

Financial Statements Together with
Report of Independent Certified Public
Accountants

Gallaudet University

September 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Washington, D.C.
December 21, 2021

Gallaudet University

STATEMENTS OF FINANCIAL POSITION

September 30,

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 11,903,383	\$ 18,000,663
Restricted cash equivalents (deposits with trustee) (Notes 2, 6, 10, and 14)	22,317,509	2,558,601
Accounts receivable, net (Note 4)	11,940,851	7,972,729
Receivable from U.S. government	15,755,077	19,266,669
Contributions receivable, net (Note 5)	1,088,476	2,192,113
Prepaid expenses and other assets	3,314,803	2,718,158
Inventories, net	528,301	530,270
Student loans receivable (Note 4)	208,255	417,714
Investments (Note 6)	243,042,326	205,599,809
Split-interest agreements (Note 6)	1,516,923	1,454,363
Land, buildings, and other property, net (Note 7)	217,513,850	214,326,753
Total assets	\$ 529,129,754	\$ 475,037,842
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 16,757,200	\$ 11,327,772
Accrued payroll	13,744,135	18,006,732
Deferred tuition revenue (Note 2)	9,174,587	5,842,671
Refundable advances under U.S. government loan program	321,925	510,809
Obligations under finance leases (Note 14)	8,587,989	4,351,415
Conditional asset retirement obligations (Note 7)	675,587	668,223
Bonds payable, net (Note 10)	52,658,771	32,626,254
Total liabilities	101,920,194	73,333,876
Commitments and contingencies (Notes 6 and 14)		
Net assets (Notes 11 and 12)		
Without donor restrictions	238,805,297	240,723,193
With donor restrictions	188,404,263	160,980,773
Total net assets	427,209,560	401,703,966
Total liabilities and net assets	\$ 529,129,754	\$ 475,037,842

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

Gallaudet University

STATEMENT OF ACTIVITIES

For the year ended September 30, 2021, with comparative totals for 2020

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating revenues and support				
Student tuition, fees, room and board (Note 2)	\$ 19,158,352	\$ -	\$ 19,158,352	\$ 25,674,906
Governmental appropriations	154,753,279	-	154,753,279	138,600,592
Governmental grants and contracts	5,229,325	-	5,229,325	4,454,182
Contributions	522,737	2,848,938	3,371,675	10,490,064
Investment return appropriated for operations (Notes 6 and 12)	2,432,685	6,433,930	8,866,615	8,419,355
Auxiliary enterprises	2,722,865	-	2,722,865	4,000,811
Gain on capital asset related activities (Note 7)	-	-	-	46,957
Other	357,233	-	357,233	689,108
Total operating revenues	185,176,476	9,282,868	194,459,344	192,375,975
Net assets released from restrictions (Note 11)	10,748,194	(10,748,194)	-	-
Total operating revenues and other support	195,924,670	(1,465,326)	194,459,344	192,375,975
Expenses				
Salaries and wages	85,482,725	-	85,482,725	92,982,085
Employee benefits	30,921,754	-	30,921,754	30,871,247
Utilities	6,136,262	-	6,136,262	5,725,566
Bond interest	1,239,002	-	1,239,002	1,841,604
Depreciation and amortization	17,192,756	-	17,192,756	15,644,371
Consultants, advisors and other professional fees	30,416,223	-	30,416,223	24,288,294
Repairs and maintenance	19,620,503	-	19,620,503	6,151,932
Supplies, travel and other expenses	14,404,760	-	14,404,760	10,893,800
Total expenses (Note 13)	205,413,985	-	205,413,985	188,398,899
Changes in net assets from operations, before transfers	(9,489,315)	(1,465,326)	(10,954,641)	3,977,076
Board-designated transfer from operations (Note 7)	(1,489,712)	-	(1,489,712)	-
Changes in net assets from operations, after transfers	(10,979,027)	(1,465,326)	(12,444,353)	3,977,076
Nonoperating activities				
Investment income, net of amounts appropriated for operations (Notes 6 and 12)	8,720,438	27,322,615	36,043,053	6,184,870
Contributions for endowment	-	1,558,541	1,558,541	1,367,854
Contributions relating to split-interest agreements	-	6,466	6,466	618,570
Change in value of split-interest agreements	1,085	63,674	64,759	151,960
Loss on extinguishment of debt	(1,150,104)	-	(1,150,104)	-
Loss on uncollectible pledges	-	(62,480)	(62,480)	(878)
Changes in net assets from nonoperating activities, before transfers	7,571,419	28,888,816	36,460,235	8,322,376
Board-designated transfer from operations (Note 7)	1,489,712	-	1,489,712	-
Changes in net assets from nonoperating activities, after transfers	9,061,131	28,888,816	37,949,947	8,322,376
CHANGES IN NET ASSETS	(1,917,896)	27,423,490	25,505,594	12,299,452
Net assets, beginning of year	240,723,193	160,980,773	401,703,966	390,664,243
Adoption of new accounting standard	-	-	-	(1,259,729)
Net assets, end of year	\$ 238,805,297	\$ 188,404,263	\$ 427,209,560	\$ 401,703,966

