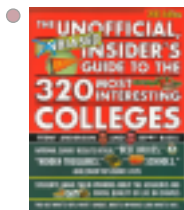
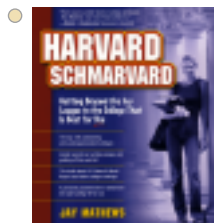


# ELON Annual Report 2003



# ELON makes the grade

Elon's engaged learning style and quality academic programs continued to receive attention in national college guides, surveys and newspapers, which also praised the university's attention to students.



- Elon ranked #1 on a list of 100 outstanding colleges in the book ***Harvard Schmarvard: Getting beyond the Ivy League to the college that is best for you***, written by *Washington Post* education reporter Jay Mathews, one of the leading writers on the college search process. Mathews' book is based on his 20 years of reporting as well as a national survey of high school guidance counselors and teachers. Among other assets, counselors noted Elon's outstanding campus, commitment to students and forward-thinking leadership.

- **Elon ranked first** in the nation among master's-level institutions **for the number and percentage of students who have studied abroad**, according to a 2002 report by the Institute of International Education. Sixty-two percent of Elon's 2003 graduates studied abroad, placing the university ahead of all bachelor's-level schools nationwide and all but four doctoral-level universities.

- For the first time, Elon was included in *Princeton Review's The Best 345 Colleges* guide — one of only 14 schools added to the list during 2003. Schools are selected based on consultation with educational leaders, admissions officers and college presidents, and comprise less than 10 percent of all colleges in the nation.

- A national survey shows that compared with faculty at other schools, **Elon professors are more actively involved in research and share their expertise with students**. The survey of faculty at the nation's private four-year colleges, conducted by the Higher Education Research Institute, shows that Elon teacher-scholars regularly create innovative courses and are actively engaged in research with students.

- For the third year in a row, **Elon scored in the top 10 percent of the nation's colleges and universities in the National Survey of Student Engagement (NSSE)**, the most comprehensive assessment of effective practices in higher education. Elon received high marks on each of five benchmarks of excellence: academic challenge, active and collaborative learning, student-faculty interaction, enriching educational experiences and supportive campus environment.

**Elon's top marks in NSSE** came in the areas of student-faculty interactions and enriching educational experiences such as study abroad, volunteer service and internships.

- Elon was among a group of selective schools included in Kaplan's 2003 edition of *The Unofficial, Unbiased Insider's Guide to the 320 Most Interesting Colleges*. Elon was also named one of 30 "Hidden Treasure" universities in the guide. **A two-page profile of Elon praised the university's engaging style of teaching and learning.**

- ***U.S. News & World Report*** ranked **Elon 8th** among 131 master's-level universities in the South in its 2003 edition of *America's Best Colleges* — the university's best ranking ever in the nation's most prestigious college guide. Elon also earned top positions in new ranking categories that recognize academic programs that enhance learning and lead to student success. **Elon was ranked 14th among the nation's 1,400 colleges and universities in programs for first-year students**, 14th in service learning programs and 31st in study abroad programs.

- Elon was also **recognized for providing outstanding programs for students in the critical first year of college**. The Policy Center on the First Year of College, the nation's leading organization in assessing the experiences of first-year students, named **Elon one of 13 "Institutions of Excellence."** Elon was recognized for having effective programs to help students make a smooth transition to college and improve their learning.

According to the First Year of College survey, **Elon freshmen were more satisfied with their overall educational experience than students at other schools**, based on contact with faculty and the quality of teaching, academic advising, facilities and technology.



# Quality programs deserve great facilities

Elon continues to build and maintain some of the nation's most impressive facilities to support a growing enrollment as well as students' academic and recreational needs.



The first two pavilions in the new Academic Village, the Isabella Cannon International Studies Pavilion and the William R. Kenan, Jr. Honors Pavilion, opened in fall 2002. The pavilions feature student housing, classrooms and faculty apartments, creating innovative living-learning communities. When complete, the Academic Village will include seven buildings as well as an outdoor amphitheater.

Two new apartment buildings were added to Danieleley Center in fall 2002 to provide space for the growing number of students who wish to live on campus.

The new Irwin Belk Track and the Alan and Norma White Field also opened in fall 2002. The facility was the site of Elon's first home track meet in the spring. The eight-lane, all-weather track, which is adjacent to Rhodes Stadium, includes facilities for pole

vault, long jump, high jump, shot put, discus, hammer throw, steeplechase and javelin.

To support future expansion needs, Elon purchased 76 acres of land from Elon Homes for Children. The purchase of a portion of the Elon Homes property gives the university valuable land for student recreation fields and allows Elon Homes to fund an expansion of its facilities.



# \$1.2 million Kenan grant funds scholarship

**E**lon received a \$1.2 million grant from the William R. Kenan Jr. Charitable Trust to endow a scholarship for the university's Honors program, which offers top students intellectually challenging opportunities.

The William R. Kenan Jr. Honors Fellows Scholarship will provide a

four-year, full-tuition grant for Elon's top Honors Fellow each fall. Elon will offer Kenan scholars extensive enrichment opportunities, including leadership development, volunteer service, study abroad, research stipends and internships. After receiving the grant, Elon named a pavilion in the Academic Village the

William R. Kenan, Jr. Honors Pavilion.

The William R. Kenan Jr. Charitable Trust is one of the nation's most prestigious advocates of higher education and supports institutions that demonstrate teaching excellence.

WILLIAM R. KENAN, JR. HONORS PAVILION



# Distinguished Professorship recognizes excellent faculty



**T**his year Elon established the Distinguished University Professorship to recognize superior accomplishments in teaching, academic scholarship and service to the campus community. Longtime philosophy professor Dr. John Sullivan (at left) was named Elon's first Distinguished Professor in August 2002.

The professorship, along with the Daniels-Danieley Award for Excellence in Teaching, the Distinguished Scholar Award and the Periclean Award for Civic Engagement and Social Responsibility, promote excellence among Elon faculty and help the university continue to attract and retain excellent professors.



## Combining service and learning with Project Pericles

**L**earning by participating in volunteer service has been an integral part of an Elon education for more than 15 years. This year, Elon took a major step forward in this effort by joining a national program called Project Pericles to incorporate service into every aspect of campus life.

Elon was invited to join nine other colleges and universities in this endeavor by New York philanthropist Eugene Lang, who challenged each school to find innovative ways to instill in students an appreciation for social responsibility and civic involvement. Elon received \$25,000 grants

each from the Eugene Lang Foundation and the Carnegie Foundation to get started with the project, which is named for the 5th century Greek leader who brought democracy to Athens. The university also added \$50,000 in matching funds.

Elon's program consists of four main components:

- \$1,000 grants to assist faculty in linking service with their courses
- Monthlong service sabbaticals for staff members. In the first group of sabbaticals, staff members volunteered at a

group home for women, made repairs at a church and helped a local school system install a new computer system. A fourth staff member will bike across the country to raise money for a sexual assault response and resource center.

- A Periclean Scholars program that gives a select group of students the opportunity to identify a global problem and recommend solutions
- The Periclean Award for Civic Engagement and Social Responsibility, which annually recog-

nizes an Elon employee for outstanding service to the community

In addition to Project Pericles, Elon's service learning program includes the Kernodle Center for Service Learning and Elon Volunteers!, a program that matches student volunteers with community organizations. Elon is also a member of the North Carolina Campus Compact, a group of 18 colleges and universities that promote service and civic engagement in the community.

# Prominent speakers enhance learning and spark debate

For Brian Grady, hearing Walter Cronkite speak was a highlight of his first year at Elon.

*"Walter Cronkite's visit to campus was a great opportunity for me and for everyone at Elon," says Grady. "It was fascinating to hear about all the important events he's been part of in his career and about the early days of broadcasting. It was also refreshing to hear a speaker of his caliber be so honest in his opinions. I think the kind of perspective someone like Cronkite affords is really important today."*



(l-r) Walter Cronkite and David Gergen

Each year, Elon gives students the opportunity to enhance their learning by listening to the real-life experiences of world leaders and distinguished authors and scholars. These events unite the campus in a common discussion of important issues and are often cited by students as some of their most rewarding experiences at Elon.

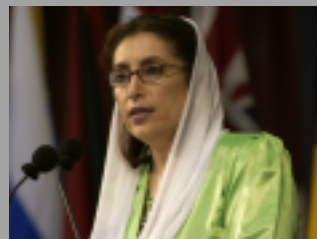
The tradition of bringing top speakers to campus continued during the 2002-2003 academic year. Elon hosted Benazir Bhutto, former prime minister of Pakistan; Nobel Peace Prize recipient Archbishop Desmond Tutu; Pulitzer Prize-winning journalist and author David Halberstam; author Cornel West; former presidential adviser David Gergen; and former CBS news anchor Walter Cronkite.



David Halberstam



Archbishop Desmond Tutu



Benazir Bhutto



Cornel West

# Elon's latest athletics success — the Southern Conference

For the past two decades, Elon has worked steadily to improve its athletics program, positioning itself to compete against higher-caliber teams. The crowning achievement to that effort came on July 1, 2003, when Elon officially entered the Southern Conference, one of the nation's oldest and most prestigious NCAA Division I athletics conferences. It marked another milestone in Elon's effort to attract the best student-athletes and compete at a higher level in all sports.

Elon's 16 varsity teams will compete in the SoCon beginning in fall 2003. Elon joins impressive company in the SoCon, which includes Davidson, Furman, the Citadel, Appalachian State, College of Charleston, East Tennessee State, Georgia Southern, University of North Carolina at Greensboro, Chattanooga, Western Carolina and Wofford.



