Financial Statements Together with
Report of Independent Certified Public Accountants

GALLAUDET UNIVERSITY

September 30, 2016 and 2015

GALLAUDET UNIVERSITY

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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, 2016 and 2015, 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, 2016 and 2015, 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 16, 2016

GALLAUDET UNIVERSITY
Statements of Financial Position
As of September 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 9,850,460	$ 6,035,753
Accounts receivable, net (Note 3)	6,018,129	5,251,948
Receivable from U.S. government	1,645,814	3,982,014
Contributions receivable, net (Note 4)	1,904,733	5,700,858
Prepaid expenses and other assets	2,508,459	2,072,150
Deposits with trustee (Notes 5, 9, and 12)	3,486,910	5,415,216
Inventories, net	930,770	1,001,601
Student loans receivable (Note 3)	788,481	961,248
Investments (Note 5)	176,941,583	187,708,240
Split-interest agreements (Note 5)	737,232	969,729
Land, buildings, and other property, net (Note 6)	227,520,185	206,295,080
Total assets	$ 432,332,756	$ 425,393,837
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 9,635,557	$ 13,831,257
Accrued payroll	8,064,000	7,152,000
Deferred tuition revenue	5,993,000	4,602,000
Other deferred revenue (Note 12)	1,611,111	2,577,778
Obligations under capital leases (Note 12)	873,400	1,173,531
Conditional asset retirement obligations (Note 6)	620,268	605,802
Bonds payable, net (Note 9)	35,759,893	36,474,375
Refundable advances under U.S. government loan program	1,065,170	1,221,891
Total liabilities	63,622,399	67,638,634
Commitments and contingencies (Notes 5 and 12)		
Net assets (Notes 10 and 11):		
Unrestricted	227,536,808	210,599,026
Temporarily restricted	17,970,330	24,398,505
Permanently restricted	123,203,219	122,757,672
Total net assets	368,710,357	357,755,203
Total liabilities and net assets	$ 432,332,756	$ 425,393,837

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

GALLAUDET UNIVERSITY
Statement of Activities
For the year ended September 30, 2016, with comparative totals for 2015

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUES					
Tuition and fees	$ 27,369,068	$ -	$ -	$ 27,369,068	$ 25,469,084
Less: scholarships and fellowships	(8,968,345)	-	-	(8,968,345)	(8,037,943)
Net tuition and fees	18,400,723	-	-	18,400,723	17,431,141
Governmental appropriations - operations	121,275,000	-	-	121,275,000	120,275,000
Governmental appropriations - capital	17,238,857	-	-	17,238,857	6,164,532
Governmental grants and contracts	3,038,779	-	-	3,038,779	3,474,170
Contributions	577,170	1,990,172	-	2,567,342	7,029,241
Investment return used for operations (Note 5)	7,854,410	431,073	-	8,285,483	8,501,133
Auxiliary enterprises	24,776,908	-	-	24,776,908	21,518,467
Other	1,304,815	-	-	1,304,815	1,187,367
Total operating revenues	194,466,662	2,421,245	-	196,887,907	185,581,051
Net assets released from restrictions	4,037,555	(4,037,555)	-	-	-
Total operating revenues and other support	198,504,217	(1,616,310)	-	196,887,907	185,581,051
EXPENSES					
Instruction	68,792,642	-	-	68,792,642	68,260,418
Research	7,842,142	-	-	7,842,142	7,036,481
Public service	4,770,927	-	-	4,770,927	4,471,672
Academic support	18,012,277	-	-	18,012,277	15,632,253
Student services	24,602,028	-	-	24,602,028	23,963,724
Institutional support	27,519,201	-	-	27,519,201	25,546,028
Auxiliary enterprises	27,930,743	-	-	27,930,743	26,395,047
Total expenses	179,469,960	-	-	179,469,960	171,305,623
Changes in net assets from operations	19,034,257	(1,616,310)	-	17,417,947	14,275,428
NONOPERATING ACTIVITIES					
Investment (loss) income, net of amounts used for operations (Notes 5 and 11)	(2,242,318)	(4,839,656)	2,268	(7,079,706)	(21,161,968)
Contributions for endowment	-	-	576,272	576,272	629,326
Contributions relating to split-interest agreements	-	-	7,485	7,485	140,259
Change in the value of split-interest agreements	110,524	26,316	(132,108)	4,732	(17,963)
Recovery (write-off) of uncollectible pledges	-	1,475	(8,370)	(6,895)	(15,926)
Gain (loss) on capital asset related activities (Note 6)	35,319	-	-	35,319	(1,842,595)
Total nonoperating activities	(2,096,475)	(4,811,865)	445,547	(6,462,793)	(22,268,867)
Changes in net assets	16,937,782	(6,428,175)	445,547	10,955,154	(7,993,439)
Net assets, beginning of year	210,599,026	24,398,505	122,757,672	357,755,203	365,748,642
Net assets, end of year	$ 227,536,808	$ 17,970,330	$ 123,203,219	$ 368,710,357	$ 357,755,203