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

Gallaudet University

STATEMENT OF ACTIVITIES

For the year ended September 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Student tuition, fees, room and board (Note 2)	\$ 25,674,906	\$ -	\$ 25,674,906
Governmental appropriations	138,600,592	-	138,600,592
Governmental grants and contracts	4,454,182	-	4,454,182
Contributions	859,048	9,631,016	10,490,064
Investment return appropriated for operations (Notes 6 and 12)	2,291,413	6,127,942	8,419,355
Auxiliary enterprises	4,000,811	-	4,000,811
Gain on capital asset related activities (Note 7)	46,957	-	46,957
Other	689,108	-	689,108
Total operating revenues	176,617,017	15,758,958	192,375,975
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
Expenses			
Salaries and wages	92,982,085	-	92,982,085
Employee benefits	30,871,247	-	30,871,247
Utilities	5,725,566	-	5,725,566
Bond interest	1,841,604	-	1,841,604
Depreciation and amortization	15,644,371	-	15,644,371
Consultants, advisors and other professional fees	24,288,294	-	24,288,294
Repairs and Maintenance	6,151,932	-	6,151,932
Supplies, travel and other expenses	10,893,800	-	10,893,800
Total expenses (Note 13)	188,398,899	-	188,398,899
Changes in net assets from operations, before transfers	(3,829,464)	7,806,540	3,977,076
Board-designated transfer from operations (Note 7)	-	-	-
Changes in net assets from operations, after transfers	(3,829,464)	7,806,540	3,977,076
Nonoperating activities			
Investment income, net of amounts appropriated for operations (Notes 6 and 12)	1,411,074	4,773,796	6,184,870
Contributions for endowment	-	1,367,854	1,367,854
Contributions relating to split-interest agreements	-	618,570	618,570
Change in value of split-interest agreements	92	151,868	151,960
Loss of uncollectible pledges	-	(878)	(878)
Changes in net assets from nonoperating activities, before transfers	1,411,166	6,911,210	8,322,376
Board-designated transfer from operations (Note 7)	-	-	-
Changes in net assets from nonoperating activities, after transfers	1,411,166	6,911,210	8,322,376
CHANGES IN NET ASSETS	(2,418,298)	14,717,750	12,299,452
Net assets, beginning of year	244,401,220	146,263,023	390,664,243
Adoption of new accounting standard	(1,259,729)	-	(1,259,729)
Net assets, end of year	\$ 240,723,193	\$ 160,980,773	\$ 401,703,966

