Financial Statements Together with
Report of Independent Certified Public Accountants

GALLAUDET UNIVERSITY

September 30, 2017 and 2016

GALLAUDET UNIVERSITY

TABLE OF CONTENTS

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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, 2017 and 2016, 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 the University as of September 30, 2017 and 2016, 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 19, 2017

GALLAUDET UNIVERSITY
Statements of Financial Position
As of September 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 10,030,166	$ 9,850,460
Accounts receivable, net (Note 3)	6,000,565	6,018,129
Receivable from U.S. government	1,795,445	1,645,814
Contributions receivable, net (Note 4)	2,056,110	1,904,733
Prepaid expenses and other assets	2,965,152	2,508,459
Deposits with trustee (Notes 5, 9, and 12)	3,492,785	3,486,910
Inventories, net	757,930	930,770
Student loans receivable (Note 3)	705,659	788,481
Investments (Note 5)	185,414,157	176,941,583
Split-interest agreements (Note 5)	909,287	737,232
Land, buildings, and other property, net (Note 6)	225,125,335	227,520,185
Total assets	$ 439,252,591	$ 432,332,756
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 8,947,026	$ 9,635,557
Accrued payroll	8,823,000	8,064,000
Deferred tuition revenue	5,250,000	5,993,000
Other deferred revenue (Note 12)	644,444	1,611,111
Obligations under capital leases (Note 12)	837,699	873,400
Conditional asset retirement obligations (Note 6)	633,609	620,268
Bonds payable, net (Note 9)	35,018,909	35,759,893
Refundable advances under U.S. government loan program	841,798	1,065,170
Total liabilities	60,996,485	63,622,399
Commitments and contingencies (Notes 5 and 12)		
Net assets (Notes 10 and 11):		
Unrestricted	231,879,808	227,536,808
Temporarily restricted	21,018,700	17,970,330
Permanently restricted	125,357,598	123,203,219
Total net assets	378,256,106	368,710,357
Total liabilities and net assets	$ 439,252,591	$ 432,332,756

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

GALLAUDET UNIVERSITY

Statement of Activities

For the year ended September 30, 2017, with comparative totals for 2016

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUES					
Tuition and fees	$ 28,713,593	$ -	$ -	$ 28,713,593	$ 27,369,068
Less: scholarships and fellowships	(9,171,706)	-	-	(9,171,706)	(8,968,345)
Net tuition and fees	19,541,887	-	-	19,541,887	18,400,723
Governmental appropriations - operations	121,275,000	-	-	121,275,000	121,275,000
Governmental appropriations - capital	-	-	-	-	17,238,857
Governmental grants and contracts	2,902,545	-	-	2,902,545	3,038,779
Contributions	388,789	4,652,692	-	5,041,481	2,567,342
Investment return used for operations (Note 5)	7,564,355	415,479	-	7,979,834	8,285,483
Auxiliary enterprises	25,405,637	-	-	25,405,637	24,776,908
Other	1,452,087	-	-	1,452,087	1,304,815
Total operating revenues	178,530,300	5,068,171	-	183,598,471	196,887,907
Net assets released from restrictions	4,904,050	(4,904,050)	-	-	-
Total operating revenues and other support	183,434,350	164,121	-	183,598,471	196,887,907
EXPENSES					
Instruction	69,173,079	-	-	69,173,079	68,792,642
Research	8,723,836	-	-	8,723,836	7,842,142
Public service	4,615,213	-	-	4,615,213	4,770,927
Academic support	17,915,585	-	-	17,915,585	18,012,277
Student services	25,874,712	-	-	25,874,712	24,602,028
Institutional support	26,663,851	-	-	26,663,851	27,519,201
Auxiliary enterprises	27,855,241	-	-	27,855,241	27,930,743
Total expenses	180,821,517	-	-	180,821,517	179,469,960
Changes in net assets from operations	2,612,833	164,121	-	2,776,954	17,417,947
NONOPERATING ACTIVITIES					
Investment income (loss), net of amounts used for operations (Notes 5 and 11)	1,735,725	2,688,436	26,724	4,450,885	(7,079,706)
Contributions for endowment	-	-	2,078,989	2,078,989	576,272
Contributions for capital-related activities	-	220,000	-	220,000	-
Contributions relating to split-interest agreements	3,322	-	41,626	44,948	7,485
Change in the value of split-interest agreements	(13,637)	(11,409)	10,020	(15,026)	4,732
Write-off of uncollectible pledges	-	(12,778)	(2,980)	(15,758)	(6,895)
Gain on capital asset related activities (Note 6)	4,757	-	-	4,757	35,319
Total nonoperating activities	1,730,167	2,884,249	2,154,379	6,768,795	(6,462,793)
Changes in net assets	4,343,000	3,048,370	2,154,379	9,545,749	10,955,154
Net assets, beginning of year	227,536,808	17,970,330	123,203,219	368,710,357	357,755,203
Net assets, end of year	$ 231,879,808	$ 21,018,700	$ 125,357,598	$ 378,256,106	$ 368,710,357