Elon opened the Multicultural Center in fall 2002 to promote an appreciation for different cultures among members of the campus community. Located in Moseley Center, the hub of student activity, the new center develops distinctive programs and hosts events to educate the campus about issues of race and diversity.

The center also serves as a valuable resource to attract and retain students from diverse backgrounds.

Students have access to computers as well as a library in the Multicultural Center, which also houses the African American Resource Room.

In addition to the Multicultural Center, Elon promotes global and cultural awareness through a nationally recognized study abroad program, which is housed in the Isabella Cannon Centre for International Studies.

## New center promotes cultural awareness and diversity





# ELON

Elon, North Carolina

## financial and audit report

for the years ended May 31, 2003 and 2002

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# Financial Overview

2002-2003

**M**any institutions of higher education, both public and private, have experienced financial difficulties in the last several years. Staff reductions, double-digit tuition increases, program cancellations, and state budget crises are familiar to many institutions. However, Elon University has been able to plan for and avoid these negative consequences. While other institutions have had to retrench, Elon has continued to improve the programs and activities which have been important to recent quality developments.

During this past year, Elon University has seen growth in enrollment, construction of impressive facilities, strategic land acquisitions, and the introduction of outstanding new programs. In recognition of this progress, Elon received strong national rankings in several major publications and surveys: *U.S. News & World Report's America's Best Colleges*, *Princeton Review's The Best 345 Colleges*, and *Kaplan's 320 Most Interesting Colleges*. On July 1, Elon joined the Southern Conference, one of the oldest and most prestigious athletic associations in the United States. These achievements have only been possible because of the sound financial position of the University.

Students and their families also recognize Elon's achievements. Applications for admission were up 22% over 2001, and selectivity increased for the 12th consecutive year. New and renovated facilities have strengthened resources for both academic life and residence life. Two new buildings, the Isabella Cannon International Studies Pavilion and the William R. Kenan, Jr. Honors Pavilion, were constructed as part of the Academic Village, a quadrangle devoted to the arts and sciences. New single-bedroom apartments were built in Danieleley Center and the new Irwin Belk Track and the Alan and Norma White Field were completed adjacent to Rhodes Stadium. The University purchased a 76-acre tract contiguous to the campus and will develop on it intramural and club sport playing fields. The Elon registration and grading process has moved onto the Internet, allowing students to register for classes and check their grades from anywhere in the world. The University centralized and strengthened its international and foreign language programs by opening the Isabella Cannon Centre for International Studies, El Centro de Español, and a state-of-the-art language media center. Continuing to broaden the scope of the academic program, Elon introduced new majors in computer information systems and dance.

In conclusion, net operating assets increased 23.8%, and net tuition showed continued growth and increased 8.2%. Elon's total assets remain unchanged, an important accomplishment in a time of decreasing endowment values.

Leo M. Lambert  
President

Gerald O. Whittington  
Corporate Treasurer  
Vice President for Business, Finance and Technology

# Independent Auditor's Report 2002-2003

Thomas, Stout, & Stuart, L.L.P., Burlington, N.C.

August 6, 2003

The Board of Trustees  
Elon University  
Elon, North Carolina

We have audited the accompanying statements of financial position of Elon University (a non-profit organization) as of May 31, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elon University at May 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on page 2 and pages 28 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

*Thomas, Stout, & Stuart, LLP*

Certified Public Accountants



	<i>Operating</i>	<i>Capital</i>	<i>Total</i>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 38,210	\$ 524,521	\$ 562,731
Accounts receivable	823,292	66,233	889,525
Notes receivable	0	585	585
Contributions receivable	0	3,026,771	3,026,771
Prepaid expenses and other assets	526,863	0	526,863
Inventories	67,811	0	67,811
Investments	13,275,402	61,995,658	75,271,060
Loans to students	0	4,195,114	4,195,114
Bond issue costs	0	752,017	752,017
Construction in progress	0	1,039,118	1,039,118
Property and equipment, net of accumulated depreciation	0	0	0
	143,149,589	143,149,589	143,149,589
<b>Total Assets</b>	<b>\$ 14,731,578</b>	<b>\$ 214,749,606</b>	<b>\$ 229,481,184</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,622,154	\$ 5,077	\$ 1,627,231
Accrued liabilities	4,349,682	374,763	4,724,445
Student deposits	2,482,416	0	2,482,416
Notes payable	0	663,126	663,126
Deferred revenue	1,085,245	0	1,085,245
Bonds payable	0	55,985,000	55,985,000
Interest rate swap agreement liability	0	1,462,976	1,462,976
U.S. Government advances for student loans	0	4,372,597	4,372,597
<b>Total Liabilities</b>	<b>\$ 9,539,497</b>	<b>\$ 62,863,539</b>	<b>\$ 72,403,036</b>
<b>NET ASSETS:</b>			
Unrestricted:			
Designated for capital projects and reserves (mandatory/nonmandatory)	\$ 730,482	\$ 14,299,966	\$ 15,030,448
Net investment in plant	0	86,085,187	86,085,187
Accumulated gains on endowment	0	12,403,183	12,403,183
<b>Total Unrestricted</b>	<b>\$ 730,482</b>	<b>\$ 112,788,336</b>	<b>\$ 113,518,818</b>
Temporarily restricted	4,461,599	101,677	4,563,276
Permanently restricted	0	38,996,054	38,996,054
<b>Total Net Assets</b>	<b>\$ 5,192,081</b>	<b>\$ 151,886,067</b>	<b>\$ 157,078,148</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 14,731,578</b>	<b>\$ 214,749,606</b>	<b>\$ 229,481,184</b>

See accompanying notes to financial statements.

	<i>Operating</i>	<i>Capital</i>	<i>Total</i>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 930,709	\$ 605,296	\$ 1,536,005
Accounts receivable	896,646	150,003	1,046,649
Notes receivable	0	3,958	3,958
Contributions receivable	23,750	2,654,793	2,678,543
Prepaid expenses and other assets	197,590	0	197,590
Inventories	55,500	0	55,500
Investments	11,138,207	67,826,360	78,964,567
Loans to students	0	4,116,666	4,116,666
Bond issue costs	0	831,314	831,314
Construction in progress	0	9,370,777	9,370,777
Property and equipment, net of accumulated depreciation	0	131,737,745	131,737,745
<b>Total Assets</b>	<b>\$ 13,242,402</b>	<b>\$ 217,296,912</b>	<b>\$ 230,539,314</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 2,024,359	\$ 374,105	\$ 2,398,464
Accrued liabilities	3,738,286	341,425	4,079,711
Student deposits	2,368,064	0	2,368,064
Notes payable	0	856,528	856,528
Deferred revenue	918,185	0	918,185
Bonds payable	0	58,021,959	58,021,959
Interest rate swap agreement liability	0	638,595	638,595
U.S. Government advances for student loans	0	4,251,866	4,251,866
<b>Total Liabilities</b>	<b>\$ 9,048,894</b>	<b>\$ 64,484,478</b>	<b>\$ 73,533,372</b>
<b>NET ASSETS</b>			
Unrestricted:			
Designated for capital projects and reserves (mandatory/nonmandatory)	\$ 0	\$ 11,506,965	\$ 11,506,965
Net investment in plant	0	84,177,951	84,177,951
Accumulated gains on endowment	0	16,531,437	16,531,437
<b>Total Unrestricted</b>	<b>\$ 0</b>	<b>\$ 112,216,353</b>	<b>\$ 112,216,353</b>
Temporarily restricted	4,193,508	3,176,179	7,369,687
Permanently restricted	0	37,419,902	37,419,902
<b>Total Net Assets</b>	<b>\$ 4,193,508</b>	<b>\$ 152,812,434</b>	<b>\$ 157,005,942</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 13,242,402</b>	<b>\$ 217,296,912</b>	<b>\$ 230,539,314</b>

See accompanying notes to financial statements.



	<i>Operating</i>	<i>Capital</i>	<i>Total</i>
<b>Unrestricted Net Assets:</b>			
Revenues and gains:			
Tuition and fees	\$ 67,518,205	\$ 0	\$ 67,518,205
Tuition discount	(10,825,501)	0	(10,825,501)
Net tuition	\$ 56,692,704	\$ 0	\$ 56,692,704
Sales and service of auxiliary enterprises	\$ 15,234,540	\$ 0	\$ 15,234,540
Federal grants	670,100	0	670,100
State grants	1,243,822	0	1,243,822
Contributions	1,111,691	42,515	1,154,206
Contributions - pledges	0	3,023	3,023
Investment income - endowment	560,223	0	560,223
Other investment income	506,017	139,562	645,579
Gain (Loss) on investments	166,331	(3,003,158)	(2,836,827)
Athletics	1,008,874	0	1,008,874
Other sources	811,926	0	811,926
Total Unrestricted Revenues and Gains (Losses)	\$ 78,006,228	\$ (2,818,058)	\$ 75,188,170
Net assets released from restrictions	2,425,325	2,186,576	4,611,901
Total Unrestricted Revenues and Gains and Other Support	\$ 80,431,553	\$ (631,482)	\$ 79,800,071
Expenses:			
Instruction	\$ 30,933,727	\$ 2,664,087	\$ 33,597,814
Student services	12,036,226	1,436,245	13,472,471
Auxiliary enterprises	11,500,587	3,483,195	14,983,782
Academic support	3,896,445	424,401	4,320,846
Institutional support	11,873,209	230,155	12,103,364
Total Expenses	\$ 70,240,194	\$ 8,238,083	\$ 78,478,277
Increase (Decrease) in unrestricted net assets before change in interest rate swap liability	\$ 10,191,359	\$ (8,869,565)	\$ 1,321,794
Change in value of interest rate swap liability	0	(824,381)	(824,381)
Increase (Decrease) in Unrestricted Net Assets	\$ 10,191,359	\$ (9,693,946)	\$ 497,413

