

FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

GALLAUDET UNIVERSITY

September 30, 2007

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Gallaudet University:

We have audited the accompanying statement of financial position of Gallaudet University (the "University") as of September 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2007, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note L to the financial statements, the University restated its net assets at September 30, 2006.

Grant Thornton LLP

Washington, D.C.
January 7, 2008

Gallaudet University

STATEMENT OF FINANCIAL POSITION

As of September 30, 2007

ASSETS

Cash and cash equivalents	\$ 16,185,739
Accounts receivable, net (Note C)	6,372,466
Contributions receivable, net (Note D)	7,717,830
Accrued investment income	76,726
Receivable from U.S. government	1,570,600
Prepaid expenses	435,670
Inventories	1,383,365
Student loans receivable, net (Note C)	1,005,491
Beneficial interest in remainder and perpetual trusts	448,874
Investments (Note E)	200,540,358
Land, buildings, and other property, net (Note F)	<u>139,742,202</u>
Total assets	<u>\$ 375,479,321</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued liabilities	\$ 6,036,138
Accrued payroll	9,520,000
Deferred tuition revenues	1,190,000
Obligations under capital leases	813,852
Conditional asset retirement obligations	616,587
Refundable advances under U.S. government loan program	<u>1,108,677</u>
Total liabilities	<u>19,285,254</u>

Commitments and contingencies

Net assets:

Unrestricted (Note L)	222,058,783
Temporarily restricted (Notes I and L)	20,285,964
Permanently restricted (Notes I, J, and L)	<u>113,849,320</u>
Total net assets	<u>356,194,067</u>

Total liabilities and net assets	<u>\$ 375,479,321</u>
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The accompanying notes are an integral part of this statement.

Gallaudet University

STATEMENT OF ACTIVITIES

For the year ended September 30, 2007

	University	Clerc Center	Total
Unrestricted:			
Operating revenues:			
Tuition and fees	\$ 19,312,472	\$ -	\$ 19,312,472
Less: scholarships and fellowships	(4,389,681)	-	(4,389,681)
Net tuition and fees	14,922,791	-	14,922,791
Governmental appropriations	75,498,210	31,500,000	106,998,210
Governmental grants and contracts	5,381,900	-	5,381,900
Contributions	4,997,006	59,993	5,056,999
Investment income used for operations (Note E)	5,498,615	4,949	5,503,564
Other interest income (Note E)	723,909	-	723,909
Auxiliary enterprises	19,359,062	77,201	19,436,263
Other	1,791,229	451,085	2,242,314
Total operating revenues	128,172,722	32,093,228	160,265,950
Net assets released from restrictions	1,096,953	-	1,096,953
Total operating revenues and other support	129,269,675	32,093,228	161,362,903
Expenses:			
Instruction	49,110,667	13,368,443	62,479,110
Research	6,067,275	1,152,533	7,219,808
Public service	2,540,670	3,151,456	5,692,126
Academic support	14,899,549	3,897,227	18,796,776
Student services	10,146,164	9,195,864	19,342,028
Institutional support	18,677,345	4,108,221	22,785,566
Auxiliary enterprises	22,111,836	102,356	22,214,192
Total expenses	123,553,506	34,976,100	158,529,606
Change in net assets from operations	5,716,169	(2,882,872)	2,833,297
Nonoperating activities:			
Investment income not used for operations (Note E)	20,112,236	-	20,112,236
Loss on discontinued use of buildings (Note F)	-	(3,530,377)	(3,530,377)
Change in unrestricted net assets	25,828,405	(6,413,249)	19,415,156
Temporarily restricted:			
Contributions	5,916,999	-	5,916,999
Net investment income (Note E)	1,894,005	-	1,894,005
Change in the value of beneficial interest in remainder and perpetual trusts	(1,982)	-	(1,982)
Loss on uncollectible pledges	(19,142)	-	(19,142)
Net assets released from restrictions	(1,096,953)	-	(1,096,953)
Change in temporarily restricted net assets	6,692,927	-	6,692,927
Permanently restricted:			
Contributions	2,458,604	3,725	2,462,329
Net investment income (Note E)	1,665,789	-	1,665,789
Loss on uncollectible pledges	(3,438)	-	(3,438)
Change in the value of beneficial interest in remainder and perpetual trusts	83,613	-	83,613
Change in permanently restricted net assets	4,204,568	3,725	4,208,293
Changes in net assets	36,725,900	(6,409,524)	30,316,376
Net assets, beginning of year, as restated (Note L)	313,277,904	12,599,787	325,877,691
Net assets, end of year	\$ 350,003,804	\$ 6,190,263	\$ 356,194,067

