

Financial Statements Together with
Report of Independent Certified Public
Accountants

Gallaudet University

September 30, 2022 and 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Gallaudet University

Opinion

We have audited the financial statements of Gallaudet University (the “University”), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of September 30, 2022 and 2021, and the changes 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University’s ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Washington, D.C.
December 19, 2022

Gallaudet University

STATEMENTS OF FINANCIAL POSITION

September 30,

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 5,597,486	\$ 11,903,383
Restricted cash equivalents (deposits with trustees) (Notes 2, 6, 10, and 14)	20,454,524	22,317,509
Accounts receivable, net (Note 4)	16,278,606	11,940,851
Receivable from U.S. government	1,914,580	15,755,077
Contributions receivable, net (Note 5)	3,364,840	1,088,476
Prepaid expenses and other assets	11,858,826	3,314,803
Inventories, net	460,486	528,301
Student loans receivable (Note 4)	174,023	208,255
Investments (Note 6)	200,055,398	243,042,326
Investments pertaining to split-interest agreements (Note 6)	1,406,106	1,516,923
Land, buildings, and other property, net (Note 7)	217,789,677	217,513,850
	\$ 479,354,552	\$ 529,129,754
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 9,583,803	\$ 16,757,200
Line of credit	1,940,675	-
Accrued payroll	13,369,123	13,744,135
Deferred tuition revenue (Note 2)	9,329,008	9,174,587
Refundable advances under U.S. government loan program	262,422	321,925
Obligations under finance leases (Note 14)	7,991,526	8,587,989
Conditional asset retirement obligations	682,421	675,587
Bonds payable, net (Note 10)	51,131,146	52,658,771
	94,290,124	101,920,194
Commitments and contingencies (Notes 6 and 14)		
Net assets (Notes 11 and 12)		
Without donor restrictions	225,141,269	238,805,297
With donor restrictions	159,923,159	188,404,263
	385,064,428	427,209,560
	\$ 479,354,552	\$ 529,129,754

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

Gallaudet University

STATEMENT OF ACTIVITIES

For the year ended September 30, 2022, with comparative totals for 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenues and support				
Student tuition, fees, room and board (Note 2)	\$ 27,301,342	\$ -	\$ 27,301,342	\$ 19,158,352
Governmental appropriations	157,530,634	-	157,530,634	154,753,279
Governmental grants and contracts	9,352,225	-	9,352,225	5,229,325
Contributions	456,384	2,148,475	2,604,859	3,371,675
Investment return appropriated for operations (Notes 6 and 12)	2,385,780	6,918,869	9,304,649	8,866,615
Auxiliary enterprises (Note 2)	5,877,780	-	5,877,780	2,722,865
Other	2,717,146	-	2,717,146	357,233
Total operating revenues	205,621,291	9,067,344	214,688,635	194,459,344
Net assets released from restrictions (Note 11)	12,041,291	(12,041,291)	-	-
Total operating revenues and other support	217,662,582	(2,973,947)	214,688,635	194,459,344
Expenses				
Salaries and wages	94,462,169	-	94,462,169	85,482,725
Employee benefits	33,715,254	-	33,715,254	30,921,754
Utilities	7,593,462	-	7,593,462	6,136,262
Bond interest	788,308	-	788,308	1,239,002
Depreciation and amortization	19,134,523	-	19,134,523	17,192,756
Consultants, advisors and other professional fees	43,610,616	-	43,610,616	30,416,223
Repairs and maintenance	5,458,287	-	5,458,287	19,620,503
Supplies, travel and other expenses	16,748,695	-	16,748,695	14,404,760
Total expenses (Note 13)	221,511,314	-	221,511,314	205,413,985
Changes in net assets from operations, before transfers	(3,848,732)	(2,973,947)	(6,822,679)	(10,954,641)
Board-designated transfer from operations	(118,152)	-	(118,152)	(1,489,712)
Changes in net assets from operations, after transfers	(3,966,884)	(2,973,947)	(6,940,831)	(12,444,353)
Nonoperating activities				
Investment (loss) income, net of amounts appropriated for operations (Notes 6 and 12)	(9,809,986)	(28,586,810)	(38,396,796)	36,043,053
Contributions for endowment	-	3,104,443	3,104,443	1,558,541
Contributions relating to split-interest agreements	-	-	-	6,466
Change in value of split-interest agreements	(5,310)	(88,290)	(93,600)	64,759
Loss on extinguishment of debt	-	-	-	(1,150,104)
Recovery/(loss) on uncollectible pledges	-	63,500	63,500	(62,480)
Changes in net assets from nonoperating activities, before transfers	(9,815,296)	(25,507,157)	(35,322,453)	36,460,235
Board-designated transfer from operations	118,152	-	118,152	1,489,712
Changes in net assets from nonoperating activities, after transfers	(9,697,144)	(25,507,157)	(35,204,301)	37,949,947
CHANGES IN NET ASSETS	(13,664,028)	(28,481,104)	(42,145,132)	25,505,594
Net assets, beginning of year	238,805,297	188,404,263	427,209,560	401,703,966
Net assets, end of year	\$ 225,141,269	\$ 159,923,159	\$ 385,064,428	\$ 427,209,560

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

Gallaudet University

STATEMENT OF ACTIVITIES

For the year ended September 30, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Student tuition, fees, room and board (Note 2)	\$ 19,158,352	\$ -	\$ 19,158,352
Governmental appropriations	154,753,279	-	154,753,279
Governmental grants and contracts	5,229,325	-	5,229,325
Contributions	522,737	2,848,938	3,371,675
Investment return appropriated for operations (Notes 6 and 12)	2,432,685	6,433,930	8,866,615
Auxiliary enterprises (Note 2)	2,722,865	-	2,722,865
Other	357,233	-	357,233
	<u>185,176,476</u>	<u>9,282,868</u>	<u>194,459,344</u>
Total operating revenues			
Net assets released from restrictions (Note 11)	<u>10,748,194</u>	<u>(10,748,194)</u>	<u>-</u>
Total operating revenues and other support	<u>195,924,670</u>	<u>(1,465,326)</u>	<u>194,459,344</u>
Expenses			
Salaries and wages	85,482,725	-	85,482,725
Employee benefits	30,921,754	-	30,921,754
Utilities	6,136,262	-	6,136,262
Bond interest	1,239,002	-	1,239,002
Depreciation and amortization	17,192,756	-	17,192,756
Consultants, advisors and other professional fees	30,416,223	-	30,416,223
Repairs and maintenance	19,620,503	-	19,620,503
Supplies, travel and other expenses	14,404,760	-	14,404,760
	<u>205,413,985</u>	<u>-</u>	<u>205,413,985</u>
Total expenses (Note 13)			
Changes in net assets from operations, before transfers	<u>(9,489,315)</u>	<u>(1,465,326)</u>	<u>(10,954,641)</u>
Board-designated transfer from operations	<u>(1,489,712)</u>	<u>-</u>	<u>(1,489,712)</u>
Changes in net assets from operations, after transfers	<u>(10,979,027)</u>	<u>(1,465,326)</u>	<u>(12,444,353)</u>
Nonoperating activities			
Investment income, net of amounts appropriated for operations (Notes 6 and 12)	8,720,438	27,322,615	36,043,053
Contributions for endowment	-	1,558,541	1,558,541
Contributions relating to split-interest agreements	-	6,466	6,466
Change in value of split-interest agreements	1,085	63,674	64,759
Loss on extinguishment of debt	(1,150,104)	-	(1,150,104)
Loss on uncollectible pledges	-	(62,480)	(62,480)
	<u>7,571,419</u>	<u>28,888,816</u>	<u>36,460,235</u>
Changes in net assets from nonoperating activities, before transfers			
Board-designated transfer from operations	<u>1,489,712</u>	<u>-</u>	<u>1,489,712</u>
Changes in net assets from nonoperating activities, after transfers	<u>9,061,131</u>	<u>28,888,816</u>	<u>37,949,947</u>
CHANGES IN NET ASSETS	<u>(1,917,896)</u>	<u>27,423,490</u>	<u>25,505,594</u>
Net assets, beginning of year	<u>240,723,193</u>	<u>160,980,773</u>	<u>401,703,966</u>
Net assets, end of year	<u>\$ 238,805,297</u>	<u>\$ 188,404,263</u>	<u>\$ 427,209,560</u>