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

Gallaudet University

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Changes in net assets	\$ 25,505,594	\$ 12,299,452
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	17,192,756	15,644,371
Amortization of deferred financing costs	62,309	39,471
Amortization of bond discount	(301,936)	27,648
Accretion of interest on conditional asset retirement obligations	7,364	8,932
Bad debt expense	1,843,826	258,009
Gain on capital asset related activities	1,150,104	(46,957)
Loss on uncollectible pledges	62,480	878
Net gain on investments	(42,439,413)	(11,482,528)
(Increase) decrease in assets:		
Receivables	(1,259,199)	(356,653)
Split-interest agreements	(35,075)	(841,322)
Prepaid expenses	(596,645)	(1,025,292)
Inventories	1,969	51,286
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	(46,362)	8,799,134
Deferred tuition revenue	3,331,916	(3,027,711)
Contributions for donor-restricted endowment	(1,899,819)	(1,928,981)
Investment income reinvested to donor-restricted endowment	(133,776)	(165,006)
Net cash, cash equivalents, and restricted cash equivalents provided by operating activities	<u>2,446,093</u>	<u>18,254,731</u>
Cash flows from investing activities		
Proceeds from sales and redemptions of investments	104,856,674	113,741,261
Purchases of investments	(99,859,778)	(114,990,864)
Capitalized Interest	(267,303)	-
Proceeds from the sale of property and equipment	-	364,126
Purchases of capital assets	(13,531,299)	(10,748,694)
Repayment of loans by students	209,459	49,024
Net cash, cash equivalents and restricted cash equivalents used in investing activities	<u>(8,592,247)</u>	<u>(11,585,147)</u>
Cash flows from financing activities		
Decrease in refundable advances from U.S. government	(188,884)	(199,282)
Charitable gift annuity payments	(27,485)	(10,311)
Proceeds from contributions and investment income restricted to donor-restricted endowment	2,033,595	2,093,987
Proceeds from issuance of bonds payable	53,892,595	-
Payments under finance leases	(1,281,154)	(1,155,440)
Payment for debt issuance costs	(965,885)	-
Payment of principal on bonds payable	(33,655,000)	(895,000)
Net cash, cash equivalents, and restricted cash equivalents provided by (used in) financing activities	<u>19,807,782</u>	<u>(166,046)</u>
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH EQUIVALENTS	<u>13,661,628</u>	<u>6,503,538</u>
Cash, cash equivalents, and restricted cash equivalents, beginning of year	<u>20,559,264</u>	<u>14,055,726</u>
Cash, cash equivalents and restricted cash equivalents, end of year	<u>\$ 34,220,892</u>	<u>\$ 20,559,264</u>
Supplemental disclosures:		
Capital asset purchases included in accounts payable	<u>\$ 921,040</u>	<u>\$ 1,417,932</u>
Right-of-use assets acquired with finance leases, net	<u>\$ 5,517,768</u>	<u>\$ 4,527,388</u>
Construction retainage	<u>\$ 142,483</u>	<u>\$ 274,052</u>
Cash paid for interest	<u>\$ 2,107,653</u>	<u>\$ 2,029,079</u>

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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

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 2021 and 2020, 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 2021 and 2020, approximately 79% and 75%, 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.

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 2020-2021, the University enrolled 1,469 undergraduate and graduate students, and the Clerc Center enrolled 234 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, 2021 and 2020

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 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, 2021 and 2020

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, 2021 and 2020

- 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 same such amounts shown in the statements of cash flows.

	2021	2020
Cash and cash equivalents	\$ 11,903,383	\$ 18,000,663
Restricted cash equivalents (Deposits with Trustees)	22,317,509	2,558,601
	\$ 34,220,892	\$ 20,559,264

The following table provides details of Deposits with Trustees on the statements of financial position.

	2021	2020
Restricted cash held in escrow (see Note 14)	\$ 1,662,666	\$ 1,660,573
Debt project fund (see Note 10)	19,774,587	-
Interest payment due October (see Note 14)	880,256	898,028
	\$ 22,317,509	\$ 2,558,601

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, 2021 for the Series 2021 debt totaled \$45,833.