(continued)

	<i>Operating</i>	<i>Capital</i>	<i>Total</i>
<b>Unrestricted Net Assets:</b>			
Revenues and gains:			
Tuition and fees	\$ 61,946,571	\$ 0	\$ 61,946,571
Tuition discount	(9,534,377)	0	(9,534,377)
Net tuition	\$ 52,412,194	\$ 0	\$ 52,412,194
Sales and service of auxiliary enterprises	14,103,845	0	14,103,845
Federal grants	541,663	0	541,663
State grants	1,171,486	0	1,171,486
Contributions	999,086	243,875	1,242,961
Contributions - pledges	2,060	7,525	9,585
Investment income - endowment	474,331	0	474,331
Other investment income	764,512	260,657	1,025,169
Gain (Loss) on investments	64,385	(3,743,083)	(3,678,698)
Athletics	1,243,904	0	1,243,904
Other sources	756,061	0	756,061
Total Unrestricted Revenues and Gains	\$ 72,533,527	\$ (3,231,026)	\$ 69,302,501
Net assets released from restrictions	2,421,781	10,758,045	13,179,826
Total Unrestricted Revenues and Gains and Other Support	\$ 74,955,308	\$ 7,527,019	\$ 82,482,327
Expenses:			
Instruction	\$ 27,386,280	\$ 2,561,174	\$ 29,947,454
Student services	10,874,462	1,151,015	12,025,477
Auxiliary enterprises	10,623,038	2,692,114	13,315,152
Academic support	3,581,608	426,604	4,008,212
Institutional support	11,359,252	196,351	11,555,603
Total Expenses	\$ 63,824,640	\$ 7,027,258	\$ 70,851,898
Increase (Decrease) in unrestricted net assets before extraordinary loss and change in accounting principle	\$ 11,130,668	\$ 499,761	\$ 11,630,429
Change in value of interest rate swap liability	0	(479,469)	(479,469)
Extraordinary loss from extinguishment of debt	0	(281,689)	(281,689)
Cumulative effect of change to new accounting principle	0	(159,126)	(159,126)
Increase (Decrease) in Unrestricted Net Assets	\$ 11,130,668	\$ (420,523)	\$ 10,710,145

(continued)



	<i>Operating</i>	<i>Capital</i>	<i>Total</i>
<b>Temporarily Restricted</b>			
<b>Net Assets:</b>			
Grants	\$ 255,391	\$ 0	\$ 255,391
Contributions	395,961	343,395	739,356
Contributions - pledges	1,250	768,057	769,307
Investment income - endowment	426,987	190	427,177
Other investment income	77,183	75,888	153,071
Loss on investments	(11,391)	(27,032)	(38,423)
Net assets released from restrictions	(2,425,325)	(2,186,576)	(4,611,901)
Decrease in Temporarily Restricted Net Assets	\$ (1,279,944)	\$ (1,026,078)	\$ (2,306,022)
<b>Permanently Restricted</b>			
<b>Net Assets:</b>			
Contributions	\$ 0	\$ 1,200,317	\$ 1,200,317
Contributions - pledges	0	1,322,879	1,322,879
Investment income - endowment	0	131,100	131,100
Other investment income	0	(950)	(950)
Loss on investments	0	(772,531)	(772,531)
Increase in Permanently Restricted Net Assets	\$ 0	\$ 1,880,815	\$ 1,880,815
Net Increase (Decrease) in Total Net Assets	\$ 8,911,415	\$ (8,839,209)	\$ 72,206
<b>Reallocations:</b>			
Unrestricted	\$ (9,460,877)	\$ 10,265,929	\$ 805,052
Temporarily restricted	1,548,035	(2,048,424)	(500,389)
Permanently restricted	0	(304,663)	(304,663)
	\$ (7,912,842)	\$ 7,912,842	\$ 0
Net Increase (Decrease) in Total Net Assets After Reallocations	\$ 998,573	\$ (926,367)	\$ 72,206
<b>Net Assets - Beginning of Year</b>	4,193,508	152,812,434	157,005,942
<b>Net Assets - End of Year</b>	\$ 5,192,081	\$ 151,886,067	\$ 157,078,148

See accompanying notes to financial statements.

	<i>Operating</i>	<i>Capital</i>	<i>Total</i>
<b>Temporarily Restricted</b>			
<b>Net Assets:</b>			
Grants	\$ 143,129	\$ 0	\$ 143,129
Contributions	339,973	2,224,277	2,564,250
Contributions - pledges	5,863	1,008,513	1,014,376
Investment income - endowment	1,027,324	0	1,027,324
Other investment income	93,231	115,352	208,583
Loss on investments	(59,835)	(93,962)	(153,797)
Net assets released from restrictions	(2,421,781)	(10,758,045)	(13,179,826)
Decrease in Temporarily Restricted Net Assets	\$ (872,096)	\$ (7,503,865)	\$ (8,375,961)
<b>Permanently Restricted</b>			
<b>Net Assets:</b>			
Contributions	\$ 0	\$ 1,254,630	\$ 1,254,630
Contributions - pledges	0	46,556	46,556
Investment income - endowment	0	213,523	213,523
Other investment income	0	3,683	3,683
Loss on investments	0	(204,163)	(204,163)
Increase in Permanently Restricted Net Assets	\$ 0	\$ 1,314,229	\$ 1,314,229
Net Increase (Decrease) in Total Net Assets	\$ 10,258,572	\$ (6,610,159)	\$ 3,648,413
<b>Reallocations:</b>			
Unrestricted	\$ (11,387,542)	\$ 10,895,779	\$ (491,763)
Temporarily restricted	908,194	(374)	907,820
Permanently restricted	0	(416,057)	(416,057)
	\$ (10,479,348)	\$ 10,479,348	\$ 0
Net Increase (Decrease) in Total Net Assets After Reallocations	\$ (220,776)	\$ 3,869,189	\$ 3,648,413
<b>Net Assets - Beginning of Year</b>	4,414,284	148,943,245	153,357,529
<b>Net Assets - End of Year</b>	\$ 4,193,508	\$ 152,812,434	\$ 157,005,942

See accompanying notes to financial statements.

	2003	2002
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 72,206	\$ 3,648,413
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	5,524,959	4,998,789
Amortization bond issue costs	79,297	(57,680)
Amortization - bond discounts	18,041	97,523
Decrease (Increase) in accounts receivable	157,122	(138,792)
Decrease (Increase) in contributions receivable	(348,228)	663,455
Decrease in notes receivable	3,372	3,145
Decrease (Increase) in inventories	(12,311)	4,319
Decrease (Increase) in prepaid expenses	(329,273)	15,127
(Increase) in student loans	(78,448)	(144,731)
(Decrease) in accounts payable	(771,233)	(796,418)
Increase in accrued liabilities	644,735	509,271
Increase in student deposits	114,352	332,895
Increase in U.S. Government advances	120,731	269,184
Increase in interest rate swap agreement liability	824,381	479,469
Extraordinary loss from extinguishment of debt	0	281,689
Cumulative effect of a change in accounting principle	0	159,126
Contributions restricted to endowment	(2,566,352)	(1,301,649)
Increase in deferred revenue	167,061	71,055
Unrealized loss on investments	1,280,517	3,427,271
Loss on sale of operational assets	145,335	196,843
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 5,046,264</b>	<b>\$ 12,718,304</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale and maturities of investments	\$ 32,029,087	\$ 12,149,431
Purchases of investments	(29,616,097)	(15,433,262)
Proceeds from sale of operational assets	13,972	12,605
Purchases of operational assets	(8,764,450)	(14,885,972)
<b>Net Cash Used by Investing Activities</b>	<b>\$ (6,337,488)</b>	<b>\$ (18,157,198)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from issuance of indebtedness	\$ 0	\$ 12,560,000
Repayment of principal on indebtedness - bonds	(2,055,000)	(6,980,100)
Repayment of principal on indebtedness - other debt	(193,402)	(180,758)
Extraordinary loss from extinguishment of debt	0	(281,689)
Contributions restricted to endowment	2,566,352	1,301,649
<b>Net Cash Provided by Financing Activities</b>	<b>\$ 317,950</b>	<b>\$ 6,419,102</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (973,274)</b>	<b>\$ 980,208</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>1,536,005</b>	<b>555,797</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 562,731</b>	<b>\$ 1,536,005</b>

See accompanying notes to financial statements.



# Notes

to financial statements  
May 31, 2003 and May 31, 2002

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## NOTE A: Summary of Significant Accounting Policies

### Organization:

The University is a private institution of higher education located in Elon, North Carolina.

### Operating and Capital:

Operations involve annual recurring activities which support the institution's educational mission. All activities shown on the financial statements as "Operating" are so defined. Capital activities involve long-term investment in the University's physical plant, endowment, and other perpetual investments. All activities shown on the financial statements as "Capital" are so defined.

### Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received, and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

### Fund Accounting:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to Elon University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified, for accounting purposes, into funds that are in accordance with the activities or objectives specified. Separate accounts are maintained for each fund.

