

Financial Statements Together with
Report of Independent Certified Public
Accountants

Gallaudet University

September 30, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Gallaudet University:

We have audited the accompanying financial statements of Gallaudet University (the "University"), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gallaudet University as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Washington, D.C.
January 8, 2021

Gallaudet University

STATEMENTS OF FINANCIAL POSITION

September 30,

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 18,000,663	\$ 11,544,545
Restricted cash equivalents (deposits with trustee) (Notes 2, 6, 10, and 14)	2,558,601	2,511,181
Accounts receivable, net (Note 4)	7,972,729	10,414,677
Receivable from U.S. government	19,266,669	15,410,403
Contributions receivable, net (Note 5)	2,192,113	3,508,665
Prepaid expenses and other assets	2,718,158	2,952,595
Inventories, net	530,270	581,556
Student loans receivable (Note 4)	417,714	466,738
Investments (Note 6)	205,599,809	192,867,677
Split-interest agreements (Note 6)	1,454,363	602,730
Land, buildings, and other property, net (Note 7)	214,326,753	213,427,388
Total assets	\$ 475,037,842	\$ 454,288,155
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 11,327,772	\$ 9,713,232
Accrued payroll	18,006,732	9,130,154
Deferred tuition revenue (Note 2)	5,842,671	8,870,382
Refundable advances under U.S. government loan program	510,809	710,091
Obligations under finance leases (Note 14)	4,351,415	1,086,627
Conditional asset retirement obligations (Note 7)	668,223	659,291
Bonds payable, net (Note 10)	32,626,254	33,454,135
Total liabilities	73,333,876	63,623,912
Commitments and contingencies (Notes 6 and 14)		
Net assets (Notes 11 and 12):		
Without donor restrictions	240,723,193	244,401,220
With donor restrictions	160,980,773	146,263,023
Total net assets	401,703,966	390,664,243
Total liabilities and net assets	\$ 475,037,842	\$ 454,288,155

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

Gallaudet University

STATEMENT OF ACTIVITIES

For the year ended September 30, 2020, with comparative totals for 2019

	2020			2019
	Without donor restrictions	With donor restrictions	Total	Total
Operating revenues				
Student tuition, fees, room and board (Note 2)	\$ 25,674,906	\$ -	\$ 25,674,906	\$ 32,289,191
Governmental appropriations	138,600,592	-	138,600,592	132,626,844
Governmental grants and contracts	4,454,182	-	4,454,182	2,839,003
Contributions	859,048	9,631,016	10,490,064	4,308,289
Investment return appropriated for operations (Notes 6 and 12)	2,291,413	6,127,942	8,419,355	8,298,353
Auxiliary enterprises	4,000,811	-	4,000,811	11,088,395
Gain on capital asset related activities (Note 7)	46,957	-	46,957	5,499,869
Other	689,108	-	689,108	1,146,440
Total operating revenues	176,617,017	15,758,958	192,375,975	198,096,384
Net assets released from restrictions (Note 11)	7,952,418	(7,952,418)	-	-
Total operating revenues and other support	184,569,435	7,806,540	192,375,975	198,096,384
Expenses				
Salaries and wages	92,982,085	-	92,982,085	87,926,402
Employee benefits	30,871,247	-	30,871,247	29,249,513
Utilities	5,725,566	-	5,725,566	6,488,915
Bond interest	1,841,604	-	1,841,604	1,875,143
Depreciation and amortization	15,644,371	-	15,644,371	15,273,805
Consultants, advisors and other professional fees	30,186,568	-	30,186,568	32,335,470
Supplies, travel and other expenses	11,147,458	-	11,147,458	15,148,203
Total expenses (Note 13)	188,398,899	-	188,398,899	188,297,451
Changes in net assets from operations, before transfers	(3,829,464)	7,806,540	3,977,076	9,798,933
Board-designated transfer from operations (Note 7)	-	-	-	(5,519,115)
Changes in net assets from operations, after transfers	(3,829,464)	7,806,540	3,977,076	4,279,818
Nonoperating activities				
Investment income (loss), net of amounts appropriated for operations (Notes 6 and 12)	1,411,074	4,773,796	6,184,870	(3,889,587)
Contributions for endowment	-	1,367,854	1,367,854	830,430
Contributions relating to split-interest agreements	-	618,570	618,570	-
Change in value of split-interest agreements	92	151,868	151,960	108,188
Recovery/(loss) of uncollectible pledges	-	(878)	(878)	1,260
Changes in net assets from nonoperating activities before Board-designated transfer from operations (Note 7)	1,411,166	6,911,210	8,322,376	(2,949,709)
Board-designated transfer from operations (Note 7)	-	-	-	5,519,115
Changes in net assets from nonoperating activities, after Board-designated transfer	1,411,166	6,911,210	8,322,376	2,569,406
Changes in net assets	(2,418,298)	14,717,750	12,299,452	6,849,224
Net assets, beginning of year	244,401,220	146,263,023	390,664,243	383,815,019
Adoption of new accounting standard (Notes 2 and 14)	(1,259,729)	-	(1,259,729)	-
Net assets, end of year	\$ 240,723,193	\$ 160,980,773	\$ 401,703,966	\$ 390,664,243