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

Gallaudet University

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Changes in net assets	\$ (42,145,132)	\$ 25,505,594
Adjustments to reconcile changes in net assets to net cash flows (used in) provided by operating activities:		
Depreciation and amortization	19,134,523	17,192,756
Amortization of deferred financing costs	74,643	62,309
Amortization of bond discount	(527,268)	(301,936)
Accretion of interest on conditional asset retirement obligations	6,834	7,364
Bad debt expense	734,603	1,843,826
Loss on extinguishment of debt	-	1,150,104
(Recovery) loss on uncollectible pledges	(63,500)	62,480
Net loss (gain) on investments	32,993,657	(42,439,413)
(Increase) decrease in assets:		
Receivables	6,555,275	(1,259,199)
Split-interest agreements	221,634	(35,075)
Prepaid expenses	(8,544,023)	(596,645)
Inventories	67,815	1,969
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	(11,562,283)	(46,362)
Deferred tuition revenue	154,421	3,331,916
Contributions for donor-restricted endowment	(1,498,591)	(1,899,819)
Investment income reinvested to donor-restricted endowment	(24,807)	(133,776)
Net cash, cash equivalents, and restricted cash equivalents (used in) provided by operating activities	<u>(4,422,199)</u>	<u>2,446,093</u>
Cash flows from investing activities		
Proceeds from sales and redemptions of investments	111,382,162	104,856,674
Purchases of investments	(101,388,891)	(99,859,778)
Capitalized interest	(370,038)	(267,303)
Purchases of capital assets	(12,809,232)	(13,531,299)
Repayment of loans by students	<u>34,232</u>	<u>209,459</u>
Net cash, cash equivalents and restricted cash equivalents used in investing activities	<u>(3,151,767)</u>	<u>(8,592,247)</u>
Cash flows from financing activities		
Decrease in refundable advances from U.S. government	(59,503)	(188,884)
Charitable gift annuity payments	(110,817)	(27,485)
Proceeds from contributions and investment income restricted to donor-restricted endowment	1,523,398	2,033,595
Proceeds from issuance of bonds payable	-	53,892,595
Proceeds from line of credit	1,940,675	-
Payments under finance leases	(2,813,669)	(1,281,154)
Payment for debt issuance costs	-	(965,885)
Payment of principal on bonds payable	<u>(1,075,000)</u>	<u>(33,655,000)</u>
Net cash, cash equivalents, and restricted cash equivalents (used in) provided by financing activities	<u>(594,916)</u>	<u>19,807,782</u>
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS	<u>(8,168,882)</u>	<u>13,661,628</u>
Cash, cash equivalents, and restricted cash equivalents, beginning of year	<u>34,220,892</u>	<u>20,559,264</u>
Cash, cash equivalents and restricted cash equivalents, end of year	<u>\$ 26,052,010</u>	<u>\$ 34,220,892</u>
Supplemental disclosures:		
Capital asset purchases included in accounts payable	<u>\$ 2,006,937</u>	<u>\$ 921,040</u>
Right-of-use assets acquired with finance leases, net	<u>\$ 2,217,206</u>	<u>\$ 5,517,562</u>
Construction retainage	<u>\$ -</u>	<u>\$ 142,483</u>
Cash paid for interest	<u>\$ 1,916,479</u>	<u>\$ 2,107,653</u>

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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS

September 30, 2022 and 2021

NOTE 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 and 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 2022 and 2021, the Foundation did not perform any activities or incur any costs. 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 2022 and 2021, approximately 72% and 79%, respectively, of the University's operating revenues and other support without donor restrictions were derived from federal appropriations. The appropriation for both years includes funding received under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 ("CRRSAA"), and the American Recovery Plan Act ("ARPA"), as discussed further in Note 2.

Excluding the funding received under CARES, CRRSAA, and ARPA, Gallaudet recognized appropriation revenue of \$143.2 million and \$139.4 million, respectively, for the years ended September 30, 2022 and 2021. For fiscal 2022, approximately \$103.8 million was spent on University operations, approximately \$36.0 million was spent on Clerc Center operations, and \$3.4 million was spent on the Regional Early Acquisition of Language (REAL) Project. For fiscal 2021, approximately \$105.9 million was spent on University operations, approximately \$31.0 million was spent on Clerc Center operations, and \$2.5 million was spent on the REAL Project.

Gallaudet University is divided into two major component programs for budgeting and operating purposes: the University and the Laurent Clerc National Deaf Education Center ("Clerc Center"). The Clerc Center consists of the Model Secondary School for the Deaf and the Kendall Demonstration Elementary School. In the fall of academic year 2021-2022, the University enrolled 1,449 undergraduate and graduate students, and the Clerc Center enrolled 189 elementary and secondary school students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

Net Assets

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

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

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

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

Measure of Operations

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

Concentrations of Credit Risk

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

Fair Value of Financial Instruments

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

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

Level 2 - Observable inputs, other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these financial instruments

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

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 funds ("ETFs") focused on fixed income securities, mutual funds which invest in fixed income securities, and individual corporate bonds. The estimated fair values of direct investments in ETFs and individual corporate bonds are based on actively traded market prices which are available on a daily basis. The fair value of fixed income mutual funds is based on the net asset value ("NAV") of the applicable funds, which are actively traded and priced daily. Direct investments in exchange-traded fixed income securities, fixed income mutual funds, and individual corporate bonds are included in Level 1.
- Equity Securities - Gallaudet's investment in equity securities include direct investments in ETFs focused on equity securities, equity mutual funds, and individual stocks. Fair values of ETFs and individual stocks have been determined by Gallaudet from observable market quotations on major trade exchanges. The fair value of equity mutual funds is estimated based on the NAV of the applicable funds, which are actively traded and priced daily. Direct investments in exchange-traded equity securities, equity mutual funds, and individual stocks are included in Level 1. Gallaudet also owns certain structured notes that invest in U.S. and international equities. These investments have quoted prices and are available for trading on a secondary market. These investments are included in Level 2.
- 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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

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 marketplace, the beneficial interests held by third-party trustees are included in Level 3.