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

GALLAUDET UNIVERSITY
Statement of Activities
For the year ended September 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 27,369,068	$ -	$ -	$ 27,369,068
Less: scholarships and fellowships	(8,968,345)	-	-	(8,968,345)
Net tuition and fees	18,400,723	-	-	18,400,723
Governmental appropriations - operations	121,275,000	-	-	121,275,000
Governmental appropriations - capital	17,238,857	-	-	17,238,857
Governmental grants and contracts	3,038,779	-	-	3,038,779
Contributions	577,170	1,990,172	-	2,567,342
Investment return used for operations (Note 5)	7,854,410	431,073	-	8,285,483
Auxiliary enterprises	24,776,908	-	-	24,776,908
Other	1,304,815	-	-	1,304,815
Total operating revenues	194,466,662	2,421,245	-	196,887,907
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
EXPENSES				
Instruction	68,792,642	-	-	68,792,642
Research	7,842,142	-	-	7,842,142
Public service	4,770,927	-	-	4,770,927
Academic support	18,012,277	-	-	18,012,277
Student services	24,602,028	-	-	24,602,028
Institutional support	27,519,201	-	-	27,519,201
Auxiliary enterprises	27,930,743	-	-	27,930,743
Total expenses	179,469,960	-	-	179,469,960
Changes in net assets from operations	19,034,257	(1,616,310)	-	17,417,947
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)
Contributions for endowment	-	-	576,272	576,272
Contributions relating to split-interest agreements	-	-	7,485	7,485
Change in the value of split-interest agreements	110,524	26,316	(132,108)	4,732
Recovery (write-off) of uncollectible pledges	-	1,475	(8,370)	(6,895)
Gain on capital asset related activities (Note 6)	35,319	-	-	35,319
Total nonoperating activities	(2,096,475)	(4,811,865)	445,547	(6,462,793)
Changes in net assets	16,937,782	(6,428,175)	445,547	10,955,154
Net assets, beginning of year	210,599,026	24,398,505	122,757,672	357,755,203
Net assets, end of year	$ 227,536,808	$ 17,970,330	$ 123,203,219	$ 368,710,357