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 amortized 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, 2021 and 2020 totaled \$16,476 and \$39,471, respectively.

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 for the year ended September 30, 2021.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

Inventories

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

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 1.0% and 1.51% for the both years ended September 30, 2021 and September 30, 2020, 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.

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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

Refundable Advances

Funds provided by the U.S. government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. government and are therefore reported as liabilities.

On September 30, 2017, the authority for schools to make new loans under the Federal Perkins Loan Program ended and final disbursements to students were permitted through June 30, 2018. The University intends to continue servicing the outstanding loans and to remit the federal share of repayments to the U.S. Department of Education, but during fiscal 2021 began to assign all delinquent loans 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 ended September 30, 2021, 2020, 2019 and 2018 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, 2021 and 2020.

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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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, 2022 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 \$15,400,000 and \$2,900,000 has been recognized in fiscal year 2021 and 2020, respectively.

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 \$3,073,896 as of September 30, 2021, and \$2,014,828 as of September 30, 2020, 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 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.

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, 2021 and 2020, unrecognized conditional contributions relating to the federal appropriation totaled \$22,437,742 and \$4,075,333, respectively. At September 30, 2021 and 2020, unrecognized conditional contributions totaling \$18,937,742 and \$4,075,333, 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

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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, 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>
<u>For the Year Ended September 30, 2020</u>	<u>Tuition and Fees</u>	<u>Room and Board</u>	<u>Total</u>
Revenue	\$ 26,678,378	\$ 8,328,252	\$ 35,006,630
Institutional scholarships and fellowships	<u>(7,111,660)</u>	<u>(2,220,064)</u>	<u>(9,331,724)</u>
Total student tuition, fees, room and board	<u>\$ 19,566,718</u>	<u>\$ 6,108,188</u>	<u>\$ 25,674,906</u>

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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

Approximately 5% of the total governmental grants and contracts were considered exchange transactions for each of the years ended September 30, 2021 and 2020. 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 \$6,500,000 and \$4,800,000 in unrecognized conditional contributions as of September 30, 2021 and 2020, 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. 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, 2021 and 2020:

	2021	2020
Kellogg Conference Hotel	\$ 575,269	\$ 2,123,697
Press and other publications	606,872	635,163
Bookstore	133,409	284,709
Hearing and speech center	394,668	288,400
Other space rentals	28,771	138,798
Other auxiliary revenue	983,876	530,044
Total auxiliary enterprises	\$ 2,722,865	\$ 4,000,811

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

Deferred Tuition Revenue

Deferred tuition revenue at September 30, 2021 and 2020 totaling \$9,174,587 and \$5,842,671, respectively, represents the University's performance obligations to transfer future enrollment and instructional services to students. For the years ended September 30, 2021 and 2020, the University recognized as revenue the entire amount that was included in deferred revenues at the end of the preceding year.

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 asset as previously reported in the fiscal 2020 financial statements.

Subsequent Events

The University evaluated its subsequent events (events occurring after September 30, 2021) through December 21, 2021, which represents the date the financial statements were issued. Except as disclosed 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, 2021 and 2020 for general expenditure are as follows:

	2021	2020
Financial assets, at year end		
Cash and cash equivalents	\$ 11,903,383	\$ 18,000,663
Accounts receivable, net	11,940,851	7,972,729
Receivable from U.S. government	15,755,077	19,266,669
Contributions receivable, net	1,088,476	2,192,113
Investments	243,042,326	205,599,809
	283,730,113	253,031,983
Less:		
Board-designated endowments not expected to be used for operations	(56,540,906)	(47,795,471)
Restricted by donors in perpetuity	(131,933,605)	(130,179,723)
Restricted by donors as to time or purpose	(56,470,658)	(30,801,050)
Cash restricted for Federal Perkins Loan Program	(113,671)	(93,094)
	(245,058,840)	(208,869,338)
Add:		
Anticipated endowment return appropriated for spending in the following year for general purposes	5,820,293	5,423,167
Financial assets available to meet cash needs for general expenditures within one year	\$ 44,491,566	\$ 49,585,812

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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.