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

Cash, Cash Equivalents, and Restricted 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.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the amounts shown in the statements of cash flows.

	2022	2021
Cash and cash equivalents	\$ 5,597,486	\$ 11,903,383
Restricted cash equivalents (deposits with trustees)	20,454,524	22,317,509
	\$ 26,052,010	\$ 34,220,892

The following table provides details of deposits with trustees on the statements of financial position.

	2022	2021
Restricted cash held in escrow (see Note 14)	\$ 1,696,035	\$ 1,662,666
Debt project fund (see Note 10)	17,880,925	19,774,587
Interest payment due October (see Note 14)	877,564	880,256
	\$ 20,454,524	\$ 22,317,509

Deferred Financing Charges

During fiscal 2021, Gallaudet refinanced its then outstanding Series 2011 debt and issued Series 2021A and Series 2021B bonds, as discussed further in Note 10. As part of this issuance, Gallaudet capitalized \$965,885 in bond financing costs. The proceeds were used to pay off the Series 2011 debt and to also fund 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 for the years ended September 30, 2022 and 2021 for the Series 2021 debt totaled \$74,643 and \$45,833, respectively.

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.

In conjunction with the refinancing of the Series 2011 debt, unamortized deferred financing costs totaling \$473,679 relating to the Series 2011 bonds were written-off as part of the loss on extinguishment of debt

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

for the year ended September 30, 2021. Amortization expense for the year ended September 30, 2021 totaled \$16,476.

Inventories

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

Other Investments

In March 2022, Gallaudet purchased a condominium in the general proximity of the University's campus. The University expects to hold this condominium as an investment property that will not be used for operations. As such, Gallaudet has elected to account for the condominium at its cost of \$1,957,969 in accordance with ASC 958-325, *Investments-Other*. Gallaudet will assess for any impairment in future years if a triggering event occurs.

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. The discount rates used to value split-interest agreements ranged between 1.00% and 4.78% for both years ended September 30, 2022 and 2021, and represent 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 6).

Land, Buildings, and Other Property

Land, buildings, and other property are reported at cost less accumulated depreciation and amortization. The University capitalizes buildings, building improvements, outside improvements, and software with a cost over \$25,000 and furniture and equipment with a cost over \$5,000 with depreciable lives greater than 3 years. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

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

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

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Right-of-use (“ROU”) assets, consisting primarily of office and computer equipment, acquired under finance leases are amortized over the shorter of their economic useful life or the respective lease term.

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.

Board-Designated Reserve Funds

During fiscal 2021, the University’s Board of Trustees voted to establish a reserve fund for capital expenditures, to be funded with bequests received without donor restrictions. During fiscal 2022, the University’s Board of Trustees established a second reserve fund for future real estate investments. This reserve fund was started by transferring \$5 million out of a quasi-endowment fund. Both reserve funds are shown as part of net assets without donor restrictions and are invested in non-endowment investments. The composition of the reserve funds is shown in the table below:

	2022	2021
Board-Designated Real Estate Reserve Fund	\$ 4,561,606	\$ -
Board-Designated Capital Expenditures Reserve Fund	1,386,878	1,464,718
	<u>\$ 5,948,484</u>	<u>\$ 1,464,718</u>

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 its current outstanding loans and to remit the federal share of repayments to the U.S. Department of Education. During fiscal 2021 and fiscal 2022, the University assigned 92 delinquent loans with outstanding principal balances of approximately \$248,000 to the U.S. Department of Education.

Income Taxes

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

Gallaudet follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the income tax effects from an uncertain tax position can only be recognized

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in the financial statements if the position is “more likely than not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The tax years ended September 30, 2022, 2021, 2020 and 2019 are still open to audit for both federal and state purposes. Gallaudet has determined that there are no material uncertain tax positions that require recognition or disclosure in its financial statements for the years ended September 30, 2022 and 2021.

Use of Estimates

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

COVID-19 Pandemic and Federal Appropriation Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. In response to the pandemic, various policies were implemented by federal, state and local governments, including the closure of non-essential businesses within Washington, D.C. As a result, the University closed its campus to students, non-essential employees, and guests on March 18, 2020, resulting in a significant impact to auxiliary revenue and room and board revenue during the second half of fiscal year 2020 and throughout fiscal year 2021. For the fall 2020 and spring 2021 semesters, Gallaudet held classes remotely, and had a significant reduction in the number of students living on campus. Non-student auxiliary enterprises were also severely impacted by the decision to not have the campus open.

In response to the pandemic, the University received a total of \$37,250,000 through government appropriations as provided for under the CARES Act, CRRSAA, and ARPA. The funding is to remain available through September 30, 2023 to “prevent, prepare for, and respond to coronavirus, domestically or internationally, including to help defray the expenses directly caused by coronavirus and to enable grants to students for expenses directly related to coronavirus and the disruption of University operations.” These appropriations are recognized as part of operating revenue, once the University has incurred expenses associated with the University’s response to the COVID-19 pandemic. Approximately \$14,300,000 and \$15,400,000 has been recognized in fiscal years 2022 and 2021, respectively, and included in governmental appropriations on the accompanying statements of activities.

The CARES Act also provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. The University has chosen to defer payments of the employer portion of payroll taxes, which totaled \$1,812,281 as of September 30, 2022, and \$3,073,896 as of September 30, 2021, and are included in accrued payroll on the accompanying statements of financial position.

The COVID-19 pandemic has caused domestic and global disruptions in operations for institutions of higher education. The long-term effect to the University of the COVID-19 pandemic depends on various factors, including, but not limited to, the effect on student enrollment, the effect on demand for University programs and facilities, and the long-term effect on global financial markets. The University re-opened its campus to normal operations in the fall 2021 semester with requirements that staff, faculty, students, and contractors be fully vaccinated from COVID-19 and participate in weekly testing protocols. While student-related

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revenues have mostly rebounded, non-student auxiliary functions are expected to take longer to return to pre-pandemic levels.

While the future impacts of the COVID-19 pandemic cannot be presently quantified at this time, the University continues to monitor its course and, if necessary, is prepared to take additional measures to protect the health and welfare of the University and its students.