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

Gallaudet University

STATEMENT OF ACTIVITIES

For the year ended September 30, 2019

	2019		
	Without donor restrictions	With donor restrictions	Total
Operating revenues			
Student tuition, fees, room and board (Note 2)	\$ 32,289,191	\$ -	\$ 32,289,191
Governmental appropriations - operations	132,626,844	-	132,626,844
Governmental grants and contracts	2,839,003	-	2,839,003
Contributions	607,998	3,700,291	4,308,289
Investment return appropriated for operations (Notes 6 and 12)	2,252,418	6,045,935	8,298,353
Auxiliary enterprises	11,088,395	-	11,088,395
Gain on capital related activities (Note 7)	5,499,869	-	5,499,869
Other	1,146,440	-	1,146,440
Total operating revenues	188,350,158	9,746,226	198,096,384
Net assets released from restrictions (Note 11)	8,494,926	(8,494,926)	-
Total operating revenues and other support	196,845,084	1,251,300	198,096,384
Expenses			
Salaries and wages	87,926,402	-	87,926,402
Employee benefits	29,249,513	-	29,249,513
Utilities	6,488,915	-	6,488,915
Bond interest	1,875,143	-	1,875,143
Depreciation and amortization	15,273,805	-	15,273,805
Consultants, advisors and other professional fees	32,335,470	-	32,335,470
Supplies, travel and other expenses	15,148,203	-	15,148,203
Total expenses (Note 13)	188,297,451	-	188,297,451
Changes in net assets from operations, before transfers	8,547,633	1,251,300	9,798,933
Board-designated transfer from operations	(5,519,115)	-	(5,519,115)
Changes in net assets from operations, after transfers	3,028,518	1,251,300	4,279,818
Nonoperating activities			
Investment loss, net of amounts appropriated for operations (Notes 6 and 12)	(1,025,404)	(2,864,183)	(3,889,587)
Contributions for endowment	-	830,430	830,430
Change in the value of split-interest agreements	28,982	79,206	108,188
Recovery of uncollectible pledges	-	1,260	1,260
Changes in net assets from nonoperating activities before transfers	(996,422)	(1,953,287)	(2,949,709)
Board-designated transfer from operations (Note 7)	5,519,115	-	5,519,115
Changes in net assets from nonoperating activities, after transfers	4,522,693	(1,953,287)	2,569,406
Changes in net assets	7,551,211	(701,987)	6,849,224
Net assets, beginning of year	236,850,009	146,965,010	383,815,019
Net assets, end of year	\$ 244,401,220	\$ 146,263,023	\$ 390,664,243

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

Gallaudet University

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Changes in net assets	\$ 12,299,452	\$ 6,849,224
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities		
Depreciation and amortization	15,644,371	15,273,805
Amortization of deferred financing costs	39,471	40,490
Amortization of bond discount	27,648	25,986
Accretion of interest on conditional asset retirement obligations	8,932	13,203
Bad debt expense	258,009	1,516,547
Gain on capital asset related activities	(46,957)	(5,499,869)
Loss (recovery) of uncollectible pledges	878	(1,260)
Net gain on investments	(11,482,528)	(1,098,564)
(Increase) decrease in assets:		
Receivables	(356,653)	(18,677,735)
Split-interest agreements	(841,322)	321,956
Prepaid expenses	(1,025,292)	(705,776)
Inventories	51,286	75,032
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	8,799,134	129,112
Deferred tuition revenue	(3,027,711)	3,700,382
Contributions for donor-restricted endowment	(1,928,981)	(976,442)
Investment income reinvested to donor-restricted endowment	(165,006)	(101,396)
	<u>18,254,731</u>	<u>884,695</u>
Net cash, cash equivalents, and restricted cash equivalents provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales and redemptions of investments	113,741,261	71,238,569
Purchases of investments	(114,990,864)	(73,238,743)
Proceeds from the sale of property and equipment	364,126	5,616,812
Purchases of capital assets	(10,748,694)	(5,876,974)
Repayment of loans by students	49,024	121,857
	<u>(11,585,147)</u>	<u>(2,138,479)</u>
Net cash, cash equivalents and restricted cash equivalents used in investing activities		
Cash flows from financing activities:		
Decrease in refundable advances from U.S. government	(199,282)	(13,332)
Charitable Gift Annuity Payments	(10,311)	(28,558)
Proceeds from contributions and investment income restricted to donor-restricted endowment	2,093,987	1,077,838
Payments under finance leases	(1,155,440)	(222,966)
Payment of principal on bonds payable	(895,000)	(865,000)
	<u>(166,046)</u>	<u>(52,018)</u>
Net cash, cash equivalents, and restricted cash equivalents used in financing activities		
Net increase (decrease) in cash, cash equivalents, and restricted cash equivalents	6,503,538	(1,305,802)
Cash, cash equivalents, and restricted cash equivalents, beginning of year	<u>14,055,726</u>	<u>15,361,528</u>
Cash, cash equivalents and restricted cash equivalents, end of year	<u>\$ 20,559,264</u>	<u>\$ 14,055,726</u>
Supplemental disclosures:		
Capital asset purchases included in accounts payable	<u>\$ 1,417,932</u>	<u>\$ 1,280,219</u>
Right-of-use assets acquired with finance leases, net	<u>\$ 4,527,388</u>	<u>\$ 179,457</u>
Construction retainage	<u>\$ 274,052</u>	<u>\$ 78,279</u>
Cash paid for interest	<u>\$ 2,029,079</u>	<u>\$ 2,211,672</u>

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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

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 or hard of hearing students. In addition to its undergraduate and graduate academic programs, the University offers national demonstration elementary and secondary education programs, continuing education programs, and a wide range of public service programs.

The Gallaudet University Foundation (the "Foundation") was formed in 2012 to benefit, promote and support, by gift or otherwise, Gallaudet University in the ownership and/or development of real estate on campus or around the University. The Foundation is incorporated in the District of Columbia and is recognized under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, as a tax-exempt organization and Gallaudet University serves as its sole corporate member. The activities of the Foundation consolidate with Gallaudet University and have been limited principally to administrative costs incurred in connection with its development. During fiscal 2020 and 2019, 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 2020 and 2019, approximately 75% and 67%, respectively, of the University's operating revenues and other support without donor restrictions were derived from federal appropriations. The fiscal year 2020 appropriation includes funding received under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, as discussed further in Note 2.