The University has a line of credit for \$20 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, 2021, there were no amounts outstanding on the line of credit. In addition, Gallaudet has approximately \$57 million in board-designated endowments, 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, 2021 and 2020, consist of the following:

	2021	2020
Student accounts	\$ 8,672,425	\$ 6,065,573
Vocational rehabilitation	6,147,259	3,530,794
Other	60,019	272,356
Grants and contracts	278,565	264,424
Total accounts receivable	15,158,268	10,133,146
Less: Allowance for doubtful accounts for		
Student accounts	(1,527,270)	(1,378,293)
Vocational Rehabilitation	(1,650,730)	(742,707)
Other	(39,417)	(39,417)
Total allowance for doubtful accounts	(3,217,417)	(2,160,417)
Total accounts receivable, net	\$ 11,940,851	\$ 7,972,729

Amounts due under the Federal Perkins Loan Program, which total \$208,225 and \$417,714 as of September 30, 2021 and 2020, respectively, and not included in the table above, are guaranteed by the government. At September 30, 2021 and 2020, the following amounts were past due under the Federal Perkins Loan Program:

Fiscal Year Ending September 30:	1 - 119 Days Past Due	120 - 719 Days Past Due	720 + Days Past Due	Total Past Due
2021	\$ 16,959	\$ 115,168	\$ -	\$ 132,127
2020	\$ 4,004	\$ 109,969	\$ 195,007	\$ 308,980

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

NOTE 5 - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of September 30, 2021 and 2020 are expected to be received as follows:

	2021	2020
Within one year	\$ 1,092,048	\$ 1,730,143
Between one and five years	61,826	469,362
	1,153,874	2,199,505
Less: Unamortized discount (0.35% - 3.613%)	-	(4,474)
Allowance for doubtful accounts	(65,398)	(2,918)
	\$ 1,088,476	\$ 2,192,113

NOTE 6 - INVESTMENTS

At September 30, 2021 and 2020, investments consist of the following:

	2021	2020
Money market funds	\$ 937,511	\$ 1,225,541
Equity securities:		
U.S. Large Cap	87,433,473	76,510,356
U.S. Small Cap	12,313,089	6,278,857
International (developed countries)	36,782,666	34,935,192
International (emerging markets)	7,732,012	4,712,575
Fixed income securities:		
U.S. bonds	39,172,440	34,331,451
World bonds	1,149,285	599,406
Global real estate	2,392,960	2,110,841
Hedge funds	28,583,760	29,504,791
Private equity funds	25,100,921	13,626,365
Private real asset funds	1,444,209	1,764,434
	\$ 243,042,326	\$ 205,599,809

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.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

At September 30, 2021 and 2020, the University held investments in the following categories:

	2021	2020
Endowment Investments	\$ 232,869,006	\$ 194,495,207
Operating Investments*	8,708,602	11,104,602
Board-mandated capital reserve fund	1,464,718	-
Total investments	\$ 243,042,326	\$ 205,599,809

* Includes spent payouts that need to be transferred out of the endowment into operating cash of \$1,888,053 and \$4,281,914 at September 30, 2021 and 2020, respectively.