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

GALLAUDET UNIVERSITY
Statement of Activities
For the year ended September 30, 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 25,469,084	$ -	$ -	$ 25,469,084
Less: scholarships and fellowships	(8,037,943)	-	-	(8,037,943)
Net tuition and fees	17,431,141	-	-	17,431,141
Governmental appropriations - operations	120,275,000	-	-	120,275,000
Governmental appropriations - capital	6,164,532	-	-	6,164,532
Governmental grants and contracts	3,474,170	-	-	3,474,170
Contributions	345,950	6,683,291	-	7,029,241
Investment return used for operations (Note 5)	8,030,831	470,302	-	8,501,133
Auxiliary enterprises	21,518,467	-	-	21,518,467
Other	1,187,367	-	-	1,187,367
Total operating revenues	178,427,458	7,153,593	-	185,581,051
Net assets released from restrictions	1,922,147	(1,922,147)	-	-
Total operating revenues and other support	180,349,605	5,231,446	-	185,581,051
EXPENSES				
Instruction	68,260,418	-	-	68,260,418
Research	7,036,481	-	-	7,036,481
Public service	4,471,672	-	-	4,471,672
Academic support	15,632,253	-	-	15,632,253
Student services	23,963,724	-	-	23,963,724
Institutional support	25,546,028	-	-	25,546,028
Auxiliary enterprises	26,395,047	-	-	26,395,047
Total expenses	171,305,623	-	-	171,305,623
Changes in net assets from operations	9,043,982	5,231,446	-	14,275,428
NONOPERATING ACTIVITIES				
Investment income, net of amounts used for operations (Notes 5 and 11)	(6,003,520)	(15,207,385)	48,937	(21,161,968)
Contributions for endowment	-	-	629,326	629,326
Contributions relating to split-interest agreements	-	-	140,259	140,259
Change in the value of split-interest agreements	(6,920)	(7,304)	(3,739)	(17,963)
Write-off of uncollectible pledges	-	(15,696)	(230)	(15,926)
Loss on capital asset related activities (Note 6)	(1,842,595)	-	-	(1,842,595)
Total nonoperating activities	(7,853,035)	(15,230,385)	814,553	(22,268,867)
Changes in net assets	1,190,947	(9,998,939)	814,553	(7,993,439)
Net assets, beginning of year	209,408,079	34,397,444	121,943,119	365,748,642
Net assets, end of year	$ 210,599,026	$ 24,398,505	$ 122,757,672	$ 357,755,203

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

GALLAUDET UNIVERSITY
Statements of Cash Flows
For the years ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 10,955,154	$ (7,993,439)
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities		
Depreciation and amortization	13,532,657	12,344,315
Commitment fee revenue	(983,301)	(323,695)
Amortization of deferred financing costs	45,029	47,483
Amortization of bond discount	10,489	7,053
Accretion of interest on conditional asset retirement obligations	14,466	29,058
Bad debt expense	318,259	345,193
(Gain) loss on capital asset related activities	(35,319)	1,436,918
Write-off of uncollectible pledges	6,895	15,926
Net loss on investments	1,815,044	16,239,421
(Increase) decrease in assets:		
Receivables	5,040,990	(7,675,317)
Split-interest agreements	232,497	(116,802)
Prepaid expenses	(129,409)	(536,771)
Inventories	70,831	(60,055)
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	(6,846,530)	(2,381,126)
Deferred tuition revenue	1,391,000	1,587,000
Contributions restricted for permanent endowment	(689,250)	(645,634)
Investment income restricted for permanent endowment	(2,268)	(48,937)
Net cash provided by operating activities	24,747,234	12,270,591
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and redemptions of investments	174,694,256	47,353,561
Purchases of investments	(165,742,643)	(57,246,667)
Proceeds from the sale of fixed assets	286,818	62,306
Purchases of capital assets	(31,340,995)	(23,278,910)
Disbursements of loans to students	-	(62,000)
Repayment of loans by students	172,767	232,978
Net cash used in investing activities	(21,929,797)	(32,938,732)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in refundable advances from U.S. government	(156,721)	934
Proceeds from contributions and investment income restricted to permanent endowment	691,518	694,571
Payments under capital leases	(405,567)	(535,482)
Payments of deferred lease costs	(306,900)	(686,033)
Payment of principal on bonds payable	(770,000)	(750,000)
Decrease in deposits with trustee	1,944,940	2,110,047
Net cash provided by financing activities	997,270	834,037
Net increase (decrease) in cash and cash equivalents	3,814,707	(19,834,104)
Cash and cash equivalents, beginning of year	6,035,753	25,869,857
Cash and cash equivalents, end of year	$ 9,850,460	$ 6,035,753
Supplemental disclosures:		
Capital asset purchases included in accounts payable	$ 2,179,437	$ 6,354,811
Capital asset acquired with capital leases	$ 391,073	$ 143,692
Construction retainage	$ 1,383,393	$ 1,082,227
Cash paid for interest	$ 2,262,779	$ 2,148,808