The accompanying notes are an integral part of this statement.

Gallaudet University

STATEMENT OF CASH FLOWS

For the year ended September 30, 2007

Cash flows from operating activities:	
Changes in net assets	\$ 30,316,376
Adjustments to reconcile changes in net assets to net cash flows used in operating activities:	
Depreciation and amortization	6,509,740
Accretion of interest on conditional asset retirement obligations	40,480
Bad debt expense	1,063,306
Loss on discontinued use of buildings	3,530,377
Loss on uncollectible pledges	22,580
Net gain on investments	(26,144,901)
(Increase) decrease in assets:	
Receivables	(2,823,419)
Beneficial interest in remainder and perpetual trusts	(31,917)
Prepaid expenses	(217,161)
Inventories	(100,432)
Increase (decrease) in liabilities:	
Accounts payable, accrued expenses, and other liabilities	(463,592)
Accrued payroll	(510,000)
Contributions restricted for investment in property	(9,292,299)
Contributions restricted for permanent endowment	(1,213,030)
Investment income restricted for permanent endowment	(1,665,789)
Net cash used in operating activities	<u>(979,681)</u>
Cash flows from investing activities:	
Proceeds from sales and redemptions of investments	49,122,985
Purchases of investments	(47,658,102)
Purchases of fixed assets	(12,815,126)
Disbursements of loans to students	(323,753)
Repayment of loans by students	275,635
Net cash used in investing activities	<u>(11,398,361)</u>
Cash flows from financing activities:	
Decrease in refundable advances from U.S. government	(3,485)
Proceeds from contributions and investment income restricted to permanent endowment	2,878,819
Payments under capital leases	(261,327)
Contributions restricted for investment in property	9,292,299
Net cash provided by financing activities	<u>11,906,306</u>
Net decrease in cash and cash equivalents	(471,736)
Cash and cash equivalents, beginning of year	<u>16,657,475</u>
Cash and cash equivalents, end of year	<u>\$ 16,185,739</u>
Supplemental disclosures:	
Construction retainage	<u>\$ 595,000</u>
Fixed assets acquired under capital leases	<u>\$ 1,421,575</u>
Cash paid for interest	<u>\$ 65,248</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A - NATURE OF OPERATIONS

Gallaudet University (“Gallaudet” or the “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.

Gallaudet 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 year 2007, approximately 67% of the University’s unrestricted revenues were derived from federal appropriations.

Gallaudet is divided into two major component programs for budgeting and financial reporting purposes: University and the Laurent Clerc National Deaf Education Center (“Clerc Center”). The Clerc Center consists of the Model Secondary School for the Deaf and Kendall Demonstration Elementary School. The University enrolls approximately 1,800 undergraduate and graduate students, and the Clerc Center enrolls approximately 350 elementary and secondary school students.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

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

2. 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 may or will be met either by actions of Gallaudet and/or the passage of time.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2007

NOTE B (continued)

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

Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or constructed or are placed in service. Gifts received with donor-imposed restrictions, as well as income earned on permanently restricted endowments, are classified as unrestricted if it is expected that the restriction will be met in the year the gift is received.

3. Measure of Operations

The accompanying statement of activities distinguishes 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 income not used for operations, a loss on the discontinued use of buildings, and other activities which are considered to be nonrecurring in nature.

4. Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. 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 paid for 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 a risk free rate. Amortization of the discount is recorded as additional contribution revenue and is used in accordance with donor imposed restrictions, if any.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2007

NOTE B (continued)

5. Beneficial Interest in Remainder and Perpetual Trusts

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. 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 beneficial interest in remainder and perpetual trusts in the statement of activities. For the year ended September 30, 2007, the discount rates used to value split-interest agreements ranged between 2.97% and 7.79% and represented the applicable Internal Revenue Service 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. Annuities payable, included in accounts payable and accrued expenses, were \$176,901 at September 30, 2007.

6. Governmental Appropriations

Federal appropriation revenues are recognized in the period for which the funds are appropriated by the U.S. Congress.

7. 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 relating to incomplete terms is deferred and recognized as earned in the fiscal year in which the instruction occurs.

8. Grants and Contracts

Revenue from federal grants and contracts is recognized to the extent that qualifying reimbursable expenses have been incurred.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2007

NOTE B (continued)

9. Auxiliary Enterprises

Auxiliary enterprises include dormitory, food service, bookstore operations, the University Press, conference activities, outreach programs, and video relay interpreting services. 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 Kendall Demonstration Elementary School, neither of which produce revenue, are reported as part of student services program expense.

10. 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, at times, may exceed federally insured limits. To minimize risk, the University's cash accounts are placed 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.

11. Functional Expenses

Expenses are classified by major program categories and supporting services (institutional support).

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

12. Cash Equivalents

Cash equivalents, which consist primarily of money market investments, totaled approximately \$16,050,000 as of September 30, 2007. 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.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2007

NOTE B (continued)

13. *Fair Value of Financial Instruments*

All investments are stated at fair value as determined by quoted market prices except for certain alternative investments for which quoted market prices are not available. These alternative investments include non-publicly traded debt and equity securities as well as futures funds, real estate and private selection funds, venture capital partnerships, and hedge funds.

Real estate and venture capital partnerships are reported at estimated fair value as determined by the general partners. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Hedge funds are estimated based on various techniques developed by the investment managers. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty and therefore values realized upon disposition may vary significantly from currently reported values.

A reasonable estimate of the fair value of student loans receivable under government loan programs could not be made because the notes are not saleable and can only be assigned to the U.S. Government or its designees.

The fair value of substantially all other financial instruments approximate their carrying value in the financial statements because of their short-term nature.

14. *Land, Buildings, and Other Property*

Land, buildings, and other property are reported at cost or estimated fair value, if acquired by gift, less accumulated depreciation and amortization. The University capitalizes buildings, building improvements, outside improvements, and software over \$25,000; furniture and equipment over \$5,000; and all library books with depreciable lives greater than one year. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

<u>Asset Class</u>	<u>Estimated Lives (years)</u>
Buildings	40 to 60
Building improvements	20 to 60
Outside improvements	20
Library books	10
Furniture and equipment	5
Software	3

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2007

NOTE B (continued)

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.

15. Inventories

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

16. Income Taxes

Gallaudet has been recognized by the Internal Revenue Service (“IRS”) as exempt from federal income taxes, except on activities unrelated to its exempt purpose, under provisions of 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.

17. Fundraising

Fundraising expenses include personnel and other direct costs associated with fundraising efforts. Fundraising expenses are included in institutional support and totaled approximately \$1,649,000 for 2007.

18. 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 Government and are therefore reported as liabilities.

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2007

NOTE B (continued)

19. 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 of fixed assets; conditional asset retirement obligations; and the reported fair values of certain of the University's financial instruments, particularly non-marketable alternative investments. Actual results could differ from those estimates.

20. 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. As a result of adopting this standard, the University recorded an asset retirement cost of \$118,000, related accumulated depreciation of \$94,000, and an asset retirement obligation of \$576,107 as of September 30, 2006. The 2007 accretion of interest on the conditional asset retirement obligations and amortization of the related asset totaled \$44,000. The University's conditional asset retirement obligations as of September 30, 2007 totaled \$616,587.