### Cash and Cash Equivalents:

For purposes of the financial statements, cash consists of demand deposits and highly liquid debt instruments with an original maturity of ninety days or less. The University maintains its cash balance in five commercial banks. Four of the five bank accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 each. Uninsured balances were approximately \$1,950,364 and \$2,414,790 at May 31, 2003 and 2002, respectively.

A separate demand deposit account is required and maintained by the University which holds cash for the Federal Perkins Loan Program. The balances in this account at May 31, 2003 and 2002 were \$522,371 and \$602,160, respectively.

### Accounts Receivable:

Accounts receivable consist of obligations from students in the normal course of operations and at May 31, 2003 and 2002 consist principally of billings for Summer Sessions I and II. Accounts receivable are stated at the amount billed to the student, are uncollateralized and unpaid accounts bear no interest.

Payment for all classes is due on or before registration day of each semester. Students are not allowed to register until payment has been made. The University does extend credit plans to its students in the normal course of business. These credit plans must be prearranged and all payments are due before the close of the semester. The total amount included in accounts receivable at May 31, 2003 past due 120 days or more was \$54,401. Payments of accounts receivable are allocated to the specific student account.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 120 days from the billing date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The amount of the allowance at May 31, 2003 and 2002, was \$33,000 and \$20,000.

### Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at market value. Investments in real estate are stated at cost or if received by gift, at market value at the date of gift. Unrealized gains and losses resulting from changes in the fair value of investments are included in the change in net assets.

### Inventories:

Inventories are stated at the lower of cost or market. Cost is being determined on a first-in, first-out basis. Inventories consist of office supplies and fuel.

### Contributions Receivable:

Contributions receivable are stated at their present value, net of an allowance for uncollectible contributions receivable. The allowance is based on management's analysis of specific promises made.

### Property and Equipment:

It is the University's policy to capitalize property and equipment valued over \$2,000. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment donated with explicit restrictions on their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily or permanently restricted support. Absent donor stipulations regarding how long those

donated assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired assets are placed in service. The University reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Expenses related to the purchase of capital assets are charged to departmental budgets. The capitalization of assets is recorded outside the departmental budgets, in conjunction with the related depreciation expense, thereby not relieving the department budgets of asset purchases.

### Works of Art:

Works of art are capitalized by the University at their cost, or fair value if donated. Depreciation is not recognized on these assets because of their nature.

### Library Books:

Library books are capitalized at their cost, or fair value if donated. They are depreciated using the straight-line method over their estimated useful life.

### Bond Issue Costs:

Bond issue costs are capitalized and amortized over the life of the underlying bonds using the straight-line method.

### Endowment Funds:

A donor's stipulation that requires a gift to be invested in perpetuity or for a specified term creates an endowment fund. Net appreciation on endowment funds is not permanently restricted unless such net appreciation has been permanently restricted by the donor or by law. North Carolina statutes do not require net appreciation on endowment funds to be permanently restricted unless so restricted by the donor. Accordingly, market appreciation on permanently restricted endowment funds is classified in the financial statements as part of unrestricted net assets. It is the policy of the University to invest pooled endowment funds 35% in fixed income instruments and 65% in equities. The spending policy is calculated at 5% of a 3-year moving average market value.

### Interest Rate Swap:

Cash flows from hedging transactions are classified in the same category as the cash flow of the related hedged item.

### Contributions:

Contributions are recognized when the donor makes a promise to give a gift to the University that is, in substance, unconditional. Contributions, on which the donor imposes no restrictions, are reported as increases in unrestricted net assets. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. It is the University's policy to release restrictions on contributions received for long-lived assets when the asset is acquired or put into service.

The University follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same period received as temporarily restricted support. The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

### Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

### Tax Status:

Elon University is a not-for-profit organization that is exempt from federal and North Carolina income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

### Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that fair value.

The carrying amounts for cash and cash equivalents, accounts and notes receivable, prepaid expenses and student deposits approximate fair value because of the short maturity of these instruments. The methods used to determine the carrying amounts for inventory, investments, contributions receivable, and property and equipment are outlined in separate notes. A reasonable estimate of the fair value of loans to students under government loan programs and the accompanying liability to the U.S. government could not be made because the notes receivable are not salable and can only be assigned to the U.S. government or its designees. The carrying value of loans to students under Elon University's loan programs approximates fair value, as the amount is comprised of a high volume of relatively small dollar loans.

Notes payable consists of general obligation notes for the purchase of real estate. The carrying value of the notes payable approximates fair value as interest rates are commensurate with current market rates on similar debt with the same maturities. The carrying values of the University's 2001C, 2001B, 2001A, 2000, 1998 and 1997 bond issues approximate fair values as a portion of the interest obligations vary and are commensurate with market rates. The carrying value of the fixed portion of these issues is adjusted annually.



## NOTE B: Investments

Investments at May 31, 2003 and 2002 are as follows:

	2003		2002	
	Cost	Market	Cost	Market
Operating:				
Money market funds	\$ 2,809,033	\$ 2,809,033	\$ 1,168,256	\$ 1,223,776
Bonds	4,492,761	4,625,695	4,286,398	4,396,276
Equities	147,563	82,459	155,071	99,028
Mutual funds	17,018	17,018	19,347	19,347
Certificates of deposit	2,363,273	2,363,273	2,292,403	2,292,403
Real estate	284,382	284,382	284,382	284,382
U.S. Government securities	3,016,827	3,092,491	2,888,075	2,821,944
Other assets	1,051	1,051	1,051	1,051
Total for Operating	\$ 13,131,908	\$ 13,275,402	\$ 11,094,983	\$ 11,138,207
Capital:				
Endowment and Similar Fund:				
Fixed income	\$ 11,786,510	\$ 12,102,513	\$ 13,737,177	\$ 12,019,755
Equities	23,301,069	26,097,578	25,105,543	29,440,059
Money market funds	4,962,628	4,962,628	4,552,246	4,552,246
Real estate	230,293	230,293	230,293	230,293
Mutual funds	5,402,035	5,200,610	5,794,935	5,756,081
U.S. Government securities	1,930,986	1,961,573	1,578,107	1,580,252
	\$ 47,613,521	\$ 50,555,195	\$ 50,998,301	\$ 53,578,686
Other Capital:				
Money market funds	\$ 9,209,635	\$ 9,209,635	\$ 9,895,378	\$ 9,839,858
Bonds	160,527	157,795	2,360,027	2,368,026
Equities	788,820	328,200	788,820	315,600
Certificate of deposit	1,167,353	1,167,353	1,133,210	1,133,210
Real estate	577,480	577,480	590,980	590,980
	\$ 11,903,815	\$ 11,440,463	\$ 14,768,415	\$ 14,247,674
Total for Capital	\$ 59,517,336	\$ 61,995,658	\$ 65,766,716	\$ 67,826,360
Total Investments	\$ 72,649,244	\$ 75,271,060	\$ 76,861,699	\$ 78,964,567

Investment returns are reported net of investment management fees. The amount of these fees at May 31, 2003 and 2002, were \$280,811 and \$271,573 respectively.

## NOTE C: Endowment Invested Net Assets

The permanently restricted portion of the endowment consists of the historic gift value of those assets. The temporarily restricted portion of the endowment consists of life income funds. The unrestricted portion of the endowment consists of reinvested capital gains and board designated assets.

Endowment invested net assets at May 31, 2003 and 2002 are as follows:

	2003	2002
Permanently restricted	\$ 38,360,040	\$ 36,783,887
Temporarily restricted	437,628	475,958
Unrestricted	11,757,527	16,318,841
	<u>\$ 50,555,195</u>	<u>\$ 53,578,686</u>

## NOTE D: Loans to Students

Federal Perkins loans are low-interest federally funded student loans that participating schools make to eligible undergraduate and graduate students. Elon student loans are made from institutional funds to eligible students enrolled at the University. No interest accrues on these student loans while a student is enrolled at least halftime at any accredited school of higher education.

	2003	2002
Perkins loans receivable due from students payable in quarterly minimum installments of \$120. Interest is computed at an annual rate of 5%. These loans are unsecured.	\$ 3,855,208	\$ 3,646,183
Elon loans receivable due from students payable in monthly installments of \$50 minimum. Interest is computed at an annual rate of 5%. These loans are secured by a co-signer.	339,906	470,483
	<u>\$ 4,195,114</u>	<u>\$ 4,116,666</u>

## NOTE E: Property and Equipment

Property and equipment at May 31, 2003 and 2002 are as follows:

	2003	2002
Land and land improvements	\$ 19,996,288	\$ 16,611,020
Buildings	141,142,715	129,684,950
Moveable assets		
Computers and computer equipment	3,670,534	4,427,447
Library books	4,553,144	3,861,500
Cars and other vehicles	2,248,276	2,045,995
Audio visual equipment	1,475,522	1,421,668
Science equipment	1,206,645	1,179,285
Software	742,888	734,354
Telephone systems and equipment	651,583	669,028
Other moveable assets	3,198,291	3,113,348
Total moveable assets	\$ 17,746,883	\$ 17,452,625
Collections	413,816	392,816
	\$ 179,299,702	\$ 164,141,411
Accumulated depreciation	(36,150,113)	(32,403,666)
	\$ 143,149,589	\$ 131,737,745

## NOTE F: Accrued Vacation and Sick Pay

Eligibility for vacation is based on continuous service with the University. Employees earn vacation hours based on their length of service. The maximum number of vacation days an employee may accumulate is 20. Vacation time may be used up until separation of service. At May 31, 2003 and 2002, accrued expenses included accrued vacation of \$771,981 and 680,912, respectively.