Revenue Recognition

Gallaudet's significant revenue recognition policies are:

- *Governmental Appropriations* - Amounts received under the federal appropriation, which is considered a nonreciprocal transaction, are primarily available for general University and Clerc Center operations, are recognized as revenue when qualifying reimbursable expenses have been incurred and conditions under the agreements are satisfied. At September 30, 2022 and 2021, unrecognized conditional contributions relating to the federal appropriation totaled \$12,172,011 and \$22,437,742, respectively. At September 30, 2022 and 2021, unrecognized conditional contributions totaling \$4,637,605 and \$18,937,742, respectively, relate to supplemental appropriations that Gallaudet received under the CARES Act, CRRSAA, and ARPA and are conditioned on Gallaudet incurring expenses or revenue losses associated with the coronavirus pandemic. The remaining amounts are conditioned on incurring allowable expenditures for an early language acquisition partnership with the Alabama Institute of the Deaf and Blind ("AIDB").
- *Student Tuition, Fees, Room and Board* - Student tuition, fees, room and board revenue are recognized as revenues over the academic terms to which they relate, which coincides with the satisfaction of the specific performance obligation to the student. Student tuition and fees and related expenses pertaining to incomplete terms are apportioned, deferred and recognized in the fiscal year in which the instruction occurs. Room and board pertaining to incomplete terms are apportioned, deferred and recognized in the fiscal year in which the housing and dining services are provided. Generally, enrollment and instructional services are billed when a course or term begins and are payable within 30 days of the bill date. The University provides for potentially uncollectible student accounts and notes receivables based on historical collection experience.

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

<u>For the Year Ended September 30, 2022</u>	<u>Tuition and Fees</u>	<u>Room and Board</u>	<u>Total</u>
Revenue	\$ 26,820,839	\$ 12,006,296	\$ 38,827,135
Institutional scholarships and fellowships	<u>(7,960,176)</u>	<u>(3,565,617)</u>	<u>(11,525,793)</u>
Total student tuition, fees, room and board	<u>\$ 18,860,663</u>	<u>\$ 8,440,679</u>	<u>\$ 27,301,342</u>
<u>For the Year Ended September 30, 2021</u>	<u>Tuition and Fees</u>	<u>Room and Board</u>	<u>Total</u>
Revenue	\$ 23,582,363	\$ 2,615,523	\$ 26,197,886
Institutional scholarships and fellowships	<u>(6,336,727)</u>	<u>(702,807)</u>	<u>(7,039,534)</u>
Total student tuition, fees, room and board	<u>\$ 17,245,636</u>	<u>\$ 1,912,716</u>	<u>\$ 19,158,352</u>

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

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

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

Approximately 2% and 5% of the total governmental grants and contracts were considered exchange transactions for the years ended September 30, 2022 and 2021, respectively. For the contracts treated as exchange transactions, the University has the right to consideration from the sponsoring organization in an amount that corresponds directly with the value to the sponsoring organization. For these agreements, the University recognizes revenue in the amount to which the University has the right to invoice.

For grants and contracts treated as nonreciprocal transactions, Gallaudet had approximately \$4,600,000 and \$6,500,000 in unrecognized conditional contributions as of September 30, 2022 and 2021, respectively. The revenue related to these awards is conditioned on incurring allowable expenditures under the terms of the respective agreements.

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

- *Contributions* - Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until the conditions (barriers) 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. If there are any contributed services in a given year, they 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. No contributed services were provided in fiscal 2022 or 2021.

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

- *Auxiliary Enterprises* - Auxiliary enterprises include a variety of services that enhance the quality of student life on campus. Auxiliary enterprises revenue, which includes bookstore operations, the University Press, conference activities, community interpreting, hearing and speech clinic operations,

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and lease-related income, are received and recognized when the goods and services are rendered, and typically occur in the same fiscal year.

In the following table, revenue is disaggregated by type of services provided for the years ended September 30, 2022 and 2021:

	2022	2021
Kellogg Conference Hotel	\$ 3,643,584	\$ 575,269
Press and other publications	743,324	606,872
Bookstore	391,960	133,409
Hearing and speech center	592,628	394,668
Other space rentals	22,671	28,771
Other auxiliary revenue	483,613	983,876
Total auxiliary enterprises	\$ 5,877,780	\$ 2,722,865

Deferred Tuition Revenue

Deferred tuition revenue at September 30, 2022 and 2021 totaling \$9,329,008 and \$9,174,587, respectively, represents the University's performance obligations to transfer future enrollment and instructional services to students. For the years ended September 30, 2022 and 2021, the University recognized as revenue the entire amount that was included in deferred revenues at the end of the preceding year.

New Accounting Standards – Cloud Computing Arrangements

In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This update provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract and requires for certain types of implementation costs to be capitalized and amortized over the term of the hosting arrangement. The University adopted this guidance on October 1, 2021 on a prospective basis.

As a result of the adoption of this standard, the University recorded \$9,074,031 in prepaid expenses and other assets as of September 30, 2022 of costs incurred to implement a new enterprise resource planning system. No amortization was recorded as of fiscal 2022, as the system was not yet placed in operations until October 1, 2022.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. There were no changes to total assets, liabilities, net assets, revenues, expense, or changes in net assets as previously reported in the fiscal 2021 financial statements.

Related Party Transactions

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with entities doing business with the University. The University's conflict of interest policy requires, among other things, that no member of the Board of Trustees or its committees participate in any decision in which they (or an immediate family member) have a material financial interest. Moreover, the University requires an annual disclosure of potential conflicts of interest

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September 30, 2022 and 2021

and, in response to any matters reported, measures are taken to address the actual or perceived conflict to protect the best interests of the University and ensure compliance with the conflict of interest policy and relevant laws. The University has no material related party transactions to disclose for the years ended September 30, 2022 and 2021.

Subsequent Events

The University evaluated its subsequent events (events occurring after September 30, 2022) through December 19, 2022, which represents the date the financial statements were issued. Except as disclosed above related to Cloud Computing Arrangements and in Note 14, the University is not aware of any other subsequent events that require recognition or disclosure in the accompanying financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available within one year of the statements of financial position as of September 30, 2022 and 2021 for general expenditure are as follows:

	2022	2021
Financial assets, at year end		
Cash and cash equivalents	\$ 5,597,486	\$ 11,903,383
Accounts receivable, net	16,278,606	11,940,851
Receivable from U.S. government	1,914,580	15,755,077
Contributions receivable, net	3,364,840	1,088,476
Investments	200,055,398	243,042,326
	227,210,910	283,730,113
Less:		
Board-designated endowments not expected to be used for operations	(42,605,137)	(56,540,906)
Board-designated reserve funds not expected to be used for operations	(5,948,484)	(1,464,718)
Restricted by donors in perpetuity	(132,516,477)	(130,993,080)
Restricted by donors as to time or purpose	(26,856,471)	(57,411,183)
Cash restricted for Federal Perkins Loan Program	(88,399)	(113,671)
	(208,014,968)	(246,523,558)
Add:		
Anticipated endowment return appropriated for spending in the following year for general purposes	5,349,983	5,820,293
Financial assets available to meet cash needs for general expenditures within one year	\$ 24,545,925	\$ 43,026,848

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

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The University has a line of credit for \$20 million that can be drawn upon during the year, as needed, to manage cash flows. As of September 30, 2022, there was approximately \$1.94 million outstanding on the line of credit. In addition, Gallaudet has approximately \$43 million in board-designated endowments and \$6 million in board-designated reserve funds which could be made available for general expenditure with appropriate Board of Trustees approval.

