ELON UNIVERSITY


# FINANCIAL & AUDIT REPORT

MAY 31, 2017 & 2016

CONTENTS

# ELON UNIVERSITY
# FINANCIAL OVERVIEW 2016-2017

We are pleased to present to you the continued strong financial results of another productive year at Elon University. The institution's financial strength is indicative of accomplishments in all of its programs. Some of these are detailed below.

http://www.elon.edu/annualreport

Elon continues to expand its national reputation as the premier student-centered university, characterized by experiential learning and strong relationships between students and their faculty and staff mentors. Elon is the only university in the nation recognized by *U.S. News & World Report* for excellence in all eight categories of high-impact academic programs that "Focus on Student Success." The programs include study abroad, internships, service learning, undergraduate research, learning communities, first-year experiences and senior capstone experiences. *U.S. News* ranks Elon the #1 Southern master's-level university, *Kiplinger's Personal Finance* magazine ranks Elon among the best values in private higher education, and Elon earns recognition as one of the nation's best-run colleges from Princeton Review, with top rankings for its career services, study abroad program, campus learning environment and residential facilities.

Elon's signature global studies programs are grounded in the university's commitment to produce graduates who can navigate complex cultural issues and bring about positive change. Elon is among the leading producers of Fulbright Student Scholars and is ranked the nation's #1 master's-level university for the number of students studying abroad by the Institute of International Education. Elon is working toward a goal of 100 percent access to a global engagement opportunity; 83 percent of 2017 graduates had completed a study abroad or study USA experience.

Elon places a high priority on civic engagement and is a national leader in service-learning. For the 2016-2017 academic year, students contributed more than 107,000 hours of service to the local community and places around the world through 15 alternative break projects. This year marks the second year of the Elon Community Impact Fellows program; four fellows begin their year of service with placements focused on providing learning opportunities for children with high need in the community.

The university also received new accolades for its environmental sustainability initiatives, winning recognition in 2017 from the U.S. Green Building Council for integrating sustainability into the curriculum, culture, operations and student lifestyles as well as the surrounding community.

Elon student-athletes continue to succeed in competition and the classroom as we enter our fourth season in the Colonial Athletic Association. Nine teams finished in the top four of the CAA league standings this past season and more than 60 student athletes earned CAA Player of the Week honors throughout the year. Phoenix programs competed at a high level on the national stage. The women's basketball team led the way by capturing the CAA regular season and tournament titles en route to the program's first trip to the NCAA tournament. A total of 59 student-athletes earned academic all-conference honors.

Elon continues to expand its facilities with opening of the Dwight C. Schar Hall, Snow Family Grand Atrium and Steers Pavilion, providing engaging, high-tech resources for students in the School of Communications.

Increasing enrollment in Elon's undergraduate and graduate programs provides a solid financial base for the institution. All major financial indicators moved in a favorable direction this past year, which is detailed in the following pages. Some highlights include an increase in assets and net assets (assets minus liabilities) of 18 percent and 13 percent, respectively, as well as a 3.5 percent growth in net tuition revenue (tuition minus financial aid). The university endowment continued its recent growth and ended the year with a market value of $230 million on May 31, 2017, the highest in Elon's history.

This strong financial foundation, combined with the significant program achievements noted on the website, places Elon in an excellent position to meet the aspirations of its strategic plan, the Elon Commitment.

Leo M. Lambert
President

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

ELON UNIVERSITY
MANAGEMENT STATEMENT OF RESPONSIBILITY

The management of Elon University has prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles and is responsible for their integrity, objectivity and fair presentation.

The management of Elon University maintains a system of internal control designed to provide reasonable assurance, on a cost effective basis, that assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable for preparing financial statements. This system of control provides reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or detected within a timely period. Key elements in the system include the communication of policies and procedures, selection and training of qualified personnel, and organizational arrangements that provide an appropriated division of responsibility. Management believes that, as of May 31, 2017 and 2016, Elon University's system of internal control was adequate to accomplish the objectives discussed herein.

Elon University's Board of Trustees addresses its oversight responsibility for the consolidated financial statements through its Audit Committee, which is composed of Trustees who are independent of Elon University management. The Audit Committee meets at least three times annually with the university management and independent auditor to review matters relating to financial reporting, auditing and internal control. To ensure auditor independence, the independent auditor has full and free access to the Audit Committee during the meetings both with management present and in executive session without management present.

The independent accounting firm is engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Elon University. The auditor was given unrestricted access to all financial records and related data including minutes of all meetings of the Board of Trustees and its committees. All representations made to the independent auditor by university management during the audit were true and accurate and to the best of their knowledge and belief.

Leo M. Lambert
President

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

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Elon University:

We have audited the accompanying consolidated financial statements of **Elon University** (the University) (a nonprofit North Carolina organization), which comprise the consolidated statements of financial position as of May 31, 2017 and 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

Grant Thornton LLP
U.S. member firm of Grant Thornton International Ltd

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying graphs of tuition and fees, room and board 2008-2017, student enrollment 2007-2016, student selectivity 2008-2017, endowment market value 2008-2017 and net assets and liabilities 2008-2017 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

Charlotte, North Carolina
September 15, 2017

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ELON UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| ASSETS: | | |
| Cash and cash equivalents | $ 25,797,658 | $ 21,846,964 |
| Accounts receivable, net | 4,786,310 | 4,447,415 |
| Prepaid expenses and other assets | 4,224,316 | 5,820,319 |
| Deposits with bond trustee | 39,368,466 | 201,983 |
| Contributions receivable, net | 14,750,539 | 10,843,607 |
| Investments | 328,263,214 | 291,783,298 |
| Loans to students, net | 3,005,282 | 2,998,647 |
| Construction in progress | 34,098,763 | 16,579,189 |
| Property and equipment, net | 363,626,444 | 338,889,039 |
| Total Assets | $ 817,920,992 | $ 693,410,461 |
| LIABILITIES: | | |
| Accounts payable | $ 11,518,155 | $ 6,808,172 |
| Accrued liabilities | 15,642,549 | 15,367,038 |
| Student deposits | 6,317,355 | 6,510,608 |
| Deferred revenue | 3,166,726 | 3,214,714 |
| Other liabilities | 4,292,077 | 5,205,515 |
| Obligation under capital leases | 11,258,460 | 3,274,049 |
| Bonds payable | 192,600,419 | 142,723,225 |
| Obligation under interest rate swap agreements | 5,887,105 | 8,570,474 |
| U.S. Government advances for student loans | 3,019,456 | 3,047,788 |
| Total Liabilities | 253,702,302 | 194,721,583 |
| NET ASSETS: | | |
| Unrestricted | 372,530,510 | 324,020,886 |
| Temporarily restricted | 67,319,073 | 60,353,287 |
| Permanently restricted | 124,369,107 | 114,314,705 |
| Total Net Assets | 564,218,690 | 498,688,878 |
| Total Liabilities and Net Assets | $ 817,920,992 | $ 693,410,461 |

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

ELON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| CHANGES IN NET ASSETS: | | | | |
| Revenues and gains: | | | | |
| Tuition and fees | $ 228,828,925 | $ - | $ - | $ 228,828,925 |
| Tuition discount | (43,699,970) | - | - | (43,699,970) |
| Net tuition | 185,128,955 | - | - | 185,128,955 |
| Sales and service of auxiliary enterprises | 43,344,770 | - | - | 43,344,770 |
| Federal grants | 1,082,861 | - | - | 1,082,861 |
| State grants | 1,332,541 | - | - | 1,332,541 |
| Other grants | 658,644 | - | - | 658,644 |
| Contributions | 2,613,767 | 8,124,832 | 4,868,866 | 15,607,465 |
| Contributions - pledges | - | 8,186,617 | 2,650,046 | 10,836,663 |
| Investment income | 1,254,139 | 241,161 | - | 1,495,300 |
| Gain on investments | 9,892,229 | 11,389,236 | 2,319,746 | 23,601,211 |
| Loss on disposal of property and equipment | (131,445) | - | - | (131,445) |
| Athletics | 3,438,254 | 808,080 | - | 4,246,334 |
| Other sources | 1,759,348 | 234,836 | 203,644 | 2,197,828 |
| Total Revenues and Gains | 250,374,063 | 28,984,762 | 10,042,302 | 289,401,127 |
| Net Assets Released From/To Restrictions | 22,006,876 | (22,018,976) | 12,100 | - |
| Total Revenues and Gains and Other Support | 272,380,939 | 6,965,786 | 10,054,402 | 289,401,127 |
| Expenses: | | | | |
| Instruction | 108,953,109 | - | - | 108,953,109 |
| Student services | 37,841,306 | - | - | 37,841,306 |
| Auxiliary enterprises | 36,974,030 | - | - | 36,974,030 |
| Academic support | 8,130,969 | - | - | 8,130,969 |
| Institutional support | 34,655,270 | - | - | 34,655,270 |
| Total Expenses | 226,554,684 | - | - | 226,554,684 |
| Increase in Net Assets before change in interest rate swap agreements | 45,826,255 | 6,965,786 | 10,054,402 | 62,846,443 |
| Change in value of interest rate swap agreements | 2,683,369 | - | - | 2,683,369 |
| Increase in Net Assets | 48,509,624 | 6,965,786 | 10,054,402 | 65,529,812 |
| Net Assets - Beginning of Year | 324,020,886 | 60,353,287 | 114,314,705 | 498,688,878 |
| Net Assets - End of Period | $ 372,530,510 | $ 67,319,073 | $ 124,369,107 | $ 564,218,690 |

