



Financial & Audit Report

May 31, 2023 & 2022

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ELON UNIVERSITY
FINANCIAL OVERVIEW 2022-2023

We are pleased to share 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.

<https://www.elon.edu/u/fa/financial-reports-audits/>

Elon University was recognized as a top National University in the 2024 U.S. News & World Report "Best Colleges" guide. Elon ranked #133 overall among national universities and ranked #1 for excellence in undergraduate teaching and #1 in experiences for first-year students.

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. For the seventh straight year, Elon is the leader in U.S. News & World Report's "Focus on Student Success" feature – the only college or university in the nation ranked in the top 20 in all eight categories of high-impact academic programs. These programs include study abroad, internships, service learning, undergraduate research, learning communities, writing, first-year experiences and senior capstone experiences.

Elon has consistently earned recognition as the nation's best-run college from Princeton Review, with top rankings in recent years for its career services and study abroad programs, campus learning environment and residential facilities. This year Princeton Review also ranked Elon one of the nation's best-value colleges, based on an analysis of academics, affordability, and career outcomes of graduates. Elon was ranked #9 among private institutions for internships and the editors wrote that Elon has "one of the best employment rates for college graduates."

Elon is now in the third year of its decade-long Boldly Elon strategic plan, with strong progress on achieving goals across the university. Faculty are leading the development of many new academic programs, meeting the needs of students and employers in such areas as FinTech, mechanical engineering, data science, food science and other areas. Elon's undergraduate nursing programs, which launched in fall 2021 will have about 160 majors this fall. The programs are part of the School of Health Sciences, headquartered in the Gerald L. Francis Center, which is currently being renovated and expanded with sophisticated lab spaces, augmented and virtual reality technology tools, classrooms, and other resources.

Elon faculty have formed a working group to create policies and protocols and respond to the powerful artificial intelligence systems that are creating many new opportunities and concerns throughout society. Meantime, Elon is pursuing its goal of ensuring that every graduate achieves competency in the core data skills necessary to succeed professionally and personally. Elon's graduate education programs continue to expand, led by strong enrollment numbers this fall in Elon University School of Law and master's programs in business analytics and education.

The Boldly Elon goal to establish a nationally distinctive mentoring program includes six pilot projects this fall, helping students build crucial relationships with Elon faculty and staff, as well as peers and external mentors. Meantime, there are many new initiatives under way in the second year of the drive to enhance campus health and wellbeing. Programs are expanding as part of the HealthEU campaign, and design and fundraising is progressing for a new comprehensive facility that is proposed for the new Innovation Quad. This year also includes several goals and new investments related to employee wellness.

Other Boldly Elon initiatives are expanding the university's presence in new national markets. This fall, Elon opens a new regional center in Charlotte, North Carolina, joining long-time regional centers in Los Angeles and New York City. Permanent facilities in these locations enable Elon to support Study USA academic programs, new majors and certificate programs, and events and activities for admissions recruitment, alumni and parent engagement, and employer relations and professional networking. The Charlotte Regional Center will be a strategic asset for both undergraduate and graduate programs and will establish Elon in one of the nation's most dynamic and fastest growing metropolitan areas.

ELON UNIVERSITY
FINANCIAL OVERVIEW 2022-2023

The past year marked a milestone in philanthropy with the successful conclusion of the Elon LEADS Campaign on Dec. 31, 2022. The campaign surpassed its goal, raising a record \$260 million from 34,000 donors. Through gifts to the university during Elon LEADS, donors created 287 new endowed scholarships, 60 new engaged learning scholarship funds, three new endowed professorships and funded construction of eight new major campus facilities.

Elon student-athletes excelled both athletically and academically last school year. Four teams won CAA championships and 13 teams finished in the top four of the CAA league standings. Sixty-eight student-athletes earned CAA All-Conference honors, ten were named to All-Rookie teams, and two student-athletes were recognized as All-Americans. Elon tied for league-high honors as four individuals were recognized as CAA Leadership and Sport Excellence Award Winners and three teams were named CAA Academic Excellence award winners.

There are many new enhancements under way to Elon's campus, which is consistently ranked as one of the nation's finest environments for learning. The East Neighborhood residential neighborhood is being expanded with a new three-story residence hall and commons building. Across campus, innovation is flourishing at Loy Farm, where 12 sustainable small houses are being designed and built. The first house will be designed and constructed by faculty and students in the environmental studies program. The next eleven houses will be built with several designers and contractors. Near The Inn at Elon, the university's new on-campus hotel on North O'Kelly Avenue, a new gateway to campus is being completed, featuring a welcome sign and a signature tower.

All major financial indicators moved in a favorable direction this past year, which is detailed in the following pages. Highlights include an increase in net assets of \$31.5 million and an ending endowment value of \$322 million as of May 31, 2023

Connie Ledoux Book
President

Janet Williams
Vice President for Finance and Administration and Chief Financial Officer

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, 2023 and 2022, 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.

Connie Ledoux Book
President

Janet Williams
Vice President for Finance and Administration and Chief Financial Officer

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Elon University

Opinion

We have audited the consolidated financial statements of Elon University (a nonprofit North Carolina Organization) (and subsidiaries) (the "University"), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of May 31, 2023 and 2022, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Other information

Management is responsible for the other information included in the annual report. The other information comprises The Financial Overview 2022-2023, Management Statement of Responsibility and accompanying graphs of tuition and fees, room and board 2015-2024, student enrollment 2014-2023, student selectivity 2015-2024, endowment market value 2014-2023, and net assets and liabilities 2014-2023, but does not include the consolidated financial statements and our auditor's report thereon. Our opinions on the consolidated financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on work performed, we conclude that an uncorrected misstatement of the other information exists, we are required to describe it in our report.

Grant Thornton LLP

Boston, Massachusetts
September 21, 2023

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ELON UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2023 and 2022

| | 2023 | 2022 |
|--|-------------------------|-------------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 52,971,768 | \$ 48,676,833 |
| Accounts receivable, net | 4,238,296 | 4,912,344 |
| Prepaid expenses and other assets | 3,034,308 | 3,337,987 |
| Deposits with bond trustee | 6,920,213 | 22,954,570 |
| Contributions receivable, net | 628,991 | 1,082,897 |
| Investments | 512,115,782 | 490,933,536 |
| Loans to students, net | 1,145,787 | 1,345,326 |
| Construction in progress | 10,023,967 | 46,892,782 |
| Property and equipment, net | 488,093,098 | 441,360,671 |
| Right of use assets under operating leases | 5,435,119 | 8,002,971 |
| Right of use assets under finance leases | 7,624,293 | 8,233,335 |
| | <u>\$ 1,092,231,622</u> | <u>\$ 1,077,733,252</u> |
| LIABILITIES: | | |
| Accounts payable | \$ 5,670,333 | \$ 9,871,369 |
| Accrued liabilities | 18,859,720 | 18,099,493 |
| Student deposits | 6,323,237 | 6,223,402 |
| Deferred revenue | 5,909,582 | 4,701,540 |
| Other liabilities | 15,957,789 | 17,605,211 |
| Operating lease liabilities | 5,665,226 | 8,198,761 |
| Finance lease liabilities | 9,992,665 | 10,294,047 |
| Bonds payable, net | 184,798,750 | 194,472,311 |
| Obligation under interest rate swap agreements | 385,717 | 787,967 |
| U.S. government advances for student loans | 994,712 | 1,334,812 |
| | <u>254,557,731</u> | <u>271,588,913</u> |
| NET ASSETS: | | |
| Without donor restrictions | | |
| Undesignated | 488,725,722 | 449,142,377 |
| Designated by the Board for endowment | 125,681,063 | 120,863,461 |
| With donor restrictions | 223,267,106 | 236,138,501 |
| | <u>837,673,891</u> | <u>806,144,339</u> |
| Total Net Assets | <u>\$ 1,092,231,622</u> | <u>\$ 1,077,733,252</u> |