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

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 December of 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 2016 and 2015 and totaled approximately $54,000 and $53,000 for 2016 and 2015, respectively. 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 2016 and 2015, approximately 70% of the University's unrestricted operating revenues and other support were derived from federal appropriations. In fiscal years 2016 and 2015, Gallaudet also received a capital appropriation to construct, repair and restore land and buildings on campus.

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. The University enrolls 1,670 undergraduate and graduate students, and the Clerc Center enrolls 272 elementary and secondary school students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The significant accounting policies employed by Gallaudet in the preparation of its financial statements are described below.

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:

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit Gallaudet to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted - Net assets subject to donor-imposed stipulations that will be met either by actions of Gallaudet and/or the passage of time.

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

When a donor-imposed restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In addition, temporary restrictions on gifts received that must be used to acquire long-lived assets are released in the period in which the assets are acquired, constructed and placed in service. Gifts for these purposes which remain outstanding are included in temporarily restricted net assets 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, net assets released for capital expenditures, contributions for capital or endowment purposes, change in value of split-interest agreements, and other activities which are considered to be nonrecurring in nature.

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 using an appropriate discount rate. For new contribution receivables, Gallaudet assigns discount rates based upon rates a market participant would demand and considers other relevant factors such as the creditworthiness of the respective donor. 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.

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, 2016 and 2015, the discount rates used to value split-interest agreements ranged between

1.13% and 2.53% and 1.26% and 3.28%, respectively, and represented the applicable Internal Revenue Service ("IRS") discount rate at the 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 5).

Governmental Appropriations

Amounts received under the federal appropriation are recognized as unrestricted revenue when allowable expenditures are incurred.

Tuition and Fees

Tuition and fees revenue, net of institutional scholarships and fellowships, are recognized as revenues over the academic terms to which they relate. Tuition and fees and related expenses pertaining to incomplete terms are apportioned, deferred and recognized in the fiscal year in which the instruction occurs. The University provides for potentially uncollectible student accounts and notes receivables based on historical collection experience.

During fiscal 2016, the University revised its process for determining receivables and deferred revenue pertaining to incomplete academic semesters as of year-end. The process implemented during fiscal 2016 allowed for a more precise determination and apportionment of such amounts between the relevant fiscal years. The University opted to apply this revised methodology to its previously presented student receivable and deferred revenue balances in the 2015 financial statements and recorded an immaterial adjustment to reduce both accounts by $1,764,000.

Grants and Contracts

Revenue from federal grants and contracts is recognized to the extent that qualifying reimbursable expenses have been incurred over the terms of the respective agreements.

Auxiliary Enterprises

Auxiliary enterprises include dormitory, food service, bookstore operations, the University Press, conference activities, community interpreting, hearing and speech clinic operations, and lease-related income. Only those activities which are revenue producing are included under this designation. For Clerc Center programs, costs incurred for dormitory and food service under the Model Secondary School for the Deaf and food service under the Kendall Demonstration Elementary School are reported as part of student services expense. Students are not billed for such services.

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.

Functional Expenses

Expenses are classified by major program categories and supporting services (institutional support) in the statement of activities.

Maintenance and operation of plant are allocated to programs and supporting services based on estimates of square footage used. Depreciation, amortization and interest expense are allocated based on estimated use of the physical assets.

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.

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.

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 fixed income securities, mutual funds which invest in fixed income securities, and individual corporate bonds. The estimated fair values of direct investments in exchange-traded fixed income securities 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 exchange-traded equity securities, equity mutual funds, and individual stocks. Fair values of exchange-traded equity securities 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.

- Natural Resources and Commodities - This class includes investments in natural resources and commodities through mutual funds and master limited partnerships ("MLPs"). Since both mutual funds and MLPs are valued at quoted prices in an active market, these investments 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' NAVs. Valuations provided by investment fund managers include estimates, appraisals, assumptions and methods that are reviewed by management. 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 the beneficial interest in remainder and perpetual trusts which are held by a third-party, Gallaudet estimates the fair value of its beneficial interest based on a 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.

