Financial Statements Together with
Report of Independent Certified Public Accountants

GALLAUDET UNIVERSITY

September 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018

GALLAUDET UNIVERSITY
Statements of Financial Position
As of September 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 12,925,962	$ 10,030,166
Accounts receivable, net (Note 3)	6,650,129	6,000,565
Receivable from U.S. government	2,100,661	1,795,445
Contributions receivable, net (Note 4)	3,420,507	2,056,110
Prepaid expenses and other assets	2,246,819	2,965,152
Deposits with trustee (Notes 5, 9, and 12)	2,435,566	3,492,785
Inventories, net	656,588	757,930
Student loans receivable (Note 3)	588,595	705,659
Investments (Note 5)	189,768,939	185,414,157
Split-interest agreements (Note 5)	896,128	909,287
Land, buildings, and other property, net (Note 6)	221,493,864	225,125,335
Total assets	$ 443,183,758	$ 439,252,591
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 7,378,589	$ 8,947,026
Accrued payroll	9,977,187	8,823,000
Deferred tuition revenue	5,170,000	5,250,000
Other deferred revenue (Note 12)	-	644,444
Obligations under capital leases (Note 12)	1,220,793	837,699
Conditional asset retirement obligations (Note 6)	646,088	633,609
Bonds payable, net (Note 9)	34,252,659	35,018,909
Refundable advances under U.S. government loan program	723,423	841,798
Total liabilities	59,368,739	60,996,485
Commitments and contingencies (Notes 5 and 12)		
Net assets (Notes 10 and 11):		
Unrestricted	236,589,997	231,879,808
Temporarily restricted	19,562,603	21,018,700
Permanently restricted	127,662,419	125,357,598
Total net assets	383,815,019	378,256,106
Total liabilities and net assets	$ 443,183,758	$ 439,252,591

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

GALLAUDET UNIVERSITY
Statement of Activities
For the year ended September 30, 2018, with comparative totals for 2017

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUES					
Tuition and fees	$ 29,302,250	$ -	$ -	$ 29,302,250	$ 28,713,593
Less: scholarships and fellowships	(9,835,210)	-	-	(9,835,210)	(9,171,706)
Net tuition and fees	19,467,040	-	-	19,467,040	19,541,887
Governmental appropriations - operations	128,000,000	-	-	128,000,000	121,275,000
Governmental grants and contracts	3,130,752	-	-	3,130,752	2,902,545
Contributions	370,344	2,595,132	-	2,965,476	5,041,481
Investment return appropriated for operations (Note 5)	7,511,758	588,954	-	8,100,712	7,979,834
Auxiliary enterprises	24,939,963	-	-	24,939,963	25,405,637
Other	1,235,991	-	-	1,235,991	1,452,087
Total operating revenues	184,655,848	3,184,086	-	187,839,934	183,598,471
Net assets released from restrictions	6,341,034	(6,341,034)	-	-	-
Total operating revenues and other support	190,996,882	(3,156,948)	-	187,839,934	183,598,471
EXPENSES					
Instruction	72,328,399	-	-	72,328,399	69,173,079
Research	9,089,819	-	-	9,089,819	8,723,836
Public service	4,614,661	-	-	4,614,661	4,615,213
Academic support	18,210,146	-	-	18,210,146	17,915,585
Student services	25,194,882	-	-	25,194,882	25,874,712
Institutional support	29,715,899	-	-	29,715,899	26,663,851
Auxiliary enterprises	28,158,307	-	-	28,158,307	27,855,241
Total expenses	187,312,113	-	-	187,312,113	180,821,517
Changes in net assets from operations	3,684,769	(3,156,948)	-	527,821	2,776,954
NONOPERATING ACTIVITIES					
Investment income, net of amounts appropriated for operations (Notes 5 and 11)	989,094	1,708,807	31,638	2,729,539	4,450,885
Contributions for endowment	-	-	2,219,997	2,219,997	2,078,989
Contributions for capital-related activities	-	-	-	-	220,000
Contributions relating to split-interest agreements	-	-	3,570	3,570	44,948
Change in the value of split-interest agreements	(5,529)	(8,571)	41,891	27,791	(15,026)
Write-off (recovery) of uncollectible pledges	-	615	7,725	8,340	(15,758)
Gain on capital asset related activities (Note 6)	41,855	-	-	41,855	4,757
Total nonoperating activities	1,025,420	1,700,851	2,304,821	5,031,092	6,768,795
Changes in net assets	4,710,189	(1,456,097)	2,304,821	5,558,913	9,545,749
Net assets, beginning of year	231,879,808	21,018,700	125,357,598	378,256,106	368,710,357
Net assets, end of year	$ 236,589,997	$ 19,562,603	$ 127,662,419	$ 383,815,019	$ 378,256,106

