

Interest on the bonds is payable semi-annually, every April 1st and October 1st.

The term bonds maturing on April 1, 2034 and April 1, 2041, are subject to mandatory redemption by operation of sinking fund installments. The installment payments for the term bonds maturing April 1, 2034, begin on April 1, 2027, and range from \$1.2 million to \$1.8 million per year through the maturity date. Installment payments for the term bonds maturing April 2041, begin on April 1, 2035, and range from \$1.9 million to \$2.6 million per year through the maturity date.

Required principal and interest payments due on all debt obligations during the next five fiscal years and in total thereafter are as follows:

<u>Fiscal year ending September 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
2020	\$ 895,000	\$ 1,831,856	\$ 2,726,856
2021	935,000	1,796,056	2,731,056
2022	970,000	1,758,656	2,728,656
2023	1,010,000	1,717,431	2,727,431
2024	1,065,000	1,644,406	2,709,406
Thereafter	<u>29,675,000</u>	<u>16,724,026</u>	<u>46,399,026</u>
	<u>\$ 34,550,000</u>	<u>\$ 25,472,431</u>	<u>\$ 60,022,431</u>

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

11. NET ASSETS

Gallaudet's net assets without donor restrictions are comprised of undesignated amounts and Board-designated quasi-endowments for the following purposes at September 30 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Funds functioning as endowment (quasi-endowment):		
Scholarships	\$ 3,035,473	\$ 3,118,070
Program and general support	<u>43,348,924</u>	<u>38,772,616</u>
Total funds functioning as endowment (quasi-endowment)	46,384,397	41,890,686
Infrastructure and operations	<u>198,016,823</u>	<u>194,959,323</u>
Total net assets without donor restrictions	<u>\$ 244,401,220</u>	<u>\$ 236,850,009</u>

Net assets with donor restrictions are restricted for the following purposes at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Donor-restricted endowment to be held in perpetuity:		
Scholarships	\$ 33,999,393	\$ 33,264,684
Program and general support	<u>92,866,104</u>	<u>92,398,271</u>
Total donor-restricted endowment to be held in perpetuity	126,865,497	125,662,955
Accumulated earnings subject to spending policy:		
Scholarships	3,255,590	3,876,261
Program and general support	<u>9,469,243</u>	<u>11,737,160</u>
Total accumulated earnings subject to spending policy	12,724,833	15,613,421
Restricted for specific purposes or time periods:		
Scholarships	185,467	280,038
Program support	2,522,465	1,265,668
Pledges receivable for endowment	1,508,416	1,432,240
Time restricted (principally pledges)	2,000,249	1,988,268
Split-interest agreements	<u>456,096</u>	<u>722,420</u>
Total restricted for specific purposes or time	<u>6,672,693</u>	<u>5,688,634</u>
Total net assets with donor restrictions	<u>\$ 146,263,023</u>	<u>\$ 146,965,010</u>

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

The nature of net assets released from restrictions for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Endowment spending:		
Scholarships	\$ 150,742	\$ 144,367
Program support	235,484	189,736
General support	<u>5,503,580</u>	<u>5,672,998</u>
Total endowment spending	5,889,806	6,007,101
Restricted for specific purposes or time periods:		
Scholarships	238,980	132,645
Program support	1,096,097	5,277,132
Time restricted (collection of pledges)	<u>1,270,043</u>	<u>597,154</u>
Total restricted for specific purposes or time restricted	<u>2,605,120</u>	<u>6,006,931</u>
 Total net assets released from restrictions	 <u>\$ 8,494,926</u>	 <u>\$ 12,014,032</u>

12. ENDOWMENT

The University's endowment consists of approximately 400 individual funds which have been established primarily to support the operations of the University and to provide for scholarships. The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Excluded from the University's donor-restricted endowment are contributions receivable and split-interest agreements. The donor-restricted endowment includes accumulated unspent earnings from endowment funds required to be held in perpetuity and is available for expenditure in subsequent years following appropriation by the University's Board of Trustees. The donor-restricted endowment also includes accumulated losses on individual donor-restricted endowment funds that have fallen below the amount required to be maintained as a fund of permanent duration.

Interpretation of Relevant Law

The University's Board of Trustees has interpreted the District of Columbia Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the University, absent explicit donor stipulations to the contrary, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. The University classifies as net assets with donor restrictions the sum of: (a) the original value of gifts donated to its donor-restricted endowment; (b) the original value of subsequent gifts to its donor-restricted endowment; (c) additions to its donor-restricted endowment made in accordance with the applicable donor gift instrument at the time the

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

accumulation is added to the fund; and (d) the appreciation on donor-restricted endowment funds until those amounts are appropriated for expenditure by the University's Board of Trustees.