Sick leave accrues at the rate of one day per month. Unused sick leave may accumulate up to 130 days; however accumulated sick leave will not be paid at separation from service. Since the University has no obligation for the accumulated sick leave until it is actually taken, no liability for unpaid sick leave has been recorded in these financial statements.

## NOTE G: Accrued Liabilities

Accrued liabilities at May 31, 2003 and 2002 are as follows:

	2003	2002
Salaries and wages	\$ 3,569,473	\$ 3,026,961
Vacation	771,981	680,912
Annuities	374,763	341,425
Employee benefits and payroll taxes	8,228	30,413
	\$ 4,724,445	\$ 4,079,711



## NOTE H: Long Term Debt

Long-term debt at May 31, 2003 and 2002 are as follows:

	2003	2002
Revenue Bonds, Series 1992; the final principal payment of \$1,180,000 less unamortized discount of \$18,041 was made on January 1, 2003. These bonds were issued through the North Carolina Educational Facilities Finance Agency, and were secured by bond insurance through the AMBAC bond insurance company.	\$ 0	\$ 1,161,959
Revenue Bonds, series 1997; \$17,815,000 serial bonds due March 1997 through 2019, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 and will continue until 2003 and then from 2009 to 2019. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Educational Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	17,215,000	17,415,000
Revenue Bonds, series 1998; \$14,010,000 serial bonds due May 1998 through 2021, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 and will continue until 2021. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Educational Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	12,710,000	13,160,000

*continued*

	2003	2002
Revenue Bonds, series 2000; \$4,325,000 serial bonds due June 2000 through 2023, bearing a weekly variable market interest rate paid monthly. Principal payments will be made from 2002 to 2023. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Educational Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	4,080,000	4,205,000
Revenue Bonds, series 2001A; \$9,640,000 serial bonds due April 2001 through 2014, bearing a weekly variable market interest rate paid monthly. Principal payments will be made from 2002 to 2014. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	9,520,000	9,520,000
Revenue Bonds, series 2001B; \$5,305,000 serial bonds due October 2001 through 2008, bearing a weekly variable market interest rate paid monthly. Principal payments will be made from 2002 to 2008. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	5,205,000	5,305,000
Revenue Bonds, series 2001C; \$7,255,000 serial bonds due November 2001 through 2026, bearing a weekly variable market interest rate paid monthly. Principal payments will be made from 2004 to 2026. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Capital		

	2003	2002
Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	7,255,000	7,255,000
<b>Subtotal – Bonds Payable</b>	<b>\$ 55,985,000</b>	<b>\$ 58,021,959</b>
Note payable which is unsecured for purchase of real estate payable in semi-annual installments of principal and interest in the amount of \$54,615.75, with interest charged at a fixed rate of 7.75%.	\$ 565,957	\$ 667,689
Note payable which is unsecured for purchase of real estate payable in annual installments of principal and interest in the amount of \$103,000, with interest charged at a fixed rate of 6.00% per annum.	97,169	188,839
<b>Subtotal – Notes Payable</b>	<b>\$ 663,126</b>	<b>\$ 856,528</b>
<b>Total – Bonds and Notes Payable</b>	<b>\$ 56,648,126</b>	<b>\$ 58,878,487</b>

The University entered into two interest rate swap agreements, involving the series 2001A and 2001B bond issues, to exchange variable for fixed rate interest payment obligations with the Bank of America. The agreements are used to minimize the impact of future interest rate changes. Under the agreements, payments are made or received based on the difference between fixed rates, ranging from 3.45% to 4.10% and 65% of the USD-LIBOR BBA index. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. Currently, principal maturities on the debt conclude in 2014.

Aggregate maturities of long-term debt for the fiscal year ending May 31, 2003, were as follows:

<i>Year ending</i>	<i>Amount</i>
2004	\$ 2,626,939
2005	2,673,441
2006	2,777,798
2007	2,912,895
2008	2,967,053
Thereafter	42,690,000
	<b>\$ 56,648,126</b>

For the years ended May 31, 2003 and 2002, total interest cost incurred was \$1,327,668 and \$1,608,294, respectively, and of these amounts \$140,763 and \$469,715 was capitalized as a cost of construction, respectively.



## NOTE I: Contributions Receivable

The payment timing of outstanding contributions receivable at May 31, 2003, is estimated to be:

	<i>Permanently Restricted</i>	<i>Temporarily Restricted</i>	<i>Unrestricted</i>	<i>Total</i>
One Year	\$ 843,496	\$ 839,948	\$ 19,000	\$ 1,702,444
2 – 4 Years	106,016	951,233	31,349	1,088,598
5 Plus Years	4,024	231,705	0	235,729
	<u>\$ 953,536</u>	<u>\$ 2,022,886</u>	<u>\$ 50,349</u>	<u>\$ 3,026,771</u>

The payment timing of outstanding contributions receivable at May 31, 2002, was estimated to be:

	<i>Permanently Restricted</i>	<i>Temporarily Restricted</i>	<i>Unrestricted</i>	<i>Total</i>
One Year	\$ 283,456	\$ 900,777	\$ 18,999	\$ 1,203,232
2 – 4 Years	172,902	965,042	43,327	1,181,271
5 Plus Years	7,727	286,313	0	294,040
	<u>\$ 464,085</u>	<u>\$ 2,152,132</u>	<u>\$ 62,326</u>	<u>\$ 2,678,543</u>

Contributions receivable are shown, as of May 31, 2003 and 2002, respectively, net of an allowance for uncollectible contributions receivable of \$165,989 and \$147,898 and a discount of \$127,028 and \$202,829. At May 31, 2003 and 2002, 51% and 49%, respectively, of the contributions receivable balance was from three parties.

## NOTE J: Financial Aid (Tuition Discount)

The University awards financial aid based on academic merit, need and leadership. For the years ended May 31, 2003 and 2002, these gross tuition discounts were 16.0% and 15.4%, respectively. The unfunded discount rate was 11.5% and 10.8% for May 31, 2003 and 2002, respectively. Funded tuition discounts are derived from endowment, private gifts and federal and state aid. Unfunded tuition discounts are derived from the general operating revenues of the University.

	2003		2002	
	Dollars	Percentage	Dollars	Percentage
Unfunded Discount	\$ 7,780,814	11.5%	\$ 6,668,621	10.8%
Funded Discount	3,044,687	4.5%	2,865,756	4.6%
Total	<u>\$ 10,825,501</u>	<u>16.0%</u>	<u>\$ 9,534,377</u>	<u>15.4%</u>
Gross Tuition	\$ 67,518,205		\$ 61,946,571	

## NOTE K: Gift Revenue

Major categories of gift revenue, including gift pledges, for the years ended May 31, 2003 and 2002, are as follows:

	2003	2002
Annual Fund	\$ 1,111,692	\$ 1,006,646
Loans	0	208,917
Endowment Funds	2,566,352	1,301,649
Capital Projects	1,113,833	3,274,808
Other	397,211	340,338
	<u>\$ 5,189,088</u>	<u>\$ 6,132,358</u>

## NOTE L: Retirement Plan

The University has a defined contribution pension plan covering substantially all employees. The plan has no past service benefits or further liabilities beyond the periodic contribution for each participating employee. Total contributions by the University to this plan were \$2,156,920 and \$1,790,799 for the years ended May 31, 2003 and 2002, respectively.

## NOTE M: Commitments and Contingencies

Funds received by Elon University from the United States Department of Education are subject to audit and retroactive adjustment by the U.S. Department of Education. The Department of Education reserves the right to audit prior fiscal years. Such audits can result in the payment to the Department of Education of additional funds. Management believes that any audit will not have a material effect on the University's financial statements.

At May 31, 2003 and 2002, the University had outstanding contractual commitments and equipment purchase orders totaling approximately \$1,073,385 and \$2,809,714, respectively.

## Note N: Rentals Under Operating Leases

The University leases buildings and vehicles under operating leases that will expire in various years through 2012. Rent expense was \$202,459 in 2003 and \$106,934 in 2002. Commitments for minimum future rental payments for each of the next 5 years and thereafter are as follows:

Year Ending	Amount
2004	\$ 173,828
2005	123,121
2006	107,661
2007	99,726
2008	98,546
Subsequent to 2008	328,407
<u>Total minimum future rental payments</u>	<u>\$ 931,289</u>

continued

The University also leases apartments and houses for student living, under operating leases that will expire in various years through 2007. Rent expense was \$467,424 in 2003 and \$853,781 in 2002. Rent expense is more than offset by housing revenue received from students living in these units. Commitments for minimum future rental payments for each of the next 5 years are as follows:

<i>Year Ending</i>	<i>Amount</i>
2004	\$ 467,484
2005	221,295
2006	230,147
2007	38,605
2008	0
<b>Total minimum future rental payments</b>	<b>\$ 957,531</b>

## NOTE O: Allocation of Expenses

The allocation of physical plant maintenance expenses (see Operating column below) was \$7,404,059 and \$6,783,797 for May 31, 2003 and 2002, respectively. The allocations of depreciation and debt service expenses (see Capital column below) were \$8,238,083 and \$7,027,258 for May 31, 2003 and 2002, respectively. The totals of these allocations were \$15,642,142 and \$13,811,055 for May 31, 2003 and 2002, respectively.