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

# ELON UNIVERSITY
## CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| CHANGES IN NET ASSETS: | | | | |
| Revenues and gains: | | | | |
| Tuition and fees | $ 219,040,369 | $ - | $ - | $ 219,040,369 |
| Tuition discount | (40,201,870) | - | - | (40,201,870) |
| Net tuition | 178,838,499 | - | - | 178,838,499 |
| Sales and service of auxiliary enterprises | 40,897,225 | - | - | 40,897,225 |
| Federal grants | 1,021,108 | - | - | 1,021,108 |
| State grants | 1,306,740 | - | - | 1,306,740 |
| Other grants | 419,445 | - | - | 419,445 |
| Contributions | 2,764,237 | 7,247,926 | 2,693,326 | 12,705,489 |
| Contributions - pledges | - | 4,469,991 | 376,202 | 4,846,193 |
| Investment income | 886,605 | 276,112 | - | 1,162,717 |
| Loss on investments | (4,835,973) | (1,914,832) | (323,720) | (7,074,525) |
| Gain on disposal of property and equipment | 2,129 | - | - | 2,129 |
| Athletics | 3,773,489 | 378,461 | - | 4,151,950 |
| Other sources | 1,743,640 | 243,313 | (2,578) | 1,984,375 |
| Total Revenues and Gains | 226,817,144 | 10,700,971 | 2,743,230 | 240,261,345 |
| Net Assets Released From/To Restrictions | 7,592,196 | (7,601,758) | 9,562 | - |
| Total Revenues and Gains and Other Support | 234,409,340 | 3,099,213 | 2,752,792 | 240,261,345 |
| Expenses: | | | | |
| Instruction | 105,411,744 | - | - | 105,411,744 |
| Student services | 35,804,488 | - | - | 35,804,488 |
| Auxiliary enterprises | 35,645,620 | - | - | 35,645,620 |
| Academic support | 7,857,951 | - | - | 7,857,951 |
| Institutional support | 32,594,520 | - | - | 32,594,520 |
| Total Expenses | 217,314,323 | - | - | 217,314,323 |
| Increase in Net Assets before change in interest rate swap agreements | 17,095,017 | 3,099,213 | 2,752,792 | 22,947,022 |
| Change in value of interest rate swap agreements | (228,772) | - | - | (228,772) |
| Increase in Net Assets | 16,866,245 | 3,099,213 | 2,752,792 | 22,718,250 |
| Net Assets - Beginning of Year | 307,154,641 | 57,254,074 | 111,561,913 | 475,970,628 |
| Net Assets - End of Period | $ 324,020,886 | $ 60,353,287 | $ 114,314,705 | $ 498,688,878 |

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

# ELON UNIVERSITY
## CONSOLIDATED STATEMENTS OF CASH FLOWS
### May 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in Net Assets | $ 65,529,812 | $ 22,718,250 |
| Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation / Amortization of capital leases | 12,509,481 | 11,564,188 |
| Change in fair value of interest rate swap agreements | (2,683,369) | 228,772 |
| Amortization of bond issue costs | 56,431 | 29,446 |
| Contributions of assets - other | (1,501,205) | (8,488,820) |
| Contributions of assets - endowment | (2,447,221) | (296,013) |
| Contributions restricted to endowment | (5,071,690) | (2,773,515) |
| (Gain) loss on investments | (23,601,211) | 7,074,525 |
| Loss (gain) on disposal of property and equipment | 131,445 | (2,129) |
| (Increase) decrease in: | | |
| Accounts receivable | (338,895) | (402,391) |
| Prepaid expenses and other assets | 1,596,003 | (1,233,900) |
| Contributions receivable | (3,906,932) | 1,918,984 |
| Loans to students | (6,635) | 162,404 |
| Increase (decrease) in: | | |
| Accounts payable | 4,709,983 | 1,766,958 |
| Accrued liabilities | 248,656 | 838,145 |
| Student deposits | (193,253) | (213,201) |
| Deferred revenue | (47,988) | 151,948 |
| Other liabilities | (913,438) | 334,652 |
| U.S. Government advances for student loans | (28,332) | (343,500) |
| Net cash provided by operating activities | 44,041,642 | 33,034,803 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | 12,808,061 | 9,275,539 |
| Purchases of investments | (24,185,561) | (16,730,928) |
| Proceeds from disposal of property and equipment | 49,455 | 227,707 |
| Purchases of property and equipment | (46,205,831) | (24,693,306) |
| (Increase) decrease in deposits with bond trustee | (39,166,483) | 1,840,556 |
| Net cash used by investing activities | (96,700,359) | (30,080,432) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from bond issuance | 56,320,000 | - |
| Payments for bond issue costs | (349,237) | (930) |
| Reduction of capital lease liabilities | (730,263) | (748,188) |
| Principal payments on bonds | (6,150,000) | (5,930,000) |
| Contributions restricted to endowment | 7,518,911 | 3,069,528 |
| Net cash provided (used) by financing activities | 56,609,411 | (3,609,590) |
| Net increase (decrease) in cash and cash equivalents | 3,950,694 | (655,219) |
| Cash and cash equivalents, Beginning of year | 21,846,964 | 22,502,183 |
| Cash and cash equivalents, End of year | $ 25,797,658 | $ 21,846,964 |

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

## NOTE A: Summary of Significant Accounting Policies

### (1) Organization

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

### (2) Tax Status

The 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.

### (3) Consolidation

Occasionally the university will establish separate entities for use in specific investment transactions. To date, these entities have been limited in form to single-member Delaware limited liability companies (LLC), with the university as the single member. The consolidated financial statements include the accounts of the university and all such single-member LLCs. All inter-organizational balances and transactions have been eliminated.

### (4) Basis of Presentation

The accompanying consolidated financial statements of the university have been prepared on the accrual basis in conformity with U. S. generally accepted accounting principles (GAAP). Accounting standards require unconditional promises-to-give be recorded as receivables and revenue within the appropriate net asset category.

### (5) Classification of Net Assets

The accompanying consolidated financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

*Temporarily Restricted* – Net assets subject to donor-imposed stipulations that will be met either by actions of the university and/or the passage of time, and the portion of time restricted perpetual endowment funds that are subject to an enacted version of the North Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA).

*Permanently Restricted* – Net assets subject to donor-imposed stipulations that are used for a specific purpose, preserved and not sold or if sold, reinvested in other similar assets. Such assets primarily include the university's permanent endowment funds.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless use is restricted by donor stipulations or by law. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as a reclassification between applicable classes of net assets (assets released from/to restriction).

**(6) Fund Accounting**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the 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.

**(7) Cash and Cash Equivalents**

For purposes of the financial statements, cash and cash equivalents consist of highly liquid investment accounts with original maturities of three months or less. Such assets, reported at fair value, primarily consist of depository account balances, money market funds and accounts. The university maintains its cash and cash equivalents with several financial institutions covered by the Federal Depository Insurance Corporation (FDIC). At various times throughout the year, the university may maintain bank accounts in excess of the FDIC-insured limit. Management believes the risk associated with these bank accounts is minimal.

**(8) Accounts Receivable**

Accounts receivable include obligations from students in the normal course of operations and consist principally of billings for Summer Session I, post graduate programs and summer trips. Student receivables are stated at the amount billed, 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, 2017 past due 180 days is $1,164,260. 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 180 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 total of the allowance is $295,000 and $80,000 at May 31, 2017 and 2016, respectively.

**(9) Deposits with Bond Trustee**

Deposits with bond trustee consist of unexpended proceeds from the 2016A and 2017A bond issues. These funds are invested in short-term, highly liquid securities and will be used for construction of certain facilities.

**(10) Contributions Receivable**

Contributions receivable are stated at present value, net of an allowance for uncollectible contributions receivable. The allowance is based on management's analysis of specific promises made. Present value is calculated using 4.0% and 3.5% discount rates at May 31, 2017 and 2016, respectively.

**(11) Investments**

The university's investments include a diverse portfolio of securities and investment vehicles. The university reports investments in marketable securities with readily determinable fair values and all investments in debt securities at fair value in the Consolidated Statements of Financial Position. Alternative investments, predominately a minority ownership interest in a limited partnership investment fund, are reported at net asset value as provided by the investees and in accordance with applicable professional literature. Management of the university believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Consolidated Statements of Activities. The university reports its real estate investments at fair value as of the dates the investments are purchased by or donated to the university.

**(12) Endowment Funds**

A donor's stipulation that a gift 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. Accordingly, market appreciation on permanently restricted endowment funds is generally classified in the consolidated financial statements as part of temporarily restricted net assets. It is the practice of the university to prudently invest pooled endowment funds consistent with the endowment asset allocation policy approved by the Board of Trustees. The university's spending policy is based on the moving three-year average of the market value of the pooled endowment which equates to a spending policy rate of 5.0% and 4.5% at May 31, 2017 and 2016 and 4.5% on all other expenses as of May 31, 2017 and 2016. See Note E for further information.

**(13) Split-Interest Agreements**

Split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuities. Assets held in trusts are included in investments. The contribution is recognized when the agreement is signed and the institution receives the assets. Annuity and other split-interest obligations are adjusted annually at the end of each fiscal year.

**(14) Loans to Students**

Loans to students include Federal Perkins and institutional loans which are reported at estimated net realizable amounts.

**(15) Bond Issue Costs**

GAAP requires that bond issue costs be capitalized using the effective interest method. The University has capitalized and amortized bond issue costs over the life of the underlying bonds using the straight-line method, which is not materially different than the effective interest method.

**(16) Interest Rate Swap Agreements**

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

**(17) Property and Equipment**

It is the university's policy to capitalize property and equipment valued over $5,000. 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 use and contributions of cash that must be used to acquire property and equipment are reported as temporarily or permanently restricted support. In the absence of donor stipulations regarding how long 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.

Works of art are capitalized by the university at cost, or fair value if donated. As these items are not subject to normal wear or obsolescence, depreciation is not recognized.

Library resources are capitalized at cost, or fair value if donated. Depreciation is recorded using the straight-line method over estimated useful lives.

**(18) Revenue Recognition**

Tuition revenues for the fall and spring are recognized in the academic semester to which they relate. Revenues and expenses relating to summer session activities that are completed prior to fiscal year-end are recognized in the current fiscal year.

**(19) 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.

If the university is able to satisfy a donor's restrictions in the same period the contribution is received, the restricted contribution is reported as unrestricted 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.

**(20) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. 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.

**NOTE B: Fair Value Measurements**

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure about fair value measurements. It does not supersede all applications of fair value in other pronouncements, but creates a fair value hierarchy and prioritizes the inputs to valuation techniques for use in most pronouncements. It requires entities to assess the significance of an input to the fair value measurement in its entirety. ASC 820, as amended, also requires entities to disclose information to enable users of financial statements to assess the inputs used to develop the fair value measurements. The university applies the provisions of ASC 820 for financial assets and financial liabilities.

ASC 820 is a technical standard which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Valuation techniques are the market, cost or income approach.

As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets;
Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-based valuations in which significant inputs are corroborated by observable market data; and
Level 3 – Valuation techniques in which significant inputs are unobservable.

Investments include items valued at the net asset value (NAV) of the underlying funds at May 31, 2017. The fair value of certain investments held by the underlying investment, which may include private placements and other securities for which values are not readily available, is determined in good faith by the respective underlying investment entity. The estimated fair values may differ from the values that would have been used had a ready market existed for this investment, and the differences could be material.