The University defines the appropriation of endowment net assets for expenditure as the authorization of its investment spending rate as approved annually by its Board of Trustees. In making a determination to appropriate or accumulate, the University adheres to the standard of prudence prescribed by UPMIFA and considers the following factors:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the University and its endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The expected total return from endowment investments;
- (6) Other resources of the institution; and
- (7) The investment policy of the University.

Return Objectives and Strategies

The University has adopted investment and spending policies for endowment assets that support the objective of providing a sustainable and increasing level of endowment income distribution to support the University's activities while preserving the real purchasing power of the endowment. The University's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital. To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy, the objective of which is to achieve a return consisting of a combination of current income and capital appreciation recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results. The endowment portfolio is diversified among various asset classes and utilizes various strategies to manage risk.

The University's investment policy states that it will spend annually 4.8% of the three-year average fair value of the endowment. However, when donors have expressly stipulated the payout percentage of earnings on endowments, which differs from University policy, it is followed.

Endowment net asset composition by type of fund as of September 30, 2019 follows:

Endowment net asset composition by type of fund as of September 30, 2019	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 46,384,397	\$ -	\$ 46,384,397
Donor-restricted endowment funds	-	139,590,330	139,590,330
Total endowment funds	<u>\$ 46,384,397</u>	<u>\$ 139,590,330</u>	<u>\$ 185,974,727</u>

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Endowment net asset composition by type of fund as of September 30, 2018 follows:

Endowment net asset composition by type of fund as of September 30, 2018	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 41,890,686	\$ -	\$ 41,890,686
Donor-restricted endowment funds	<u>-</u>	<u>141,276,376</u>	<u>141,276,376</u>
Total endowment funds	<u>\$ 41,890,686</u>	<u>\$ 141,276,376</u>	<u>\$ 183,167,062</u>

Changes in endowment assets for the year ended September 30, 2019 follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, October 1, 2018	\$ 41,890,686	\$ 141,276,376	\$ 183,167,062
Investment return	1,068,675	3,181,752	4,250,427
Contributions	-	976,443	976,443
Transfers in	5,519,115	-	5,519,115
Amounts expended, pursuant to spending policy	(2,094,079)	(5,889,806)	(7,983,885)
Other changes:			
Reclassification of net assets due to clarification of donor intent	<u>-</u>	<u>45,565</u>	<u>45,565</u>
Endowment net assets, September 30, 2019	<u>\$ 46,384,397</u>	<u>\$ 139,590,330</u>	<u>\$ 185,974,727</u>

Changes in endowment assets for the year ended September 30, 2018 follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, October 1, 2017	\$ 40,641,580	\$ 138,470,158	\$ 179,111,738
Investment return	2,704,124	8,002,397	10,706,521
Contributions	-	1,005,783	1,005,783
Amounts expended, pursuant to spending policy	(1,715,030)	(6,007,101)	(7,722,131)
Other changes:			
Net asset reclassification	260,012	(260,012)	-
Reclassification of net assets due to clarification of donor intent	<u>-</u>	<u>65,151</u>	<u>65,151</u>
Endowment net assets, September 30, 2018	<u>\$ 41,890,686</u>	<u>\$ 141,276,376</u>	<u>\$ 183,167,062</u>

The accompanying statements of activities shows investment return without donor restrictions appropriated for expenditure of \$2,252,418 and \$1,838,760, respectively, for fiscal 2019 and fiscal 2018. These amounts differ from the amounts expended, pursuant to spending policy shown in the tables above by \$158,339 and \$123,730, respectively, which represents investment earnings on operating investments held by the University.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or D.C. UPMIFA requires the University to retain as a fund of permanent duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The University's spending policy allows for 2% of the three-year moving average to be spent for underwater donor-restricted endowment funds, assuming the fund is less than 20% underwater. Funds that are greater than 20% underwater, of which there were none in fiscal year 2019 or 2018, have their payouts suspended.

As of September 30, 2019 and 2018, there was a total of 74 and 50 individual donor-restricted endowment funds, respectively, with a fair value less than their historical corpus value. As of September 30, 2019 and 2018, funds with an original gift value of \$11,363,000 and \$8,021,000, respectively, were underwater by approximately \$260,000 at each year end.