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* ("ASU 2015-07"). The amendments within ASU

2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. ASU 2015-07 is effective for non-public entities for interim and annual reporting periods beginning after December 15, 2016 and should be applied retrospectively. Early application is permitted. The University early adopted this accounting pronouncement for the year ended September 30, 2015. Therefore, all alternative investments that are fair valued using the practical expedient are excluded from the fair value hierarchy disclosures and included as a reconciling item in Note 5.

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:

Asset Class	Estimated Lives (years)
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.

Inventories

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

Income Taxes

Gallaudet has been recognized by the IRS as exempt from federal income taxes, except on activities unrelated to its exempt purpose, under provisions of Section 501(a) as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The IRS has determined that Gallaudet is a publicly supported educational institution and not a private foundation.

Gallaudet recognizes the tax effects from an uncertain tax position in the financial statements only 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. Management believes that there are no uncertain tax positions within its financial statements. Additionally, Gallaudet has processes in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and, to review other matters that may be considered tax positions. The tax years ended 2013, 2014, 2015 and 2016 are still open to audit for both federal and District of Columbia purposes.

Fundraising

Fundraising expenses include personnel and other direct costs associated with fundraising efforts. Fundraising expenses are included in institutional support and totaled approximately $1,140,000 and $1,700,000 for fiscal 2016 and 2015, respectively.

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.

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 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.

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.

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, 2016 and 2015 totaled $45,029 and $47,483, respectively.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest - Imputation of Interest ("ASU 2015-03"), to simplify the presentation of debt issuance costs related to a recognized debt liability. Under these new requirements, previously capitalized debt issuance costs will be presented as a direct reduction from the carrying value of the respective debt liability, consistent with debt discounts. The guidance requires retrospective application and is effective for fiscal years beginning after December 15, 2015, however, early adoption is permitted. During fiscal 2016, the University adopted ASU 2015-03, and accordingly, reclassified its unamortized deferred financing costs totaling $708,096 and $753,125 as of September 30, 2016 and 2015, respectively, as a reduction of its bonds payable in the accompanying statements of financial position.

During fiscal 2016 and 2015, Gallaudet capitalized $306,900 and $686,033, respectively, in initial direct costs associated with the preparation of its long-term ground lease with a developer, as discussed further in Note 12. Gallaudet is amortizing 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, 2016 and 2015 as the lease has not yet been executed.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. Specifically, the University reclassified certain expenses amongst the functional expense categories on the 2015 statement of activities to conform with the 2016 presentation. The effect of these reclassifications did not change total revenues, expenses, or changes in net assets as previously presented in the 2015 financial statements.

Recently Issued Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). The amendments within ASU 2016-01 eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018 for entities that are not public business entities and early adoption is permitted. The University has early adopted this accounting pronouncement for the year ended September 30, 2016. Therefore, the fair value of the University's bonds payable as of September 30, 2016 and 2015 has not been disclosed.

Subsequent Events

The University evaluated its subsequent events (events occurring after September 30, 2016) through December 16, 2016, which represents the date the financial statements were issued.

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

Receivables (student, grants, loans and other), as of September 30, 2016 and 2015, consist of the following:

	2016	2015
Student accounts	$ 1,838,230	$ 2,756,048
Vocational Rehabilitation	5,407,243	4,404,997
Other	755,592	700,789
Grants and contracts	125,535	205,820
Total accounts receivable	8,126,600	8,067,654
Less: Allowance for doubtful accounts	(2,108,471)	(2,815,706)
Total accounts receivable, net	$ 6,018,129	$ 5,251,948
Student loans, gross	$ 788,481	$ 961,248

Amounts due under the Federal Perkins Loan Program are guaranteed by the government. At September 30, 2016 and 2015, the following amounts were past due under the Federal Perkins Loan Program:

Fiscal year ending September 30:	1 - 119 days past due	120 - 719 days past due	720 + days past due	Total past due
2016	$ 69,398	$ 46,847	$ 174,479	$ 290,724
2015	$ 28,547	$ 68,827	$ 186,479	$ 283,853

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of September 30, 2016 and 2015 are expected to be received as follows:

	2016	2015
Within one year	$ 1,471,825	$ 5,355,573
Between one and five years	462,532	365,927
	1,934,357	5,721,500
Less: Unamortized discount (1.100% - 2.163%)	(16,816)	(9,679)
Allowance for doubtful accounts	(12,808)	(10,963)
Total contributions receivable, net	$ 1,904,733	$ 5,700,858