At May 31, 2017, fair value of financial assets and financial liabilities is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Contributions receivable | $ - | $ - | $ 14,750,539 | $ 14,750,539 |
| Investments: | | | | |
| Cash & cash equivalents | 3,757,286 | - | - | 3,757,286 |
| Cash deposit investment | 10,033,426 | - | - | 10,033,426 |
| Equities | 8,765,481 | - | - | 8,765,481 |
| Asset backed | - | 12,527,486 | - | 12,527,486 |
| Government and corporate bonds | 68,927,089 | - | - | 68,927,089 |
| U.S. government | 956,389 | - | - | 956,389 |
| Real estate | - | - | 855,694 | 855,694 |
| REITs | 69,534 | - | - | 69,534 |
| Other | 777,189 | - | - | 777,189 |
| Alternative Investments (valued at NAV) | - | - | - | 217,102,658 |
| Outside perpetual trusts | - | - | 4,490,982 | 4,490,982 |
| Loans to students | - | 3,005,282 | - | 3,005,282 |
| Financial Assets | $ 93,286,394 | $ 15,532,768 | $ 20,097,215 | $ 346,019,035 |
| Split-interest agreements (accrued liabilities) | $ - | $ 591,313 | $ - | $ 591,313 |
| Refundable advances (CRUTs) (other liabilities) | - | 1,329,178 | - | 1,329,178 |
| Obligation under interest rate swap agreements | - | 5,887,105 | - | 5,887,105 |
| Financial Liabilities | $ - | $ 7,807,596 | $ - | $ 7,807,596 |

At May 31, 2016, fair value of financial assets and financial liabilities is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Contributions receivable | $ - | $ - | $ 10,843,607 | $ 10,843,607 |
| Investments: | | | | |
| Cash & cash equivalents | 7,024,863 | - | - | 7,024,863 |
| Equities | 7,623,678 | - | - | 7,623,678 |
| Asset backed | - | 16,909,879 | - | 16,909,879 |
| Government and corporate bonds | 62,430,925 | - | - | 62,430,925 |
| U.S. government | 949,690 | - | - | 949,690 |
| Real estate | - | - | 855,694 | 855,694 |
| REITs | 68,107 | - | - | 68,107 |
| Other | 796,194 | - | - | 796,194 |
| Alternative Investments (valued at NAV) | - | - | - | 190,936,031 |
| Outside perpetual trusts | - | - | 4,188,237 | 4,188,237 |
| Loans to students | - | 2,998,647 | - | 2,998,647 |
| Financial Assets | $ 78,893,457 | $ 19,908,526 | $ 15,887,538 | $ 305,625,552 |
| Split-interest agreements - (accrued liabilities) | $ - | $ 739,700 | $ - | $ 739,700 |
| Refundable advances (CRUTs) - (other liabilities) | - | 1,442,801 | - | 1,442,801 |
| Obligation under interest rate swap agreements | - | 8,570,474 | - | 8,570,474 |
| Financial Liabilities | $ - | $ 10,752,975 | $ - | $ 10,752,975 |

There were no significant transfers between Level 1 and Level 2 and there were no transfers in or out of Level 3.

At May 31, 2017, valuation methodologies used to measure fair value of financial assets and financial liabilities are as follows:

*Contributions receivable and loans to students* – Valuation is based on the present value of promised or contractually obligated future cash flows, net of an estimated collection allowance. The collection allowance is based on historical trends of collection, the type of obligor (individual or corporation/foundation), general economic conditions and the university's internal policies.

*Investments* – To the extent that the university directly owns and controls the investment, valuation is based on unadjusted quoted prices for identical assets in active markets that the university can access. Real estate is recorded at the acquisition price if purchased and appraised value if donated. For other investments, predominately "alternative investments", valuation is based on information supplied by external investment managers in accordance with FASB ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. Management of the university believes this information is a reasonable estimate of fair value; however, because the alternative investments are not readily marketable and subject to redemption restrictions, the fair value is subject to uncertainty and therefore may differ from the amounts ultimately realized from these investments.

*Outside perpetual trusts* – The university holds beneficial interests in perpetual trusts administered by outside trustees. The fair value of these interests is based on the values of the underlying investments in the trusts which are established by the trustees using unadjusted quoted prices for identical assets in active markets. The university revalues its interest annually in these trusts based on information provided by the trustees.

*Split-interest agreements* – Valuation is based on the present value of estimated future payments to the beneficiaries over their life expectancies.

*Refundable advances - CRUTs* – Valuation is based on the value of assets held by the university as trustee of the respective trusts. Assets consist of cash and investments.

*Obligations under interest rate swap agreements* – Valuation is provided by an experienced financial institution on a mark-to-market basis and, whenever possible, utilizes observable market data including yields and spreads, but may be based in part on assumptions concerning interest rates, credit rates, discount rates and other factors.

Change in value of contributions receivable is included in contributions on the Consolidated Statements of Activities. Changes in the value of real estate, alternative investments and outside trusts are included in gain/loss on investments on the Consolidated Statements of Activities.

Both observable and unobservable inputs may be used to determine the fair value of positions classified within the Level 3 category. As a result, unrealized gains and losses for assets within the Level 3 category in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.

Alternative investments consist predominantly of a minority ownership interest in a limited partnership investment fund (Fund) whose investment strategy focuses on varied and nontraditional investment opportunities in an effort to provide a diversified, single-portfolio for investors. The Fund invests primarily in investment vehicles (e.g. hedge funds and private equity funds) or pooled accounts managed by unaffiliated third parties mainly through master trading vehicles, as well as direct investments in securities and other assets.

Specifically, the Fund has two long-term return goals which are consistent with the university's objective for endowment returns: (1) to outperform a traditional 70% equities/30% bonds portfolio with less downside volatility and (2) to preserve purchasing power by generating at least a 5% return after inflation. The Fund's portfolio is globally diversified and allocated across multiple asset classes including equities, real assets, commodities/resources and fixed income instruments and is invested for total return; generating current income is not an objective. The long-term, total return objective dictates a significant allocation to asset classes expected to generate equity-like returns. The risks inherent in higher returning asset classes can normally be reduced through diversification, which is a key principle of the Fund's asset allocation approach.

A majority of the Fund's investments include limited partnership interests (sub-partnerships) whose investments are principally comprised of illiquid, non-publicly traded securities. Other Fund investments include exchange traded funds and derivative contracts (e.g. futures contracts, options, forward currency contracts and swap agreements). These and other investments are subject to various risk factors including market, credit and industry risk. Market risk represents the potential loss in value of financial instruments caused by movements in market variables, such as interest rates. Other risks affecting these investments include, but are not limited to, increasing competition, rapid changes in technology and changes in economic conditions.

Generally, the university's alternative investments are redeemable once annually at net asset value, but require a written redemption request at least 180 days prior to the annual redemption date. Due to the illiquid nature of alternative investments, all redemptions are subject to the general partner's approval and may be limited or suspended entirely. Additionally, sale of all or part of the alternative investments to a third party is not allowed.

The university is contractually committed to provide additional funding for alternative investments under the terms of these partnership agreements. At May 31, 2017, these unfunded commitments amounted to $0.

**NOTE C: Contributions Receivable**

The payment timing of outstanding contributions receivable at May 31, 2017, is estimated to be:

| | Permanently Restricted | Temporarily Restricted | Unrestricted | Total |
|---|---|---|---|---|
| One Year | $ 1,118,422 | $ 3,208,921 | $ - | $ 4,327,343 |
| 2 - 4 Years | 2,345,846 | 8,011,839 | - | 10,357,685 |
| 5 Plus Years | - | 65,511 | - | 65,511 |
| Total | $ 3,464,268 | $ 11,286,271 | $ - | $ 14,750,539 |

The payment timing of outstanding contributions receivable at May 31, 2016, is estimated to be:

| | Permanently Restricted | Temporarily Restricted | Unrestricted | Total |
|---|---|---|---|---|
| One Year | $ 416,048 | $ 1,500,337 | $ - | $ 1,916,385 |
| 2 - 4 Years | 720,275 | 7,605,701 | - | 8,325,976 |
| 5 Plus Years | 154,015 | 447,231 | - | 601,246 |
| Total | $ 1,290,338 | $ 9,553,269 | $ - | $ 10,843,607 |

Contributions receivable are shown net of a collection allowance of $1,798,433 and $1,436,996 and a discount of $817,790 and $701,195 at May 31, 2017 and 2016, respectively.

A concentration exists when a pledge balance from an individual donor, to include entities under the donor's control, exceeds 10% of the total amounts receivable. These concentrations amounted to $10,168,558 and $7,428,477 at May 31, 2017 and 2016, respectively.

**NOTE D: Investments**

Major categories of investments at May 31, 2017 and 2016, are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Cost | Market | Cost | Market |
| Non-endowment funds: | | | | |
| Money market funds | $ 33,160 | $ 33,160 | $ 3,791,510 | $ 3,791,510 |
| Cash deposit investment | 10,033,426 | 10,033,426 | - | - |
| Certificates of deposit | 2,053,567 | 2,053,567 | 2,041,416 | 2,041,416 |
| Equities | 3,823,233 | 3,869,435 | 3,825,009 | 3,385,321 |
| Fixed income | 79,703,702 | 79,490,239 | 77,476,076 | 77,330,270 |
| U.S. government obligations | 1,078,119 | 956,389 | 1,062,870 | 949,689 |
| Real estate | 253,793 | 253,793 | 253,793 | 253,793 |
| Other | 595,341 | 595,341 | 598,494 | 598,494 |
| Alternative investments | 491,842 | 597,281 | 491,842 | 560,896 |
| | 98,066,183 | 97,882,631 | 89,541,010 | 88,911,389 |
| Endowment and similar funds: | | | | |
| Money market funds | $ 1,835,156 | $ 1,833,003 | $ 1,364,428 | $ 1,362,842 |
| Equities | 5,233,343 | 7,367,989 | 5,232,667 | 6,520,886 |
| Fixed income | 3,212,334 | 3,290,755 | 3,251,996 | 3,307,729 |
| Real estate | 601,901 | 601,901 | 601,901 | 601,901 |
| Other | 781,383 | 781,558 | 694,151 | 703,416 |
| Alternative investments | 134,789,319 | 216,505,377 | 127,312,415 | 190,375,135 |
| | 146,453,436 | 230,380,583 | 138,457,558 | 202,871,909 |
| Total | $ 244,519,619 | $ 328,263,214 | $ 227,998,568 | $ 291,783,298 |

All investments are subject to risk of loss or decline in value. As such, it is at least reasonably possible that changes in the values of investments will occur in the near term, and that such changes could materially affect the amount reported in the university's consolidated financial statements.

Investment returns are reported net of investment fees. The amount of fees paid during the fiscal years ended May 31, 2017 and 2016 are $1,703,695 and $1,286,645, respectively.

**NOTE E: Endowment and Similar Funds**

The university's endowment consists of individual funds established for a variety of educational purposes. The endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2008, North Carolina adopted UPMIFA, which the university has interpreted to allow for the election to preserve the historical value (corpus) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the university classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' historical value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated for expenditure. The university records the investment returns on the specific-purpose endowment funds in temporarily restricted net assets and makes those earnings available for expenditure for the donor-restricted purposes.