13. FUNCTIONAL AND NATURAL CLASSIFICATION OF EXPENSES

Gallaudet's primary program service is academic instruction and research. Expenses for auxiliary enterprises, library, and student services are incurred in support of academic instruction and research, and as such as included therein. Maintenance and operation of plant is allocated to program and supporting activities based upon periodic assessment of facilities usage. Depreciation, amortization and interest expense are allocated based on estimated use of the physical assets. Other natural expenses attributable to more than one functional category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

Expenses are reported in the accompanying statements of activities in natural categories. Functional expenses were categorized as follows for the year ended September 30, 2019, with comparative totals for the year ended September 30, 2018:

	Academic instruction & research	General administration	Total
For the year ended September 30, 2019:			
Salaries and wages	\$ 77,312,442	\$ 10,613,960	\$ 87,926,402
Employee benefits	25,538,766	3,710,747	29,249,513
Utilities	6,049,878	439,037	6,488,915
Bond interest	1,875,143	-	1,875,143
Depreciation and amortization	12,697,625	2,576,180	15,273,805
Consultants, advisors and other professional fees	21,647,963	10,687,507	32,335,470
Supplies, travel and other expenses	10,244,360	4,903,843	15,148,203
Total	<u>\$ 155,366,177</u>	<u>\$ 32,931,274</u>	<u>\$ 188,297,451</u>
Comparative totals for the year ended September 30, 2018	<u>\$ 159,198,116</u>	<u>\$ 28,113,997</u>	<u>\$ 187,312,113</u>

Fundraising expenses include personnel and other direct costs associated with fundraising efforts. Fundraising expenses are included in general administration in the table above and totaled approximately \$2,100,000 and \$2,200,000 for fiscal 2019 and 2018, respectively.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

14. COMMITMENTS AND CONTINGENCIES

Gallaudet receives significant amounts of federal funding in the form of appropriations, grants, and contracts. These awards are subject to audit by federal agencies. Management is of the opinion that disallowances, if any, would not have a significant effect on the financial position, change in net assets or cash flows of the University.

The University is a party to litigation and other claims in the ordinary course of its business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position, change in net assets or cash flows of the University.

In April 2015, Gallaudet signed a Development Agreement with a Real Estate Developer (the “Developer”) to develop four university-owned commercial parcels of land located adjacent to the Gallaudet campus. The University intends to sign ground leases with the Developer in phases outlined in the Development Agreement.

Pursuant to the Development Agreement, the Developer made two non-refundable deposits totaling \$10 million into an escrow account, which will act as security for the Developer’s performance under the Development Agreement. The first deposit for \$6 million was made during fiscal year 2015. The second deposit for \$4 million was made during fiscal year 2019. The Development Agreement permits Gallaudet to draw down up to \$2.9 million of the escrow funds to cover certain land improvement costs and is considered an irrevocable commitment fee from the Developer to secure the future leases with the University. During fiscal 2017, the University entered into a tri-party agreement to modify the existing Development Agreement to exclude approximately 8,760 square feet of land and for Gallaudet to sell this parcel to a second real estate developer. As discussed in Note 7, the sale of the land closed during fiscal 2019.

During fiscal 2015, Gallaudet recorded the net escrow deposit of \$2.9 million in deposits held with trustee, and a corresponding amount recorded as deferred revenue in the 2015 statement of financial position. The deferred revenue was amortized on a straight-line basis over the 3 subsequent years at which time the first ground lease was anticipated to commence. For the year ended September 30, 2018, approximately \$644,000 was recognized in commitment revenue, and the remaining deferred revenue totaled \$0 at September 30, 2018.

GALLAUDET UNIVERSITY
Notes to Financial Statements
September 30, 2019 and 2018

From time to time, the University enters into capital leases for office, technology, or other equipment. Remaining future minimum rental payments under such leases, which extend through 2024, totaled \$1,670,864 at September 30, 2019 and are payable as follows:

Fiscal year ending September 30:

2020	\$ 518,321
2021	485,586
2022	431,584
2023	214,896
2024	<u>20,477</u>
	1,670,864
Less: Interest	<u>(584,237)</u>
Total obligations under capital leases	<u>\$ 1,086,627</u>

Gallaudet has awarded grants to other institutions to perform research and perform other services. At September 30, 2019, Gallaudet has conditional contributions made related to these awards totaling approximately \$1,478,000, which have not been recognized as a liability in the accompanying statement of financial position. These contributions are conditioned on the recipient incurring allowable expenditures under federal cost circulars and are expected to be satisfied during fiscal 2020.