NOTE 4 - STUDENT ACCOUNTS, GRANTS, LOANS, AND OTHER RECEIVABLES, NET

Receivables (student, grants, loans and other), as of September 30, 2022 and 2021, consist of the following:

	2022	2021
Student accounts	\$ 9,443,855	\$ 8,672,425
Vocational rehabilitation	6,842,724	6,147,259
Legal settlement (Note 14)	1,498,248	-
Auxiliary and other	565,361	60,019
Grants and contracts	332,418	278,565
Total accounts receivable	18,682,606	15,158,268
Less: allowance for doubtful accounts for		
Student accounts	(972,000)	(1,527,270)
Vocational Rehabilitation	(1,432,000)	(1,650,730)
Other	-	(39,417)
Total allowance for doubtful accounts	(2,404,000)	(3,217,417)
Total accounts receivable, net	\$ 16,278,606	\$ 11,940,851

NOTE 5 - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of September 30, 2022 and 2021 are expected to be received as follows:

	2022	2021
Within one year	\$ 1,349,073	\$ 1,092,048
Between one and five years	2,572,305	61,826
	3,921,378	1,153,874
Less: present value discount (5.08% - 5.31%)	(554,640)	-
Allowance for doubtful accounts	(1,898)	(65,398)
Total contributions receivable, net	\$ 3,364,840	\$ 1,088,476

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NOTE 6 - INVESTMENTS

At September 30, 2022 and 2021, investments consist of the following:

	2022	2021
Money market funds	\$ 1,762,422	\$ 937,511
Equity securities:		
U.S. Large Cap	72,528,509	87,433,473
U.S. Small Cap	9,626,681	12,313,089
International (developed countries)	22,936,084	36,782,666
International (emerging markets)	3,665,704	7,732,012
Fixed income securities:		
U.S. bonds	24,656,419	39,172,440
World bonds	1,558,197	1,149,285
Global real estate	3,874,782	2,392,960
Hedge funds	24,853,258	28,583,760
Private equity funds	31,394,223	25,100,921
Private real asset funds	1,087,393	1,444,209
Private credit fund	153,757	-
Other real assets	1,957,969	-
	\$ 200,055,398	\$ 243,042,326

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 was modified during fiscal 2022 to state that it will spend annually 4.8% of the five-year average fair value of the pooled funds determined as of March 31 of each year. Previously, the investment policy stated that the University will spend annually 4.8% of the three-year average fair value of the pooled funds.

At September 30, 2022 and 2021, the University held investments in the following categories:

	2022	2021
Endowment investments	\$ 191,649,039	\$ 232,869,006
Operating investments*	499,906	8,708,602
Private real estate investments	1,957,969	-
Board-designated capital and real estate reserve funds	5,948,484	1,464,718
	\$ 200,055,398	\$ 243,042,326

* Includes \$474,064 and \$1,888,053 at September 30, 2022 and 2021, respectively, of remaining amounts to be drawn under the University's board-approved endowment spending policy that have not yet been transferred to operations.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

The following tables present Gallaudet's fair value hierarchy for those investment assets measured at fair value on a recurring basis at September 30, 2022 and 2021:

	2022				Total
	Level 1	Level 2	Level 3	Investments Reported at NAV	
Investments					
Money market funds	\$ 1,762,420	\$ -	\$ -	\$ -	\$ 1,762,420
Equity securities:					
U.S. Large Cap	70,508,099	2,020,410	-	-	72,528,509
U.S. Small Cap	9,626,681	-	-	-	9,626,681
International (developed countries)	17,709,156	5,226,928	-	-	22,936,084
International (emerging markets)	3,665,704	-	-	-	3,665,704
Fixed income securities:					
U.S. bonds	24,656,419	-	-	-	24,656,419
World bonds	1,558,197	-	-	-	1,558,197
Global real estate	3,874,782	-	-	-	3,874,782
Hedge funds	-	-	-	24,853,258	24,853,258
Private equity funds	-	-	-	31,394,223	31,394,223
Private real asset funds	-	-	-	1,087,393	1,087,393
Private credit fund	-	-	-	153,757	153,757
Total investments measured at fair value	133,361,458	7,247,338	-	57,488,631	198,097,427
Deposits with trustee (money market funds)	20,454,524	-	-	-	20,454,524
Investments pertaining to split-interest agreements	322,368	-	1,083,738	-	1,406,106
Total assets measured at fair value	\$ 154,138,350	\$ 7,247,338	\$ 1,083,738	\$ 57,488,631	\$ 219,958,057
	2021				
	Level 1	Level 2	Level 3	Investments Reported at NAV	Total
Investments					
Money market funds	\$ 937,511	\$ -	\$ -	\$ -	\$ 937,511
Equity securities:					
U.S. Large Cap	87,433,473	-	-	-	87,433,473
U.S. Small Cap	12,313,089	-	-	-	12,313,089
International (developed countries)	36,782,666	-	-	-	36,782,666
International (emerging markets)	7,732,012	-	-	-	7,732,012
Fixed income securities:					
U.S. bonds	39,172,440	-	-	-	39,172,440
World bonds	1,149,285	-	-	-	1,149,285
Global real estate	2,392,960	-	-	-	2,392,960
Hedge funds	-	-	-	28,583,760	28,583,760
Private equity funds	-	-	-	25,100,921	25,100,921
Private real asset funds	-	-	-	1,444,209	1,444,209
Total investments measured at fair value	187,913,436	-	-	55,128,890	243,042,326
Deposits with trustee (money market funds)	22,317,509	-	-	-	22,317,509
Investments pertaining to split-interest agreements	433,185	-	1,083,738	-	1,516,923
Total assets measured at fair value	\$ 210,664,130	\$ -	\$ 1,083,738	\$ 55,128,890	\$ 266,876,758

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September 30, 2022 and 2021

The following table summarizes the changes in assets classified as Level 3 for the years ended September 30, 2022 and 2021:

	<u>Split-Interest Agreements</u>
Balance as of September 30, 2020	\$ 1,058,663
Investment gain	<u>25,075</u>
Balance as of September 30, 2021	1,083,738
Investment gain	<u>-</u>
Balance as of September 30, 2022	<u>\$ 1,083,738</u>

Annuities payable totaled \$197,722 and \$214,939 at September 30, 2022 and 2021, 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, 2022 and 2021:

	<u>Payable to Beneficiaries</u>
Balance as of September 30, 2020	\$ 223,605
Gifts	3,534
Earnings, net of payments	27,485
Present value adjustment	<u>(39,685)</u>
Balance as of September 30, 2021	214,939
Loss, net of payments	(114,143)
Present value adjustment	<u>96,926</u>
Balance as of September 30, 2022	<u>\$ 197,722</u>

The following table presents the nature and liquidity terms of investment assets held at September 30, 2022 and 2021 with fair values reported using NAV:

Investment Description	2022			2021 Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
	# of Funds	Fair Value	Unfunded Commitments			
Hedge funds ^(a)	2	\$ 24,853,258	\$ N/A	\$ 28,583,760	Quarterly	65-91 Days
Private equity funds ^(b)	16	31,394,223	33,906,214	25,100,922	Upon Liquidation	-
Private real asset funds ^(c)	2	1,087,393	1,262,130	1,444,208	Upon Liquidation	-
Private credit fund ^(d)	1	<u>153,757</u>	<u>6,946,245</u>	<u>-</u>	Upon Liquidation	-
Total	<u>21</u>	<u>\$ 57,488,631</u>	<u>\$ 42,114,589</u>	<u>\$ 55,128,890</u>		

Redemption frequency and notice periods and strategy for each of the respective funds presented in the above chart are as follows, as of September 30, 2022 and 2021:

- (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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

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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. Some investments include lock-up periods requiring an investment to be held for a period of time prior to redemption and/or "gates" which limit the percentage of the investments that can be redeemed at one time.

- (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, which have not communicated that timing to the University or announced the timing publicly.
- (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 lesser 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 managers, which have not communicated that timing to the University or announced the timing publicly.
- (d) This class includes investments in a fund of private credit funds with a global investment strategy focused on North America and Europe. The principal segments of the private credit space targeted by the fund include: direct lending, specialty credit, loan portfolios/structured credit, and opportunistic credit. The fair value of this investment has been estimated using the NAV of Gallaudet's ownership interest in partners' capital. This investment can never be redeemed with the fund. Instead, the nature of the investment in this class is that distributions are received through liquidation of the underlying assets of the fund at the direction of the fund manager, which has not communicated that timing to the University or announced the timing publicly.

Gallaudet University

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September 30, 2022 and 2021

NOTE 7 - LAND, BUILDINGS, AND OTHER PROPERTY, NET

At September 30, 2022 and 2021, land, buildings, and other property consist of the following:

	2022	2021
Buildings and improvements	\$ 362,998,722	\$ 354,957,375
Outside improvements	48,551,530	45,549,618
Furniture and equipment	58,575,180	53,543,463
Land stabilization improvements	6,190,017	6,190,017
Software	7,457,055	7,457,055
	483,772,504	467,697,528
Less: accumulated depreciation and amortization	(272,599,006)	(253,910,902)
	211,173,498	213,786,626
Land	1,410,480	1,410,480
Construction in progress	5,205,699	2,316,744
Land, buildings, and other property, net	\$ 217,789,677	\$ 217,513,850

Included in furniture and equipment are the ROU assets recognized for copiers and computer equipment acquired under finance lease arrangements. The ROU assets have an original cost of \$13,332,274 and \$11,115,211 and accumulated amortization of \$4,895,109 and \$2,019,323 as of September 30, 2022 and 2021, respectively.

NOTE 8 - RETIREMENT PLANS

Although Gallaudet is a private institution, legislation enacted by the U.S. congress permits regular status employees to be covered by two federal retirement programs; a defined benefit plan and a defined contribution plan. Under these arrangements, regular status employees are required to contribute a percentage of their salaries to the defined benefit plan, and are given the option to participate in the defined contribution plan. Gallaudet matches a certain percentage of each employee's contributions to the defined contribution plan, and contributes a percentage communicated by the U.S. Office of Personnel Management ("OPM"), the administrator of the plans, to the defined benefit plan. The University contributed \$16,889,217 and \$14,870,907 for the years ended September 30, 2022 and 2021, respectively, to these retirement programs, which is included as a component of benefits expense in the accompanying statements of activities. Employee and employer contributions are paid to OPM biweekly. Gallaudet has no unfunded pension costs under these plans.

NOTE 9 - LINE OF CREDIT

In April 2021, Gallaudet renewed its unsecured line of credit with PNC Bank, National Association and reduced the amount from \$40 million to \$20 million. The expiration date was extended to April 2022.

In April 2022, Gallaudet extended its line of credit for another year. Under this line of credit agreement, amounts drawn accrue interest at a floating rate equal to the sum of Bloomberg Short-Term Bank Yield Rate plus 40 basis points (0.40%), which was equal to 3.53% at September 30, 2022.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

During fiscal year 2022, Gallaudet drew on this line on several occasions, resulting in the University incurring approximately \$28,000 in interest expense. There was an outstanding balance of approximately \$1,940,000 at September 30, 2022, which was used to purchase the real estate held for investment. The line was not drawn on at all during fiscal year 2021 and no interest expense was incurred.

NOTE 10 - LONG-TERM DEBT

Outstanding long-term debt as of September 30 follows:

	2022	2021
Series 2021A revenue and refunding bonds, tax-exempt, serial with interest rates ranging from 3.000% to 5.000% maturing at various dates from April 1, 2026 to April 1, 2041	\$ 23,865,000	\$ 23,865,000
Series 2021A revenue and refinancing bonds, tax-exempt, term Interest rate 5.0%, maturing April 1, 2046	6,965,000	6,965,000
Interest rate 5.0%, maturing April 1, 2051	8,880,000	8,880,000
Series 2021B revenue bond, taxable, serial, with interest rates ranging from 0.500% to 1.200% maturing at various dates from April 1, 2022 to April 1, 2026	3,970,000	5,045,000
Total bonds at par value	43,680,000	44,755,000
Unamortized premium	8,296,555	8,823,823
Unamortized deferred financing costs	(845,409)	(920,052)
Total bonds payable, net	\$ 51,131,146	\$ 52,658,771

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

In February 2021, the University issued Series 2021A tax-exempt fixed rate bonds in the aggregate amount of \$39,710,000 and Series 2021B taxable bonds in the aggregate amount of \$5,045,000. The proceeds from the sale of the Series 2021A bonds will be used by the University for all or a portion of the University's costs in connection with (i) financing the next phase of the University's updated Campus Master Plan 2012-2022, (ii) refunding a portion of the outstanding Series 2011 tax-exempt revenue bonds, and (iii) to pay the issuance costs of the Series 2021A Bonds. The proceeds of the sale of the Series 2021B Bonds will be used for the purpose of refunding a portion of the outstanding Series 2011 tax-exempt revenue bonds and to pay the issuance costs of the Series 2021B Bonds. The total amount of the Series 2011 bonds refunded as of April 1, 2021 was \$33,655,000 and the total costs of issuance for both Series 2021 Bonds was \$965,885. Both Series 2021 Bonds were issued as "Social Bonds" based on this use of proceeds of the Series 2021 Bonds.