The following tables present Gallaudet's fair value hierarchy for those investment assets measured at fair value on a recurring basis at September 30, 2021 and 2020:

	2021				Total
	Level 1	Level 2	Level 3	Investments Reported at NAV	
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	187,913,436	-	-	55,128,890	243,042,326
Deposits with trustee (money market funds)	22,317,509	-	-	-	22,317,509
Split-interest agreements	433,185	-	1,083,738	-	1,516,923
Total investment	\$ 210,664,129	\$ -	\$ 1,083,738	\$ 55,128,890	\$ 266,876,758

	2020				Total
	Level 1	Level 2	Level 3	Investments Reported at NAV	
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	160,704,219	-	-	44,895,590	205,599,809
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	\$ 163,658,520	\$ -	\$ 1,058,663	\$ 44,895,590	\$ 209,612,773

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

The following table summarizes the changes in assets classified as Level 3 for the years ended September 30, 2021 and 2020:

	<u>Split-Interest Agreements</u>
Balance as of September 30, 2019	\$ 326,771
New trust gifts	555,279
Investment gain	<u>176,613</u>
Balance as of September 30, 2020	1,058,663
Investment gain	<u>25,075</u>
Balance as of September 30, 2021	<u>\$ 1,083,738</u>

Annuities payable totaled \$214,939 and \$223,605 at September 30, 2021 and 2020, 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, 2021 and 2020:

	<u>Payable to Beneficiaries</u>
Balance as of September 30, 2019	\$ 142,501
Gifts	66,762
Payments, net of earnings	(10,311)
Present value adjustment	<u>24,653</u>
Balance as of September 30, 2020	223,605
Gifts	3,534
Earnings, net of payments	27,485
Present value adjustment	<u>(39,684)</u>
Balance as of September 30, 2021	<u>\$ 214,939</u>

The following table presents the nature and liquidity terms of investment assets held at September 30, 2021 and 2020 with fair values reported using NAV:

<u>Investment Description</u>	<u># of Funds</u>	<u>2021 Fair Value</u>	<u>Unfunded Commitments</u>	<u>2020 Fair Value</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Hedge funds (a)	6	\$ 28,583,760	\$ N/A	\$ 29,504,791	Quarterly	65-91 Days
Private equity funds (b)	14	25,100,922	21,944,572	13,626,365	Upon Liquidation	-
Private real asset funds (c)	2	<u>1,444,208</u>	<u>1,262,130</u>	<u>1,764,434</u>	Upon Liquidation	-
Total	22	<u>\$ 55,128,890</u>	<u>\$ 23,206,702</u>	<u>\$ 44,895,590</u>		

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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, 2021 and 2020.

- (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. 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.

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

At September 30, 2021 and 2020, land, buildings, and other property consist of the following:

	2021	2020
Buildings and improvements	\$ 354,957,375	\$ 337,030,592
Outside improvements	45,549,618	44,878,073
Furniture and equipment	53,543,463	46,412,994
Land stabilization improvements	6,190,017	6,190,017
Software	7,457,055	7,457,055
	467,697,528	441,968,731
Less: accumulated depreciation and amortization	(253,910,902)	(236,718,146)
	213,786,626	205,250,585
Land	1,410,480	1,410,480
Construction in progress	2,316,744	7,665,688
Land, buildings, and other property, net	\$ 217,513,850	\$ 214,326,753

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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 \$11,115,211 and \$5,597,443 and accumulated amortization of \$2,019,323 and \$598,712 as of September 30, 2021 and 2020, respectively.

In fiscal year 2020, Gallaudet recognized net gains of \$107,160 associated with the replacement of existing leased copiers.

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, 2021 and 2020:

	2021	2020
Balance, beginning of year	\$ 668,223	\$ 659,291
Accretion expense	7,364	8,932
Balance, end of year	<u>\$ 675,587</u>	<u>\$ 668,223</u>

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 \$14,870,907 and \$14,161,428 for the years ended September 30, 2021 and 2020, 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 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. Under this line of credit agreement, amounts drawn accrue interest at a floating rate equal to the sum of Daily LIBOR Rate plus 90 basis points (0.90%), which was equal to 0.97% at September 30, 2021.