<i>Program</i>	<i>2003 Operating</i>	<i>2003 Capital</i>	<i>2003 Total</i>
Instruction	\$ 2,284,669	\$ 2,664,087	\$ 4,948,756
Student Services	1,115,065	1,436,245	2,551,310
Auxiliary Enterprises	3,335,553	3,483,195	6,818,748
Academic Support	474,376	424,401	898,777
Institutional Support	194,396	230,155	424,551
	<b>\$ 7,404,059</b>	<b>\$ 8,238,083</b>	<b>\$ 15,642,142</b>

<i>Program</i>	<i>2002 Operating</i>	<i>2002 Capital</i>	<i>2002 Total</i>
Instruction	\$ 2,384,874	\$ 2,561,174	\$ 4,946,048
Student Services	935,596	1,151,015	2,086,611
Auxiliary Enterprises	2,770,063	2,692,114	5,462,177
Academic Support	521,645	426,604	948,249
Institutional Support	171,619	196,351	367,970
	<b>\$ 6,783,797</b>	<b>\$ 7,027,258</b>	<b>\$ 13,811,055</b>

## NOTE P: Fund Raising

Fund-raising costs for the years ending May 31, 2003 and 2002, were \$2,409,376 and \$2,402,162, respectively. These costs are included with other costs and are shown as "Institutional Support" on the Statement of Activities.

## NOTE Q: Planned Giving Agreements and Trusts

The University is a party to four types of planned giving agreements. The specific terms vary between donors and the agreements can be generally described as follows:

### Perpetual Trust

These are trusts created by donors for the benefit of the University. Third party trustees hold the assets. The University has a perpetual and enforceable right to income generated from the trusts. They are valued by the estimated future cash receipts from the trust's assets. The University has a one-half right to income generated from one of these trusts and full rights to income generated from the remaining trusts.

	2003	2002
<i>Income restricted to scholarship:</i>		
Asset Value	\$ 750,718	\$ 1,204,706
Income	24,497	40,738
<i>Income restricted to professorship:</i>		
Asset Value	\$ 641,827	\$ 736,175
Income	45,000	55,000
<i>Unrestricted income:</i>		
Asset Value	\$ 1,905,526	\$ 1,976,543
Income	50,829	68,355

### Charitable Remainder Trust

The University is required to pay all income to the beneficiaries until their death or for a fixed number of years. There is no fixed amount that the University is required to pay, only the current year's income. The University has a remainder interest in the trust assets. The University acts as trustee for a number of the Charitable Remainder Trusts with which it is a party. The assets are valued at market rates.

	2003	2002
Asset Value	\$ 331,131	\$ 337,007

### Charitable Gift Annuity Contracts

These are arrangements between donors and the University in which the donors contribute assets to the University in exchange for a promise by the University to pay a fixed amount for a specified period of time to individuals named by the donors. No trust exists, the assets received are held as general assets of the University, and the annuity liability is a general obligation of the University. The assets received are recog-

*continued*



nized at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the beneficiary.

	2003	2002
Annuities Liability	\$ 272,225	\$ 228,541

#### Charitable Remainder Unitrust

A charitable remainder unitrust is an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the University receives the assets remaining in the trust. The distributions to the beneficiaries are for a specified percentage of the trust's fair market value as determined annually. Distributions to the beneficiaries are made from income and then principal to the extent income is not sufficient. Obligations to the beneficiaries are limited to the trust's assets.

	2003	2002
Unitrust Liability	\$ 102,538	\$ 112,885

## NOTE R: Reallocation of Assets

The University reallocates resources between operating and capital funds either for mandatory or nonmandatory purposes. Below is a break-down of the reallocation for the year ended May 31, 2003 and 2002.

	2003 Operating	2003 Capital
Mandatory:		
Debt service	\$ (3,552,253)	\$ 3,552,253
Nonmandatory:		
Endowment gains	1,289,114	(1,289,114)
Balance from operations	(5,559,720)	5,559,720
Renewals and replacements	(600,527)	600,527
Other	510,544	(510,544)
	<u>\$ (7,912,842)</u>	<u>\$ 7,912,842</u>

	2002 Operating	2002 Capital
Mandatory:		
Debt Service	\$ (3,469,020)	\$ 3,469,020
Nonmandatory:		
Endowment gains	858,868	(858,868)
Balance from operations	(7,220,644)	7,220,644
Renewals and replacement	(504,087)	504,087
Other	(144,465)	144,465
	<u>\$ (10,479,348)</u>	<u>\$ 10,479,348</u>

## Balance from Operations

The balance from operations for May 31, 2003 was derived as follows:

	<i>Operating Fund</i>
<b>Changes in Unrestricted Net Assets</b>	
Revenues and gains:	
Tuition and fees	\$ 65,663,841
Tuition discount	(7,780,814)
Net tuition	\$ 57,883,027
Sales and service of auxiliary enterprises	15,232,897
Federal grants	0
State grants	0
Contributions	1,111,691
Contributions – pledges	0
Investment income – endowment	550,829
Other investment income	506,017
Loss on investment	166,331
Athletics	958,873
Other sources	453,909
Total Unrestricted Revenue and Gains	\$ 76,863,574
Net Assets Released From Restrictions	0
Total Unrestricted Revenue and Gains and Other Support	\$ 76,863,574
Expenses:	
Instruction	\$ 27,762,005
Student services	11,721,569
Auxiliary enterprises	11,485,816
Academic support	3,715,549
Institutional support	11,763,140
Total Expenses	\$ 66,448,079
Increase (Decrease) in Unrestricted Net Assets	\$ 10,415,495
Reallocations:	
Debt service	\$ (3,552,253)
Renewals and Replacements fund	(600,527)
Greek housing	(337,396)
Other	(365,599)
<b>Balance from Operations</b>	<b>\$ 5,559,720</b>

*continued*

## Reallocation of Endowment Accumulated Gains

2002-2003 endowment pooled funds average balance based on 3-year moving average	\$ 48,975,459
5 percent multiplied by the average balance equals spending allocation	2,448,772
Income generated by endowment pooled investments (Total endowment income includes an additional \$74,708 from other sources.)	1,043,791
Difference between spending allowance and generated income (funded by accumulated gains)	1,404,981
Less reinvested accumulated gains	(115,867)
Total reallocation of accumulated gains for spending	\$ 1,289,114

## NOTE S: Change In Accounting Principle for Interest Rate Swap Agreements

The University has recorded two interest rate swap agreements on the Statement of Financial Position at fair market value in accordance with a pronouncement of the Financial Accounting Standards Board. The swap agreement enables the University to maintain a fixed interest rate on a portion of its long-term debt minimizing the impact of future interest rate changes.

The University has only limited involvement with derivative financial instruments and does not use them for trading purposes. Fair market value is determined using a yield curve and projected interest rates through maturity of the instrument. As a result of adopting this new accounting pronouncement as of the year ended May 31, 2002, the University recorded a one-time cumulative effect of the interest swap agreement of \$159,126, which measured the value of the agreement as of June 1, 2001. The interest rate swap agreement is in effect until all debt under the agreement has been retired. Principal maturities on the debt conclude in 2014. The change in fair value of the cash flow hedge will be adjusted annually through Net Assets. The change in value of the swap liability at May 31, 2003 and 2002 was \$824,381 and \$479,469, respectively.

The fiscal year ended May 31, 2003, resulted in fixed interest rates which were higher than variable interest rates, producing an increase in the interest rate swap liability. Years producing variable rates which are higher than fixed rates, will reduce or eliminate the liability, or produce an asset.

*See independent auditor's report.*

## NOTE T: Extraordinary Loss

On August 28, 2001, Elon University issued \$5,305,000 in revenue bonds for the extinguishment of \$5,005,000 of the Series 1992 Revenue Bonds. The proceeds from the 2001B bond issue were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the redeemed portion of the bonds. As a result, \$5,005,000 of the series 1992 bond issue is considered to be extinguished and thereafter does not appear as a liability on the statement of financial position of the University at May 31, 2002. The principal balance outstanding on the 1992 issue at the time of extinguishment was \$7,175,291 net of the unamortized discount of \$109,709.