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

The term bonds maturing on April 1, 2046 and April 1, 2051, are subject to mandatory redemption by operation of sinking fund installments. The installment payments for the term bonds maturing April 1, 2046, begin on April 1, 2042 and range from \$1.3 million to \$1.5 million per year through the maturity date. Installment payments for the term bonds maturing April 2051, begin on April 1, 2047, and range from \$1.6 million to \$2.0 million per year through the maturity date.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

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
2023	\$ 1,080,000	\$ 1,755,128	\$ 2,835,128
2024	1,085,000	1,748,647	2,833,647
2025	1,100,000	1,740,510	2,840,510
2026	1,105,000	1,728,410	2,833,410
2027	1,130,000	1,699,950	2,829,950
Thereafter	38,180,000	22,028,250	60,208,250
	<u>\$ 43,680,000</u>	<u>\$ 30,700,895</u>	<u>\$ 74,380,895</u>

NOTE 11 - NET ASSETS

Gallaudet's net assets without donor restrictions are comprised of the following purposes at September 30, 2022 and 2021:

	2022	2021
Funds functioning as endowment (quasi-endowment):		
Scholarships	\$ 3,082,756	\$ 3,698,686
Program and general support	39,522,381	52,842,220
Total funds functioning as endowment (quasi-endowment)	42,605,137	56,540,906
Board-Designated Capital Expenditures Reserve Fund	1,386,878	1,464,718
Board-Designated Real Estate Reserve Fund	4,561,606	-
Infrastructure and operations	176,587,648	180,799,673
Total net assets without donor restrictions	<u>\$ 225,141,269</u>	<u>\$ 238,805,297</u>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

Net assets with donor restrictions are restricted for the following purposes at September 30, 2022 and 2021:

	2022	2021
Donor-restricted endowment to be held in perpetuity:		
Scholarships	\$ 35,088,642	\$ 34,890,814
Program and general support	97,427,835	96,102,266
Total donor-restricted endowment to be held in perpetuity	132,516,477	130,993,080
Accumulated earnings subject to spending policy:		
Scholarships	4,316,131	12,025,846
Program and general support	12,211,294	33,113,194
Total accumulated earnings subject to spending policy	16,527,425	45,139,040
Donor-restricted for specific purposes or time periods:		
Scholarships	1,547,158	3,642,565
Program support	4,758,875	6,244,353
Pledges receivable for endowment	2,213,904	607,051
Time restricted (principally pledges)	1,150,936	481,500
Split-interest agreements	1,208,384	1,296,674
Total donor-restricted for specific purposes or time	10,879,257	12,272,143
Total net assets with donor restrictions	\$ 159,923,159	\$ 188,404,263

The nature of net assets released from restrictions for the years ended September 30, 2022 and 2021 are as follows:

	2022	2021
Endowment spending:		
Scholarships	\$ 412,452	\$ 249,230
Program support	199,245	32,464
General support	6,307,172	5,942,285
Total endowment spending	6,918,869	6,223,979
Donor-restricted for specific purposes or time periods:		
Scholarships	2,966,094	2,754,367
Program support	1,581,828	1,334,848
Time restricted (collection of pledges)	574,500	435,000
Total restricted for specific purposes or time restricted	5,122,422	4,524,215
Total net assets released from restrictions	\$ 12,041,291	\$ 10,748,194

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

NOTE 12 - ENDOWMENT

The University's endowment consists of 408 individual funds which have been established primarily to support the operations of the University and to provide for scholarships. The University's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

Interpretation of Relevant Law

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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

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 five-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, 2022 follows:

Endowment Net Asset Composition by Type of Fund as of September 30, 2022	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 42,605,137	\$ -	\$ 42,605,137
Donor-restricted endowment funds	-	149,043,902	149,043,902
Total endowment funds	<u>\$ 42,605,137</u>	<u>\$ 149,043,902</u>	<u>\$ 191,649,039</u>

Endowment net asset composition by type of fund as of September 30, 2021 follows:

Endowment Net Asset Composition by Type of Fund as of September 30, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 56,540,906	\$ -	\$ 56,540,906
Donor-restricted endowment funds	-	176,328,100	176,328,100
Total endowment funds	<u>\$ 56,540,906</u>	<u>\$ 176,328,100</u>	<u>\$ 232,869,006</u>

Changes in endowment net assets for the year ended September 30, 2022 follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, October 1, 2021	\$ 56,540,906	\$ 176,328,100	\$ 232,869,006
Investment return	(6,549,989)	(21,863,920)	(28,413,909)
Contributions	-	1,498,591	1,498,591
Amounts expended, pursuant to spending policy	(2,385,780)	(6,918,869)	(9,304,649)
Transfer out: establishment of Board- Designated Real Estate Reserve Fund	(5,000,000)	-	(5,000,000)
Endowment net assets, September 30, 2022	<u>\$ 42,605,137</u>	<u>\$ 149,043,902</u>	<u>\$ 191,649,039</u>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

Changes in endowment net assets for the year ended September 30, 2021 follows:

	<u>Without Donor</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, October 1, 2020	\$ 47,795,471	\$ 146,699,736	\$ 194,495,207
Investment return	10,979,290	33,952,524	44,931,814
Contributions	-	1,894,219	1,894,219
Amounts expended, pursuant to spending policy	(2,233,855)	(6,223,979)	(8,457,834)
Reclassification of net assets due to clarification of donor intent	-	5,600	5,600
Endowment net assets, September 30, 2021	<u>\$ 56,540,906</u>	<u>\$ 176,328,100</u>	<u>\$ 232,869,006</u>

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or D.C. UPMIFA requires the University to retain as a fund of permanent duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The University's spending policy allows for 2% of the five-year moving average to be spent for underwater donor-restricted endowment funds, assuming the fund is less than 20% underwater. Funds that are greater than 20% underwater, of which there were none in fiscal year 2022 or 2021, have their payouts suspended.

As of September 30, 2022, there was a total of 50 individual donor-restricted endowment funds with a fair value less than their historical corpus value. As of September 30, 2022, funds with an original gift value of \$4,504,981 were underwater by \$184,888. As of September 30, 2021, there were no individual donor-restricted endowment funds with a fair value less than their historical corpus value.