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

ELON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| CHANGES IN NET ASSETS: | | | |
| Revenues and gains: | | | |
| Student revenues, net | \$ 277,420,728 | \$ - | \$ 277,420,728 |
| Sales and service of auxiliary enterprises | 2,567,589 | - | 2,567,589 |
| Federal grants | 1,990,009 | - | 1,990,009 |
| State grants | 2,247,893 | - | 2,247,893 |
| Other grants | 1,210,904 | - | 1,210,904 |
| Contributions : cash and other financial assets | 2,346,366 | 11,310,099 | 13,656,465 |
| Contributions : nonfinancial assets | 24,980 | 11,613 | 36,593 |
| Investment return | 6,195,101 | 2,077,645 | 8,272,746 |
| Gain on disposal of property and equipment | 156,192 | - | 156,192 |
| Athletics | 3,802,212 | 335,601 | 4,137,813 |
| Other sources | 3,597,296 | 1,250,811 | 4,848,107 |
| Total Revenues and gains | 301,559,270 | 14,985,769 | 316,545,039 |
| Net Assets Released From Restrictions | 27,857,164 | (27,857,164) | - |
| Total Revenues and gains and other support | 329,416,434 | (12,871,395) | 316,545,039 |
| Expenses: | | | |
| Instruction | 130,570,435 | - | 130,570,435 |
| Student services | 52,944,403 | - | 52,944,403 |
| Auxiliary enterprises | 46,193,228 | - | 46,193,228 |
| Academic support | 9,306,502 | - | 9,306,502 |
| Institutional support | 46,403,168 | - | 46,403,168 |
| Total Expenses | 285,417,736 | - | 285,417,736 |
| Increase (Decrease) in Net Assets before change in value of interest rate swap agreements | 43,998,698 | (12,871,395) | 31,127,303 |
| Change in value of interest rate swap agreements | 402,249 | - | 402,249 |
| Increase (Decrease) in Net Assets | 44,400,947 | (12,871,395) | 31,529,552 |
| Net Assets - Beginning of Year | 570,005,838 | 236,138,501 | 806,144,339 |
| Net Assets - End of Year | \$ 614,406,785 | \$ 223,267,106 | \$ 837,673,891 |

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

ELON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| CHANGES IN NET ASSETS: | | | |
| Revenues and gains: | | | |
| Student revenues, net | \$ 259,655,237 | \$ - | \$ 259,655,237 |
| Sales and service of auxiliary enterprises | 2,989,619 | - | 2,989,619 |
| Federal grants | 9,634,457 | - | 9,634,457 |
| State grants | 2,229,675 | - | 2,229,675 |
| Other grants | 865,854 | - | 865,854 |
| Contributions : cash and other financial assets | 2,443,993 | 16,741,712 | 19,185,705 |
| Contributions : nonfinancial assets | 849,078 | 121,029 | 970,107 |
| Investment return | (2,345,495) | (11,608,839) | (13,954,334) |
| Loss on disposal of property and equipment | (11,312) | - | (11,312) |
| Athletics | 3,974,175 | 309,940 | 4,284,115 |
| Other sources | 2,673,197 | 193,974 | 2,867,171 |
| Total Revenues and gains | 282,958,478 | 5,757,816 | 288,716,294 |
| Net Assets Released From Restrictions | 12,166,170 | (12,166,170) | - |
| Total Revenues and gains and other support | 295,124,648 | (6,408,354) | 288,716,294 |
| Expenses: | | | |
| Instruction | 116,426,629 | - | 116,426,629 |
| Student services | 50,285,385 | - | 50,285,385 |
| Auxiliary enterprises | 39,183,578 | - | 39,183,578 |
| Academic support | 8,367,969 | - | 8,367,969 |
| Institutional support | 43,442,057 | - | 43,442,057 |
| Total Expenses | 257,705,618 | - | 257,705,618 |
| Increase (Decrease) in Net Assets before change in value of interest rate swap agreements | 37,419,030 | (6,408,354) | 31,010,676 |
| Change in value of interest rate swap agreements | 1,092,571 | - | 1,092,571 |
| Increase (Decrease) in Net Assets | 38,511,601 | (6,408,354) | 32,103,247 |
| Net Assets - Beginning of Year | 531,494,237 | 242,546,855 | 774,041,092 |
| Net Assets - End of Year | \$ 570,005,838 | \$ 236,138,501 | \$ 806,144,339 |

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

ELON UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
May 31, 2023 and 2022

| | 2023 | 2022 |
|--|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in Net Assets | \$ 31,529,552 | \$ 32,103,247 |
| Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 14,652,793 | 13,753,087 |
| Amortization of financing right-of-use assets | 1,146,081 | 1,154,288 |
| Amortization of finance lease liability | 34,541 | 197,833 |
| Amortization of operating leases | 34,317 | 195,790 |
| Change in fair value at interest rate swap agreements | (402,250) | (1,092,571) |
| Amortization of bond issue costs | 56,457 | 77,017 |
| Contributions of assets - other | (558,829) | (1,294,834) |
| Contributions restricted to capital projects | (90,664) | (3,506,837) |
| Contributions of assets - endowment | (295,428) | (821,622) |
| Contributions restricted to endowment | (4,463,948) | (6,687,278) |
| (Gain) Loss on investments | (4,836,582) | 15,729,165 |
| (Gain) Loss on disposal of property and equipment | (156,192) | 11,312 |
| (Recovery) Provision for bad debt | (972,931) | 1,807,395 |
| (Increase) decrease in: | | |
| Accounts receivable | 674,048 | 1,636,754 |
| Prepaid expenses and other assets | 303,679 | 885,825 |
| Contributions receivable | 1,426,837 | 419,200 |
| Loans to students | 199,539 | 326,615 |
| Increase (decrease) in: | | |
| Accounts payable | (4,201,036) | 3,667,840 |
| Accrued liabilities | 722,194 | (1,513,267) |
| Student deposits | 99,835 | (329,443) |
| Deferred revenue | 1,208,042 | (3,613,119) |
| Other liabilities | (1,647,422) | (1,465,617) |
| U.S. government advances for student loans | (340,100) | (488,447) |
| Net cash provided by operating activities | 34,122,533 | 51,152,333 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | 37,828,525 | 47,629,128 |
| Purchases of investments | (53,615,360) | (76,103,622) |
| Proceeds from disposal of property and equipment | 15,386 | 33,581 |
| Purchases of property and equipment | (24,337,566) | (43,382,900) |
| Decrease in deposits with bond trustee | 16,034,357 | 24,845,700 |
| Net cash used by investing activities | (24,074,658) | (46,978,113) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on bonds | (9,688,000) | (11,498,000) |
| Payments on finance lease obligations | (872,962) | (915,349) |
| Payments for bond issue costs | (42,018) | - |
| Contributions restricted to capital projects | 90,664 | 3,506,837 |
| Contributions restricted to endowment | 4,759,376 | 7,508,900 |
| Net cash (used) provided by financing activities | (5,752,940) | (1,397,612) |
| Net increase in cash and cash equivalents | 4,294,935 | 2,776,608 |
| Cash and cash equivalents, Beginning of year | 48,676,833 | 45,900,225 |
| Cash and cash equivalents, End of year | \$ 52,971,768 | \$ 48,676,833 |

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

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2023 and 2022

NOTE 1: Summary of Significant Accounting Policies

(a) Organization

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

(b) 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.

(c) 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.

(d) 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).

In 2022, the university adopted ASU 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The university adopted ASU 2020-07 retrospectively for all periods presented. This ASU increases transparency about contributed nonfinancial assets through enhancements to presentation and disclosure.

In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848) which extends the period of time financial statement preparers can utilize the reference rate reform guidance set forth in ASU 2020-4. ASU 2020-4 contains practical expedients for reference rate reform related activities that impact debt, leases, derivatives and other contracts. During 2023, the university amended all variable rate debt agreements to the Secured Overnight Financing Rate (SOFR) ahead of the sundown for the London Interbank Offered Rate (LIBOR) on June 30, 2023. The financial impact of the change in rates from LIBOR to SOFR is not material.

(e) 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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. All revenues, gains, and losses that are not restricted by donors are included in this classification. Net Assets Without Donor Restrictions may be designated for specific purposes by actions of the Board of Trustees.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations as follows: stipulations that will be met either by actions of the university and/or the passage of time, including 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) and donor imposed stipulations on net assets 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.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2023 and 2022

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless use is restricted by donor stipulations or by law. Expirations of donor-imposed stipulations that 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).

(f) Cash and Cash Equivalents

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.

(g) 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 not 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 gross amount included in accounts receivable at May 31, 2023 and 2022 past due 180 days is \$351,275 and \$395,316, respectively. 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 \$107,945 and \$124,375 at May 31, 2023 and 2022, respectively.