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

GALLAUDET UNIVERSITY
Statement of Activities
For the year ended September 30, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Tuition and fees	$ 28,713,593	$ -	$ -	$ 28,713,593
Less: scholarships and fellowships	(9,171,706)	-	-	(9,171,706)
Net tuition and fees	19,541,887	-	-	19,541,887
Governmental appropriations - operations	121,275,000	-	-	121,275,000
Governmental grants and contracts	2,902,545	-	-	2,902,545
Contributions	388,789	4,652,692	-	5,041,481
Investment return appropriated for operations (Note 5)	7,564,355	415,479	-	7,979,834
Auxiliary enterprises	25,405,637	-	-	25,405,637
Other	1,452,087	-	-	1,452,087
Total operating revenues	178,530,300	5,068,171	-	183,598,471
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
EXPENSES				
Instruction	69,173,079	-	-	69,173,079
Research	8,723,836	-	-	8,723,836
Public service	4,615,213	-	-	4,615,213
Academic support	17,915,585	-	-	17,915,585
Student services	25,874,712	-	-	25,874,712
Institutional support	26,663,851	-	-	26,663,851
Auxiliary enterprises	27,855,241	-	-	27,855,241
Total expenses	180,821,517	-	-	180,821,517
Changes in net assets from operations	2,612,833	164,121	-	2,776,954
NONOPERATING ACTIVITIES				
Investment income, net of amounts appropriated for operations (Notes 5 and 11)	1,735,725	2,688,436	26,724	4,450,885
Contributions for endowment	-	-	2,078,989	2,078,989
Contributions for capital-related activities	-	220,000	-	220,000
Contributions relating to split-interest agreements	3,322	-	41,626	44,948
Change in the value of split-interest agreements	(13,637)	(11,409)	10,020	(15,026)
Write-off of uncollectible pledges	-	(12,778)	(2,980)	(15,758)
Gain on capital asset related activities (Note 6)	4,757	-	-	4,757
Total nonoperating activities	1,730,167	2,884,249	2,154,379	6,768,795
Changes in net assets	4,343,000	3,048,370	2,154,379	9,545,749
Net assets, beginning of year	227,536,808	17,970,330	123,203,219	368,710,357
Net assets, end of year	$ 231,879,808	$ 21,018,700	$ 125,357,598	$ 378,256,106