NOTE 13 - FUNCTIONAL AND NATURAL CLASSIFICATION OF EXPENSES

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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2022 and 2021

Expenses are reported in the accompanying statements of activities in natural categories. Functional expenses are categorized as follows for the years ended September 30, 2022 and 2021 and consist of the following:

<u>For the Year Ended September 30, 2022:</u>	Academic Instruction and Research	General Administration	Total
Salaries and wages	\$ 72,517,786	\$ 21,944,383	\$ 94,462,169
Employee benefits	24,741,555	8,973,699	33,715,254
Utilities	7,078,341	515,121	7,593,462
Bond interest	495,988	292,320	788,308
Depreciation and amortization	16,310,932	2,823,591	19,134,523
Consultants, advisors and other professional fees	29,650,922	13,959,694	43,610,616
Repairs and maintenance	4,108,818	1,349,469	5,458,287
Supplies, travel and other expenses	12,476,419	4,272,276	16,748,695
Total	<u>\$ 167,380,761</u>	<u>\$ 54,130,553</u>	<u>\$ 221,511,314</u>

<u>For the Year Ended September 30, 2021:</u>	Academic Instruction and Research	General Administration	Total
Salaries and wages	\$ 67,255,651	\$ 18,227,074	\$ 85,482,725
Employee benefits	22,601,490	8,320,264	30,921,754
Utilities	5,719,993	416,269	6,136,262
Bond interest	724,101	514,901	1,239,002
Depreciation and amortization	14,311,498	2,881,258	17,192,756
Consultants, advisors and other professional fees	15,096,257	15,319,966	30,416,223
Repairs and maintenance	18,025,455	1,595,048	19,620,503
Supplies, travel and other expenses	8,946,278	5,458,482	14,404,760
Total	<u>\$ 152,680,723</u>	<u>\$ 52,733,262</u>	<u>\$ 205,413,985</u>

Fundraising expenses include personnel and other direct costs associated with fundraising efforts. Fundraising expenses are included in general administration in the table above and totaled approximately \$2,809,000 and \$2,200,000 for fiscal 2022 and 2021, respectively.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

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

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

Gallaudet University

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September 30, 2022 and 2021

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

Pursuant to the Development Agreement, the Developer made two non-refundable deposits totaling \$10 million into an escrow account, which will act as security for the Developer's performance under the Development Agreement. The first deposit for \$6 million was made during fiscal year 2015. The second deposit for \$4 million was made during fiscal year 2019. The Development Agreement permits Gallaudet to draw down up to \$2.9 million of the escrow funds to cover certain land improvement costs and is considered an irrevocable commitment fee from the Developer to secure the future leases with the University. The commitment fee was amortized on a straight-line basis over three years and was completely recognized as of September 30, 2018. 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 closed during fiscal 2019.

In 2015, Gallaudet moved forward with plans to build a new three-story, 70,000 square foot, 158-bed residence hall known as the Model Secondary School for the Deaf Dormitory (the "MSSD Dorm"). The University retained an architect to design the residence hall and a lead construction company was retained to build the new dormitory. Additionally, the University contracted a construction management firm for project management.

Shortly after the MSSD Dorm's opening, the University began observing and receiving specific complaints of potential construction defects. The University retained a construction consultant to assess the building, including but not limited to site reviews, geotechnical testing, and demolition of problematic areas to uncover building structure. After significant investigation and testing, the consultant determined substantial problems in the design and construction of the building and its perimeter. The consultant developed a corrective action plan for remediation and the University retained a separate lead construction company for the reconstruction efforts. In fiscal 2022 and 2021, the University spent \$3,693,796 and \$17,518,663, respectively, on these remediation efforts. The expenses have not been capitalized and are included in the statement of activities as repairs and maintenance expenses, and in the statement of functional expenses as academic instruction and research expenses.

To recover those costs and other damages, Gallaudet has asserted claims against both the original lead construction company and architect and legal proceedings against the construction company are ongoing as of the date of issuance. In September 2022, Gallaudet was informed that it would be receiving a settlement from the architect for approximately \$1,500,000. The cash was received in October 2022, and the revenue has been recorded in fiscal 2022 as part of other revenue.

On November 3, 2021, Gallaudet signed a design-build agreement with Scale Microgrid Solutions to provide long-term energy efficiency and savings for the University. The contract specifies that Gallaudet will pay Scale Microgrid Solutions approximately \$14,700,000, which the University expects to be during fiscal 2023. The University also expects to see significant energy savings once this project is completed which will offset the upfront costs.

On November 5, 2021, Gallaudet signed a purchase agreement for real estate at 1723 West Virginia Avenue, NE, Washington, DC 20002. The purchase is to include a new construction, multi-family development containing nine units totaling approximately 7,070 square feet of usable area over five floors. The purchase price for the property is \$4,150,000, and it is expected that closing on the purchase will occur after April 2023, when the certificate of occupancy is issued.

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September 30, 2022 and 2021

On October 3, 2022, the University signed a 10-year lease to rent approximately 32,835 square feet of space at 2266 25th Place NE, Washington, DC. The lease is to commence on the date that the landlord delivers the premises to Gallaudet, which is not expected to occur until March 2023.

On November 17, 2022, the University negotiated a taxable term loan of \$1,940,675 with a commercial bank to reimburse the University for the purchase of investment property and to pay back the amount borrowed on the line of credit. The loan has a fixed rate of 4.285% and matures on November 15, 2027, with interest paid monthly. The loan is secured by a general obligation pledge of revenue.

The University is obligated under finance leases for office, technology, or other equipment that extend through 2025, for which the University has recorded a right-of-use (“ROU”) asset and a lease liability in the accompanying statements of financial position. The University measures its lease assets and liabilities using a risk-free rate of return selected based on the term lease. The University’s leases do not contain renewal or termination options or residual value guarantees and are based solely on fixed payment arrangements. The University has no short-term leases.

The ROU finance lease assets are reported in the accompanying statements of financial position as a component of land, buildings, and other property, net, and are disclosed in Note 7.

The components of finance lease cost are:

	Year Ended	
	September 30, 2022	September 30, 2021
Amortization of ROU assets	\$ 2,875,789	\$ 1,420,607
Interest on lease liabilities	128,179	130,739
Total	<u>\$ 3,003,968</u>	<u>\$ 1,551,346</u>

Supplemental quantitative information related to financing leases is as follows:

	Year Ended	
	September 30, 2022	September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities - operating cash flows	\$ 128,179	\$ 130,656
Cash paid for amounts included in the measurement of lease liabilities - financing cash flows	2,813,649	1,281,154
ROU assets obtained in exchange for lease obligations	2,217,206	5,517,768
Weighted-average remaining lease term (in years)	2.96	3.62
Weighted-average discount rate	1.87%	2.01%

Gallaudet University
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2022 and 2021

The maturity of the lease liability under the University's financing leases as of September 30, 2022 is as follows:

<u>Fiscal Year Ending September 30,</u>	
2023	\$ 3,495,384
2024	2,331,507
2025	2,132,801
2026	<u>199,090</u>
Total lease obligation, gross	8,158,782
Less: amounts representing interest rates	<u>(167,256)</u>
Total lease liability	<u>\$ 7,991,526</u>

Gallaudet has awarded grants to other institutions to perform research and perform other services. At September 30, 2022, Gallaudet has conditional grants related to these awards totaling \$1,268,665, which have not been recognized as a liability in the accompanying 2022 statement of financial position. These contributions are conditioned on the recipient incurring allowable expenditures under federal cost circulars and are expected to be satisfied during fiscal 2023.