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

GALLAUDET UNIVERSITY
Statements of Cash Flows
For the years ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 9,545,749	$ 10,955,154
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities		
Depreciation and amortization	14,677,167	13,532,657
Commitment fee revenue	(988,542)	(983,301)
Amortization of deferred financing costs	43,187	45,029
Amortization of bond discount	15,829	10,489
Accretion of interest on conditional asset retirement obligations	13,341	14,466
Bad debt expense	140,455	318,259
Gain on capital asset related activities	(4,757)	(35,319)
Write-off of uncollectible pledges	15,758	6,895
Net (gain) loss on investments	(9,521,324)	1,815,044
(Increase) decrease in assets:		
Receivables	(439,657)	5,040,990
Split-interest agreements	(172,055)	232,497
Prepaid expenses	(189,897)	(129,409)
Inventories	172,840	70,831
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	(1,766,410)	(6,846,530)
Deferred tuition revenue	(743,000)	1,391,000
Contributions restricted for permanent endowment	(1,939,447)	(689,250)
Contributions for capital-related activities	(220,000)	-
Investment income restricted for permanent endowment	(26,724)	(2,268)
Net cash provided by operating activities	8,612,513	24,747,234
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and redemptions of investments	107,261,303	174,694,256
Purchases of investments	(106,212,553)	(165,742,643)
Proceeds from the sale of fixed assets	49,596	286,818
Purchases of capital assets	(10,190,357)	(31,340,995)
Disbursements of loans to students	(90,664)	-
Repayment of loans by students	173,486	172,767
Net cash used in investing activities	(9,009,189)	(21,929,797)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease increase in refundable advances from U.S. government	(223,372)	(156,721)
Proceeds from contributions and investment income restricted to permanent endowment	1,966,171	691,518
Payments under capital leases	(335,621)	(405,567)
Payments of deferred lease costs	(266,796)	(306,900)
Payment of principal on bonds payable	(800,000)	(770,000)
Contributions for capital-related activities	220,000	-
Increase in deposits with trustee	16,000	1,944,940
Net cash provided by financing activities	576,382	997,270
Net increase in cash and cash equivalents	179,706	3,814,707
Cash and cash equivalents, beginning of year	9,850,460	6,035,753
Cash and cash equivalents, end of year	$ 10,030,166	$ 9,850,460
Supplemental disclosures:		
Capital asset purchases included in accounts payable	$ 1,796,879	$ 2,179,437
Capital asset acquired with capital leases	$ 349,517	$ 391,073
Construction retainage	$ 40,000	$ 1,383,393
Cash paid for interest	$ 2,252,103	$ 2,262,779

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 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 2017 and 2016 and totaled approximately $56,000 and $54,000 for 2017 and 2016, 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 2017 and 2016, approximately 66% and 70%, respectively, of the University's unrestricted operating revenues and other support were derived from federal appropriations. In fiscal year 2016, 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 1,774 undergraduate and graduate students, and the Clerc Center enrolls 277 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, 2017 and 2016, the discount rates used to value split-interest agreements ranged between 1.89% and 3.16% and 1.13% and 2.53%, 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.

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.

- 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. 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.

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 its 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 2014, 2015, 2016 and 2017 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 $1,050,000 and $1,140,000 for fiscal 2017 and 2016, 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.

On September 30, 2015, the Federal Perkins Loan Program expired. Unless the Federal government retroactively reauthorizes the program, no new loans can be issued under this Federal program. However, students who received their first Perkins Loan before July 1, 2015 may be eligible for four more years of loans unless they change their major.

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, 2017 and 2016 totaled $43,187 and $45,029, respectively.

In April 2015, the Financial Accounting Standards Board ("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 has reflected its unamortized deferred financing costs, totaling $664,907 and $708,094 as of September 30, 2017 and 2016, respectively, as a reduction of its bonds payable in the accompanying statements of financial position.

During fiscal 2017 and 2016, Gallaudet capitalized $267,000 and $306,900, respectively, in initial direct costs associated with the preparation of its long-term ground lease with a developer, as discussed further in Note 12. At September 30, 2017 and 2016, capitalized initial direct costs totaled approximately $1,260,000 and $993,000, respectively, and are included in 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, 2017 and 2016 as the lease has not yet been executed.

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, 2017 and 2016 has not been disclosed.