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

GALLAUDET UNIVERSITY
Statements of Cash Flows
For the years ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 5,558,913	$ 9,545,749
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities		
Depreciation and amortization	15,568,488	14,677,167
Commitment fee revenue	(697,162)	(988,542)
Amortization of deferred financing costs	41,716	43,187
Amortization of bond discount	22,034	15,829
Accretion of interest on conditional asset retirement obligations	12,479	13,341
Bad debt expense	412,859	140,455
Gain on capital asset related activities	(41,855)	(4,757)
(Recovery) write-off of uncollectible pledges	(8,340)	15,758
Net gain on investments	(8,198,649)	(9,521,324)
(Increase) decrease in assets:		
Receivables	(2,723,696)	(439,657)
Split-interest agreements	13,159	(172,055)
Prepaid expenses	718,333	(189,897)
Inventories	101,342	172,840
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	(907,044)	(1,766,410)
Deferred revenue	(80,000)	(743,000)
Contributions restricted for permanent endowment	(1,005,783)	(1,939,447)
Contributions for capital-related activities	-	(220,000)
Investment income restricted for permanent endowment	(31,638)	(26,724)
Net cash provided by operating activities	8,755,156	8,612,513
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and redemptions of investments	90,742,581	107,261,303
Purchases of investments	(86,898,714)	(106,212,553)
Proceeds from the sale of fixed assets	244,730	49,596
Purchases of capital assets	(11,105,653)	(10,190,357)
Disbursements of loans to students	-	(90,664)
Repayment of loans by students	117,064	173,486
Net cash used in investing activities	(6,899,992)	(9,009,189)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in refundable advances from U.S. government	(118,375)	(223,372)
Proceeds from contributions and investment income restricted to permanent endowment	1,037,421	1,966,171
Payments under capital leases	(158,351)	(335,621)
Payments of deferred lease costs	-	(266,796)
Payment of principal on bonds payable	(830,000)	(800,000)
Contributions for capital-related activities	-	220,000
Decrease in deposits with trustee	1,109,937	16,000
Net cash provided by financing activities	1,040,632	576,382
Net increase in cash and cash equivalents	2,895,796	179,706
Cash and cash equivalents, beginning of year	10,030,166	9,850,460
Cash and cash equivalents, end of year	$ 12,925,962	$ 10,030,166
Supplemental disclosures:		
Capital asset purchases included in accounts payable	$ 459,776	$ 1,796,879
Capital asset acquired with capital leases	$ 759,770	$ 349,517
Construction retainage	$ 33,018	$ 40,000
Cash paid for interest	$ 2,292,950	$ 2,268,103

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 2018 and 2017, such administrative costs totaled approximately $56,000 for each year. 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 2018 and 2017, approximately 67% and 66%, respectively, of the University's unrestricted operating revenues and other support were derived from federal appropriations.

Gallaudet University is divided into two major component programs for budgeting and operating purposes: the University and the Laurent Clerc National Deaf Education Center ("Clerc Center"). The Clerc Center consists of the Model Secondary School for the Deaf and the Kendall Demonstration Elementary School. The University enrolls 1,761 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, contributions for capital or endowment purposes, net assets released for capital expenditures, change in value of split-interest agreements, and other activities which are considered to be nonrecurring in nature.

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 and assigned 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, 2018 and 2017, the discount rates used to value split-interest agreements ranged between 3.70% and 3.85% and 2.54% and 3.16%, 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. When necessary, Gallaudet adjusts NAVs for contributions, distributions, or general market conditions subsequent to the latest NAV valuation date when determining fair value as of the measurement date.

- Split-Interest Agreements - For charitable gift annuity investments in which Gallaudet acts as the trustee, the assets are held in debt and equity mutual funds with readily determinable fair values and therefore included in Level 1. For beneficial interests in remainder and perpetual trusts which are held by a third-party, Gallaudet estimates the fair value of its beneficial interests based on a 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 2015, 2016, 2017 and 2018 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 $1,100,000 and $1,050,000 for fiscal 2018 and 2017, 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, 2017, the authority for schools to make new loans under the Federal Perkins Loan Program ended and final disbursements to students were permitted through June 30, 2018. The University intends to continue servicing the outstanding loans and to remit the federal share of repayments to the U.S. Department of Education.

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, 2018 and 2017 totaled $41,716 and $43,187, respectively.

During fiscal 2017, Gallaudet capitalized $267,000 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, 2018 and 2017, capitalized initial direct costs totaled approximately $1,260,000, 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, 2018 and 2017 as the lease has not yet been executed.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation.

For entities that have issued, or are conduit debt obligors, ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017 (the University's fiscal year 2019), using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients, as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures, as defined in ASU 2014-09. The University has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements.

In August, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017 (the University's fiscal year 2019). Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The University is currently evaluating the impact of this ASU on its financial statements.