In accordance with UPMIFA, the university considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the donor-restricted endowment fund;
3. General economic conditions;
4. Effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the university; and
7. The investment policies of the university.

The endowment pool utilizes a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). External investment managers are employed to oversee the endowment and tasked with the objective of achieving returns that equal or exceed five percentage points (net of fees and in excess of spending and inflation). These investment managers utilize a highly diversified mixture of equities, fixed income and alternative investments. 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.

The Board of Trustees has approved an endowment spending policy whereby distributions are based on the moving three-year average of the market value of the pooled endowment. For programs and professorships, the applicable rate was 4.5% for the years ended May 31, 2017 and 2016, respectively. The applicable rate for scholarships was 5% for the year ended May 31, 2017 and 4.5% for the year ended May 31, 2016. Actual endowment return earned in excess of distributions under this policy is reinvested as part of the university's endowment. For years where actual endowment return is less than distributions under the policy, the shortfall is covered by available gains from prior years. Specific appropriation for expenditure of unrestricted funds under the university's endowment spending policy occurs each spring when the Board approves the university's operating budget for the ensuing fiscal year. All donor-restricted returns are invested until appropriated for expenditure by the institution.

Endowment totals as of May 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Contributions receivable, net | $ 3,464,268 | $ 1,290,338 |
| Investments | 230,380,583 | 202,871,909 |
| Accrued and other liabilities | (1,920,492) | (2,072,648) |
| Total | $ 231,924,359 | $ 202,089,599 |

Endowment net asset compositions as of May 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Unrestricted – Board designated | $ 81,032,227 | $ 68,316,510 |
| Unrestricted – Donor designated | 3,392,448 | 2,462,016 |
| Temporarily restricted | 24,064,793 | 18,358,674 |
| Permanently restricted | 123,434,891 | 112,952,399 |
| Total | $ 231,924,359 | $ 202,089,599 |

Changes in endowment net assets during the years ended May 31, 2017 and 2016, are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance, May 31, 2015 | $ 78,489,162 | $ 25,543,231 | $ 110,192,179 | 214,224,572 |
| Contributions - Donors | 20 | 14,617 | 3,069,528 | 3,084,165 |
| Contributions - Board designated | - | - | - | - |
| Investment income | - | 155,134 | - | 155,134 |
| Gain (loss) on investments | (4,059,635) | (2,186,140) | (318,870) | (6,564,645) |
| Spending policy | (3,814,841) | (5,149,051) | - | (8,963,892) |
| Transfers | 163,820 | (19,117) | 9,562 | 154,265 |
| Balance, May 31, 2016 | $ 70,778,526 | $ 18,358,674 | $ 112,952,399 | $ 202,089,599 |
| Contributions - Donors | - | 22,908 | 7,518,911 | 7,541,819 |
| Contributions - Board designated | 8,000,000 | - | - | 8,000,000 |
| Investment income | - | 136,102 | - | 136,102 |
| Gain (loss) on investments | 9,883,693 | 11,023,222 | 2,951,481 | 23,858,396 |
| Spending policy | (4,237,544) | (5,476,113) | - | (9,713,657) |
| Transfers | - | - | 12,100 | 12,100 |
| Balance, May 31, 2017 | $ 84,424,675 | $ 24,064,793 | $ 123,434,891 | $ 231,924,359 |

The fair value of assets associated with individual donor restricted endowment funds may fall below the historic gift value. These deficiencies amounted to $0 and $146,877 at May 31, 2017 and 2016, respectively. In accordance with GAAP, deficiencies of this nature first reduce available temporarily restricted net assets. Any remaining loss shall reduce unrestricted net assets. While UPMIFA allows spending from these so-called underwater funds, the university's policy restricts spending from underwater funds.

**NOTE F: 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:

Outside Perpetual Trusts

These are trusts created by donors for the benefit of the university and are reported as investments in the Consolidated Statements of Financial Position. Third-party trustees hold the assets. The university has a perpetual and enforceable right to income generated from the trusts. They are valued based on the estimated future cash receipts from the trusts' 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.

| | 2017 | 2016 |
|---|---|---|
| Trustee distributions restricted to scholarship: | | |
| Asset value | $ 1,280,349 | $ 1,184,026 |
| Trustee distributions | 34,855 | 51,948 |
| Trustee distributions restricted to professorship: | | |
| Asset value | $ 1,098,246 | $ 955,602 |
| Trustee distributions | 43,572 | 43,851 |
| Unrestricted trustee distributions: | | |
| Asset value | $ 2,112,386 | $ 2,048,609 |
| Trustee distributions | 113,096 | 111,163 |

Pooled (or Life) Income Fund

These are arrangements in which the university pools, invests, and manages life income gifts from many different donors. The funds are unitized and donors are assigned a specific number of units based on the relationship of the fair value of their contribution to the fair value of the pool as a whole at the time the donor enters the pool. During the term of the life income gifts, the donor, or beneficiaries specified by the donor, receives the actual income earned on the donor's units in the pool. Upon death, the donor's units revert to the university. The assets are recorded as investments in the Consolidated Statements of Financial Position at fair value.

| | 2017 | 2016 |
|---|---|---|
| Asset value | $ 74,525 | $ 68,370 |

Charitable Gift Annuities

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 and is included in the accrued liabilities in the Consolidated Statements of Financial Position. The assets received are recognized 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.

| | 2017 | 2016 |
|---|---|---|
| Annuities liability | $ 522,520 | $ 552,901 |
| Total contributions to charitable gift annuities | 50,000 | 30,000 |
| Change in value of charitable gift annuities | 47,725 | (47,723) |

Charitable Remainder Unitrusts

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 assets of the trust. The present value of the unitrust liability is included in accrued liabilities in the Consolidated Statements of Financial Position.

| | 2017 | 2016 |
|---|---|---|
| Unitrust liability | $ 169,225 | $ 159,862 |
| Change in value of charitable remainder trusts | 17,516 | (4,850) |

**NOTE G: Loans to Students**

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

| | 2017 | 2016 |
|---|---|---|
| Perkins loans receivable are due from students, payable in monthly or quarterly minimum installments of $40 or $120, respectively. Interest is computed at an annual rate of 5%. These loans are unsecured. Receivables are net of an allowance for doubtful accounts of $40,000 at May 31, 2017 and 2016. | $ 2,851,249 | $ 2,781,752 |
| Elon loans receivable are due from students, payable in minimum monthly installments of $50. Interest is computed at an annual rate not to exceed 5%. Some of these loans are secured by a cosigner. Receivables are net of an allowance for doubtful accounts totaling $39,000 and $55,000 at May 31, 2017 and 2016, respectively. | 154,033 | 216,895 |
| Total | $ 3,005,282 | $ 2,998,647 |

**NOTE H: Financing Receivables**

The university makes uncollateralized loans to students based on financial need through a federal government loan program and institutional resources. The university participates in the Perkins federal revolving loan program, wherein the university acts as an agent for the federal government in administering the loan program. Funds advanced by the federal government for use in this program are ultimately refundable to the government and are classified as liabilities in the Consolidated Statements of Financial Position (U.S. government advances for student loans). Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Institutional loans are funded with donor funds restricted for student loan purposes and university funds made available to meet demonstrated need.

Allowances for doubtful accounts are established by considering a variety of factors including prior collection experience, analysis of past due loans, the financial condition of specific borrowers and other current economic factors which could influence the ability of loan recipients to repay amounts due. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

At May 31, 2017 and 2016, student loans are as follows:

| | 2017 | 2016 |
|---|---|---|
| Federal Perkins loan program | $ 2,891,249 | $ 2,821,752 |
| Institutional loans | 193,033 | 271,895 |
| | 3,084,282 | 3,093,647 |
| Less allowance for doubtful accounts: | | |
| Beginning of the year | (95,000) | (90,000) |
| Increases | (9,493) | (29,216) |
| Charge offs | 25,493 | 24,216 |
| End of year | (79,000) | (95,000) |
| Student loans receivable, net | $ 3,005,282 | $ 2,998,647 |

At May 31, 2017 and 2016, past due amounts are as follows:

| | 1-60 Days Past Due | 60-90 Days Past Due | Over 90 Days Past Due | Total |
|---|---|---|---|---|
| 2017 | $ 9,898 | $ 730 | $ 659,000 | $ 669,628 |
| 2016 | $ 14,010 | $ 1,050 | $ 629,395 | $ 644,455 |

A default rate is defined as the failure of a borrower to make an installment payment when due or to comply with a written repayment agreement. At May 31, 2017 and 2016, default rates are as follows:

| | 2017 | 2016 |
|---|---|---|
| Federal Perkins loan program | 2.55% | 2.47% |
| Institutional loans - Undergraduate | 0.30% | 0.36% |
| Institutional loans - Graduate | 4.04% | 5.25% |

**NOTE I: Construction in Progress**

Projects in process at May 31, 2017 and 2016, are as follows:

| 2017 Project Description | Costs Incurred Through 5/31/17 | Estimated Date of Completion |
|---|---|---|
| McEwen Communications Renovation | $ 3,748,612 | July 2017 |
| Long Renovation | 2,208,619 | August 2017 |
| McEwen Dining Hall Renovation | 380,070 | August 2018 |
| Schar Convocation Center | 22,503,911 | August 2018 |
| Sankey Hall | 585,368 | August 2018 |
| East Campus Housing & Tennis Center | 1,559,700 | August 2018 |
| Phoenix Activities & Recreation Center II | 478,906 | August 2018 |
| Inn at Elon - Design | 235,934 | Fall 2019 |
| LaRose Commons | 216,905 | Fall 2019 |
| Residence Halls Renovations | 1,488,240 | Various |
| Other projects | 692,498 | Various |
| Total | $ 34,098,763 | |

| 2016 Project Description | Costs Incurred Through 5/31/16 | Estimated Date of Completion |
|---|---|---|
| Sloan Renovation | $ 731,267 | August 2016 |
| Dwight C. Schar Hall | 12,747,311 | October 2016 |
| McEwen Communications Renovation | 422,678 | February 2017 |
| Schar Convocation Center | 1,695,184 | April 2018 |
| Sankey Hall | 324,222 | August 2018 |
| Other projects | 658,527 | Various |
| Total | $ 16,579,189 | |

**NOTE J: Property and Equipment**

Property and equipment at May 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Land and land improvements | $ 61,856,949 | $ 58,950,267 |
| Buildings | 386,071,745 | 355,464,174 |
| Computers and related equipment | 5,580,350 | 5,537,063 |
| Library resources | 5,675,790 | 7,448,453 |
| Vehicles | 5,486,638 | 5,240,206 |
| Audiovisual equipment | 4,233,263 | 2,524,633 |
| Science equipment | 2,659,271 | 2,545,931 |
| Software | 2,015,868 | 2,374,072 |
| Telephone systems and equipment | 129,709 | 129,709 |
| Other moveable assets | 12,006,861 | 11,375,534 |
| Collections | 2,106,373 | 2,082,873 |
| | 487,822,817 | 453,672,915 |
| Less: Accumulated depreciation | 124,196,373 | 114,783,876 |
| Total | $ 363,626,444 | $ 338,889,039 |

Depreciation expense is $12,509,481 and $11,564,188 for the years ended May 31, 2017 and 2016, respectively.