Subsequent Events

The University evaluated its subsequent events (events occurring after September 30, 2017) through December 19, 2017, 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, 2017 and 2016, consist of the following:

	2017	2016
Student accounts	$ 2,006,428	$ 1,838,230
Vocational Rehabilitation	5,187,649	5,407,243
Other	715,647	755,592
Grants and contracts	125,531	125,535
Total accounts receivable	8,035,255	8,126,600
Less: Allowance for doubtful accounts	(2,034,690)	(2,108,471)
Total accounts receivable, net	$ 6,000,565	$ 6,018,129
Student loans, gross	$ 705,659	$ 788,481

Amounts due under the Federal Perkins Loan Program are guaranteed by the government. At September 30, 2017 and 2016, 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
2017	$ 38,224	$ 21,212	$ 187,249	$ 246,685
2016	$ 69,398	$ 46,847	$ 174,479	$ 290,724

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of September 30, 2017 and 2016 are expected to be received as follows:

	2017	2016
Within one year	$ 928,295	$ 1,471,825
Between one and four years	1,193,905	462,532
	2,122,200	1,934,357
Less: Unamortized discount (1.100% - 2.363%)	(52,702)	(16,816)
Allowance for doubtful accounts	(13,388)	(12,808)
Total contributions receivable, net	$ 2,056,110	$ 1,904,733

Gallaudet received new conditional pledges of approximately $950,000 during the year ended September 30, 2017. Gallaudet has recognized revenue of approximately $70,000 for the year ended September 30, 2017, the extent to which the conditions on the pledges have been met. The conditional pledges outstanding as of September 30, 2017 totaled approximately $880,000. Pledge payments due over the ensuing one to four years are conditional based on progress and reporting satisfactory to the donor.

5. INVESTMENTS

At September 30, 2017 and 2016, investments consist of the following:

	2017	2016
Money market funds	$ 822,508	$ 2,152,871
Equity securities:		
U.S. Large Cap	29,160,597	23,316,320
U.S. Small Cap	5,662,461	3,784,762
International (developed countries)	34,639,410	32,807,714
Fixed income securities:		
U.S. bonds	45,837,931	86,921,203
High yield bonds	13,096,963	7,596,154
World bonds	3,152,888	2,566,211
Global real estate	7,145,469	4,797,517
Hedge funds	35,794,471	3,650,266
Private equity funds	6,622,338	5,930,550
Private real asset funds	3,479,121	3,418,015
Total investments	$ 185,414,157	$ 176,941,583

At September 30, 2017, Gallaudet has committed to fund in future years $13,879,683 to certain private equity and private real asset funds. Such commitments are expected to be satisfied by fiscal 2021.

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 2017 and 2016 totaled approximately $743,000 and $508,000, respectively. For the years ended September 30, 2017 and 2016, return on investments, which primarily related to the University's endowment, as further discussed in Note 11, consists of the following:

	2017	2016
Net realized and unrealized gain (loss)	$ 9,521,324	$ (1,815,044)
Interest and dividends, net	2,909,395	3,020,821
Total return on investments	$ 12,430,719	$ 1,205,777
Unrestricted operating investment income	$ 7,564,355	$ 7,854,410
Unrestricted nonoperating investment gain (loss)	1,735,725	(2,242,318)
Temporarily restricted operating investment income	415,479	431,073
Temporarily restricted nonoperating investment gain (loss)	2,688,436	(4,839,656)
Permanently restricted investment income	26,724	2,268
Total return on investments	$ 12,430,719	$ 1,205,777

Interest earned on cash and cash equivalents for the years ended September 30, 2017 and 2016, which is included as part of operations in other revenue, totaled $22,982 and $16,996, 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, 2017 and 2016:

2017	Level 1	Level 2	Level 3	Investments Reported at NAV	Total
Investments					
Money market funds	$ 822,508	$ -	$ -	$ -	$ 822,508
Equity securities:					
U.S. Large Cap	29,160,597	-	-	-	29,160,597
U.S. Small Cap	5,662,461	-	-	-	5,662,461
International (developed countries)	34,639,410	-	-	-	34,639,410
Fixed income securities:					
U.S. bonds	45,837,931	-	-	-	45,837,931
High yield bonds	13,096,963	-	-	-	13,096,963
World bonds	3,152,888	-	-	-	3,152,888
Global real estate	7,145,469	-	-	-	7,145,469
Hedge funds	-	-	-	35,794,471	35,794,471
Private equity funds	-	-	-	6,622,338	6,622,338
Private real asset funds	-	-	-	3,479,121	3,479,121
Total investments	139,518,227	-	-	45,895,930	185,414,157
Deposits with trustee (money market funds)	3,492,785	-	-	-	3,492,785
Split-interest agreements	309,945	-	599,342	-	909,287
Total financial assets	$ 143,320,957	$ -	$ 599,342	$ 45,895,930	$ 189,816,229

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
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

The following table summarizes the changes in assets classified as Level 3 for the years ended September 30, 2017 and 2016:

Balance as of September 30, 2015	$ 832,869
Sales/Maturities	(259,380)
Investment gain	26,442
Balance as of September 30, 2016	599,931
Investment loss	(589)
Balance as of September 30, 2017	$ 599,342

Annuities payable totaled $243,077 and $100,943 at September 30, 2017 and 2016, 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, 2017 and 2016:

	Beneficiaries
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
Contributions	129,555
Payments	(26,532)
Present value adjustment	39,111
Balance as of September 30, 2017	$ 243,077

The following table presents the nature and risk of investment assets held at September 30, 2017 and 2016 with fair values reported using a NAV:

	2017					
Investment Description	**# of Funds**	**Fair Value**	**Unfunded Commitments**	**2016 Fair Value**	**Redemption Frequency (if Currently Eligible)**	**Redemption Notice Period**
Hedge funds (a)	6	$ 35,794,471	$ -	$ 3,650,266	Quarterly	62-72 days
Private equity funds (b)	7	6,622,338	12,617,553	5,930,550	Upon Liquidation	
Private real asset funds (c)	2	3,479,121	1,262,130	3,418,015	Upon Liquidation	
Total	15	$ 45,895,930	$ 13,879,683	$ 12,998,831		

Redemption frequency and notice periods for each of the respective funds presented in the above chart are as follows as of September 30, 2017 and 2016.

(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.

(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 NAV 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 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 3 to 10 years.

6. LAND, BUILDINGS, AND OTHER PROPERTY, NET

At September 30, 2017 and 2016, land, buildings, and other property consist of the following:

	2017	2016
Buildings and improvements	$ 325,781,805	$ 289,702,155
Outside improvements	41,818,825	40,164,644
Furniture and equipment	38,247,921	35,148,739
Land stabilization improvements	6,190,017	6,190,017
Software	5,571,258	5,418,091
	417,609,826	376,623,646
Less: Accumulated depreciation and amortization	(195,939,706)	(182,613,254)
	221,670,120	194,010,392
Land	1,468,119	1,468,119
Construction in progress	1,987,096	32,041,674
Land, buildings, and other property, net	$ 225,125,335	$ 227,520,185

Included in furniture and equipment is copier equipment acquired under capital lease arrangements for five years with a cost of $1,172,200 and $2,218,238 and accumulated depreciation of $489,092 and $1,465,719 as of September 30, 2017 and 2016, respectively.

Included in construction in progress at September 30, 2016, were costs associated with the construction of a Clerc Center dormitory. The building was placed in service in January 2017 and the related costs were moved to buildings and improvements. Depreciation expense for the building began in January 2017. Included in construction in progress at September 30, 2017, were costs associated with building improvements and software expected to be completed in fiscal 2018.