(h) Deposits with Bond Trustee

In 2023 and 2022, deposits with bond trustee consisted of unexpended proceeds from the 2021 bond issue. These funds were invested in short-term, highly liquid securities and were used for construction of certain facilities.

(i) 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 an 8.25% and 4.0% discount rate at May 31, 2023 and 2022, respectfully.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2023 and 2022

(j) 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 (NAV) as provided by the investees and in accordance with GAAP. Gains or losses on investments 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, donated to the university, or when constructed and are periodically subject to external appraisals. The university's investment in The Inn at Elon is revalued each year and adjusted to fair market value, which is measured based on operations, projected revenue, expected occupancy and other operating entity metrics.

(k) Endowment Funds

The university's endowment includes both board designated and donor designated funds. The board or donor stipulation that a gift be invested in perpetuity or for a specified term creates an endowment fund. Net appreciation on endowment funds is generally classified in the consolidated financial statements as part of net assets with donor restrictions (for donor designated funds) or net assets without donor restrictions (for board designated funds) until spent or deemed spent through the spending policy. 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. 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% for scholarships and 4.5% for all other endowments as of May 31, 2023 and 2022. See Note 6 for further information.

(l) Loans to Students

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

(m) Bond Issue Costs

Bond issue costs have been capitalized and are amortized over the life of the underlying bonds using the straight-line method, which is not materially different than the effective interest method.

(n) Interest Rate Derivative Agreements

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(o) 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 with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 50 years.

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. In the event a collection item is sold, the proceeds from the sale will be used to acquire new collection items or for the care of the existing collection.

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

(p) Leases

At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the university's incremental borrowing rate. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the university will exercise that option.

(q) Revenue Recognition

Contract Balances

Receivables from student tuition and fees, student housing and food plans are included in accounts receivable on the Consolidated Statement of Financial Position. Payment for all classes is due before registration day of each semester. Students are not allowed to register until payment has been made and the university does not extend credit plans to its students in the general course of business. These gross balances were \$1,320,888 and \$1,086,480 at May 31, 2023 and 2022, respectively. At May 31, student receivable credit balances that relate to future services which will be provided during the summer and fall semesters are reclassified to student deposits in the liability section of the Consolidated Statement of Financial Position.

Sales tax collected on food plans is excluded from net revenues. Collected but unremitted sales tax is included in other liabilities in the Consolidated Statement of Financial Position.

Disaggregation of Revenue

Disaggregated revenue from student tuition and fees, student housing and food plans is disclosed in Note 17. These categories reflect the nature, amount, and timing of these sources of revenue.

Performance Obligations

The university has identified one performance obligation for each revenue stream associated with the provision of educational instruction and other educational services, housing and food plan services. Students simultaneously receive and consume all the benefits provided by the university's performance as the institution provides instruction, housing and food service to the students throughout the academic period. The university recognizes tuition, housing and food plan revenues over the academic semester to which the services relate.

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Student revenue, net

Student revenue includes tuition and fees, student housing and food plans.

Tuition for the fall and spring semesters is recognized in the academic semester to which it relates. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw receive refunds on a pro-rata basis through a specified week of the semester (this may vary based on undergraduate and graduate programs). Historically, the majority of refunds occur in the first weeks of the semester and are not material to total revenue. Refunds issued reduce the amount of revenue recognized.

Revenues relating to summer session activities completed prior to fiscal year end are recognized in the current fiscal year.

Revenues for student housing and food plans (food and housing) are recognized over the period in which the services are provided. Food and housing refunds are issued on a weekly pro-rata basis. Historically food and housing refunds occur at the beginning of the semester and are not material to total revenue.

Deferred Revenue

At May 31, tuition revenue which relates to future performance (summer and fall) is reclassified to the deferred revenue line in the Consolidated Statement of Financial Position.

(r) 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 net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

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 net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(s) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(t) Reclassification

Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current year. These reclassifications have no effect on previously reported net income, total assets, total liabilities or total net assets.

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NOTE 2: Liquidity and Availability

As of May 31, financial assets and liquidity resources available within one year for operating expenses, scheduled principal and interest payments on debt and capital construction costs not financed with debt were as follows:

| | 2023 | 2022 |
|---|------------------|------------------|
| Total assets at year-end: | \$ 1,092,231,622 | \$ 1,077,733,252 |
| Less amounts not available to be used for general expenditures within one year: | | |
| Non-financial assets | (530,770,459) | (525,292,496) |
| Endowments subject to donor restrictions | (192,736,877) | (193,287,458) |
| Net assets subject to purpose restrictions | (54,065,503) | (71,014,157) |
| Assets restricted for the Perkins loan program | (1,070,394) | (1,417,789) |
| Total financial assets available to meet general expenditures over next 12 months | \$ 313,588,389 | \$ 286,721,352 |
| | | |
| Financial assets available to meet general expenditures over the next 12 months consist of the following: | | |
| Cash and cash equivalents | \$ 47,950,621 | \$ 44,676,089 |
| Accounts receivable, net | 4,238,296 | 4,912,344 |
| Investments not encumbered by donor restrictions | 261,399,472 | 237,132,919 |
| Financial assets available to meet general expenditures over the next 12 months | \$ 313,588,389 | \$ 286,721,352 |

The university's cash flows have seasonal variations during the year attributable to tuition billing and annual bond principal payments. In addition to financial assets available to meet general expenditures over the next 12 months, the university operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The university regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds. As part of this practice, the university invests cash in excess of daily requirements in short-term investments and money market funds with varying liquidities. The university has board-designated endowment investments that are available to be liquidated. Although the university does not intend to spend from the board-designated endowment funds, other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts from the board-designated endowment funds could be made available at the board's discretion.

Cash and cash equivalents presented in the table above differ from the statement of position by the balance restricted to be used for other purposes. Total cash restricted for Perkins is \$305,756 and \$392,289 for the years ended May 31, 2023 and 2022. Total cash restricted for capital projects is \$1,830,617 and \$1,037,528 for the years ended May 31, 2023 and 2022. Total cash restricted for donor endowment is \$2,884,774 and \$2,570,927 for the years ended May 31, 2023 and 2022.

To help manage liquidity, the university secured a one-year line of credit for \$25 million in October 2022. As of May 31, 2023, there were no outstanding amounts under this line of credit.

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NOTE 3: 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, 2023 and 2022. 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. The university's investment in the Inn at Elon is revalued each year and adjusted to fair market value as noted in Note 1. Other real estate investments are revalued periodically and adjusted to fair market value.

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At May 31, 2023, fair value of financial assets and financial liabilities is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------------|----------------------|----------------------|-----------------------|
| Investments: | | | | |
| Cash & cash equivalents | \$ 24,542,375 | \$ - | \$ - | \$ 24,542,375 |
| Equities | 11,117,531 | - | - | 11,117,531 |
| Asset backed | - | 19,132,344 | - | 19,132,344 |
| Government and corporate bonds | 129,231,528 | - | - | 129,231,528 |
| Real estate | - | - | 31,012,014 | 31,012,014 |
| Other | 603,506 | - | - | 603,506 |
| Alternative Investments (valued at NAV) | - | - | - | 292,224,389 |
| Outside perpetual trusts | - | - | 4,252,095 | 4,252,095 |
| Financial Assets | <u>\$ 165,494,940</u> | <u>\$ 19,132,344</u> | <u>\$ 35,264,109</u> | <u>\$ 512,115,782</u> |
| Split-interest agreements (accrued liabilities) | \$ - | \$ 638,768 | \$ - | 638,768 |
| Refundable advances (CRUTs) (other liabilities) | - | 3,131,171 | - | 3,131,171 |
| Obligation under interest rate swap agreements | - | 385,717 | - | 385,717 |
| Financial Liabilities | <u>\$ -</u> | <u>\$ 4,155,656</u> | <u>\$ -</u> | <u>\$ 4,155,656</u> |

At May 31, 2022, fair value of financial assets and financial liabilities is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------------|----------------------|----------------------|-----------------------|
| Investments: | | | | |
| Cash & cash equivalents | \$ 40,208,681 | \$ - | \$ - | \$ 40,208,681 |
| Equities | 11,475,517 | - | - | 11,475,517 |
| Asset backed | - | 26,266,159 | - | 26,266,159 |
| Government and corporate bonds | 88,858,033 | - | - | 88,858,033 |
| Real estate | - | - | 31,412,014 | 31,412,014 |
| Other | 589,481 | - | - | 589,481 |
| Alternative Investments (valued at NAV) | - | - | - | 287,445,585 |
| Outside perpetual trusts | - | - | 4,678,066 | 4,678,066 |
| Financial Assets | <u>\$ 141,131,712</u> | <u>\$ 26,266,159</u> | <u>\$ 36,090,080</u> | <u>\$ 490,933,536</u> |
| Split-interest agreements (accrued liabilities) | \$ - | \$ 694,580 | \$ - | 694,580 |
| Refundable advances (CRUTs) (other liabilities) | - | 3,269,825 | - | 3,269,825 |
| Obligation under interest rate swap agreements | - | 787,967 | - | 787,967 |
| Financial Liabilities | <u>\$ -</u> | <u>\$ 4,752,372</u> | <u>\$ -</u> | <u>\$ 4,752,372</u> |

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

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 obligator (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. The university’s investment in the Inn at Elon is revalued each year and adjusted to fair market value. For other investments, predominately “alternative investments”, valuation is based on information supplied by external investment managers. 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 Statement 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.