In June, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The guidance provided in this ASU will assist in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and whether a contribution is conditional. For entities that have issued, or are conduit debt obligors, the ASU will be effective for fiscal years beginning after June 15, 2018 (the University's fiscal year 2019). Earlier application is permitted. The changes in this ASU should generally be applied on a modified prospective basis in the year that the ASU is first applied. The University is currently evaluating the impact of this ASU on its financial statements.

Subsequent Events

The University evaluated its subsequent events (events occurring after September 30, 2018) through December 19, 2018, which represents the date the financial statements were issued. The University is not aware of any subsequent events that require recognition or disclosure in the accompanying financial statements.

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

Receivables (student, grants, loans and other), as of September 30, 2018 and 2017, consist of the following:

	2018	2017
Student accounts	$ 2,269,343	$ 2,006,428
Vocational Rehabilitation	5,236,431	5,187,649
Other	748,349	715,647
Grants and contracts	274,423	125,531
Total accounts receivable	8,528,546	8,035,255
Less: Allowance for doubtful accounts	(1,878,417)	(2,034,690)
Total accounts receivable, net	$ 6,650,129	$ 6,000,565

Amounts due under the Federal Perkins Loan Program, which total $588,595 and $705,659 as of September 30, 2018 and 2017, respectively, and not included in the table above, are guaranteed by the government. At September 30, 2018 and 2017, 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
2018	$ 15,669	$ 43,909	$ 198,013	$ 257,591
2017	$ 38,224	$ 21,212	$ 187,249	$ 246,685

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of September 30, 2018 and 2017 are expected to be received as follows:

	2018	2017
Within one year	$ 2,425,202	$ 928,295
Between one and four years	1,082,749	1,193,905
	3,507,951	2,122,200
Less: Unamortized discount (1.100% - 3.613%)	(83,944)	(52,702)
Allowance for doubtful accounts	(3,500)	(13,388)
Total contributions receivable, net	$ 3,420,507	$ 2,056,110

Gallaudet received new conditional pledges of approximately $0 and $950,000 during the years ended September 30, 2018 and 2017, respectively. Gallaudet has recognized revenue of approximately $80,000 and $70,000 for the years ended September 30, 2018 and 2017, respectively, to the extent to which the conditions on the pledges have been met. Conditional pledges outstanding as of September 30, 2018 totaled approximately $800,000. 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, 2018 and 2017, investments consist of the following:

	2018	2017
Money market funds	$ 501,208	$ 822,508
Equity securities:		
U.S. Large Cap	54,133,118	29,160,597
U.S. Small Cap	9,433,335	5,662,461
International (developed countries)	44,218,793	34,639,410
International (emerging markets)	6,134,534	-
Fixed income securities:		
U.S. bonds	27,196,112	45,837,931
High yield bonds	701,893	13,096,963
World bonds	3,226,741	3,152,888
Global real estate	3,827,197	7,145,469
Hedge funds	27,968,586	35,794,471
Private equity funds	9,325,530	6,622,338
Private real asset funds	3,101,892	3,479,121
Total investments	$ 189,768,939	$ 185,414,157

At September 30, 2018, Gallaudet has committed to fund in future years $12,955,708 to certain private equity and private real asset funds. Such commitments are expected to be satisfied by fiscal 2022.

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 2018 and 2017 totaled approximately $880,000 and $743,000, respectively. For the years ended September 30, 2018 and 2017, return on investments, which primarily related to the University's endowment, as further discussed in Note 11, consists of the following:

	2018	2017
Net realized and unrealized gain	$ 8,198,649	$ 9,521,324
Interest and dividends, net	2,631,602	2,909,395
Total return on investments	$ 10,830,251	$ 12,430,719
Unrestricted operating investment income	$ 7,511,758	$ 7,564,355
Unrestricted nonoperating investment gain	989,094	1,735,725
Temporarily restricted operating investment income	588,954	415,479
Temporarily restricted nonoperating investment gain	1,708,807	2,688,436
Permanently restricted investment income	31,638	26,724
Total return on investments	$ 10,830,251	$ 12,430,719