**NOTE K: Accrued Liabilities**

Accrued liabilities at May 31, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Salaries and wages | $ 8,930,686 | $ 8,723,238 |
| Compensated absences | 4,095,815 | 4,223,156 |
| Split-interest agreements | 591,313 | 739,700 |
| Employee benefits and payroll taxes | (9,264) | (11,577) |
| Conditional asset retirement obligations | 518,819 | 540,379 |
| Accrued other liabilities | 1,515,180 | 1,152,142 |
| Total | $ 15,642,549 | $ 15,367,038 |

Compensated Absences

Eligibility for vacation is based on continuous service with the university. Staff members earn vacation based on their length of service. The maximum number of accumulated vacation days a staff member may carry forward into each calendar year is 20. Accumulated vacation time may be used or paid at time of separation. Other accrued compensated absences are by individual contract.

The university also provides two additional paid days off each year, which are designated as personal leave days. The personal leave days must be used within the calendar year and will not carry over into the next calendar year. Since the university has no obligation for the accumulated personal leave until it is taken, no liability for unpaid personal leave has been recorded in the consolidated financial statements.

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 the consolidated financial statements.

Conditional Asset Retirement Obligations

The university recognizes a liability for the legal obligation to perform asset retirement activities when the retirement is conditional on a future event and the fair value can be reasonably estimated. The accrued conditional asset retirement obligation liability is calculated by determining the present value of estimated costs at the anticipated settlement date using a discount rate of 4.70% and 4.5% for May 31, 2017 and 2016, respectively.

## NOTE L: Other Liabilities

Other liabilities at May 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Agency obligations | $ 1,812,982 | $ 2,367,964 |
| Refundable advances - Exchange transactions | 1,149,917 | 1,394,750 |
| Refundable advances - CRUTs | 1,329,178 | 1,442,801 |
| Total | $ 4,292,077 | $ 5,205,515 |

Agency Obligations

Agency obligations arise from the collection or acceptance of cash or other assets for the account of third parties, such as clubs or other university affiliated groups. These balances result from transactions processed on behalf of the third parties and have no effect on net assets.

The university agreed to invest certain funds belonging to an unrelated not-for-profit organization. This transaction is accounted for as an agency obligation which is increased by additional investments from the not-for-profit as well as by its proportionate share of investment earnings and decreased by distributions as well as by its proportionate share of investment losses. The obligation amounted to $597,281 and $560,896 at May 31, 2017 and 2016, respectively.

Refundable Advances – Exchange Transactions

As of May 31, 2017, the university has seven exchange transaction agreements with an existing service provider. The university consented to extend the service provider’s agreement for ten years and in exchange the service provider transferred amounts totaling $2,115,000 to the university with the stipulation that the monies be expended on specific capital purchases. Each contract further stipulates that if either party to the transaction should terminate the agreement during the ten years, the university will return the unamortized portion of the refundable advance, calculated on a straight-line basis. The 2007 agreement, which expired in January 2017, contained a contingent interest penalty, which would be added to the refundable advance only in the event of early termination. This contingent interest penalty totaled $0 and $32,667 at May 31, 2017 and 2016, respectively.

Refundable Advances – CRUTs

The university serves as trustee for several Charitable Remainder Unitrusts (CRUTs) having revocable beneficiaries. Trusts of this type are accounted for as refundable advances with an amount equal to the trusts' assets reported as other liabilities in the Consolidated Statements of Financial Position. Absent a change in the revocable beneficiary, assets held in the trusts will be recognized as contribution revenue upon the trusts' termination.

**NOTE M: Obligation Under Capital Leases**

The university has entered into various lease agreements of buildings, computers and related equipment. The leases expire at various dates through June 30, 2041. For financial reporting purposes, minimum lease payments have been capitalized.

Property held under capital leases at May 31, 2017 and 2016, is as follows:

| | 2017 | 2016 |
|---|---|---|
| Buildings, computers and related equipment | $ 13,820,373 | $ 5,151,244 |
| Less: Accumulated amortization | 2,977,096 | 1,974,299 |
| Total | $ 10,843,277 | $ 3,176,945 |

Amortization of assets under capital leases is included in depreciation expense and amounted to $1,048,342 and $617,654 for the years ended May 31, 2017 and 2016, respectively.

Future minimum lease payments under capital leases and the net present value of the future minimum lease payments at May 31, 2017, are as follows:

| Year Ending | Amount |
|---|---|
| 2018 | 1,574,472 |
| 2019 | 1,518,179 |
| 2020 | 1,349,613 |
| 2021 | 1,169,666 |
| 2022 | 1,095,006 |
| Thereafter | 24,175,015 |
| Total lease payments | 30,881,951 |
| Less: Amounts representing interest | 19,623,491 |
| Present value of future minimum lease payments | $ 11,258,460 |

Total interest costs incurred related to the obligation under capital leases are $865,842 and $222,204 for the years ended May 31, 2017 and 2016, respectively.

**NOTE N: Bonds Payable**

The following bonds were issued through the North Carolina Capital Facilities Finance Agency. Revenue Bond Series 2014A, in the amount of $39,985,000 was issued as a direct purchase by Wells Fargo and Revenue Bond Series 2014B, in the amount of $60,325,000 was issued as a direct purchase by SunTrust. Revenue Bond Series 2012 was a direct purchase bond held by BB&T. Revenue Bond Series 2016A and 2017A are direct purchase bonds held by Bank of America. The university has made certain covenants including use of the proceeds and sale of project property.

Remaining principal balances at May 31, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Revenue Bonds, Series 2012 - $54,595,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2015 and will continue through 2037. The interest rate at May 31, 2017, is 1.94%. | $ 53,095,000 | $ 53,595,000 |
| Revenue Bonds, Series 2014A - $39,985,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2015 and will continue through 2035. The bonds are subject to an interest rate swap agreement referenced in Note O. The interest rate at May 31, 2017, is 1.22%. | 27,105,000 | 31,585,000 |
| Revenue Bonds, Series 2014B - $60,325,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2015 and will continue through 2036. The bonds are subject to an interest rate swap agreement referenced in Note O. The interest rate at May 31, 2017, is 1.74%. | 56,905,000 | 58,075,000 |
| Revenue Bonds, Series 2016A - $32,000,000, bearing a weekly variable market interest rate paid monthly. Principal payments will begin in 2018 and will continue through 2022. The bonds are subject to an interest rate cap agreement referenced in Note O. The interest rate at May 31, 2017, is 1.11%. | 32,000,000 | - |
| Revenue Bonds, Series 2017A - $24,320,000, bearing a weekly variable market interest rate paid monthly. Principal payments will begin in 2019 and will continue through 2042. The interest rate at May 31, 2017, is 1.34%. | 24,320,000 | - |
| | 193,425,000 | 143,255,000 |
| Less: Bond Issue Costs | 824,581 | 531,775 |
| Total | $ 192,600,419 | $ 142,723,225 |

Aggregate maturities of bonds payable at May 31, 2017, are as follows:

| Year Ending | Amount |
|---|---|
| 2018 | 13,920,000 |
| 2019 | 15,225,000 |
| 2020 | 12,670,000 |
| 2021 | 13,245,000 |
| 2022 | 10,680,000 |
| Thereafter | 127,685,000 |
| Total | $ 193,425,000 |

Total interest costs incurred related to bonds payable are $4,264,217 and $3,935,325 for the years ended May 31, 2017 and 2016, respectively, and of these amounts $424,390 and $167,173, respectively, are capitalized as a cost of construction.

## NOTE O: Obligation Under Interest Rate Swap Agreements

The university has recorded three interest rate swap agreements on the Consolidated Statements of Financial Position at fair value. One agreement involves series 2014A and two agreements involve series 2014B. These agreements allow the university to exchange variable for fixed rate interest payment obligations. The series 2006, 2010 and 2011 bonds were extinguished September 30, 2014; however, the interest rate swap agreements remain in effect. The swap agreements are used to minimize the impact of future interest rate changes. Effective July 1, 2012 management renegotiated these agreements, under substantially similar terms from the previous provider Bank of America to Wells Fargo.

Under the agreements, payments are made or received based on the difference between fixed rates listed below and 70% of the USD-LIBOR BBA index. The university anticipates holding the interest rate swap agreements until all debt under the agreements has been retired. Principal maturities on the remaining debt conclude in 2036.

The university has only limited involvement with derivative financial instruments and does not use them for trading purposes. Fair value is determined by a third party on a mark-to-market basis. The change in value of the interest rate swap agreements is shown as a separate line item in the Consolidated Statements of Activities.

Series 2016A contains an interest rate cap agreement. The fair value of the interest rate cap on May 31, 2017 is $153,949 and is shown in the Statement of Financial Position as Prepaid expenses and other assets.

The obligation under interest rate swap agreements at May 31, 2017 and 2016, is as follows:

| | Fixed Rate | 2017 | Fixed Rate | 2016 |
|---|---|---|---|---|
| Series 2014A | 3.78% | $ 2,208,615 | 3.78% | $ 2,891,736 |
| Series 2014B | 3.30% | 1,084,619 | 3.30% | 1,712,207 |
| Series 2014B | 3.01% | 2,593,871 | 3.01% | 3,966,531 |
| Total | | $ 5,887,105 | | $ 8,570,474 |

## NOTE P: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at May 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Contributions to buildings and equipment | $ 26,326,890 | $ 27,664,275 |
| Endowment related funds | 32,604,440 | 26,088,472 |
| Split-interest agreements and term endowments | 705,328 | 548,626 |
| Non-endowed contributions for scholarships and operations | 7,682,415 | 6,051,914 |
| Temporarily restricted net assets | $ 67,319,073 | $ 60,353,287 |

Permanently restricted net assets at May 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Permanent endowment funds | $ 120,076,852 | $ 111,876,693 |
| Contributions receivable, net | 3,464,268 | 1,290,338 |
| Split-interest agreements and term endowments | 194,310 | 513,997 |
| Student loan funds | 633,677 | 633,677 |
| Permanently restricted net assets | $ 124,369,107 | $ 114,314,705 |

**NOTE Q: Financial Aid (Tuition Discount)**

The university awards financial aid based on academic merit, need and leadership. Gross tuition discount is 19.1% and 18.4% for the years ended May 31, 2017 and 2016, respectively. The unfunded discount rate is 16.2% and 15.6% for the years ended May 31, 2017 and 2016, respectively. Funded tuition discounts are derived from endowment revenue, private gifts and federal and state aid. Unfunded tuition discounts are derived from the general operating revenues of the university and income earned on Board designated funds (quasi endowment).