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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.

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NOTE 4: Contributions Receivable

The payment timing of outstanding contributions receivable at May 31, 2023, is estimated to be:

| | With Donor Restrictions |
|----------------|----------------------------|
| One Year | \$ 919,223 |
| 2 - 4 Years | 453,000 |
| | 1,372,223 |
| Less allowance | (116,462) |
| Less discount | (626,770) |
| Total | \$ 628,991 |

The payment timing of outstanding contributions receivable at May 31, 2022, is estimated to be:

| | With Donor Restrictions |
|----------------|----------------------------|
| One year | \$ 2,657,059 |
| 2 - 4 Years | 1,046,000 |
| | 3,703,059 |
| Less allowance | (1,702,303) |
| Less discount | (917,859) |
| Total | \$ 1,082,897 |

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 \$900,000 and \$2,750,000 at May 31, 2023 and 2022, respectively.

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NOTE 5: Investments

Major categories of investments at May 31 are as follows:

| | 2023 | | 2022 | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | Cost | Market | Cost | Market |
| <u>Non-endowment funds:</u> | | | | |
| Money market funds | \$ 21,312,028 | \$ 21,312,028 | \$ 35,150,270 | \$ 35,150,270 |
| Certificates of deposit | - | - | 2,104,286 | 2,104,286 |
| Equities | 4,637,348 | 5,191,358 | 4,274,006 | 5,175,212 |
| Fixed income | 146,743,275 | 146,054,493 | 115,894,827 | 113,047,812 |
| Real estate | 15,882,013 | 16,282,013 | 15,632,013 | 16,474,013 |
| Other | 553,763 | 553,763 | 537,307 | 537,307 |
| Alternative investments | 491,842 | 632,004 | 491,842 | 650,797 |
| | 189,620,269 | 190,025,659 | 174,084,551 | 173,139,697 |
| <u>Endowment and similar funds:</u> | | | | |
| Money market funds | \$ 3,231,187 | \$ 3,230,347 | \$ 2,956,515 | \$ 2,954,125 |
| Equities | 2,924,207 | 5,926,173 | 3,731,567 | 6,300,305 |
| Fixed income | 3,416,509 | 2,309,379 | 2,185,375 | 2,076,380 |
| Real estate | 16,430,001 | 14,730,001 | 16,430,001 | 14,938,001 |
| Other | 53,016 | 49,743 | 51,285 | 52,174 |
| Alternative investments | 150,019,153 | 291,592,387 | 151,709,152 | 286,794,788 |
| Outside perpetual trusts | - | 4,252,093 | - | 4,678,066 |
| | 176,074,073 | 322,090,123 | 177,063,895 | 317,793,839 |
| Total | \$ 365,694,342 | \$ 512,115,782 | \$ 351,148,446 | \$ 490,933,536 |

The university has investments of \$16,150,076 and \$16,634,596 at May 31, 2023 and 2022, respectively, that are managed by a third party vendor at which a trustee of Elon holds an employment position.

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.

NOTE 6: 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 GAAP, 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.

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In 2008, North Carolina adopted UPMIFA, which the university has interpreted as requiring the preservation of 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 net assets with donor restrictions until appropriated for expenditure. The university records the investment returns on the specific-purpose endowment funds in net assets with donor restrictions 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 is 4.5% for the years ended May 31, 2023 and 2022. The applicable rate for scholarships is 5.0% for the years ended May 31, 2023 and 2022. 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.

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Endowment totals as of May 31 are as follows:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|---------------------------|---------------------------|
| Contributions receivable, net | \$ 97,757 | \$ 321,487 |
| Investments | 322,090,123 | 317,793,839 |
| Accrued and other liabilities | <u>(3,769,940)</u> | <u>(3,964,407)</u> |
| Total | <u>\$ 318,417,940</u> | <u>\$ 314,150,919</u> |

Endowment net asset compositions as of May 31 are as follows:

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|---------------------------|---------------------------|
| Designated by the Board for Endowment | \$ 125,681,063 | \$ 120,863,461 |
| With Donor Restrictions | <u>192,736,877</u> | <u>193,287,458</u> |
| Total | <u>\$ 318,417,940</u> | <u>\$ 314,150,919</u> |

Changes in endowment net assets during the years ended May 31, 2023 and 2022, are as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|----------------------------------|---------------------------------------|------------------------------------|---------------------------|
| Balance, May 31, 2021 | \$ 121,176,514 | \$ 205,828,311 | \$ 327,004,825 |
| Contributions - Donors | - | 7,508,914 | 7,508,914 |
| Contributions - Board designated | 8,000,000 | - | 8,000,000 |
| Investment return | (3,190,460) | (11,764,894) | (14,955,354) |
| Spending policy | (5,122,593) | (8,283,766) | (13,406,359) |
| Transfers | - | (1,107) | (1,107) |
| Balance, May 31, 2022 | \$ 120,863,461 | \$ 193,287,458 | \$ 314,150,919 |
| Contributions - Donors | - | 4,759,376 | 4,759,376 |
| Contributions - Board designated | 8,000,000 | - | 8,000,000 |
| Investment return | 2,278,997 | 3,262,201 | 5,541,198 |
| Spending policy | (5,461,395) | (8,838,919) | (14,300,314) |
| Transfers | - | 266,761 | 266,761 |
| Balance, May 31, 2023 | <u>\$ 125,681,063</u> | <u>\$ 192,736,877</u> | <u>\$ 318,417,940</u> |

The fair value of assets associated with individual donor-restricted endowment funds may fall below the historic gift value. These deficiencies amounted to \$705,498 and \$741,901 at May 31, 2023 and 2022, respectively. In accordance with GAAP, deficiencies of this nature reduce net assets with donor restrictions. While UPMIFA allows spending from these so-called underwater funds, the university's policy restricts spending from underwater funds.

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Deficiencies of this nature exist in thirty-six donor-restricted endowment funds, which together have an original gift value of \$7,400,132, a current value of \$6,694,634, and a deficiency of \$705,498 as of May 31, 2023, and have an original gift value of \$7,026,475, a current value of \$6,284,574, and a deficiency of \$741,901 as of May 31, 2022.