Under the previous \$40 million line of credit, amounts drawn 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 2021 and 2020, Gallaudet did not draw on this line, resulting in the University accruing no interest expense. There was no outstanding balance on either line of credit as of September 30, 2021 and 2020.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

NOTE 10 - BONDS PAYABLE

Outstanding long-term debt as of September 30 follows:

	2021	2020
Series 2011 revenue bonds, tax-exempt, serial, with interest rates ranging from 4.000% to 4.875% maturing at various dates from April 1, 2020 to April 1, 2026	\$ -	\$ 6,260,000
Series 2011 revenue bonds, tax-exempt, term		
Interest rate 5.5%, maturing April 1, 2034	-	11,885,000
Interest rate 5.5%, maturing April 1, 2041	-	15,510,000
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	-
Series 2021A revenue and refinancing bonds, tax-exempt, term		
Interest rate 5.0%, maturing April 1, 2046	6,965,000	-
Interest rate 5.0%, maturing April 1, 2051	8,880,000	-
Series 2021B revenue bond, taxable, serial, with interest rates ranging from 0.500% to 1.20% maturing at various dates from April 1, 2022 to April 1, 2026	5,045,000	-
Total bonds at par value	44,755,000	33,655,000
Unamortized premium (discount)	8,823,823	(485,516)
Unamortized deferred financing costs	(920,052)	(543,230)
Total bonds payable, net	\$ 52,658,771	\$ 32,626,254

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, 2021 and 2020

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
2022	\$ 1,075,000	\$ 1,760,503	\$ 2,835,503
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
Thereafter	39,310,000	23,728,200	63,038,200
	<u>\$ 44,755,000</u>	<u>\$ 32,461,398</u>	<u>\$ 77,216,398</u>

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, 2021 and 2020:

	2021	2020
Funds functioning as endowment (quasi-endowment):		
Scholarships	\$ 3,698,686	\$ 3,124,384
Program and general support	52,842,220	44,671,087
Total funds functioning as endowment (quasi-endowment)	56,540,906	47,795,471
Infrastructure and operations	182,264,391	192,927,722
Total net assets without donor restrictions	<u>\$ 238,805,297</u>	<u>\$ 240,723,193</u>

Net assets with donor restrictions are restricted for the following purposes at September 30, 2021 and 2020:

	2021	2020
Donor-restricted endowment to be held in perpetuity:		
Scholarships	\$ 34,890,814	\$ 34,484,046
Program and general support	96,102,266	94,475,439
Total donor-restricted endowment to be held in perpetuity	130,993,080	128,959,485
Accumulated earnings subject to spending policy:		
Scholarships	12,025,846	4,663,281
Program and general support	33,113,194	13,076,970
Total accumulated earnings subject to spending policy	45,139,040	17,740,251
Donor-restricted for specific purposes or time periods:		
Scholarships	3,642,565	5,709,451
Program support	6,244,353	5,152,866
Pledges receivable for endowment	607,051	948,213
Time restricted (principally pledges)	481,500	1,243,974
Split-interest agreements	1,296,674	1,226,533
Total restricted for specific purposes or time	12,272,143	14,281,037
Total net assets with donor restrictions	<u>\$ 188,404,263</u>	<u>\$ 160,980,773</u>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

The nature of net assets released from restrictions for the years ended September 30, 2021 and 2020 are as follows:

	2021	2020
Endowment spending:		
Scholarships	\$ 249,230	\$ 249,576
Program support	32,464	68,299
General support	5,942,285	5,403,438
Total endowment spending	6,223,979	5,721,313
Restricted for specific purposes or time periods:		
Scholarships	2,754,367	208,773
Program support	1,334,848	1,089,537
Time restricted (collection of pledges)	435,000	932,795
Total restricted for specific purposes or time restricted	4,524,215	2,231,105
Total net assets released from restrictions	\$ 10,748,194	\$ 7,952,418

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 such amounts are appropriated for expenditure by the University's Board of Trustees.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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, 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>

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>

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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

	Without Donor Restrictions	With Donor Restrictions	Total
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)
Other changes:			
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>

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

	Without Donor Restrictions	With Donor Restrictions	Total
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>

The accompanying statements of activities show investment return without donor restrictions appropriated for expenditure of \$2,432,685 and \$2,291,413, respectively, for fiscal 2021 and fiscal 2020. These amounts differ from the amounts expended, pursuant to spending policy shown in the tables above by \$198,830 and \$103,178, respectively, which represent 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 2021 or 2020, have their payouts suspended.