5. INVESTMENTS

At September 30, 2016 and 2015, investments consist of the following:

	2016	2015
Money market funds	$ 2,152,871	$ 688,924
Equity securities:		
U.S. Large Cap	23,316,320	21,876,117
U.S. Small Cap	3,784,762	8,178,326
International (developed countries)	32,807,714	22,748,335
International (emerging markets)	-	13,130,013
Fixed income securities:		
U.S. bonds	86,921,203	17,929,731
High yield bonds	7,596,154	9,170,642
World bonds	2,566,211	13,145,252
Natural resources and commodities	-	18,821,472
Global real estate	4,797,517	13,794,674
Fund of hedge funds	3,650,266	37,426,611
Private equity funds	5,930,550	6,637,006
Private real asset funds	3,418,015	4,161,137
Total investments	$ 176,941,583	$ 187,708,240

At September 30, 2016, Gallaudet has committed to fund in future years $11,645,665 to certain private equity and private real asset funds. Such commitments are expected to be satisfied by fiscal 2020.

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, which was modified in fiscal 2016, states that it will spend annually 4.8% (5.0% prior to the modification) of the three-year average fair value of the pooled funds.

Interest and dividends are reported net of investment expenses. Investment expenses for fiscal 2016 and 2015 totaled approximately $508,000 and $492,000, respectively. For the years ended September 30, 2016 and 2015, return on investments, which primarily related to the University's endowment as further discussed in Note 11, consists of the following:

Interest earned on cash and cash equivalents for the years ended September 30, 2016 and 2015, which is included as part of operations in other revenue, totaled $16,996 and $2,877, respectively.

	2016	2015
Net realized and unrealized loss	$ (1,815,044)	$ (16,239,421)
Interest and dividends, net	3,020,821	3,578,586
Total return (loss) on investments	$ 1,205,777	$ (12,660,835)
Unrestricted operating investment income	$ 7,854,410	$ 8,030,831
Unrestricted nonoperating investment loss	(2,242,318)	(6,003,520)
Temporarily restricted operating investment income	431,073	470,302
Temporarily restricted nonoperating investment loss	(4,839,656)	(15,207,385)
Permanently restricted investment income	2,268	48,937
Total return (loss) on investments	$ 1,205,777	$ (12,660,835)

The following tables present Gallaudet's fair value hierarchy for those investment assets measured at fair value on a recurring basis at September 30, 2016 and 2015:

	2016				
	Level 1	**Level 2**	**Level 3**	**Investments Reported at NAV**	**Total**
Investments					
Money market funds	$ 2,152,871	$ -	$ -	$ -	$ 2,152,871
Equity securities:					
U.S. Large Cap	23,316,320	-	-	-	23,316,320
U.S. Small Cap	3,784,762	-	-	-	3,784,762
International (developed countries)	32,807,714	-	-	-	32,807,714
Fixed income securities:					
U.S. bonds	86,921,203	-	-	-	86,921,203
High yield bonds	7,596,154	-	-	-	7,596,154
World bonds	2,566,211	-	-	-	2,566,211
Global real estate	4,797,517	-	-	-	4,797,517
Fund of hedge funds	-	-	-	3,650,266	3,650,266
Private equity funds	-	-	-	5,930,550	5,930,550
Private real asset funds	-	-	-	3,418,015	3,418,015
Total investments	163,942,752	-	-	12,998,831	176,941,583
Deposits with trustee (money market funds)	3,486,910	-	-	-	3,486,910
Split-interest agreements	137,301	-	599,931	-	737,232
Total financial assets	$ 167,566,963	$ -	$ 599,931	$ 12,998,831	$ 181,165,725

	2015				
	Level 1	Level 2	Level 3	Investments Reported at NAV	Total
Investments					
Money market funds	$ 688,924	$ -	$ -	$ -	$ 688,924
Equity securities:					
U.S. Large Cap	21,876,117	-	-	-	21,876,117
U.S. Small Cap	8,178,326	-	-	-	8,178,326
International (developed countries)	22,748,335	-	-	-	22,748,335
International (emerging markets)	13,130,013	-	-	-	13,130,013
Fixed income securities:					
U.S. bonds	17,929,731	-	-	-	17,929,731
High yield bonds	9,170,642	-	-	-	9,170,642
World bonds	13,145,252	-	-	-	13,145,252
Natural resources and commodities	18,821,472	-	-	-	18,821,472
Global real estate	13,794,674	-	-	-	13,794,674
Fund of hedge funds	-	-	-	37,426,611	37,426,611
Private equity funds	-	-	-	6,637,006	6,637,006
Private real asset funds	-	-	-	4,161,137	4,161,137
Total investments	139,483,486	-	-	48,224,754	187,708,240
Deposits with trustee (money market funds)	5,415,216	-	-	-	5,415,216
Split-interest agreements	136,860	-	832,869	-	969,729
Total financial assets	$ 145,035,562	$ -	$ 832,869	$ 48,224,754	$ 194,093,185