NOTE 7: 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.

| | 2023 | 2022 |
|--|--------------|--------------|
| Trustee distributions restricted to scholarship: | | |
| Asset value | \$ 1,052,643 | \$ 1,161,053 |
| Trustee distributions | 42,499 | 39,944 |
| Trustee distributions restricted to professorship: | | |
| Asset value | \$ 1,169,049 | \$ 1,314,672 |
| Trustee distributions | 56,530 | 56,762 |
| Unrestricted trustee distributions: | | |
| Asset value | \$ 2,030,402 | \$ 2,202,341 |
| Trustee distributions | 103,606 | 102,326 |

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.

| | 2023 | 2022 |
|--|--------------|--------------|
| Annuities asset | \$ 1,374,359 | \$ 1,427,695 |
| Annuities liability | 443,295 | 483,414 |
| Total contributions to charitable gift annuities | - | 10,000 |
| Change in value of charitable gift annuities | (100,316) | (126,670) |

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NOTE 8: 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. As of October 2017, the Perkins loan has not been reauthorized by the Department of Education. 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 by 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, student loans are as follows:

| | 2023 | 2022 |
|---------------------------------------|---------------------|---------------------|
| Federal Perkins loan program | \$ 804,639 | \$ 1,065,500 |
| Institutional loans | 423,648 | 362,326 |
| | <u>1,228,287</u> | <u>1,427,826</u> |
| Less allowance for doubtful accounts: | | |
| Beginning of the year | (82,500) | (82,500) |
| Increase | (8,056) | (8,179) |
| Charge offs | 8,056 | 8,179 |
| End of year | <u>(82,500)</u> | <u>(82,500)</u> |
| Student loans receivable, net | <u>\$ 1,145,787</u> | <u>\$ 1,345,326</u> |

At May 31, past due amounts are as follows:

| | 1-60 Days Past Due | 60-90 Days Past Due | Over 90 Days Past Due | Total |
|------|-----------------------|------------------------|--------------------------|------------|
| 2023 | \$ 2,482 | \$ 168 | \$ 243,821 | \$ 246,471 |
| 2022 | \$ 4,628 | \$ 1,021 | \$ 258,547 | \$ 264,196 |

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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, default rates are as follows:

| | 2023 | 2022 |
|-------------------------------------|--------|-------|
| Federal Perkins loan program | 0.77% | 0.86% |
| Institutional loans - Undergraduate | 21.69% | 0.62% |
| Institutional loans - Graduate | 1.58% | 2.22% |

NOTE 9: Construction in Progress

Projects in process at May 31 are as follows:

| <u>2023 Project Description</u> | Costs Incurred Through 5/31/23 | Estimated Date of Completion |
|--|-----------------------------------|---------------------------------|
| McMichael Science Renovation Phase 1 | \$ 2,610,626 | August 2023 |
| East Neighborhood Commons | 1,202,653 | July 2024 |
| Hook, Brannock & Barney Renovation Phase 2 | 928,108 | December 2023 |
| Francis Center Expansion Phase 3 | 858,329 | December 2023 |
| Hook, Brannock & Barney Renovation Phase 1 | 694,006 | August 2023 |
| Francis Center Phase 3 & 4 Design | 521,731 | August 2024 |
| Energy Conservation Projects | 466,109 | December 2023 |
| Replace McMichael Chiller #2 | 383,654 | December 2023 |
| Latham Park Videoboard | 371,811 | July 2023 |
| McMichael Science Renovation Phase 2 | 356,821 | August 2024 |
| Other Projects | 1,630,119 | Various |
| Total | \$ 10,023,967 | |
| | | |
| <u>2022 Project Description</u> | Costs Incurred Through 5/31/22 | Estimated Date of Completion |
| Founders Hall and Innovation Hall | \$ 33,158,639 | August 2022 |
| Francis Center Nursing Classroom and Lab Space | 4,035,272 | August 2022 |
| Smith Hall Renovation Phase 2 | 3,377,082 | June 2022 |
| Latham Park Building | 1,714,583 | August 2022 |
| Carolina Hall Renovation | 1,590,041 | August 2022 |
| Moseley 2nd Floor Renovation | 1,093,828 | October 2022 |
| McMichael Science Upgrade | 309,664 | August 2024 |
| Energy Conservation Projects | 272,318 | August 2022 |
| East Neighborhood Commons Design | 226,509 | August 2024 |
| Francis Center Phase 3 & 4 Design | 211,555 | October 2022 |
| Digital Donor Wall | 120,000 | December 2022 |
| Other Projects | 783,291 | Various |
| Total | \$ 46,892,782 | |

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NOTE 10: Property and Equipment

Property and equipment at May 31 are as follows:

| | 2023 | 2022 |
|---------------------------------|----------------|----------------|
| Land and land improvements | \$ 97,912,097 | \$ 91,168,932 |
| Buildings | 537,554,422 | 486,210,482 |
| Computers and related equipment | 937,114 | 1,395,696 |
| Library resources | 1,052,734 | 1,343,860 |
| Vehicles | 5,936,036 | 5,685,108 |
| Audiovisual equipment | 6,305,035 | 5,769,600 |
| Science equipment | 3,860,561 | 3,881,972 |
| Software | 1,836,303 | 2,027,347 |
| Telephone systems and equipment | 143,649 | 129,709 |
| Other moveable assets | 20,026,552 | 18,696,410 |
| Collections | 3,272,849 | 3,272,849 |
| | 678,837,352 | 619,581,965 |
| Less: Accumulated depreciation | 190,744,254 | 178,221,294 |
| Total | \$ 488,093,098 | \$ 441,360,671 |

Depreciation expense is \$14,652,793 and \$13,753,087 for the years ended May 31, 2023 and 2022, respectively.

NOTE 11: Accrued Liabilities

Accrued liabilities at May 31 are as follows:

| | 2023 | 2022 |
|--|---------------|---------------|
| Salaries and wages | \$ 10,563,101 | \$ 9,934,542 |
| Compensated absences | 3,958,009 | 4,015,051 |
| Split-interest agreements | 638,768 | 694,580 |
| Conditional asset retirement obligations | 545,810 | 547,781 |
| Accrued other liabilities | 3,154,032 | 2,907,539 |
| Total | \$ 18,859,720 | \$ 18,099,493 |

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.

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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 7.49% and 7.08% for May 31, 2023 and 2022, respectively.

NOTE 12: Other Liabilities

Other liabilities at May 31 are as follows:

| | 2023 | 2022 |
|---|-------------------|-------------------|
| Agency obligations | \$ 2,550,439 | \$ 2,874,980 |
| Refundable advances - Exchange transactions | 10,276,179 | 11,460,406 |
| Refundable advances - CRUTs | 3,131,171 | 3,269,825 |
| Total | \$ 15,957,789 | \$ 17,605,211 |

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 \$632,003 and \$650,797 at May 31, 2023 and 2022, respectively.

Refundable Advances – Exchange Transactions

As of May 31, 2023 and 2022, the university has exchange transaction agreements with an existing service provider. The university consented to extend the service provider’s agreement for up to fifteen years and in exchange the service provider transferred amounts totaling \$16,700,000 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 specified timeframe, the university will return the unamortized portion of the refundable advance, calculated on a straight-line basis.

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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 13: Leases

The university has operating and finance leases for buildings, computers, and related equipment. The university determines if an arrangement is a lease at the inception of the contract. The university elected to apply the short-term lease exception under ASU 2016-02; therefore, leases with an initial term of twelve months or less are not recorded on the consolidated statement of position.

The university has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component.

| | Year Ended May 31, 2023 | Year Ended May 31, 2022 |
|-------------------------------|----------------------------|----------------------------|
| Lease expense | | |
| Finance lease expense | | |
| Amortization of ROU assets | \$ 1,146,081 | \$ 1,154,288 |
| Interest on lease liabilities | 1,101,046 | 1,121,467 |
| Operating lease expense | 2,758,836 | 2,576,868 |
| Total | <u>\$ 5,005,963</u> | <u>\$ 4,852,623</u> |

| | Year Ended May 31, 2023 | Year Ended May 31, 2022 |
|---|----------------------------|----------------------------|
| Supplemental cash flow information related to leases: | | |
| Cash paid for amounts included in the measure of lease liabilities | | |
| Operating cash flows from finance leases (i.e. interest) | \$ 1,059,212 | \$ 921,087 |
| Financing cash flows from finance leases (i.e. principal portion) | 872,962 | 915,349 |
| Operating cash flows from operating leases | 2,724,789 | 2,267,449 |
| ROU assets obtained in exchange for new finance lease liabilities | 537,039 | 596,707 |
| ROU assets obtained in exchange for new operating lease liabilities | 128,072 | 10,329,438 |
| Weighted-average remaining lease term in years for finance leases | 15.51 | 15.91 |
| Weighted-average remaining lease term in years for operating leases | 2.78 | 3.51 |
| Weighted-average discount rate for finance leases | 11.81% | 11.75% |
| Weighted-average discount rate for operating leases | 1.59% | 1.57% |