Interest earned on cash and cash equivalents for the years ended September 30, 2018 and 2017, which is included as part of operations in other revenue, totaled $55,241 and $22,982, 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, 2018 and 2017:

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

	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

The following table summarizes the changes in assets classified as Level 3 for the years ended September 30, 2018 and 2017:

	Split-Interest Agreements
Balance as of September 30, 2016	$ 599,931
Investment loss	(589)
Balance as of September 30, 2017	599,342
Investment loss	(7,731)
Balance as of September 30, 2018	$ 591,611

Annuities payable totaled $198,556 and $243,077 at September 30, 2018 and 2017, 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, 2018 and 2017:

	Payable to Beneficiaries
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
Contributions	6,422
Payments	(15,421)
Present value adjustment	(35,522)
Balance as of September 30, 2018	$ 198,556

The following table presents the nature and risk of investment assets held at September 30, 2018 and 2017 with fair values reported using a NAV:

	2018					
Investment Description	**# of Funds**	**Fair Value**	**Unfunded Commitments**	**2017 Fair Value**	**Redemption Frequency (if Currently Eligible)**	**Redemption Notice Period**
Hedge funds (a)	6	$ 27,968,586	N/A	$ 35,794,471	Quarterly	62-72 days
Private equity funds (b)	9	9,325,530	$ 11,693,578	6,622,338	Upon Liquidation	
Private real asset funds (c)	2	3,101,892	1,262,130	3,479,121	Upon Liquidation	
Total	17	$ 40,396,008	$ 12,955,708	$ 45,895,930		

Redemption frequency and notice periods for each of the respective funds presented in the above chart are as follows as of September 30, 2018 and 2017.

(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, 2018 and 2017, land, buildings, and other property consist of the following:

	2018	2017
Buildings and improvements	$ 331,702,334	$ 325,781,805
Outside improvements	42,047,859	41,818,825
Furniture and equipment	38,045,837	38,247,921
Land stabilization improvements	6,190,017	6,190,017
Software	6,590,124	5,571,258
	424,576,171	417,609,826
Less: Accumulated depreciation and amortization	(206,864,206)	(195,939,706)
	217,711,965	221,670,120
Land	1,468,119	1,468,119
Construction in progress	2,313,780	1,987,096
Land, buildings, and other property, net	$ 221,493,864	$ 225,125,335

Included in furniture and equipment is copier equipment acquired under capital lease arrangements for five years with a cost of $1,519,000 and $1,172,200 and accumulated depreciation of $437,770 and $489,092 as of September 30, 2018 and 2017, respectively.

In fiscal years 2018 and 2017, Gallaudet recognized net gains of $41,855 and $4,757, 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, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ 633,609	$ 620,268
Accretion expense	12,479	13,341
Balance, end of year	$ 646,088	$ 633,609

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 $12,867,300 and $12,538,614 for the years ended September 30, 2018 and 2017, 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

In April 2018, Gallaudet renewed its unsecured line of credit with PNC Bank, National Association. The amendment to the line of credit increased the available principal by $5 million to $20 million and extended the expiration date to April 2019. Amounts drawn on this line accrued interest at a floating interest rate that ranged from 1.12% to 3.16% for the years ended September 30, 2018 and 2017. During fiscal year 2018, Gallaudet drew on this line on three occasions for a total of $16.5 million. Interest expense incurred on these draws totaled $5,758 for the year ended September 30, 2018. 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, 2018 and 2017.