In fiscal years 2017 and 2016, Gallaudet recognized net gains of $4,757 and $35,319, 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, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 620,268	$ 605,802
Accretion expense	13,341	14,466
Balance, end of year	$ 633,609	$ 620,268

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 $12,538,614 and $12,283,999 for the years ended September 30, 2017 and 2016, 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 2018. Amounts drawn on this line accrued interest at a floating interest rate that ranged from 0.68% at September 30, 2016 to 1.41% at September 30, 2017. During fiscal year 2017, Gallaudet drew on this line on two occasions for a total of $7 million. Interest expense incurred on these draws totaled $2,154 for the year ended September 30, 2017. There was no outstanding balance on this line of credit at September 30, 2017 and 2016.

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:

	2017	2016
Series 2011 revenue bonds, serial, with interest rates ranging from 4.000% to 4.875%, maturing at various dates from April 1, 2017 to April 1, 2026	$ 8,850,000	$ 9,650,000
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	36,245,000	37,045,000
Less: Unamortized discount and premium	(561,184)	(577,013)
Unamortized deferred financing costs	(664,907)	(708,094)
Total bonds payable	$ 35,018,909	$ 35,759,893

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, 2017 and 2016, respectively, Gallaudet capitalized interest, net of earnings, of $0 and $14,467, 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	Total Debt Service
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
2022	970,000	1,758,656	2,728,656
Thereafter	31,750,000	20,105,863	51,855,863
	$ 36,245,000	$ 29,258,543	$ 65,503,543

10. NET ASSETS

The nature of temporary restrictions on net assets at September 30, 2017 and 2016 are as follows:

	2017	2016
Instruction	$ 324,365	$ 406,137
Research	2,890,350	2,960,362
Public service	206,021	214,798
Academic support	2,813,615	2,252,192
Student services	6,476,813	5,599,925
General operations	8,307,536	6,536,916
Total temporarily restricted net assets	$ 21,018,700	$ 17,970,330

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, 2017 and 2016, Gallaudet held the following permanently restricted net assets, the income and net gains from which support the activities indicated below:

	2017	2016
Instruction	$ 2,876,480	$ 2,864,604
Research	2,172,361	2,122,361
Public service	2,566,054	2,168,960
Academic support	1,392,245	1,376,545
Student services	40,908,219	39,235,675
General operations	75,442,239	75,435,074
Total permanently restricted net assets	$ 125,357,598	$ 123,203,219

11. ENDOWMENTS

The University's endowment consists of 393 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 is comprised of 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 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, 2017 follows:

Endowment net asset composition by type of fund as of September 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 41,257,980	$ -	$ -	$ 41,257,980
Donor-restricted endowment funds	(616,400)	13,886,455	124,583,703	137,853,758
Total endowment funds	$ 40,641,580	$ 13,886,455	$ 124,583,703	$ 179,111,738

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

Changes in endowment assets for the year ended September 30, 2017 follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, October 1, 2016	$ 36,776,854	$ 11,166,860	$ 122,595,726	$ 170,539,440
Investment return	9,242,094	3,103,915	26,724	12,372,733
Contributions	2,128,774	-	1,939,447	4,068,221
Amounts appropriated for expenditure	(7,509,852)	(384,320)	-	(7,894,172)
Other changes:				
Reclassification of net assets due to clarification of donor intent	3,710	-	21,806	25,516
Endowment net assets, September 30, 2017	$ 40,641,580	$ 13,886,455	$ 124,583,703	$ 179,111,738

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

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, 2017 and 2016, there was a total of 81 and 139 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, 2017 and 2016 totaled approximately $616,000 and $1,820,000, 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. 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. The sale of the land is expected to close after 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 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, 2017, 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 2022, totaled $837,699 at September 30, 2017 and are payable as follows:

Fiscal year ending September 30:	
2018	$ 505,308
2019	472,948
2020	430,732
2021	216,373
2022	108,450
	1,733,811
Less: Interest	(896,112)
Total obligations under capital leases	$ 837,699