The following table summarizes the changes in assets classified as Level 3 for the years ended September 30, 2016 and 2015:

	Split-Interest Agreements
Balance as of September 30, 2014	$ 693,759
Purchases	140,259
Investment loss	(1,149)
Balance as of September 30, 2015	832,869
Sales/Maturities	(259,380)
Investment gain	26,442
Balance as of September 30, 2016	$ 599,931

Annuities payable totaled $100,943 and $101,935 at September 30, 2016 and 2015, respectively, and are included in accounts payable and accrued expenses on the accompanying statements of financial position.

The following table summarizes the changes in the annuities payable for the years ended September 30, 2016 and 2015:

	Payable to Beneficiaries
Balance as of September 30, 2014	$ 107,430
Payments	(21,327)
Present value adjustment	15,832
Balance as of September 30, 2015	101,935
Contributions	5,515
Payments	(23,318)
Present value adjustment	16,811
Balance as of September 30, 2016	$ 100,943

The following table presents the nature and risk of investment assets held at September 30, 2016 and 2015 with fair values reported using a NAV:

Investment Description	2016 # of Funds	2016 Fair Value	2016 Unfunded Commitments	2015 Fair Value	Frequency (if Currently Eligible)	Redemption Notice Period
Fund of hedge funds (a)	1	$ 3,650,266	N/A	$ 37,426,611	Quarterly	65 days
Private equity funds (b)	6	5,930,550	$ 10,320,535	6,637,006	N/A	N/A
Private real asset funds (c)	2	3,418,015	1,326,130	4,161,137	N/A	N/A
Total	9	$ 12,998,831	$ 11,646,665	$ 48,224,754		

Redemption frequency and notice periods for each of the respective funds presented in the above chart are as follows as of September 30, 2016 and 2015.

(a) This class includes investments in a fund of hedge funds across several strategies. The objective of the fund is to achieve long-term returns commensurate with long-term returns from an investment in the general equity market, while experiencing volatility more like that of an investment in the general debt markets. Many of the underlying funds seek to achieve their investment objectives with minimal correlation with traditional equity or fixed income indices. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. The University fully redeemed its holdings in fiscal 2016, and the remainder is the fund's 10% holdback pending completion of the fund's year-end financial statement audit.

(b) 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 net asset value of Gallaudet's ownership interest in partners' 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.

(c) 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 net asset value 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 3 to 10 years.

6. LAND, BUILDINGS, AND OTHER PROPERTY, NET

At September 30, 2016 and 2015, land, buildings, and other property consist of the following:

	2016	2015
Buildings and improvements	$ 289,702,155	$ 273,596,521
Outside improvements	40,164,644	34,639,364
Furniture and equipment	35,148,739	38,436,868
Land stabilization improvements	6,190,017	6,190,017
Software	5,418,091	4,401,314
	376,623,646	357,264,084
Less: Accumulated depreciation and amortization	(182,613,254)	(176,006,447)
	194,010,392	181,257,637
Land	1,468,119	1,468,119
Construction in progress	32,041,674	23,569,324
Land, buildings, and other property, net	$ 227,520,185	$ 206,295,080

Included in furniture and equipment is copier equipment acquired under capital lease arrangements for five years with a cost of $2,218,238 and $2,810,694 and accumulated depreciation of $1,465,719 and $1,757,355 as of September 30, 2016 and 2015, respectively.

Included in construction in progress at September 30, 2016, are costs associated with the renovation of University academic buildings, central plant equipment, and the Clerc Center dormitory project. The University projects and the Clerc Center housing project are expected to be completed in fiscal 2017.

In fiscal 2016, Gallaudet recognized net gains of $35,319 associated with the replacement of existing leased copiers. Gallaudet recognized a net loss of $1,436,918 in fiscal 2015 related to the discontinued use of a Clerc Center student dormitory. The cost of the demolition and abatement of the Clerc Center student dormitory totaled $414,743, of which $9,066 was previously accrued for by the University. The additional cost of the demolition and abatement project of $405,677 has been shown as part of the nonoperating activities in the accompanying 2015 statement of activities.