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 2019-2020, the University enrolled 1,523 undergraduate and graduate students, and the Clerc Center enrolled 272 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*.

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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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 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 of 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 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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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.
- Global Real Estate - This class includes investments in real estate mutual funds which are valued using quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.
- Private Equity Funds, Private Real Asset Funds, and Hedge Funds - The fair value of these investments is based on the fund managers' reported NAVs. When necessary, Gallaudet adjusts NAVs for contributions, distributions, or general market conditions subsequent to the latest NAV valuation date when determining fair value as of the measurement date.
- Split-Interest Agreements - For charitable gift annuity investments in which Gallaudet acts as the trustee, the assets are held in debt and equity mutual funds with readily determinable fair values and therefore included in Level 1. For beneficial interests in remainder and perpetual trusts which are held by a third-party, Gallaudet estimates the fair value of its beneficial interests based on a discounted cash flow methodology using a discount rate that is commensurate with risks of the underlying trust assets and other risks such as non-performance by the trustee. Since the most significant valuation inputs are not observable in the market place, the beneficial interests held by third-party trustees are included in Level 3.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

- 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 statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 18,000,663	\$ 11,544,545
Restricted Cash Equivalents (Deposits with Trustees)	2,558,601	2,511,181
	<u>\$ 20,559,264</u>	<u>\$ 14,055,726</u>

Deposits with trustees on the statements of financial position include restricted cash equivalents held in escrow related to the University's development agreement, as discussed in Note 14, along with cash equivalents set aside for the October 1 required interest payment on Gallaudet's bonds, as discussed in Note 10.

Deferred Financing and Lease Charges

During fiscal 2011, Gallaudet capitalized bond financing costs incurred in connection with a bond issuance, from which the proceeds were used in support of certain capital improvement projects. Gallaudet is amortizing the deferred financing costs of the bond issuance over the life of the bonds using the effective interest method. Amortization expense for the years ended September 30, 2020 and 2019 totaled \$39,471 and \$40,490, respectively.

In preparation for a long-term ground lease with a developer, as discussed in Note 14, Gallaudet capitalized initial direct costs which totaled \$1,259,729 and were included as a component of prepaid expenses and other assets on the accompanying statement of financial position as of September 30, 2019. Since the lease had not been executed upon adoption of ASU 2016-02 (See Note 14), Gallaudet determined these costs no longer qualify for deferral as initial direct costs and recorded a cumulative effect adjustment to reduce the opening balance of net assets and prepaid expenses and other assets.

Inventories

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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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 were between 1.0% and 1.51% for the year ended September 30, 2020 and 2.46% for the year ended September 30, 2019, 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 three 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.

Right-of-use 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.

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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

On September 30, 2017, the authority for schools to make new loans under the Federal Perkins Loan Program ended and final disbursements to students were permitted through June 30, 2018. The University intends to continue servicing the outstanding loans and to remit the federal share of repayments to the U.S. Department of Education.

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 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 ending September 30, 2020, 2019, 2018 and 2017 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 ending September 30, 2020 and 2019.

Use of Estimates

The preparation of financial statements in conformity with 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 CARES Act 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 closing 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. For the fall 2020 semester, Gallaudet held classes remotely, and had less than 50 students living on campus. The spring 2021 semester plans are similar, although the plan is to have slightly more students living on campus.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

In response to the pandemic, the University received \$7,000,000 through a government appropriation as provided for under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The funding is to remain available through September 30, 2021 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.” This appropriation is recognized as part of operating revenue, once the University has incurred expenses associated with the University’s response to the COVID-19 pandemic. Approximately \$2,900,000 has been recognized in fiscal year 2020.

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 \$2,014,828 as of September 30, 2020 and are included in accrued payroll.

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.

Keeping the health and safety of its community top of mind, the University decided to hold all courses online for the fall 2020 and spring 2021 semesters, and to keep the Kellogg Conference Hotel closed until the campus fully re-opens. This decision will significantly impact the University’s financial operations for the fiscal year ending September 30, 2021, especially, the loss of housing and other auxiliary enterprises revenue.

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.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases* (Topic 842). This guidance is intended to increase transparency and comparability by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 requires lessees to report a right-of-use asset along with a lease liability for both operating and finance leases. ASU 2016-02 also narrows the definition of initial direct costs to include only those incremental costs of a lease that would not have been incurred if the lease had not been obtained.

The University adopted ASU 2016-02 as of October 1, 2019. The lessee accounting for finance leases, which were previously considered capital leases, remains substantially unchanged. The University elected to apply practical expedients allowing it to 1) not reassess whether any expired or existing contracts previously assessed as not containing leases are, or contain, leases; 2) not reassess the lease classification for any expired or existing leases; and 3) not reassess initial direct costs for any existing leases. The University also elected to apply the practical expedient to use hindsight in determining the lease term, as well as the practical expedient to combine non-lease components from lease components for all office, technology, or other equipment assets

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

As discussed further in Note 14, Gallaudet had previously capitalized initial direct costs of \$1,259,729 in preparation for a long-term ground lease with a developer. In accordance with the new guidance, the underlying costs do not qualify for deferral as initial direct costs. Since the lease was not executed before October 1, 2019, there was a write-off of the capitalized initial direct costs. The cumulative effect of applying the new standard on the statement of financial position as of October 1, 2019 was recognized as an adjustment to the opening balance of net assets without donor restrictions, decreasing beginning net assets without donor restrictions by \$1,259,729, with a corresponding decrease to prepaid expenses and other assets.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash*, that requires the inclusion of restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The University adopted ASU 2016-18 effective October 1, 2019, which resulted in the inclusion of the University's restricted cash balances along with cash and cash equivalents in the University's statement of cash flows. ASU 2016-18 was applied retrospectively to all periods presented.