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Total Tuition and Fees | Dollars | Percentage | Dollars | Percentage |
| Unfunded discount - general | $ 33,929,598 | 14.9% | $ 31,921,773 | 14.6% |
| Unfunded discount - quasi | 3,068,700 | 1.3% | 2,172,800 | 1.0% |
| Total unfunded discount | 36,998,298 | 16.2% | 34,094,573 | 15.6% |
| Funded discount | 6,701,672 | 2.9% | 6,107,297 | 2.8% |
| Total | $ 43,699,970 | 19.1% | $ 40,201,870 | 18.4% |
| Gross tuition and fees | $ 228,828,925 | | $ 219,040,369 | |

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Undergraduate Tuition and Fees | Dollars | Percentage | Dollars | Percentage |
| Unfunded discount - general | $ 27,968,627 | 13.8% | $ 26,892,151 | 13.9% |
| Unfunded discount - quasi | 3,068,700 | 1.5% | 2,172,800 | 1.1% |
| Total unfunded discount | 31,037,327 | 15.3% | 29,064,951 | 15.0% |
| Funded discount | 6,543,100 | 3.2% | 5,915,428 | 3.0% |
| Total | $ 37,580,427 | 18.5% | $ 34,980,379 | 18.0% |
| Gross tuition and fees | $ 202,885,977 | | $ 194,588,899 | |

## NOTE R: Gift Revenue

Major categories of gift revenue for the years ended May 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Annual Funds | $ 1,940,261 | $ 2,047,241 |
| Endowment and similar funds | 7,541,821 | 3,084,164 |
| Capital projects | 13,055,908 | 8,627,920 |
| Restricted to programs | 3,185,036 | 2,757,985 |
| Restricted to scholarships | 721,102 | 1,034,372 |
| Total | $ 26,444,128 | $ 17,551,682 |

## NOTE S: Allocation of Expenses

Expenses which are not directly charged to specific programs are allocated to those programs based on estimates. The totals of these allocations are $43,207,024 and $39,495,019 for the years ended May 31, 2017 and 2016, respectively. Allocations of specific program expenses are as follows:

| | 2017 | | | |
|---|---|---|---|---|
| Program | Physical Plant | Depreciation | Debt Service/Other | Total |
| Instruction | $ 6,339,812 | $ 4,496,232 | $ 2,454,798 | $ 13,290,842 |
| Student services | 2,646,695 | 1,698,990 | 1,127,313 | 5,472,998 |
| Auxiliary enterprises | 8,600,669 | 5,732,341 | 5,957,896 | 20,290,906 |
| Academic support | 610,813 | 393,317 | 527,337 | 1,531,467 |
| Institutional support | 312,010 | 188,601 | 2,120,200 | 2,620,811 |
| Total | $ 18,509,999 | $ 12,509,481 | $ 12,187,544 | $ 43,207,024 |

| | 2016 | | | |
|---|---|---|---|---|
| Program | Physical Plant | Depreciation | Debt Service/Other | Total |
| Instruction | $ 5,399,562 | $ 3,779,185 | $ 1,718,502 | $ 10,897,249 |
| Student services | 2,757,554 | 1,700,874 | 642,027 | 5,100,455 |
| Auxiliary enterprises | 9,013,004 | 5,501,566 | 5,234,371 | 19,748,941 |
| Academic support | 639,332 | 393,753 | 450,277 | 1,483,362 |
| Institutional support | 326,578 | 188,810 | 1,749,624 | 2,265,012 |
| Total | $ 18,136,030 | $ 11,564,188 | $ 9,794,801 | $ 39,495,019 |

**NOTE T: Retirement Plan**

The university has a defined contribution pension plan covering substantially all employees. The plan has no post service benefits or further liabilities beyond the periodic contribution for each participating staff and faculty member. Total contributions by the university to this plan are $6,670,032 and $6,452,180 for the years ended May 31, 2017 and 2016, respectively.

**NOTE U: Fund Raising**

Fundraising costs are $5,794,238 and $5,856,714 for the years ended May 31, 2017 and 2016, respectively. These costs are included with other costs and are shown as institutional support on the Consolidated Statements of Activities.

**NOTE V: Student Housing**

CHF – Elon, LLC, a 501(c)(3) corporation, is a wholly-owned subsidiary of Collegiate Housing Foundation, another 501(c)(3) organization, and exists to provide student housing for Elon University students. CHF – Elon, LLC and Collegiate Housing Foundation are independent of Elon University.

In 2006, CHF – Elon, LLC, using the proceeds of a taxable bond issue with no recourse to Elon University, constructed a 516-bed student housing facility on 13.852 acres of land leased from the university. The lease, which expires in 2035, provides for annual distributions of net available cash flow as the lease payment to Elon University. Additionally, the university has contractually agreed to manage this housing project over the life of the ground lease.

CHF – Elon, LLC has a June 30 fiscal year end. As such, calculation of any ground lease payment due the university (net available cash flow) will be determined after the close of CHF – Elon, LLC's fiscal year and is not earned by the university until that time. The university earned ground lease income of $1,270,731 and $1,491,956 during the years ended May 31, 2017 and May 31, 2016, respectively.

While fulfilling its management functions, the university will collect rental income and incur reimbursable expenses on behalf of CHF – Elon, LLC. Unsettled balances related to these transactions amounted to a net receivable of $344,178 and $328,643 at May 31, 2017 and May 31, 2016, respectively. These balances are classified as accounts receivable in the Consolidated Statements of Financial Position.

**NOTE W: Income Taxes**

The university is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from activities unrelated to its business purpose. The university believes that it has sufficient justification for any tax positions taken, including allocation of expenses to its unrelated business income and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

Generally, federal income tax returns are subject to examination by the Internal Revenue Service for three years after they are filed. As of the report date September 15, 2017, the university's federal Exempt Organization Business Income Tax Return (Form 990-T) for fiscal years ending 2016, 2015 and 2014 remain subject to said examination.

**NOTE X: Supplemental Disclosures of Cash Flow Information**

During the years ended May 31, 2017 and 2016, cash payments for interest on bonds and capital leases amounted to $4,817,119 and $4,051,795, respectively. These numbers are net of amounts capitalized as cost of construction.

The university received noncash contributions in stock and other assets totaling $3,948,426 and $8,784,833 during the years ended May 31, 2017 and 2016, respectively.

The university added distressed assets resulting in a noncash increase in accrued liabilities of $26,855 and $63,547 during the years ended May 31, 2017 and 2016, respectively.

Computers and related equipment costing $113,267 and $1,860,816 were acquired under the terms of capital leases during the years ended May 31, 2017 and 2016, respectively. The cost of property acquired as well as the initial lease obligations have been excluded from the Consolidated Statements of Cash Flows.

Leased vehicles costing $24,435 and $10,127 were disposed under the terms of capital leases during the years ended May 31, 2017 and 2016, respectively. The cost of property disposed has been excluded from the Consolidated Statements of Cash Flows.

Buildings costing $8,625,842 and $0 were acquired under the terms of capital leases during the years ended May 31, 2017 and 2016, respectively. The cost of the buildings acquired as well as the initial lease obligations have been excluded from the Consolidated Statements of Cash Flows.

## NOTE Y: Commitments and Contingencies

### (1) Department of Education Funds

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

### (2) Construction and Purchase Commitments

As of May 31, 2017 the university had outstanding contractual commitments and equipment purchase orders totaling $43,437,305.

### (3) Operating Leases

The university leases buildings, equipment and vehicles under operating leases that will expire in various years through 2030. Rent expense is $1,886,630 and $1,521,557 for the years ended May 31, 2017 and 2016, respectively. Commitments for minimum future rental payments for each of the next five years and thereafter are as follows:

| Year Ending | Amount |
|---|---|
| 2018 | $ 825,519 |
| 2019 | 801,001 |
| 2020 | 674,923 |
| 2021 | 648,705 |
| 2022 | 636,189 |
| Thereafter | 3,141,388 |
| Total minimum future rental payments | $ 6,727,725 |

The university also leases apartments and houses for student housing under operating leases that will expire in 2018. Rent expense is $1,059,389 and $681,500 for the years ended May 31, 2017 and 2016, respectively. Rent expense is more than offset by housing revenue received from students living in these units. The university has a commitment of $802,250 for minimum future rental payments at May 31, 2017.

Several of the aforementioned leases contain renewal options for varying periods of time.

**(4) Employment Related Commitments**

Elon University has entered into employment related agreements with certain employees which obligate the university to potential future payments. At May 31, 2017, the maximum potential future payments under these agreements are $13,233,912.

**(5) Contingencies**

The university is involved in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these legal actions will not have a material effect on the university's consolidated financial position.