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Aggregate maturities of lease liabilities at May 31, 2023, are as follows:

| <u>Year Ending</u> | <u>Finance</u> | <u>Operating</u> |
|-------------------------------|---------------------|---------------------|
| 2024 | \$ 1,557,270 | \$ 2,710,279 |
| 2025 | 1,473,941 | 1,678,540 |
| 2026 | 1,466,286 | 856,004 |
| 2027 | 1,279,507 | 315,984 |
| 2028 | 1,182,418 | 172,789 |
| Thereafter | <u>17,279,244</u> | <u>61,275</u> |
| Total undiscounted cash flows | 24,238,666 | 5,794,871 |
| Less: present value discount | <u>14,246,001</u> | <u>129,645</u> |
| Total lease liabilities | <u>\$ 9,992,665</u> | <u>\$ 5,665,226</u> |

NOTE 14: Bonds Payable

The following bonds were issued through the North Carolina Capital Facilities Finance Agency. Revenue Bond Series 2012 was issued as a direct purchase bond held by Truist Financial. Revenue Bond Series 2014A was issued as a direct purchase by Wells Fargo. Revenue Bond Series 2014B was issued as a direct purchase by Truist Financial. Revenue Bond Series 2017A was issued as direct purchase bond held by Bank of America Corporation. Revenue Bond Series 2018A was issued as a direct purchase by First Tennessee Bank Securities Investment I, LLC. Revenue Bond Series 2021 was issued as a direct purchase by TD Bank, N.A. The university has made certain covenants including use of the proceeds and sale of project property. The university is in compliance with all debt covenants as of May 31, 2023 and 2022.

In response to FASB ASU 2022-06, Reference Rate Reform (Topic 848), referenced in Note 1, in March 2023, Elon University entered into multiple amendments to its bond trust agreements, including (a) changing the interest rate benchmark provisions for the Series 2012 Bonds from One-month LIBOR index to Daily Simple SOFR, Series 2017A Bonds from the LIBOR index to Daily SOFR, Series 2014B and Series 2018 Bonds from the LIBOR index to Daily Simple SOFR, (b) adding the fallback interest rate provisions for the Series 2012 Bonds and modifying the fallback interest rate provisions for the Series 2014B, 2017A and 2018 Bonds, and (c) making certain other conforming adjustments to the provision of the various Bonds as provided in the amendments.

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Remaining principal balances at May 31 are as follows:

| | 2023 | 2022 |
|--|----------------|----------------|
| 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, 2023, is 5.25%. | \$ 42,660,000 | \$ 45,120,000 |
| Revenue Bonds, Series 2014A - \$39,985,000, bearing a fixed interest rate paid monthly. Principal payments began in 2015 and will continue through 2031. The bonds are subject to an interest rate swap agreement referenced in Note 15. The interest rate at May 31, 2023, is 1.91%. | 9,580,000 | 11,175,000 |
| 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 were subject to an interest rate swap agreement referenced in Note 15, but it was cancelled in July 2021. The interest rate at May 31, 2023, is 4.46%. | 48,440,000 | 50,255,000 |
| Revenue Bonds, Series 2017A - \$24,320,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2019 and will continue through 2042. The interest rate at May 31, 2023, is 4.65%. | 20,295,000 | 21,135,000 |
| Revenue Bonds, Series 2018A - \$20,000,000, bearing a fixed interest rate paid monthly. Principal payments began in 2020 and will continue through 2038. The interest rate at May 31, 2023, is 3.10%. | 16,781,000 | 17,624,000 |
| Revenue Bonds, Series 2021 - \$50,000,000, bearing a fixed interest rate paid monthly. Principal payments began in 2023 and will continue through 2041. The interest rate at May 31, 2023, is 2.25%. | 47,865,000 | 50,000,000 |
| | 185,621,000 | 195,309,000 |
| Less: Bond Issue Costs | 822,250 | 836,689 |
| Total | \$ 184,798,750 | \$ 194,472,311 |

Aggregate maturities of bonds payable at May 31, 2023, are as follows:

| Year Ending | Amount |
|-------------|----------------|
| 2024 | \$ 9,989,000 |
| 2025 | 10,298,000 |
| 2026 | 10,616,000 |
| 2027 | 10,941,000 |
| 2028 | 11,260,000 |
| Thereafter | 132,517,000 |
| Total | \$ 185,621,000 |

Total interest costs incurred related to bonds payable are \$6,051,047 and \$3,777,779 for the years ended May 31, 2023 and 2022, respectively, and of these amounts \$585,418 and \$465,962, respectively, are capitalized as a cost of construction.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15: Obligation Under Interest Rate Swap Agreements

In response to FASB ASU 2022-06, Reference Rate Reform (Topic 848) referenced in Note 1, in March 2023, the university revised its interest rate swap agreement, which is used to hedge outstanding variable rate debt. This agreement allows the university to exchange variable for fixed rate interest payment obligations to minimize the impact of future interest rate changes. Under this agreement, payments are made or received based on the difference between fixed rates listed below and 70% of the USD-SOFR plus 0.068 spread. Principal maturity on the remaining debt concludes in 2031.

The obligation under interest rate swap agreement at May 31 is as follows:

| | Fixed Rate | 2023 | | Fixed Rate | 2022 |
|---------------|------------|------------|---------------|------------|------------|
| Various bonds | 3.78% | \$ 385,717 | Various bonds | 3.78% | \$ 787,967 |
| Total | | \$ 385,717 | Total | | \$ 787,967 |

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 is shown as a separate line item in the Consolidated Statements of Activities.

NOTE 16: Net Assets

Net assets with donor restrictions at May 31 are as follows:

| | 2023 | 2022 |
|---|----------------|----------------|
| Permanent endowment funds | \$ 171,198,268 | \$ 165,291,088 |
| Contributions to buildings and equipment | 2,141,509 | 12,959,695 |
| Contributions receivable, net | 97,757 | 321,487 |
| Endowment related funds | 38,881,953 | 45,609,137 |
| Split-interest agreement and term endowments | 1,486,246 | 1,087,986 |
| Non-endowed contributions for scholarships and operations | 8,824,936 | 10,232,671 |
| Student loan funds | 636,437 | 636,437 |
| Total net assets with donor restrictions | \$ 223,267,106 | \$ 236,138,501 |

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Net assets without donor restrictions at May 31 are as follows:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------------|---------------------------|
| Undesignated | \$ 488,725,722 | \$ 449,142,377 |
| Designated by the Board for endowment | | |
| Scholarship | 114,063,486 | 108,900,410 |
| Program | 8,391,379 | 8,640,915 |
| Professorship | <u>3,226,198</u> | <u>3,322,136</u> |
| | 125,681,063 | 120,863,461 |
| Total net assets without donor restrictions | <u>\$ 614,406,785</u> | <u>\$ 570,005,838</u> |

NOTE 17: Financial Aid (Student Services Discount)

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|---------------------------|---------------------------|
| Tuition and fees | \$ 297,166,821 | \$ 274,706,212 |
| Tuition discount | <u>(68,392,350)</u> | <u>(60,625,757)</u> |
| Net tuition | 228,774,471 | 214,080,455 |
| Food and housing | 52,472,264 | 49,220,189 |
| Food and housing food discount | <u>(3,826,007)</u> | <u>(3,645,407)</u> |
| Net food and housing | 48,646,257 | 45,574,782 |
| Student revenues, net | <u>\$ 277,420,728</u> | <u>\$ 259,655,237</u> |

The university awards financial aid based on academic merit, need and leadership. Gross tuition discount is 23% and 22.1% for the years ended May 31, 2023 and 2022, respectively. The unfunded discount rate is 19.7% and 19.2% for the years ended May 31, 2023 and 2022, 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).