As of September 30, 2021 and 2020, there was a total of 0 and 12 individual donor-restricted endowment funds, respectively, with a fair value less than their historical corpus value. As of September 30, 2020, funds with an original gift value of \$687,726 were underwater by approximately \$38,111.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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, 2021 and 2020 and consist of the following:

<u>For the Year Ended September 30, 2021:</u>	Academic Instruction and Research	General Administration	Total
Salaries and wages	\$ 69,473,665	\$ 16,009,060	\$ 85,482,725
Employee benefits	23,369,826	7,551,928	30,921,754
Utilities	5,719,993	416,269	6,136,262
Bond interest	1,239,002	-	1,239,002
Depreciation and amortization	13,596,219	3,596,537	17,192,756
Consultants, advisors and other professional fees	13,494,685	16,921,538	30,416,223
Repairs and maintenance	19,139,171	481,332	19,620,503
Supplies, travel and other expenses	8,192,532	6,212,228	14,404,760
Total	<u>\$ 154,225,093</u>	<u>\$ 51,188,892</u>	<u>\$ 205,413,985</u>
	Academic Instruction and Research	General Administration	Total
<u>For the Year Ended September 30, 2020:</u>	Research	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	2,763,058	15,644,371
Consultants, advisors and other professional fees	15,998,510	8,289,784	24,288,294
Repairs and maintenance	5,958,111	193,821	6,151,932
Supplies, travel and other expenses	6,984,119	3,909,681	10,893,800
Total	<u>\$ 148,849,825</u>	<u>\$ 39,549,074</u>	<u>\$ 188,398,899</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 \$1,750,000 and \$1,900,000 for fiscal 2021 and 2020, respectively.

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

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. 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 2021 and 2020, the University spent \$17,518,663 and \$4,595,549, 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 in both cases are ongoing as of the date of issuance.

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 paid between

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

January 2022 and January 2023. The University also expects to see significant energy savings once this project is completed which will offset the upfront costs.

Also 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 7,069 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.

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, 2021	September 30, 2020
Amortization of ROU assets	\$ 1,420,607	\$ 442,656
Interest on lease liabilities	130,739	197,134
Total	\$ 1,550,346	\$ 639,791

Supplemental quantitative information related to financing leases is as follows:

	Year Ended	
	September 30, 2021	September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities - operating cash flows	\$ 130,656	\$ 197,223
Cash paid for amounts included in the measurement of lease liabilities - financing cash flows	1,281,154	1,155,440
ROU assets obtained in exchange for lease obligations	\$ 5,517,768	\$ 4,527,388
Weighted-average remaining lease term (in years)	3.62	3.91
Weighted-average discount rate	2.01%	4.56%

Gallaudet University

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2021 and 2020

The maturity of the lease liability under the University's financing leases as of September 30, 2021 is as follows:

Fiscal Year Ending September 30:

2022	\$	2,769,320
2023		2,705,328
2024		1,752,216
2025		<u>1,553,510</u>
Total lease obligation, gross		8,780,374
Less: Amounts representing interest rates		<u>(192,385)</u>
Total lease liability	\$	<u>8,587,989</u>

Gallaudet has awarded grants to other institutions to perform research and perform other services. At September 30, 2021, Gallaudet has conditional grants related to these awards totaling \$1,214,147, which have not been recognized as a liability in the accompanying 2021 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 2022.