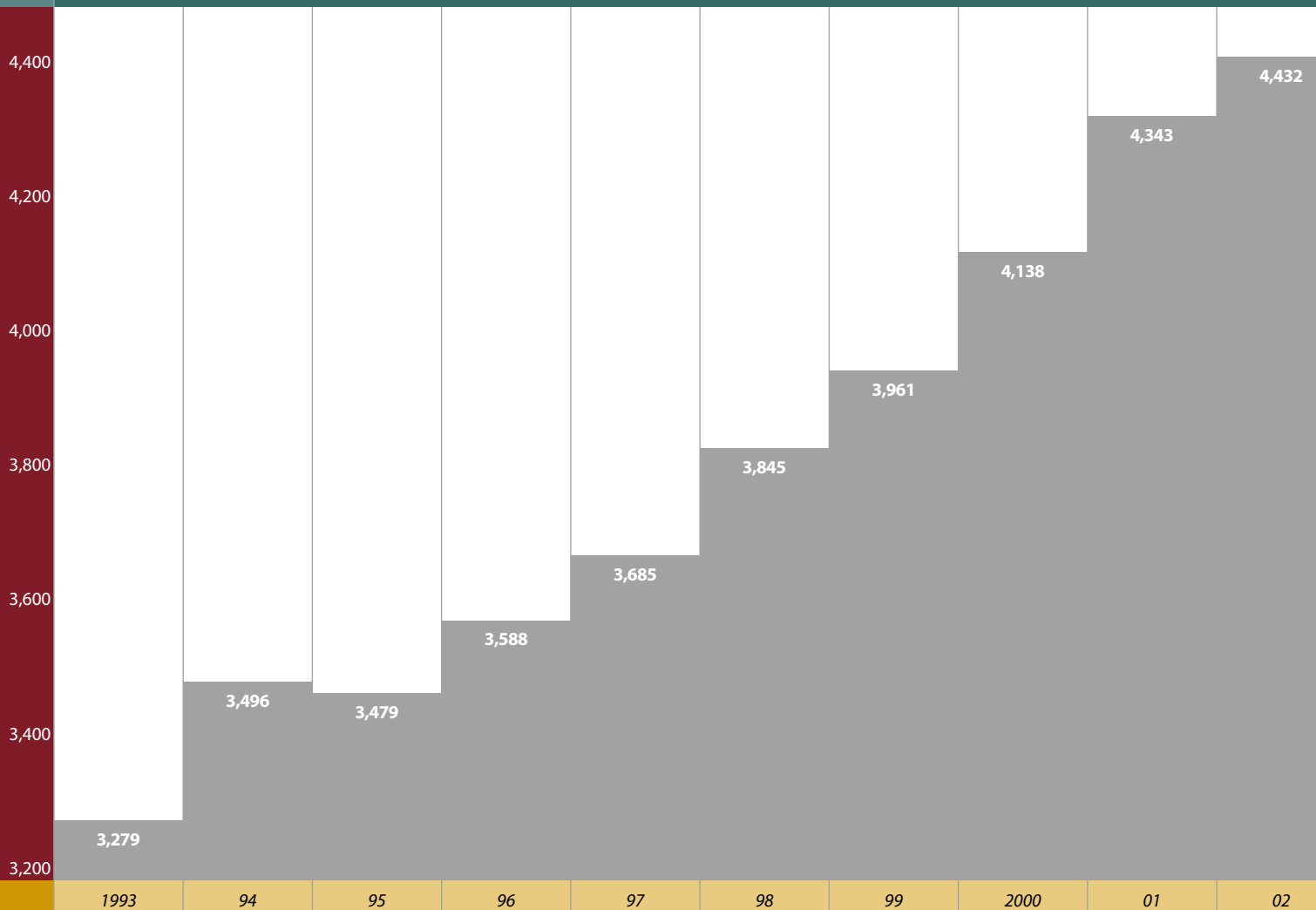
The University was required to pay a redemption premium of \$100,100 and to write off \$102,207 of the remaining unamortized issue cost and \$79,382 of the unamortized discount from the series 1992 bond issue. The total of \$281,689 has been recorded as an extraordinary loss on the 2002 Statement of Activities. The extraordinary loss will be totally recovered in subsequent years as principal payments are made for the 2001B bond issue.

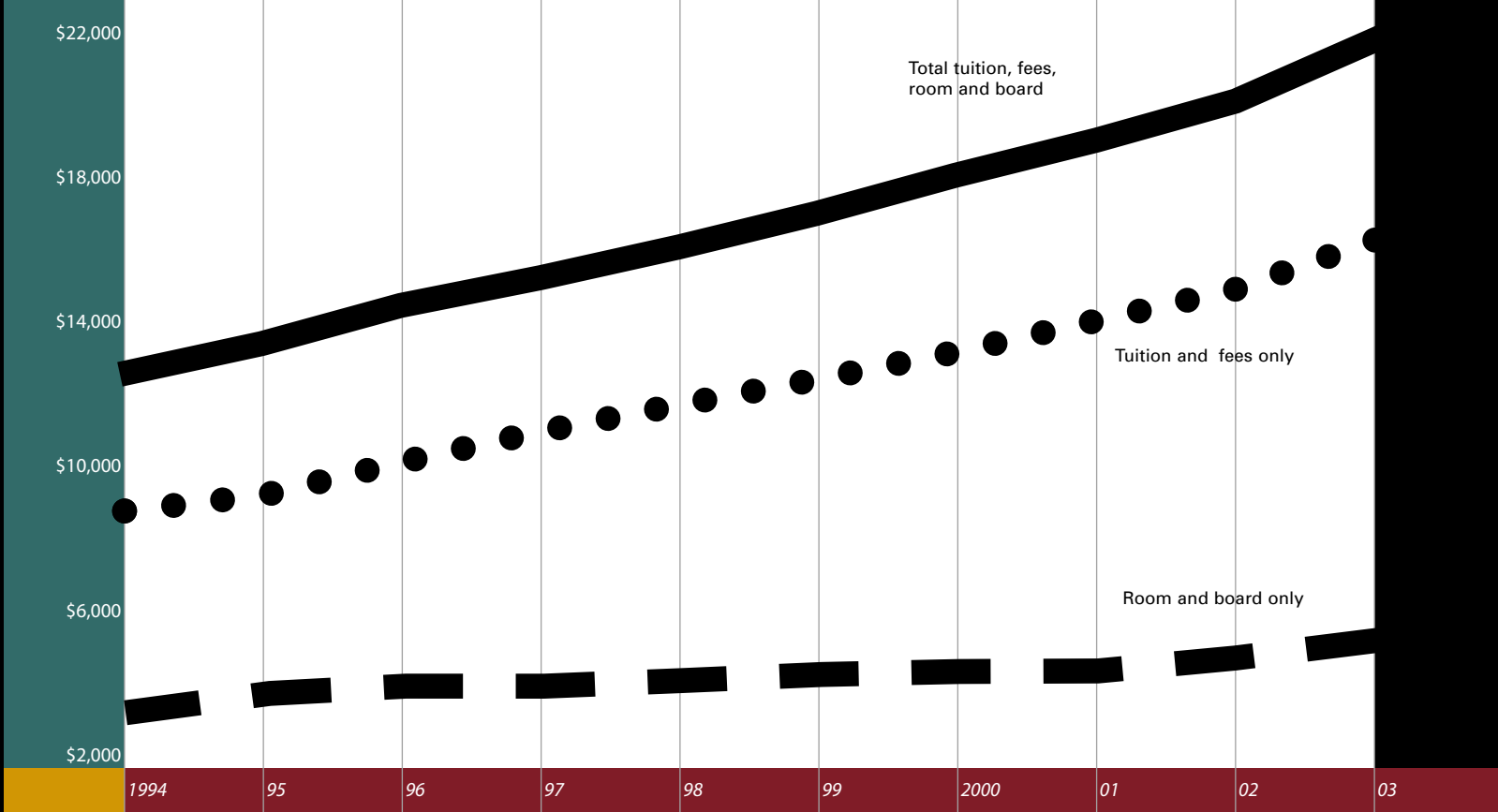




## Fall Student Enrollment 1993-2002

This graph shows a ten-year trend of enrollment on a head-count basis. Rising enrollment is the result of larger freshman classes and improvements in student retention.





# Tuition and Fee Rates 1994-2003

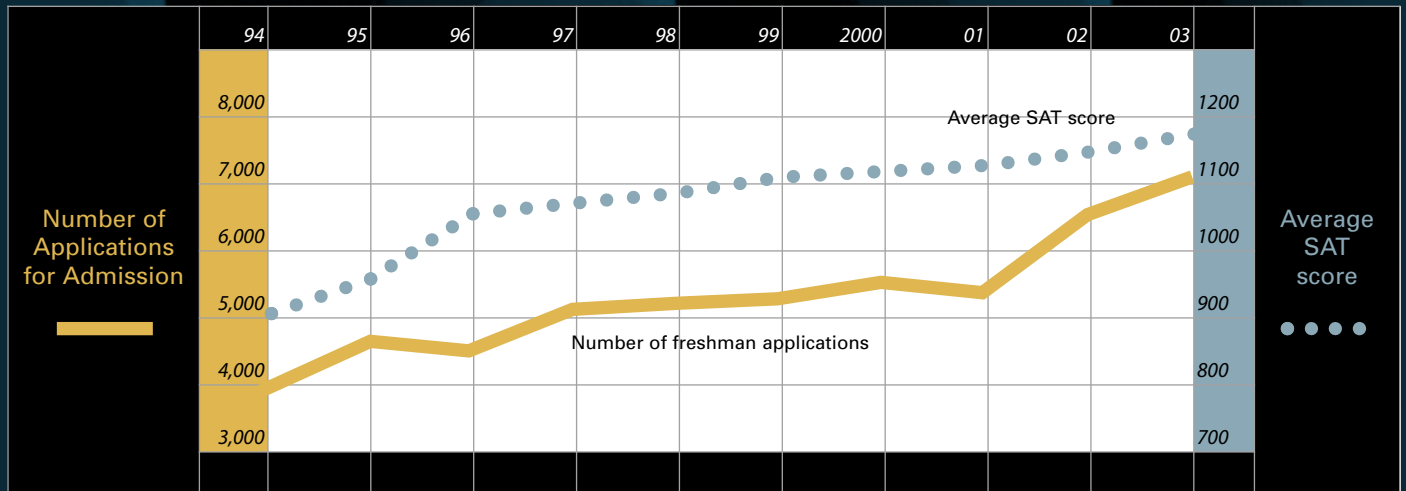
This chart shows the increase in tuition and fees, and room/board rates over a ten-year period.