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| | 2023 | | 2022 | |
|-------------------------------|----------------|------------|----------------|------------|
| | Dollars | Percentage | Dollars | Percentage |
| <u>Total Tuition and Fees</u> | | | | |
| Unfunded discount - general | \$ 55,497,408 | 18.7% | \$ 50,041,565 | 18.2% |
| Unfunded discount - quasi | 3,110,838 | 1.0% | 2,698,539 | 1.0% |
| Total unfunded discount | 58,608,246 | 19.7% | 52,740,104 | 19.2% |
| Funded discount | 9,784,104 | 3.3% | 7,885,653 | 2.9% |
| Total | \$ 68,392,350 | 23.0% | \$ 60,625,757 | 22.1% |
| Gross tuition and fees | \$ 297,166,821 | | \$ 274,706,212 | |

| | 2023 | | 2022 | |
|---------------------------------------|----------------|------------|----------------|------------|
| | Dollars | Percentage | Dollars | Percentage |
| <u>Undergraduate Tuition and Fees</u> | | | | |
| Unfunded discount - general | \$ 45,765,510 | 17.3% | \$ 40,815,854 | 16.8% |
| Unfunded discount - quasi | 3,110,838 | 1.2% | 2,698,539 | 1.1% |
| Total unfunded discount | 48,876,348 | 18.5% | 43,514,393 | 17.9% |
| Funded discount | 9,570,567 | 3.6% | 7,704,010 | 3.2% |
| Total | \$ 58,446,915 | 22.1% | \$ 51,218,403 | 21.1% |
| Gross tuition and fees | \$ 265,136,581 | | \$ 243,631,875 | |

NOTE 18: Contributed Cash and Other Financial Assets

Major categories of contributed cash and other financial assets at May 31 are as follows:

| | 2023 | 2022 |
|-----------------------------|---------------|---------------|
| Annual funds | \$ 1,815,296 | \$ 2,102,063 |
| Endowment and similar funds | 4,759,376 | 7,508,915 |
| Capital projects | 2,989,695 | 5,130,048 |
| Restricted to programs | 3,573,745 | 3,556,636 |
| Restricted to scholarships | 518,353 | 888,043 |
| Total | \$ 13,656,465 | \$ 19,185,705 |

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NOTE 19: Contributed Nonfinancial Assets

Contributed nonfinancial assets recognized within the statement of activities at May 31 are as follows:

| | 2023 | 2022 |
|---------------------------------------|-----------|------------|
| Real estate | \$ - | \$ 825,000 |
| Construction supplies | 4,692 | 100,000 |
| Equipment | - | 29,578 |
| General program supplies | 31,901 | 15,529 |
| Total contributed nonfinancial assets | \$ 36,593 | \$ 970,107 |

The university recognized contributed nonfinancial assets with revenue, including construction supplies, and general program supplies. Unless otherwise noted below, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed nonfinancial assets without donor restrictions of \$24,980 consist of donated chiropractic services for Athletics.

Contributed nonfinancial assets with donor restrictions of \$11,613 consist of concrete used to repair the track around White Field. Contributed program supplies consist of contributed food utilized in Annual Giving, contributed collectibles utilized for the Library and contributed sheet music utilized in the Music department.

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NOTE 20: Functional Classification of Expenses

Expenses by function and nature consist of the following for the year ended May 31, 2023:

| | <u>Program Services</u> | | | | | Total |
|-----------------------------------|-------------------------|-------------------------|-------------------------|---------------------------|------------------------------|-----------------------|
| | <u>Instruction</u> | <u>Academic Support</u> | <u>Student Services</u> | <u>Auxiliary Services</u> | <u>Institutional Support</u> | |
| Salaries | \$ 69,043,747 | \$ 3,384,578 | \$ 24,224,024 | \$ 6,851,207 | \$ 23,522,399 | \$ 127,025,955 |
| Benefits | 20,522,947 | 1,125,158 | 7,666,420 | 2,360,480 | 4,303,724 | 35,978,729 |
| Operating Expenses | 10,546,689 | 3,771,909 | 11,540,671 | 18,896,207 | 16,932,312 | 61,687,788 |
| Travel and Study Abroad expense | 18,895,452 | 15,134 | 3,836,833 | 18,018 | 652,424 | 23,417,861 |
| Depreciation | 4,924,429 | 461,339 | 2,536,109 | 6,512,180 | 218,737 | 14,652,794 |
| Debt Service and Interest Expense | 1,126,016 | - | 120,477 | 3,846,203 | 516,335 | 5,609,031 |
| Project Expenses | 2,559,782 | 239,810 | 1,318,302 | 3,385,116 | 113,702 | 7,616,712 |
| Facilities Management | 2,951,373 | 308,574 | 1,701,567 | 4,323,817 | 143,535 | 9,428,866 |
| | <u>\$ 130,570,435</u> | <u>\$ 9,306,502</u> | <u>\$ 52,944,403</u> | <u>\$ 46,193,228</u> | <u>\$ 46,403,168</u> | <u>\$ 285,417,736</u> |

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Expenses by function and nature consist of the following for the year ended May 31, 2022:

| | <u>Program Services</u> | | | | | <u>Total</u> |
|-----------------------------------|-------------------------|-------------------------|-------------------------|---------------------------|------------------------------|-----------------------|
| | <u>Instruction</u> | <u>Academic Support</u> | <u>Student Services</u> | <u>Auxiliary Services</u> | <u>Institutional Support</u> | |
| Salaries | \$ 66,097,303 | \$ 3,178,787 | \$ 21,877,593 | \$ 6,467,641 | \$ 19,364,203 | \$ 116,985,527 |
| Benefits | 17,669,497 | 1,042,662 | 6,806,215 | 2,139,308 | 6,650,476 | 34,308,158 |
| Operating Expenses | 7,977,399 | 3,301,713 | 14,691,653 | 17,102,495 | 15,891,987 | 58,965,247 |
| Travel and Study Abroad expense | 15,321,586 | 6,586 | 2,260,759 | 25,904 | 557,730 | 18,172,565 |
| Depreciation | 4,469,466 | 441,706 | 2,413,744 | 6,218,743 | 209,428 | 13,753,087 |
| Debt Service and Interest Expense | 1,196,986 | - | 63,752 | 1,677,291 | 582,803 | 3,520,832 |
| Project Expenses | 1,114,202 | 110,114 | 601,727 | 1,550,283 | 52,209 | 3,428,535 |
| Facilities Management | 2,580,190 | 286,401 | 1,569,942 | 4,001,913 | 133,221 | 8,571,667 |
| | <u>\$ 116,426,629</u> | <u>\$ 8,367,969</u> | <u>\$ 50,285,385</u> | <u>\$ 39,183,578</u> | <u>\$ 43,442,057</u> | <u>\$ 257,705,618</u> |

The university's primary program service is academic instruction. Expenses reported as academic support, student support, auxiliary services and institutional support are incurred in support of this primary program activity. Natural expenses attributable to more than one functional expense category are allocated based on estimates. Depreciation, project and facilities management expenses are allocated based on square footage while debt service and interest expense are allocated ratably across the appropriate function. Travel and study abroad expense includes expenses associated with student travel abroad excluding salaries and benefits.

NOTE 21: 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 \$7,682,723 and \$7,617,066 for the years ended May 31, 2023 and 2022, respectively.

NOTE 22: Fund Raising

Fundraising costs are \$7,762,159 and \$7,366,324 for the years ended May 31, 2023 and 2022, respectively. These costs are included with other costs and are shown as institutional support on the Consolidated Statements of Activities.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2023 and 2022

NOTE 23: 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 \$1,563,366 and \$1,845,827 during the years ended May 31, 2023 and 2022, 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 \$518,555 and \$354,578 at May 31, 2023 and 2022, respectively. These balances are classified as accounts receivable in the Consolidated Statements of Financial Position.

NOTE 24: 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. For the years ended May 31, 2023 and 2022, total unrelated business income tax costs were \$447,174 and \$272,396, respectively.

NOTE 25: Supplemental Disclosures of Cash Flow Information

During the years ended May 31, 2023 and 2022, cash payments for interest on bonds and capital leases amounted to \$6,710,077 and \$4,642,298, respectively. These numbers are net of amounts capitalized as cost of construction.

The university received noncash contributions in stock and other assets totaling \$854,257 and \$6,448,293 during the years ended May 31, 2023 and 2022, respectively.

The university added distressed assets resulting in a noncash increase in accrued liabilities of \$38,033 and \$36,220 during the years ended May 31, 2023 and 2022 respectively.

Leased equipment costing \$537,039 and \$596,707 was acquired under the terms of finance leases during the years ended May 31, 2023 and 2022, respectively. The cost of property acquired as well as the initial lease obligations have been excluded from the Consolidated Statements of Cash Flows.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2023 and 2022

NOTE 26: Commitments and Contingencies

(a) 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.

(b) Construction and Purchase Commitments

As of May 31, 2023 and 2022, the university had outstanding contractual commitments and equipment purchase orders totaling \$44,058,481 and \$15,038,671, respectively.