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:

	2018	2017
Series 2011 revenue bonds, serial, with interest rates ranging from 4.000% to 4.875%, maturing at various dates from April 1, 2018 to April 1, 2026	$ 8,020,000	$ 8,850,000
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	35,415,000	36,245,000
Less: Unamortized discount and premium	(539,150)	(561,184)
Unamortized deferred financing costs	(623,191)	(664,907)
Total bonds payable	$ 34,252,659	$ 35,018,909

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

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

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

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

Fiscal year ending September 30:	Principal	Interest	Total Debt Service
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
2023	1,010,000	1,717,431	2,727,431
Thereafter	30,740,000	18,388,432	49,128,432
	$ 35,415,000	$ 27,358,887	$ 62,773,887

10. NET ASSETS

The nature of temporary restrictions on net assets at September 30, 2018 and 2017 are as follows:

	2018	2017
Purpose restrictions:		
Research	$ 163,424	$ 2,506,637
Public service	15,251	68,410
Academic support	589,685	700,366
Student services	573,762	493,476
General operations	203,583	1,395,608
Subject to endowment spending	15,873,433	13,886,455
Restricted as to the passage of time	2,143,465	1,967,748
Total temporarily restricted net assets	$ 19,562,603	$ 21,018,700

The nature of net assets released from restrictions for the years ended September 30, 2018 and 2017 are as follows:

	2018	2017
Purpose restrictions:		
Instruction	$ -	$ 118,241
Research	2,410,902	2,821,648
Public service	56,319	65,354
Academic support	716,429	250,628
Student services	262,103	379,288
General operations	1,964,024	3,000
Subject to endowment spending	334,103	348,320
Restricted as to the passage of time	597,154	881,571
Total net assets released from restrictions	$ 6,341,034	$ 4,868,050

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, 2018 and 2017, Gallaudet held the following permanently restricted net assets, the income and net gains from which support the activities indicated below:

	2018	2017
Instruction	$ 3,742,356	$ 2,876,480
Research	2,172,861	2,172,361
Public service	2,616,332	2,566,054
Academic support	2,130,351	1,392,245
Student services	41,372,296	40,908,219
General operations	75,628,223	75,442,239
Total permanently restricted net assets	$ 127,662,419	$ 125,357,598

11. ENDOWMENTS

The University's endowment consists of 396 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 its permanent endowment; (b) the original value of subsequent gifts to its permanent endowment; and (c) accumulations to its 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 its endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation or deflation;
(5) The expected total return from endowment investments;
(6) Other resources of the institution; and
(7) The investment policy of the University.

Return Objectives and Strategies

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

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

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

Endowment net asset composition by type of fund as of September 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 41,890,686	$ -	$ -	$ 41,890,686
Donor-restricted endowment funds	(260,012)	15,873,433	125,662,955	141,276,376
Total endowment funds	$ 41,630,674	$ 15,873,433	$ 125,662,955	$ 183,167,062

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2017	$ 40,641,580	$ 13,886,455	$ 124,583,703	$ 179,111,738
Investment return	8,377,122	2,297,761	31,638	10,706,521
Contributions	-	-	1,005,783	1,005,783
Amounts expended, pursuant to spending policy	(7,388,028)	(334,103)	-	(7,722,131)
Other changes:				
Reclassification of net assets due to clarification of donor intent	-	23,320	41,831	65,151
Endowment net assets, September 30, 2018	$ 41,630,674	$ 15,873,433	$ 125,662,955	$ 183,167,062

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 expended, pursuant to spending policy	(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

The accompanying statement of activities shows unrestricted investment return appropriated for expenditure of $7,511,758 and $7,564,355, respectively, for fiscal 2018 and fiscal 2017. These amounts differ from the amounts expended, pursuant to spending policy shown in the tables above by $123,730 and $54,503, respectively, which represents investment earnings on operating investments held by the University.

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 restored and the individual endowment funds are returned to their required levels as stipulated by donors or UPMIFA.

As of September 30, 2018 and 2017, there was a total of 50 and 81 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, 2018 and 2017 totaled approximately $260,000 and $616,000, 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 its business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position, change in net assets or cash flows of the University.

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

Pursuant to the Development Agreement, the Developer 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 during fiscal 2019.

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

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 2023, totaled $1,220,793 at September 30, 2018 and are payable as follows:

Fiscal year ending September 30:	
2019	$ 538,709
2020	502,912
2021	432,553
2022	353,428
2023	136,740
	1,964,342
Less: Interest	(743,549)
Total obligations under capital leases	$ 1,220,793