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, 2020, unrecognized conditional contributions relating to the federal appropriation totaled \$7,494,565. Of this amount, \$4,075,333 relates to the supplemental appropriation that Gallaudet received under the CARES Act and is conditioned on Gallaudet incurring expenses or revenue losses associated with the coronavirus pandemic. The remaining \$3,319,232 is conditioned on incurring allowable expenditures for an early language acquisition partnership with the Alabama Institute of the Deaf and Blind (AIDB). At September 30, 2019, unrecognized conditional contributions relating to the federal appropriation totaled \$1,734,156 related to AIDB partnership.
- *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 thirty days of the bill date. The University provides for potentially uncollectible student accounts and notes receivables based on historical collection experience.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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

For the year ended September 30, 2020:	Tuition and fees	Room and board	Total
Revenue	\$ 26,678,378	\$ 8,328,252	\$ 35,006,630
Institutional Scholarships and Fellowships	(7,111,660)	(2,220,064)	(9,331,724)
Total student tuition, fees, room and board	\$ 19,566,718	\$ 6,108,188	\$ 25,674,906

For the year ended September 30, 2019:	Tuition and fees	Room and board	Total
Revenue	\$ 29,221,828	\$ 13,331,954	\$ 42,553,782
Institutional Scholarships and Fellowships	(7,048,730)	(3,215,861)	(10,264,591)
Total student tuition, fees, room and board	\$ 22,173,098	\$ 10,116,093	\$ 32,289,191

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 5% of the total governmental grants and contracts were considered exchange transactions for each of the years ended September 30, 2020 and 2019. 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 \$4,800,000 and \$4,500,000 in unrecognized conditional contributions as of September 30, 2020 and 2019, 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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

- *Contributions* - Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift. Contributed services are recorded at their estimated fair value if they would otherwise be purchased if not provided by donation and provided by professionals in their field.

Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Contributions to be received after one year are discounted 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, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Kellogg Conference Hotel	\$ 2,123,697	\$ 7,653,261
Press and other publications	635,163	742,597
Bookstore	284,709	639,979
Hearing and speech center	288,400	620,151
Other space rentals	138,798	533,625
Other auxiliary revenue	530,044	898,782
Total auxiliary enterprises	<u>\$ 4,000,811</u>	<u>\$ 11,088,395</u>

Deferred Tuition Revenue

Deferred tuition revenue at September 30, 2020 and 2019 totaling \$5,842,671 and \$8,870,382, respectively, represents the University's performance obligations to transfer future enrollment and instructional services to students. For the years ended September 30, 2020 and 2019, the University recognized as revenue the entire amount that was included in deferred revenues at the end of the preceding year.

Subsequent Events

The University evaluated its subsequent events (events occurring after September 30, 2020) through January 8, 2021, which represents the date the financial statements were issued. See comments above under "**COVID-19 Pandemic and CARES Act Funding**" for a discussion of COVID-19 pandemic impacts. The University is not aware of any other subsequent events that require recognition or disclosure in the accompanying financial statements.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available within one year of the statement of financial position as of September 30, 2020 and 2019 for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Financial assets, at year end		
Cash and cash equivalents	\$ 18,000,663	\$ 11,544,545
Accounts receivable, net	7,972,729	10,414,677
Receivable from U.S. government	19,266,669	15,410,403
Contributions receivable, net	2,192,113	3,508,665
Investments	205,599,809	192,867,677
	<u>253,031,983</u>	<u>233,745,967</u>
Less:		
Board-designated endowments not expected to be used for operations	(47,795,471)	(46,384,397)
Restricted by donors in perpetuity	(130,179,723)	(128,621,622)
Restricted by donors as to time or purpose	(30,662,832)	(17,495,413)
Cash restricted for Perkins loan program	(93,094)	(243,354)
	<u>(208,731,120)</u>	<u>(192,744,786)</u>
Add:		
Endowment return appropriated for spending in the following year for general purposes	5,423,167	5,248,444
	<u>5,423,167</u>	<u>5,248,444</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 49,724,030</u>	<u>\$ 46,249,625</u>

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.

In response to the COVID-19 pandemic, the University took proactive measures by increasing its line of credit to \$40 million (as further discussed in Note 9) that can be drawn upon during the year, as needed, to manage cash flows. As of September 30, 2020, there were no amounts outstanding on the line of credit. In addition, Gallaudet has approximately \$48 million in board-designated endowments, which could be made available for general expenditure with appropriate Board of Trustees approval.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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

Receivables (student, grants, loans and other), as of September 30, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Student accounts	\$ 6,065,573	\$ 7,366,415
Vocational Rehabilitation	3,530,794	4,807,550
Other	272,355	741,372
Grants and contracts	264,424	206,757
Total accounts receivable	<u>10,133,146</u>	<u>13,122,094</u>
Less: Allowance for doubtful accounts for		
Student accounts	(1,378,293)	(2,179,624)
Vocational Rehabilitation	(742,707)	(487,878)
Other	(39,417)	(39,915)
Total allowance for doubtful accounts	<u>(2,160,417)</u>	<u>(2,707,417)</u>
Total accounts receivable, net	<u>\$ 7,972,729</u>	<u>\$ 10,414,677</u>
Student loans, gross	<u>\$ 417,714</u>	<u>\$ 466,738</u>

Amounts due under the Federal Perkins Loan Program, which total \$417,714 and \$466,738 as of September 30, 2020 and 2019, respectively, and not included in the table above, are guaranteed by the government. At September 30, 2020 and 2019, the following amounts were past due under the Federal Perkins Loan Program:

<u>Fiscal year ending September 30:</u>	<u>1 - 119 days past due</u>	<u>120 - 719 days past due</u>	<u>720 + days past due</u>	<u>Total past due</u>
2020	\$ 4,004	\$ 109,969	\$ 195,007	\$ 308,980
2019	\$ 28,080	\$ 72,585	\$ 195,007	\$ 295,672

NOTE 5 - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of September 30, 2020 and 2019 are expected to be received as follows:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 1,730,143	\$ 2,558,138
Between one and five years	469,362	1,011,367
	<u>2,199,505</u>	<u>3,569,505</u>
Less: Unamortized discount (0.35% - 3.613%)	(4,474)	(58,800)
Allowance for doubtful accounts	(2,918)	(2,040)
Total contributions receivable, net	<u>\$ 2,192,113</u>	<u>\$ 3,508,665</u>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

During the year ended September 30, 2019, Gallaudet satisfied the remaining conditions contained in a donor agreement totaling \$1 million and recorded the previously unrecognized contribution revenue of \$800,000 as contributions with donor restrictions for specific purposes. As of September 30, 2020, Gallaudet has received \$800,000. Gallaudet expects to receive the remaining \$200,000 during fiscal year 2021.

NOTE 6 - INVESTMENTS

At September 30, 2020 and 2019, investments consist of the following:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 1,225,541	\$ 637,226
Equity securities:		
U.S. Large Cap	76,510,356	62,965,920
U.S. Small Cap	6,278,857	9,505,399
International (developed countries)	34,935,192	32,448,202
International (emerging markets)	4,712,575	6,013,429
Fixed income securities:		
U.S. bonds	34,331,451	33,201,239
World bonds	599,406	1,247,419
Global real estate	2,110,841	4,112,291
Hedge funds	29,504,791	28,141,033
Private equity funds	13,626,365	12,172,927
Private real asset funds	1,764,434	2,422,592
	<u>\$ 205,599,809</u>	<u>\$ 192,867,677</u>
Total investments		

Gallaudet's investment policy for its pooled endowment emphasizes growth. The University follows the total return concept, which combines interest and dividends with market appreciation to measure investment return. The University's investment policy states that it will spend annually 4.8% of the three-year average fair value of the pooled funds.

Interest and dividends are reported net of investment expenses. Investment expenses for fiscal 2020 and 2019 totaled approximately \$895,000 and \$773,000, respectively. For the years ended September 30, 2020 and 2019, return on investments, which primarily related to the University's endowment, as further discussed in Note 12, consists of the following:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gain	\$ 11,482,528	\$ 1,098,564
Interest and dividends, net	3,121,697	3,310,202
Total return on investments	<u>\$ 14,604,225</u>	<u>\$ 4,408,766</u>
Operating investment income without donor restrictions	\$ 2,291,413	\$ 2,252,418
Nonoperating investment gain (loss) without donor restrictions	1,411,074	(1,025,404)
Operating investment income with donor restrictions	6,127,942	6,045,935
Nonoperating investment gain (loss) with donor restrictions	4,773,796	(2,864,183)
Total return on investments	<u>\$ 14,604,225</u>	<u>\$ 4,408,766</u>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The following tables present Gallaudet's fair value hierarchy for those investment assets measured at fair value on a recurring basis at September 30, 2020 and 2019:

	2020				
	Level 1	Level 2	Level 3	Investments reported at NAV	Total
Investments					
Money market funds	\$ 1,225,541	\$ -	\$ -	\$ -	\$ 1,225,541
Equity securities:					
U.S. Large Cap	76,510,356	-	-	-	76,510,356
U.S. Small Cap	6,278,857	-	-	-	6,278,857
International (developed countries)	34,935,192	-	-	-	34,935,192
International (emerging markets)	4,712,575	-	-	-	4,712,575
Fixed income securities:					
U.S. bonds	34,331,451	-	-	-	34,331,451
World bonds	599,406	-	-	-	599,406
Global real estate	2,110,841	-	-	-	2,110,841
Hedge funds	-	-	-	29,504,791	29,504,791
Private equity funds	-	-	-	13,626,365	13,626,365
Private real asset funds	-	-	-	1,764,434	1,764,434
Total investments	<u>160,704,219</u>	<u>-</u>	<u>-</u>	<u>44,895,590</u>	<u>205,599,809</u>
Deposits with trustee (money market funds)	2,558,601	-	-	-	2,558,601
Split-interest agreements	395,700	-	1,058,663	-	1,454,363
Total investment	<u>\$ 163,658,520</u>	<u>\$ -</u>	<u>\$ 1,058,663</u>	<u>\$ 44,895,590</u>	<u>\$ 209,612,773</u>
	2019				
	Level 1	Level 2	Level 3	Investments reported at NAV	Total
Investments					
Money market funds	\$ 637,226	\$ -	\$ -	\$ -	\$ 637,226
Equity securities:					
U.S. Large Cap	62,965,920	-	-	-	62,965,920
U.S. Small Cap	9,505,399	-	-	-	9,505,399
International (developed countries)	32,448,202	-	-	-	32,448,202
International (emerging markets)	6,013,429	-	-	-	6,013,429
Fixed income securities:					
U.S. bonds	33,201,239	-	-	-	33,201,239
World bonds	1,247,419	-	-	-	1,247,419
Global real estate	4,112,291	-	-	-	4,112,291
Hedge funds	-	-	-	28,141,033	28,141,033
Private equity funds	-	-	-	12,172,927	12,172,927
Private real asset funds	-	-	-	2,422,592	2,422,592
Total investments	<u>150,131,125</u>	<u>-</u>	<u>-</u>	<u>42,736,552</u>	<u>192,867,677</u>
Deposits with trustee (money market funds)	2,511,181	-	-	-	2,511,181
Split-interest agreements	275,959	-	326,771	-	602,730
Total investment	<u>\$ 152,918,265</u>	<u>\$ -</u>	<u>\$ 326,771</u>	<u>\$ 42,736,552</u>	<u>\$ 195,981,588</u>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The following table summarizes the changes in assets classified as Level 3 for the years ended September 30, 2020 and 2019:

	Split-Interest Agreements
Balance as of September 30, 2018	\$ 591,611
Cash received from trust liquidation	(345,531)
Investment gain	80,691
Balance as of September 30, 2019	<u>326,771</u>
New trust gifts	555,279
Investment gain	176,613
Balance as of September 30, 2020	<u>\$ 1,058,663</u>

Annuities payable totaled \$223,605 and \$142,501 at September 30, 2020 and 2019, 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, 2020 and 2019:

	Payable to beneficiaries
Balance as of September 30, 2018	\$ 198,556
Payments	(28,558)
Present value adjustment	(27,497)
Balance as of September 30, 2019	<u>142,501</u>
Gifts	66,762
Payments	(10,311)
Present value adjustment	24,653
Balance as of September 30, 2020	<u>\$ 223,605</u>

The following table presents the nature and liquidity terms of investment assets held at September 30, 2020 and 2019 with fair values reported using a NAV:

<u>Investment description</u>	<u># of Funds</u>	<u>2020 Fair value</u>	<u>Unfunded commitments</u>	<u>2019 Fair value</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Hedge funds (a)	7	\$ 29,504,791	\$ N/A	\$ 28,141,033	Quarterly	65-72 Days
Private equity funds (b)	12	13,626,365	20,730,007	12,172,927	Upon Liquidation	-
Private real asset funds (c)	2	<u>1,764,434</u>	<u>1,262,130</u>	<u>2,422,592</u>	Upon Liquidation	-
Total	21	<u>\$ 44,895,590</u>	<u>\$ 21,992,137</u>	<u>\$ 42,736,552</u>		

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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, 2020 and 2019.

- (a) This class includes investments in single manager hedge funds and investments in hedge funds across several strategies. The investment objective of the hedge fund allocation is to target attractive risk-adjusted returns with volatility lower than that of the broad equity markets. To achieve its objective, the hedge fund allocation invests in investment funds managed by independent investment managers that employ a broad range of alternative investment strategies, primarily within the equity long/short, event driven and tactical trading hedge fund sectors.
- (b) This class includes several private equity funds that invest in either domestic or international limited partnerships. These investments are geographically diversified among the United States, Europe, Latin America and Asia. Allocations consist of leveraged buy-outs, venture capital expansion opportunities, recapitalization, distressed and special situation investments. The fair values of these investments have been estimated using the NAV of Gallaudet's ownership interest in partners' capital. These investments can never be redeemed with the funds. Instead, the nature of investments in this class is that distributions are received through liquidation of the underlying assets of the funds at the direction of the fund managers. It is estimated that the underlying assets of the funds will be liquidated over 1 to 10 years.
- (c) This class includes investments in limited partnerships with several underlying holdings in private investment partnerships, limited liability companies, or similar entities that invest in real assets, also known as inflation hedging investments. Real asset allocations are primarily in natural resources, power, infrastructure and to a 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 manager. It is estimated that the underlying assets of the funds will be liquidated over the following 3 to 10 years.

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

At September 30, 2020 and 2019, land, buildings, and other property consist of the following:

	2020	2019
Buildings and improvements	\$ 337,030,592	\$ 334,811,369
Outside improvements	44,878,073	44,032,404
Furniture and equipment	46,412,994	39,784,917
Land stabilization improvements	6,190,017	6,190,017
Software	7,457,055	7,281,947
	441,968,731	432,100,654
Less: Accumulated depreciation and amortization	(236,718,146)	(221,557,756)
	205,250,585	210,542,898
Land	1,410,480	1,410,480
Construction in progress	7,665,688	1,474,010
	\$ 214,326,753	\$ 213,427,388

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Included in furniture and equipment is the right-of-use assets recognized for copiers and computer equipment acquired under finance lease arrangements. The right-of-use assets have an original cost of \$5,597,443 and \$1,554,038 and accumulated amortization of \$598,712 and \$640,038 as of September 30, 2020 and 2019, respectively.

In fiscal years 2020 and 2019, Gallaudet recognized net gains of \$107,160 and \$38,393, respectively, associated with the replacement of existing leased copiers.

In fiscal year 2019, Gallaudet sold a parcel of land located on 5th Street NE for \$5,519,115 resulting in a gain of \$5,461,476 which is reported as an operating gain on capital asset related activities in the accompanying statement of activities for the year ended September 30, 2019. In February 2019, the Board of Trustees approved use of the proceeds from the land sale to create a new quasi-endowment fund to support the general operations of the University. The establishment of this board-designated fund of \$5,519,115 is included in the accompanying statement of activities for the year ended September 30, 2019 as board-designated transfer from operating activities to nonoperating activities.

In fiscal year 2020, Gallaudet wrote-off \$60,203 in construction in progress costs related to a project in the Washburn Arts Building that was cancelled.

The following table represents the activity for the conditional asset retirement obligations for the years ended September 30, 2020 and 2019:

	2020	2019
Balance, beginning of year	\$ 659,291	\$ 646,088
Accretion expense	8,932	13,203
Balance, end of year	\$ 668,223	\$ 659,291

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 federal retirement programs. Under these arrangements, employees contribute a percentage of their salaries to one of two retirement systems, and Gallaudet matches a certain percentage of each employee's contributions. The University contributed \$14,161,428 and \$12,853,206 for the years ended September 30, 2020 and 2019, respectively, to these retirement programs which is included as a component of benefits expense in the accompanying statements of activities. Employee and matching contributions are paid to the U.S. Office of Personnel Management, the administrator of the plans. Gallaudet has no unfunded pension costs under these plans.