## NOTE Z: Subsequent Events

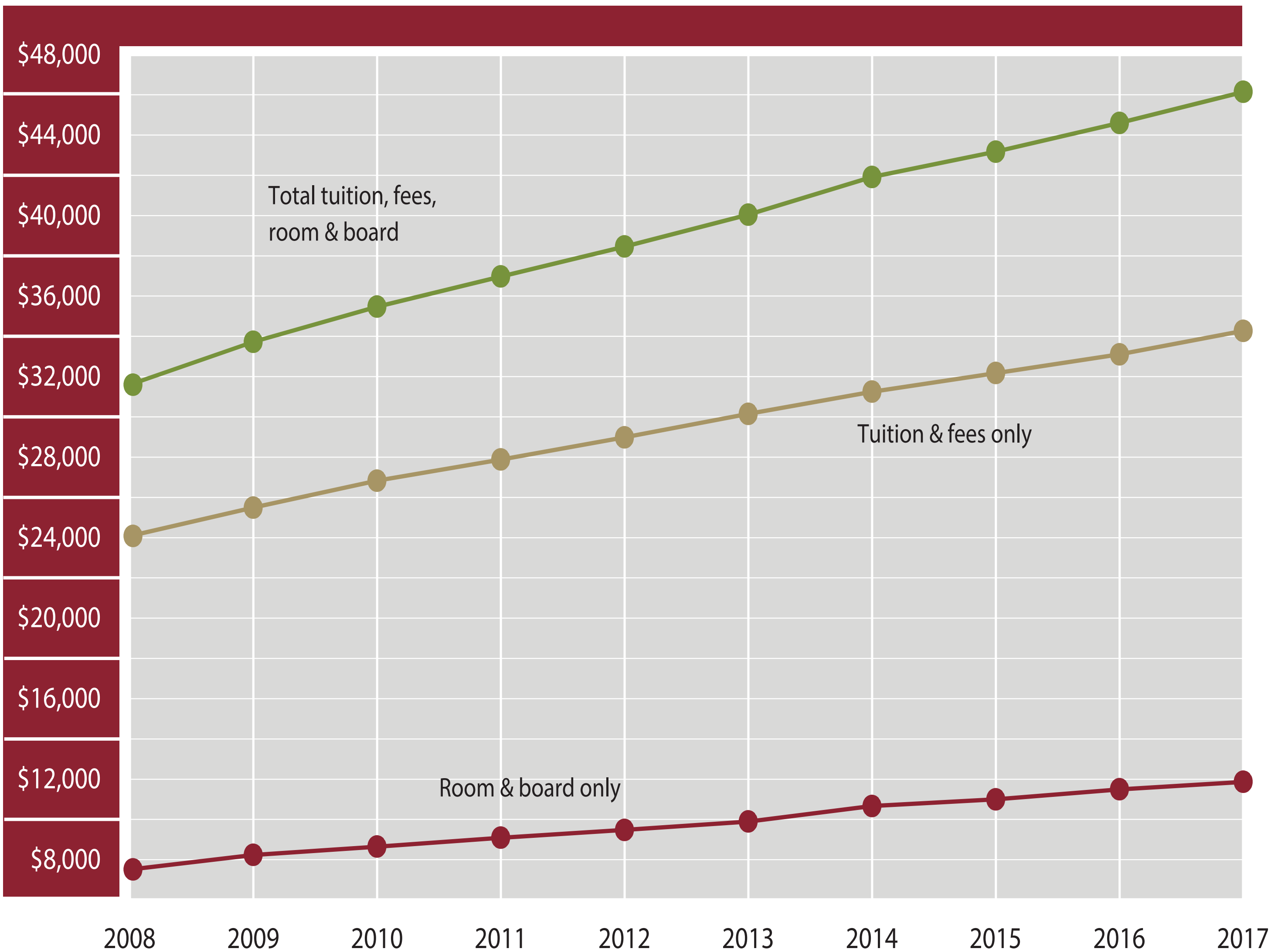
Subsequent events related to the consolidated financial statements have been evaluated through September 15, 2017, the date the consolidated financial statements were issued, and it has been determined that there are no events that require adjustment to, or disclosure in, these financial statements.

# ADDITIONAL INFORMATION PROVIDED BY ELON UNIVERSITY

# TUITION AND FEES, ROOM AND BOARD 2008-2017

This graph shows the increase in tuition and fees, and room/board rates over a 10-year period.

| FALL | TUITION | FEES | ROOM | BOARD | TOTAL |
|---|---|---|---|---|---|
| 2008 | $23,746 | $330 | $3,766 | $3,747 | $31,589 |
| 2009 | $25,159 | $330 | $3,992 | $4,244 | $33,725 |
| 2010 | $26,480 | $347 | $4,192 | $4,456 | $35,475 |
| 2011 | $27,534 | $347 | $4,440 | $4,650 | $36,971 |
| 2012 | $28,633 | $347 | $4,690 | $4,790 | $38,460 |
| 2013 | $29,750 | $399 | $4,953 | $4,944 | $40,046 |
| 2014 | $30,848 | $399 | $5,231 | $5,436 | $41,914 |
| 2015 | $31,773 | $399 | $5,399 | $5,599 | $43,170 |
| 2016 | $32,685 | $419 | $5,728 | $5,767 | $44,599 |
| 2017 | $33,829 | $444 | $5,900 | $5,969 | $46,142 |

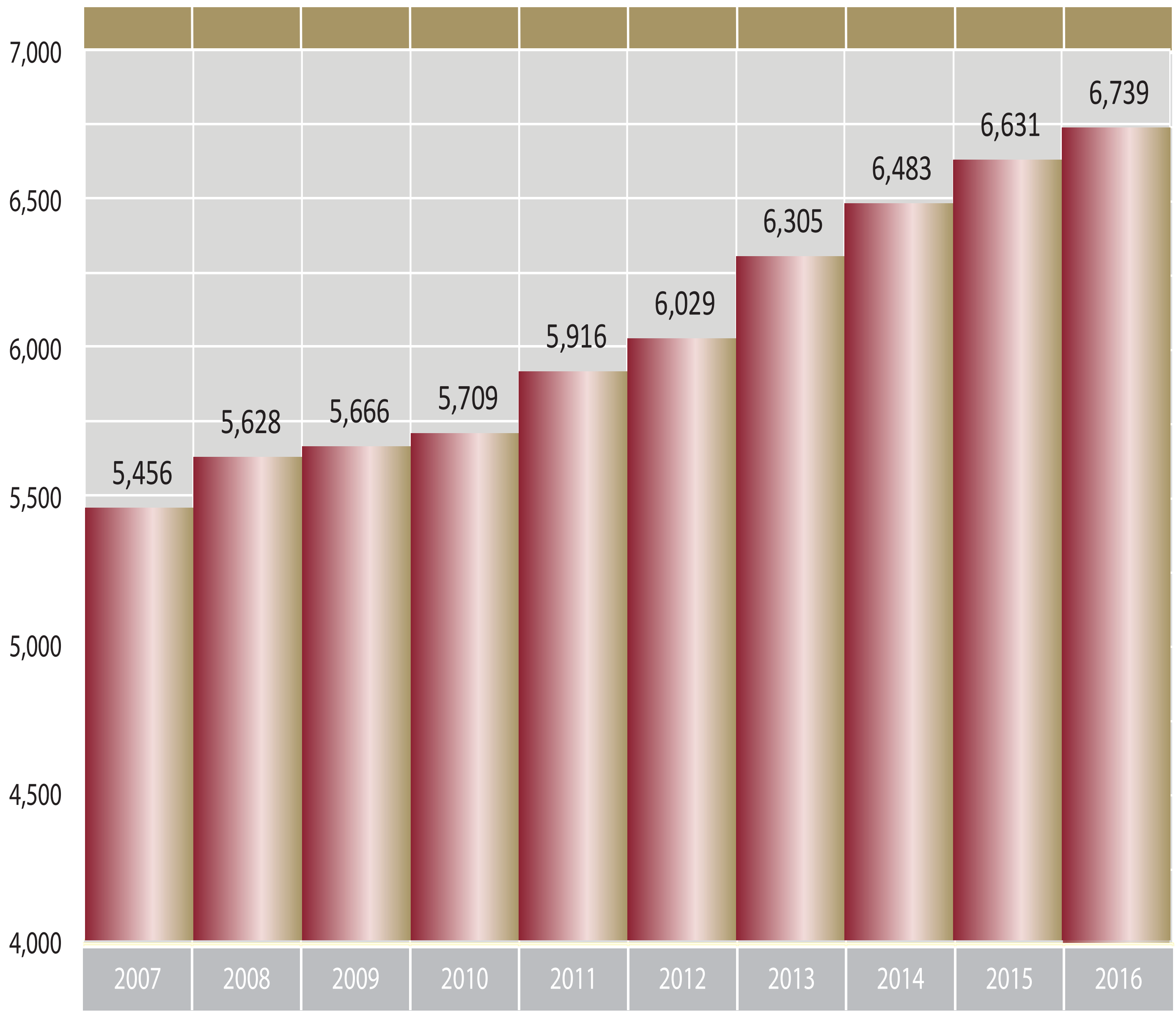



This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 4.

# STUDENT ENROLLMENT
## 2007-2016

This graph shows a 10-year trend of total enrollment on a head-count basis. Enrollment has grown because of larger first-year classes, continuing improved retention, and the addition of new graduate programs.

| YEAR | UNDERGRADUATE | GRADUATE | TOTAL |
|---|---|---|---|
| 2007 | 4,939 | 517 | 5,456 |
| 2008 | 4,992 | 636 | 5,628 |
| 2009 | 4,995 | 671 | 5,666 |
| 2010 | 5,032 | 677 | 5,709 |
| 2011 | 5,225 | 691 | 5,916 |
| 2012 | 5,357 | 672 | 6,029 |
| 2013 | 5,599 | 706 | 6,305 |
| 2014 | 5,782 | 701 | 6,483 |
| 2015 | 5,903 | 728 | 6,631 |
| 2016 | 6,008 | 731 | 6,739 |

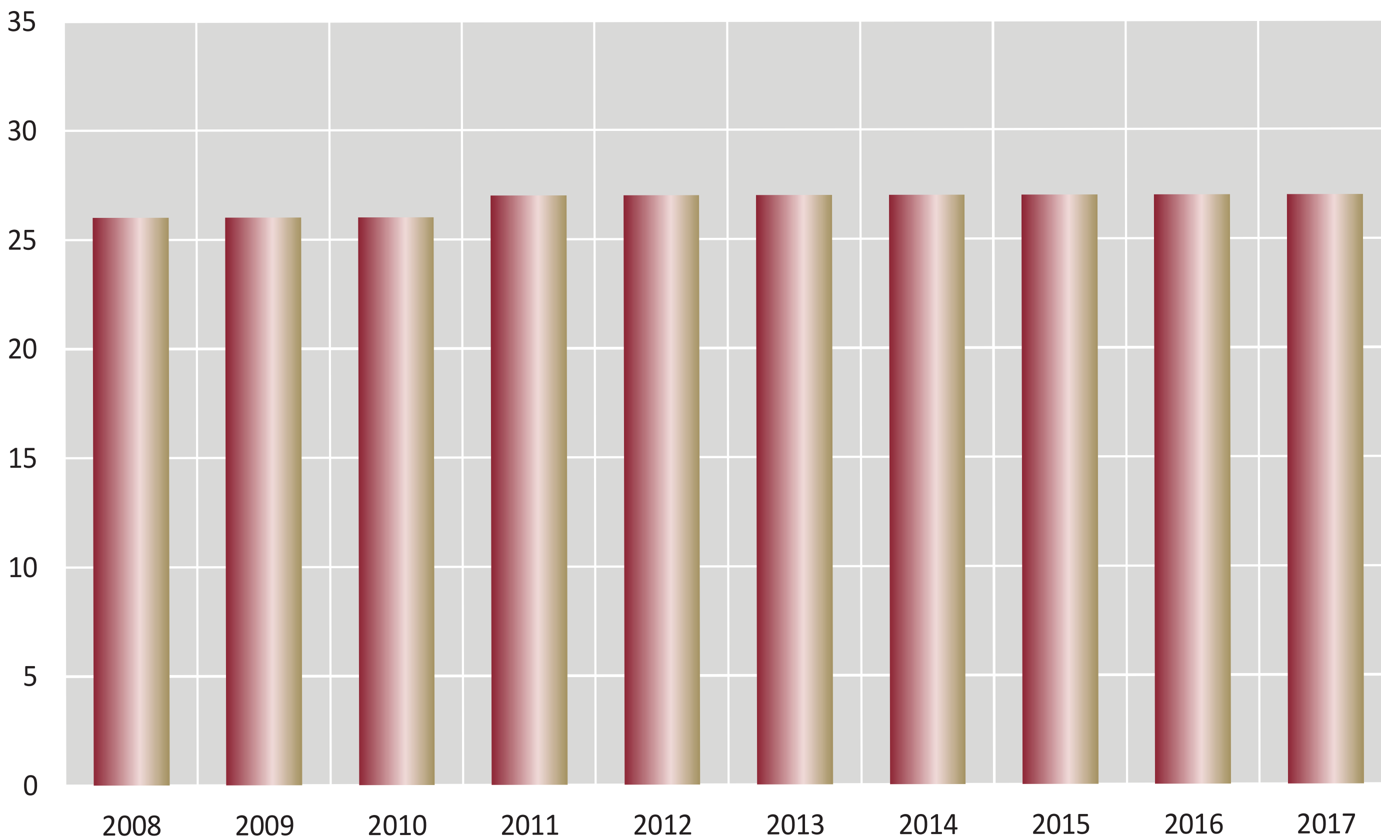



This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 4.