Fall	Tuition	Fees	Room	Board	Total
1994	\$ 9,100	\$150	\$1,772	\$2,067	\$13,089
1995	\$ 9,750	\$160	\$1,861	\$2,227	\$13,998
1996	\$10,477	\$190	\$1,900	\$2,340	\$14,907
1997	\$11,322	\$220	\$1,900	\$2,340	\$15,782
1998	\$11,928	\$220	\$1,994	\$2,456	\$16,598
1999	\$12,671	\$225	\$2,074	\$2,554	\$17,524
2000	\$13,556	\$225	\$2,120	\$2,540	\$18,441
2001	\$14,335	\$225	\$2,216	\$2,654	\$19,430
2002	\$15,280	\$225	\$2,336	\$2,754	\$20,595
2003	\$16,325	\$245	\$2,770	\$2,900	\$22,240



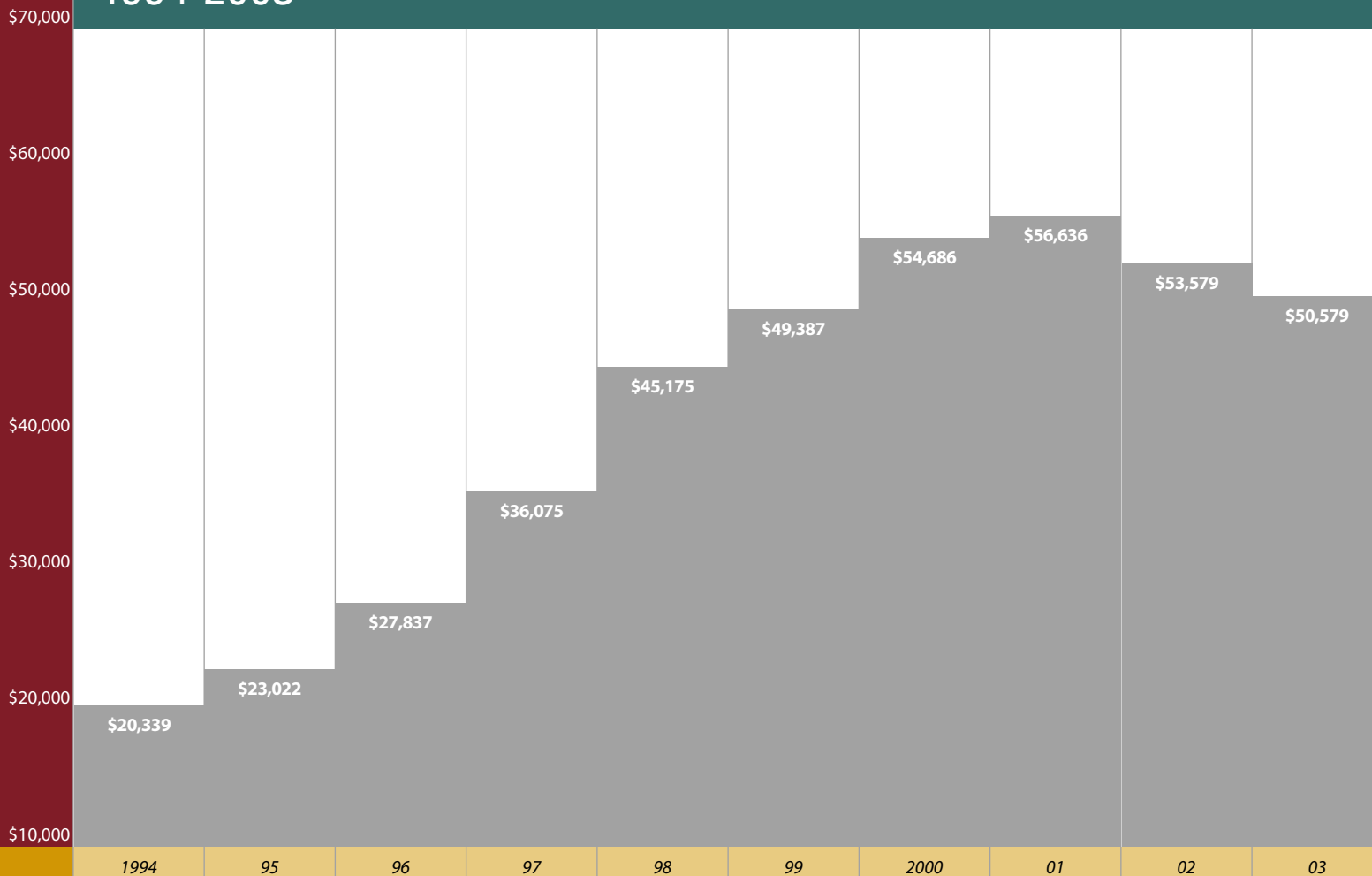
## Student Selectivity 1994-2003

Measures of student quality have increased consistently over the last ten years. Applications for admission now exceed 7,000 and the average SAT score has risen to 1160.

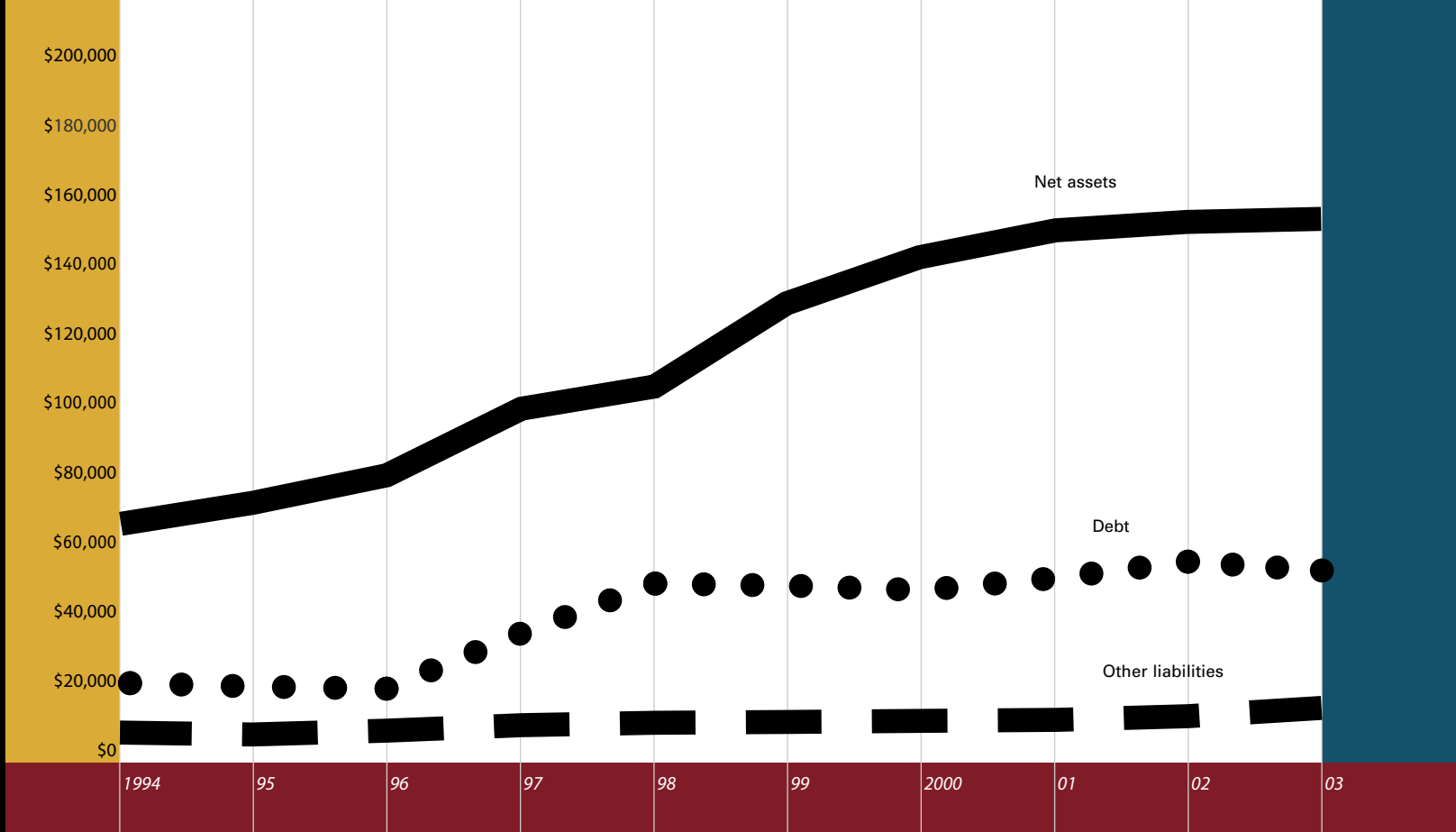


## Endowment Market Value (000) 1994-2003

The market value of the endowment has grown over the past ten years in spite of the recent market downturn, which affected Elon only slightly.







## Total Net Assets/ Long Term Debt and Other Liabilities (000) 1994-2003

The University has enjoyed a healthy increase in net assets over the past ten years which has allowed the use of additional debt to modernize and expand campus facilities.

Year	Net Assets	Debt	Other Liabilities
1994	\$ 68,326	\$23,786	\$ 8,118
1995	\$ 73,828	\$22,591	\$ 7,860
1996	\$ 82,531	\$21,508	\$ 8,175
1997	\$101,322	\$38,232	\$ 9,665
1998	\$118,167	\$52,126	\$12,501
1999	\$132,811	\$50,950	\$13,312
2000	\$146,407	\$49,548	\$13,657
2001	\$153,358	\$53,382	\$13,630
2002	\$157,006	\$58,878	\$14,655
2003	\$157,078	\$56,648	\$15,755





# ELON Annual Report 2003