NOTE 9 - LINE OF CREDIT

In May 2020, Gallaudet renewed its unsecured line of credit with PNC Bank, National Association and increased the amount from \$20 million to \$40 million. The expiration date was extended to April 2021. Under the new line of credit agreement, amounts drawn on this line accrue interest at a floating interest rate equal to the sum of the Daily LIBOR Rate plus one hundred fifty basis points (1.50%), which was equal to 1.51% at September 30, 2020. During fiscal year 2020, Gallaudet did not draw on this line, resulting in the University incurring no interest expense. During fiscal year 2019, amounts drawn on the line of credit accrued interest at a floating interest rate that ranged from 1.13% to 3.20%. During fiscal year 2019, Gallaudet drew on this line on two occasions for a total of \$10 million, which was all paid back. Interest expense incurred on these draws totaled \$18,412 for the year ended September 30, 2019. There was no outstanding balance on either line of credit as of September 30, 2020 and 2019.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 10 - TAX-EXEMPT REVENUE BONDS

In May 2011, the District of Columbia issued Series 2011 tax-exempt revenue bonds in the amount of \$40,000,000 on behalf of Gallaudet. These bonds were sold to finance the costs of (i) building a new student housing facility, (ii) renovating and improving heating and lighting systems and controls in campus buildings, (iii) upgrading technology infrastructure, and (iv) renovating resident halls, classroom buildings, and other campus facilities. These projects were all completed before September 30, 2016.

Gallaudet is obligated under the revenue bonds as follows:

	2020	2019
Series 2011 revenue bonds, serial, with interest rates ranging from 4.000% to 4.875%, maturing at various dates from April 1, 2019 to April 1, 2026	\$ 6,260,000	\$ 7,155,000
Series 2011 revenue bonds, term		
Interest rate 5.5%, maturing April 1, 2034	11,885,000	11,885,000
Interest rate 5.5%, maturing April 1, 2041	15,510,000	15,510,000
Total bonds, at face value	33,655,000	34,550,000
Less: Unamortized discount and premium	(485,516)	(513,164)
Unamortized deferred financing costs	(543,230)	(582,701)
Total bonds payable	\$ 32,626,254	\$ 33,454,135

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

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

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

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

Fiscal year ending September 30:	Principal	Interest	Total debt service
2021	\$ 935,000	\$ 1,796,056	\$ 2,731,056
2022	970,000	1,758,656	2,728,656
2023	1,010,000	1,717,431	2,727,431
2024	1,065,000	1,664,406	2,729,406
2025	1,115,000	1,616,481	2,731,481
Thereafter	28,560,000	15,107,544	43,667,544
	\$ 33,655,000	\$ 23,660,574	\$ 57,315,574

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 11 - NET ASSETS

Gallaudet's net assets without donor restrictions are comprised of undesignated amounts and Board-designated quasi-endowments for the following purposes at September 30 2020 and 2019:

	2020	2019
Funds functioning as endowment (quasi-endowment):		
Scholarships	\$ 3,124,384	\$ 3,035,473
Program and general support	44,671,087	43,348,924
Total funds functioning as endowment (quasi-endowment)	47,795,471	46,384,397
Infrastructure and operations	192,927,722	198,016,823
Total net assets without donor restrictions	\$ 240,723,193	\$ 244,401,220

Net assets with donor restrictions are restricted for the following purposes at September 30, 2020 and 2019:

	2020	2019
Donor-restricted endowment to be held in perpetuity:		
Scholarships	\$ 34,484,046	\$ 33,999,393
Program and general support	94,475,439	92,866,104
Total donor-restricted endowment to be held in perpetuity	128,959,485	126,865,497
Accumulated earnings subject to spending policy:		
Scholarships	4,663,281	3,255,590
Program and general support	13,076,970	9,469,243
Total accumulated earnings subject to spending policy	17,740,251	12,724,833
Restricted for specific purposes or time periods:		
Scholarships	5,709,451	185,467
Program support	5,152,866	2,522,465
Pledges receivable for endowment	948,213	1,508,416
Time restricted (principally pledges)	1,243,974	2,000,249
Split-interest agreements	1,226,533	456,096
Total restricted for specific purposes or time	14,281,037	6,672,693
Total net assets with donor restrictions	\$ 160,980,773	\$ 146,263,023

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The nature of net assets released from restrictions for the years ended September 30, 2020 and 2019 are as follows:

	2020	2019
Endowment spending:		
Scholarships	\$ 249,576	\$ 150,742
Program support	68,299	235,484
General support	5,403,438	5,503,580
Total endowment spending	5,721,313	5,889,806
Restricted for specific purposes or time periods:		
Scholarships	208,773	238,980
Program support	1,089,537	1,096,097
Time restricted (collection of pledges)	932,795	1,270,043
Total restricted for specific purposes or time restricted	2,231,105	2,605,120
Total net assets released from restrictions	\$ 7,952,418	\$ 8,494,926

NOTE 12 - ENDOWMENT

The University's endowment consists of approximately 400 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 those such amounts are appropriated for expenditure by the University's Board of Trustees.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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 is to achieve a return consisting of a combination of current income and capital appreciation recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results. The endowment portfolio is diversified among various asset classes and utilizes various strategies to manage risk.