The following table represents the activity for the conditional asset retirement obligations for the years ended September 30, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 605,802	$ 585,810
Obligations settled in current period	-	(9,066)
Accretion expense	14,466	29,058
Balance, end of year	$ 620,268	$ 605,802

7. 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 $12,283,999 and $11,766,076 for the years ended September 30, 2016 and 2015, respectively, to these retirement programs. 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.

8. LINE OF CREDIT

Gallaudet has a $15 million unsecured line of credit with PNC Bank, National Association, which expires in April 2017. There was no outstanding balance on this line of credit at September 30, 2016 and 2015.

9. 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 is obligated under the revenue bonds as follows:

	2016	**2015**
Series 2011 revenue bonds, serial, with interest rates ranging from 3.250% to 4.875%, maturing at various dates from April 1, 2016 to April 1, 2026	$ 9,650,000	$ 10,420,000
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	15,510,000	15,510,000
Total bonds, at face value	37,045,000	37,815,000
Less: Unamortized discount and premium	(577,013)	(587,502)
Unamortized deferred financing costs	(708,094)	(753,123)
Total bonds payable	$ 35,759,893	$ 36,474,375

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. For the periods ended September 30, 2016 and 2015, respectively, Gallaudet capitalized interest, net of earnings, of $14,467 and $203,864, relating to the projects described above.

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:

Fiscal year ending September 30:	**Principal**	**Interest**	**Service**
2017	$ 800,000	$ 1,931,656	$ 2,731,656
2018	830,000	1,899,656	2,729,656
2019	865,000	1,866,456	2,731,456
2020	895,000	1,831,856	2,726,856
2021	935,000	1,796,056	2,731,056
Thereafter	32,720,000	21,864,520	54,584,520
	$ 37,045,000	$ 31,190,200	$ 68,235,200

10. NET ASSETS

The nature of temporary restrictions on net assets at September 30, 2016 and 2015 are as follows:

	2016	2015
Instruction	$ 406,137	$ 618,205
Research	2,960,362	5,316,953
Public service	214,798	245,844
Academic support	2,252,192	2,225,894
Student services	5,599,925	6,481,739
Plant operations and maintenance	-	15,412
General operations	6,536,916	9,494,458
Total temporarily restricted net assets	$ 17,970,330	$ 24,398,505

Permanently restricted net assets are invested in perpetuity. The income and net gains generated by these assets are used to support donor-specified programs or the general activities of Gallaudet. At September 30, 2016 and 2015, Gallaudet held the following permanently restricted net assets, the income and net gains from which support the activities indicated below:

	2016	2015
Instruction	$ 2,864,604	$ 2,834,768
Research	2,122,361	2,087,361
Public service	2,168,960	2,163,630
Academic support	1,376,545	1,241,146
Student services	39,235,675	39,154,148
Plant operations and maintenance	528,121	527,095
General operations	74,906,953	74,749,524
Total permanently restricted net assets	$ 123,203,219	$ 122,757,672

11. ENDOWMENTS

Federal Endowment Fund

The Education of the Deaf Act of 1986 (the “Act”) established a Matching Endowment Program known as the Gallaudet University Federal Endowment Fund (the “Fund”). The original Act authorized annual appropriations to match (on a dollar-for-dollar basis for federal contributions up to $1,000,000 and on a two-dollar-for-one-dollar basis for federal contributions over $1,000,000) contributions received from non-federal sources. The amendments to the Act of 1998 removed the two-for-one provision and made the matches one-for-one for all non-federal contributions up to the federal contribution ceiling of $1,000,000 per year.

Both federal and matching cash contributions are placed in the Fund and, under the Act, are permanently restricted and unavailable for expenditure.

Under amendments to the Act in 1992, all annual federal and matching contributions to the Fund, as well as all realized and unrealized gains and losses, plus 50% of interest and dividends for a period of ten years following the fiscal year in which the appropriation was made, are all permanently restricted. The remaining 50% of interest and dividends earned annually from the Fund may be withdrawn and expended for general operations according to limitations set forth in the 1992 amendments. After this ten-year period has elapsed for each year's contributions, all future investment income attributable to that year's contributions, including realized and unrealized gains and losses, is available for general operations.

Reinvested income including interest, dividends, and realized and unrealized investment gains for 2016 and 2015 totaled $0 and $48,937, respectively. As of September 30, 2016 and 2015, permanently restricted net assets related to the Federal Endowment Fund consist of the following:

	2016	2015
Federal appropriations	$ 19,389,067	$ 19,389,067
Matching contributions	19,889,067	19,889,067
Permanently reinvested income:		
Interest and dividends	10,229,570	10,229,570
Realized and unrealized investment gains	24,053,132	24,053,132
Cumulative additions to the Fund	$ 73,560,836	$ 73,560,836

Endowments

The University's endowment consists of 386 individual funds which have been established primarily to support the operations of the University and to provide for scholarships. The University's endowment includes certain permanently restricted, temporarily restricted and unrestricted net assets. The permanently restricted portion includes the University's Federal Endowment Fund and other donor restricted funds that the University must hold in perpetuity, pursuant to express donor stipulations.