# STUDENT SELECTIVITY
## 2008-2017

Measures of student quality have remained consistently high over the last 10 years. The average ACT score is 27.

| YEAR | APPLICATIONS | ACT SCORES |
|---|---|---|
| 2008 | 9,434 | 26 |
| 2009 | 9,041 | 26 |
| 2010 | 9,771 | 26 |
| 2011 | 9,079 | 27 |
| 2012 | 10,241 | 27 |
| 2013 | 9,949 | 27 |
| 2014 | 10,442 | 27 |
| 2015 | 10,257 | 27 |
| 2016 | 10,095 | 27 |
| 2017 | 9,622 | 27 |



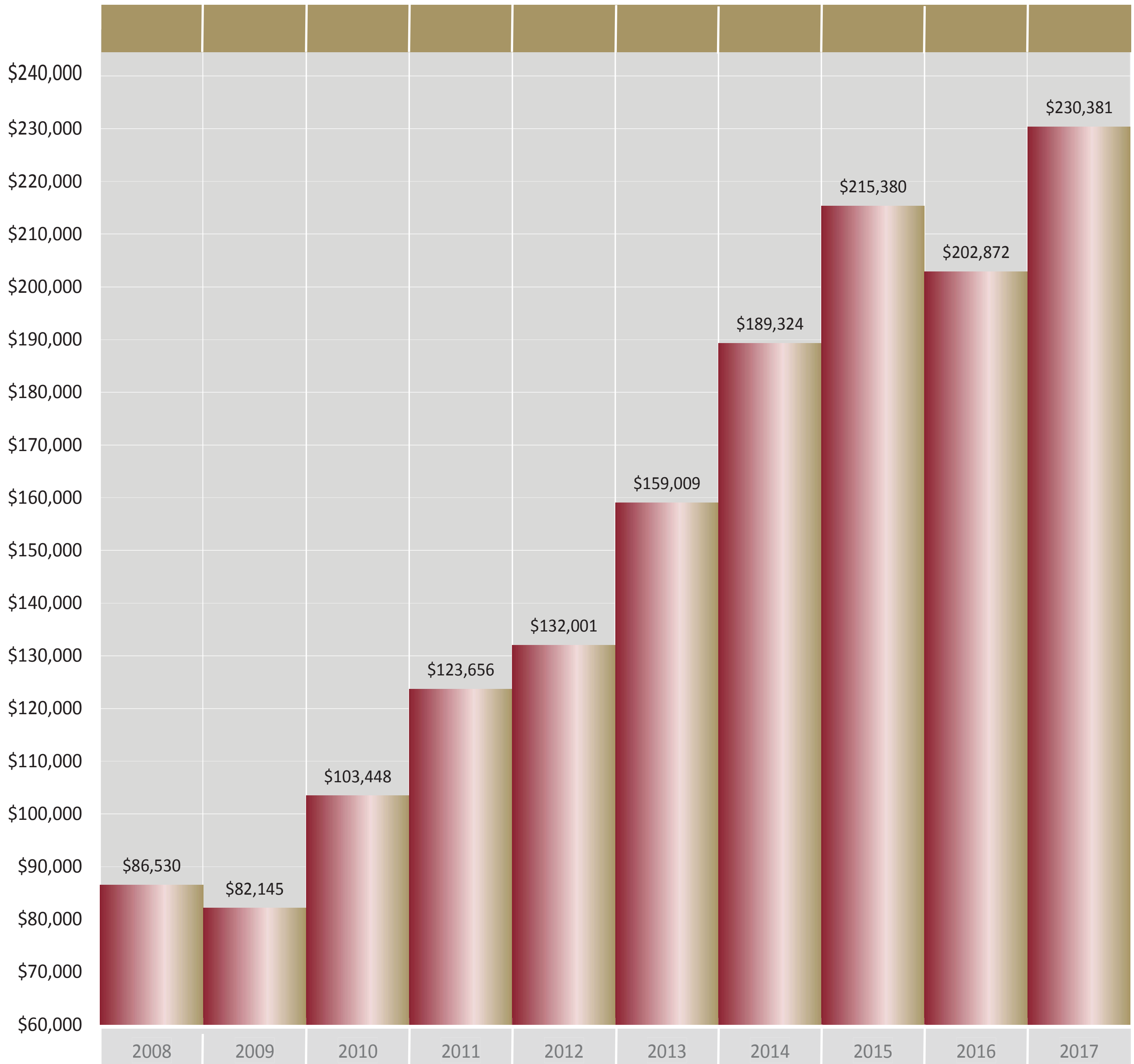

*Maximum ACT score is 36.

This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 4.

# ENDOWMENT MARKET VALUE (000)

## 2008-2017

The overall trend of the endowment market value has been positive over the past 10 years, experiencing a growth of over $140 million in the 10 year span.

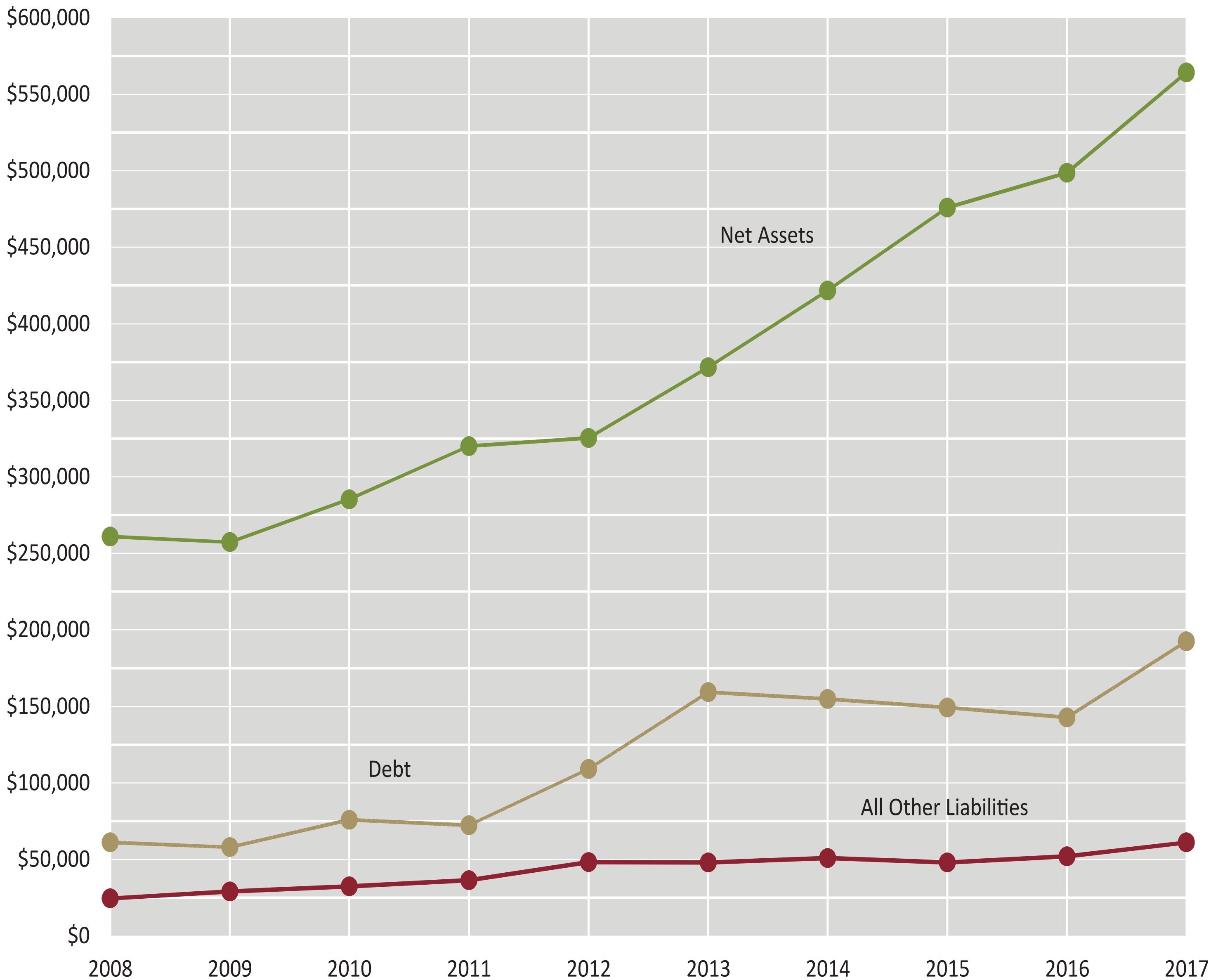



This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 4.

# NET ASSETS AND LIABILITIES (000)
## 2008-2017

The University has experienced a positive overall trend in net assets over the past 10 years which has allowed for the expansion of campus facilities and programs.

| YEAR | NET ASSETS | DEBT | ALL OTHER LIABILITIES |
|---|---|---|---|
| 2008 | $260,879 | $61,090 | $24,499 |
| 2009 | $257,314 | $57,940 | $28,952 |
| 2010 | $285,253 | $75,785 | $32,342 |
| 2011 | $320,022 | $72,355 | $36,506 |
| 2012 | $325,321 | $109,105 | $48,320 |
| 2013 | $371,602 | $159,395 | $48,058 |
| 2014 | $421,701 | $154,905 | $50,979 |
| 2015 | $475,971 | $149,185 | $48,012 |
| 2016 | $498,689 | $142,723 | $51,999 |
| 2017 | $564,219 | $192,600 | $61,102 |




This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 4.

ELON
UNIVERSITY

FINANCIAL & AUDIT REPORT

MAY 31, 2017 & 2016