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

Endowment net asset composition by type of fund as of September 30, 2020 follows:

Endowment net asset composition by type of fund as of September 30, 2020	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 47,795,471	\$ -	\$ 47,795,471
Donor-restricted endowment funds	-	146,699,736	146,699,736
Total endowment funds	<u>\$ 47,795,471</u>	<u>\$ 146,699,736</u>	<u>\$ 194,495,207</u>

Endowment net asset composition by type of fund as of September 30, 2019 follows:

Endowment net asset composition by type of fund as of September 30, 2019	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 46,384,397	\$ -	\$ 46,384,397
Donor-restricted endowment funds	-	139,590,330	139,590,330
Total endowment funds	<u>\$ 46,384,397</u>	<u>\$ 139,590,330</u>	<u>\$ 185,974,727</u>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Changes in endowment assets for the year ended September 30, 2020 follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, October 1, 2019	\$ 46,384,397	\$ 139,590,330	\$ 185,974,727
Investment return	3,599,309	10,901,738	14,501,047
Contributions	-	1,899,723	1,899,723
Amounts expended, pursuant to spending policy	(2,188,235)	(5,721,313)	(7,909,548)
Other changes:			
Reclassification of net assets due to clarification of donor intent	-	29,258	29,258
Endowment net assets, September 30, 2020	<u>\$ 47,795,471</u>	<u>\$ 146,699,736</u>	<u>\$ 194,495,207</u>

Changes in endowment assets for the year ended September 30, 2019 follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, October 1, 2018	\$ 41,890,686	\$ 141,276,376	\$ 183,167,062
Investment return	1,068,675	3,181,752	4,250,427
Contributions	-	976,443	976,443
Transfers in	5,519,115	-	5,519,115
Amounts expended, pursuant to spending policy	(2,094,079)	(5,889,806)	(7,983,885)
Other changes:			
Reclassification of net assets due to clarification of donor intent	-	45,565	45,565
Endowment net assets, September 30, 2019	<u>\$ 46,384,397</u>	<u>\$ 139,590,330</u>	<u>\$ 185,974,727</u>

The accompanying statements of activities shows investment return without donor restrictions appropriated for expenditure of \$2,291,413 and \$2,252,418, respectively, for fiscal 2020 and fiscal 2019. These amounts differ from the amounts expended, pursuant to spending policy shown in the tables above by \$103,178 and \$158,339, respectively, which represents investment earnings on operating investments held by the University.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or D.C. UPMIFA requires the University to retain as a fund of permanent duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The University's spending policy allows for 2% of the three-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 2020 or 2019, have their payouts suspended.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

As of September 30, 2020 and 2019, there was a total of 12 and 74 individual donor-restricted endowment funds, respectively, with a fair value less than their historical corpus value. As of September 30, 2020 and 2019, funds with an original gift value of \$687,726 and \$11,363,000, respectively, were underwater by approximately \$38,111 and \$260,000, respectively.

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 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.

Expenses are reported in the accompanying statements of activities in natural categories. Functional expenses are categorized as follows for the years ended September 30, 2020 and 2019 and consist of the following:

For the year ended September 30, 2020:	Academic instruction and research	General administration	Total
Salaries and wages	\$ 75,160,153	\$ 17,821,932	\$ 92,982,085
Employee benefits	24,688,858	6,182,389	30,871,247
Utilities	5,337,158	388,408	5,725,566
Bond interest	1,841,604	-	1,841,604
Depreciation and amortization	12,881,312	2,763,059	15,644,371
Consultants, advisors and other professional fees	17,294,896	12,891,672	30,186,568
Supplies, travel and other expenses	7,050,295	4,097,163	11,147,458
Total	\$ 144,254,276	\$ 44,144,623	\$ 188,398,899

For the year ended September 30, 2019:	Academic instruction and research	General administration	Total
Salaries and wages	\$ 77,319,219	\$ 10,607,183	\$ 87,926,402
Employee benefits	25,538,766	3,710,747	29,249,513
Utilities	6,049,878	439,037	6,488,915
Bond interest	1,875,143	-	1,875,143
Depreciation and amortization	12,697,625	2,576,180	15,273,805
Consultants, advisors and other professional fees	21,647,963	10,687,507	32,335,470
Supplies, travel and other expenses	10,237,583	4,910,620	15,148,203
Total	\$ 155,366,177	\$ 32,931,274	\$ 188,297,451

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 \$1,900,000 and \$2,100,000 for fiscal 2020 and 2019, respectively.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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.

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. As discussed in Note 7, the sale of the land closed during fiscal 2019.

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 asset and a lease liability in the accompanying statements of financial position. Effective October 1, 2019, the University measures its lease assets and liabilities using a risk-free rate of return selected based on the term lease. Prior to the adoption of ASU 2016-02, the University measured its lease assets and liabilities using the rate implicit in the 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 right-of-use finance lease assets are reported in the accompanying 2019 statement of financial position as a component of land, buildings, and other property, net, and are disclosed in Note 7.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The components of finance lease cost are:

	Year ended September 30, 2020
Amortization of right-of-use assets	\$ 442,656
Interest on lease liabilities	197,134
Total	\$ 639,791

Supplemental quantitative information related to financing leases is as follows:

	Year ended September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities - operating cash flows	\$ 197,223
Cash paid for amounts included in the measurement of lease liabilities - financing cash flows	1,155,440
Right-of-use assets obtained in exchange for lease obligations	<u>\$ 4,527,388</u>
Weighted-average remaining lease term (in years)	3.91
Weighted-average discount rate	4.56%

The maturity of the lease liability under the University's financing leases as of September 30, 2020 is as follows:

Years ending September 30,	
2021	\$ 1,373,582
2022	1,373,582
2023	1,309,590
2024	356,477
2025	196,000
Total lease obligation, gross	\$ 4,609,231
Less: Amounts representing interest rates	<u>(257,815)</u>
Total lease liability	\$ 4,351,415

Gallaudet has awarded grants to other institutions to perform research and perform other services. At September 30, 2020, Gallaudet has conditional contributions made related to these awards totaling approximately \$2,443,231, which have not been recognized as a liability in the accompanying 2020 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 2021.