Excluded from the permanently restricted portion of the University's endowment are contributions receivable and split-interest agreements. The temporarily restricted portion of the endowment includes accumulated unspent earnings from the permanently restricted portion of the endowment and is available for expenditure in subsequent years following appropriation by the University's Board of Trustees. The unrestricted portion of the endowment includes certain funds which have been designated by the University's Board of Trustees to function as a fund of permanent duration (quasi-endowment) as well as any accumulated losses on any individual permanently restricted endowments funds.

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 permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument. The remaining portion of donor-restricted endowment funds that is not classified as permanently restricted is classified as temporarily restricted net assets until such 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 the 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, which was modified in fiscal 2016, states that it will spend annually 4.8% (5.0% prior to the modification) of the three-year average fair value of the endowment, exclusive of the portion relating to the federal 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, 2016 follows:

Endowment net asset composition by type of fund as of September 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 38,597,168	$ -	$ -	$ 38,597,168
Donor-restricted endowment funds	(1,820,314)	11,166,860	122,595,726	131,942,272
Total endowment funds	$ 36,776,854	$ 11,166,860	$ 122,595,726	$ 170,539,440

Endowment net asset composition by type of fund as of September 30, 2015 follows:

Endowment net asset composition by type of fund as of September 30, 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 36,049,405	$ -	$ -	$ 36,049,405
Donor-restricted endowment funds	(1,180,562)	15,908,739	121,910,768	136,638,945
Total endowment funds	$ 34,868,843	$ 15,908,739	$ 121,910,768	$ 172,688,350

Changes in endowment assets for the year ended September 30, 2016 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2015	$ 34,868,843	$ 15,908,739	$ 121,910,768	$ 172,688,350
Investment return (loss)	5,491,504	(4,408,583)	2,268	1,085,189
Contributions	4,150,000	-	689,250	4,839,250
Amounts appropriated for expenditure	(7,733,820)	(333,296)	-	(8,067,116)
Other changes:				
Reclassification of net assets due to clarification of donor intent	327	-	(6,560)	(6,233)
Endowment net assets, September 30, 2016	$ 36,776,854	$ 11,166,860	$ 122,595,726	$ 170,539,440

Changes in endowment assets for the year ended September 30, 2015 follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2014	$ 40,881,552	$ 31,047,455	$ 121,211,430	$ 193,140,437
Investment return (loss)	2,032,869	(14,737,083)	48,937	(12,655,277)
Contributions	-	-	645,634	645,634
Amounts appropriated for expenditure	(8,045,578)	(401,633)	-	(8,447,211)
Other changes:				
Reclassification of net assets due to clarification of donor intent	-	-	4,767	4,767
Endowment net assets, September 30, 2015	$ 34,868,843	$ 15,908,739	$ 121,910,768	$ 172,688,350

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gift donated to the permanent endowment. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations that eroded the accumulated gains of the permanently restricted endowments as well as the continued appropriation for certain programs which were deemed prudent by the University's Board of Trustees. Future gains are classified as increases in unrestricted net assets until the shortfalls previously charged to unrestricted net assets are eliminated and the individual endowment funds are returned to their required levels as stipulated by donors or UPMIFA.

As of September 30, 2016 and 2015, there was a total of 139 and 110 individual endowment funds, respectively, within the permanently restricted net asset category with a fair value less than their historical corpus value. The aggregate deficit at September 30, 2016 and 2015 totaled approximately $1,820,000 and $1,200,000, respectively.

12. 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 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 will make 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 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. Subsequent to September 30, 2016, 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. The sale of the land is expected to close by June 30, 2018.

During fiscal 2015, Gallaudet recorded the net escrow deposit of $2.9 million in deposits held with trustee, and a corresponding amount was recorded as deferred revenue in the 2015 statement of financial position. The deferred revenue will be amortized on a straight-line basis over the 3 years until the first ground lease commences. For the year ended September 30, 2016, approximately $967,000 was recognized in commitment revenue.

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 2021, totaled $873,400 at September 30, 2016 and are payable as follows:

Fiscal year ending September 30:	
2017	$ 680,577
2018	355,509
2019	323,149
2020	280,933
2021	66,574
	1,706,742
Less: Interest	(833,342)
Total obligations under capital leases	$ 873,400