(c) Employment Related Commitments

Elon University has entered into employment-related agreements with certain employees which obligate the university to make potential future payments. At May 31, 2023, the maximum potential future payments under these agreements are \$9,298,709.

(d) 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 27: Subsequent Events

On June 22, 2023, the university issued long-term bonds totaling \$37,265,000. The proceeds of this bond issue will be used for capital projects on the university campus.

As of September 21, 2023, the university has no other subsequent events to report.

NOTE 28: Supplemental Disclosures – US Department of Education

Net Assets

| | |
|---|------------------------------|
| Net assets with donor restrictions: restricted in perpetuity - endowed funds | \$ 171,198,268 |
| Net assets with donor restrictions: restricted in perpetuity - contributions receivable | 97,757 |
| Net assets with donor restrictions: restricted in perpetuity - student loan funds | 636,437 |
| Total net assets restricted in perpetuity | <u>171,932,462</u> |
| Annuitants with donor restrictions | 1,486,246 |
| Net assets with donor restrictions: purpose or time | <u>49,848,398</u> |
| Total net assets with donor restrictions as of May 31, 2023 | <u><u>\$ 223,267,106</u></u> |

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2023 and 2022

Property, Plant and Equipment, net

| | |
|---|------------------------------|
| Pre-implementation property, plant and equipment | \$ 424,624,842 |
| Less subsequent depreciation and disposals | <u>(12,972,487)</u> |
| Property, plant and equipment and construction in progress pre-implementation | 411,652,355 |
| Property, plant and equipment post-implementation with outstanding debt | 44,440,211 |
| Property, plant and equipment post-implementation without outstanding debt | 39,624,825 |
| Construction in progress acquired subsequent to May 31, 2019 | <u>10,023,967</u> |
| Property, Plant and Equipment, net as of May 31, 2023 | <u><u>\$ 505,741,358</u></u> |

Debt

| | Bonds Payable | Capital Lease | Total Debt |
|--|------------------------------|----------------------------|------------------------------|
| Ending balance of last financial statements submitted to the Department of Education | \$ 194,472,311 | \$ 10,294,047 | \$ 204,766,358 |
| Less subsequent debt repayments - bond issues | (9,688,000) | - | (9,688,000) |
| Less payments of bond issue costs | (42,018) | - | (42,018) |
| Add amortization of bond issue costs | 56,457 | - | 56,457 |
| Add amortization of finance lease liability | - | 34,541 | 34,541 |
| Less subsequent debt repayments - capital leases | <u>-</u> | <u>(872,962)</u> | <u>(872,962)</u> |
| Balance of pre-implementation debt | 184,798,750 | 9,455,626 | 194,254,376 |
| Post implementation debt acquired for capital leases | <u>-</u> | <u>537,039</u> | <u>537,039</u> |
| Total debt as of May 31, 2023 | <u><u>\$ 184,798,750</u></u> | <u><u>\$ 9,992,665</u></u> | <u><u>\$ 194,791,415</u></u> |

Non-Operating and Net Investment Gains for the period ending May 31, 2023

| | |
|---|----------------|
| Investment gains - non-operating | \$ 6,195,101 |
| Gain on interest rate swap - non-operating | <u>402,249</u> |
| Total non-operating and net investment gain | 6,597,350 |
| Gain on disposal of property and equipment | 156,192 |

Related Party Transactions

Occasionally the university will create separate entities for specific use in investment transactions. To date, those entities have been limited in form to single member Delaware limited liability companies (LLC) with the university as a single member. The consolidated financial statements contain the accounts of the university and one such single member LLC. This LLC holds five rental properties and two parcels of vacant land as of May 31, 2023. The value of these properties net of applicable depreciation is \$1,645,877 and is included in the university's property plant and equipment. Depreciation expense for the year ended May 31, 2023 totaled \$29,013. Other assets held by the LLC at May 31, 2023 total \$61,412 consisting mainly of cash on hand.

ADDITIONAL INFORMATION
PROVIDED BY ELON UNIVERSITY

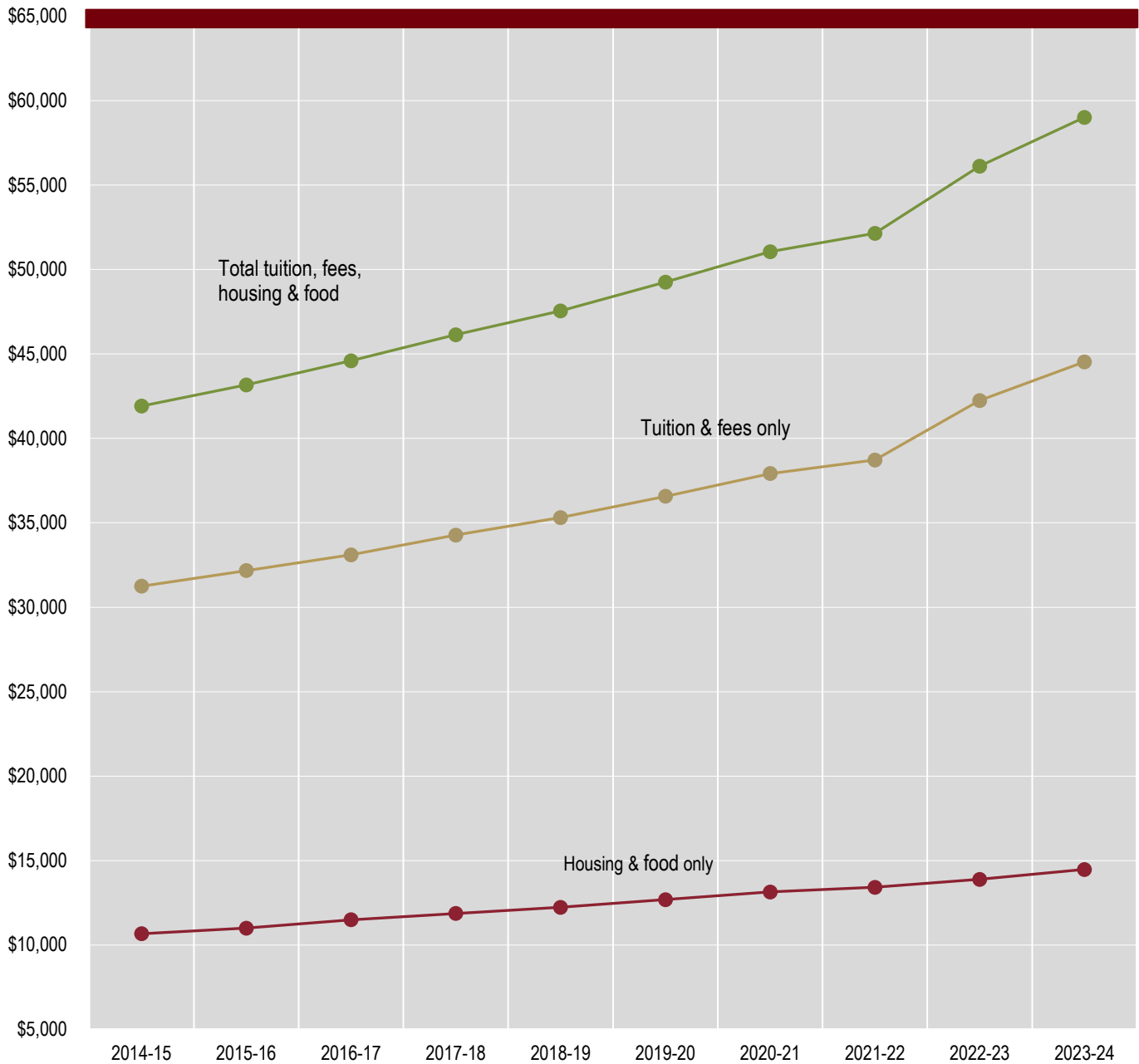
ELON UNIVERSITY

TUITION AND FEES, HOUSING AND FOOD

2015-2024

This graph shows the increase in tuition and fees, and housing/food rates over a ten-year period.

| ACADEMIC YEAR | TUITION | FEES | HOUSING | FOOD | TOTAL |
|---------------|----------|-------|---------|---------|----------|
| 2014-15 | \$30,848 | \$399 | \$5,231 | \$5,436 | \$41,914 |
| 2015-16 | \$31,773 | \$399 | \$5,399 | \$5,599 | \$43,170 |
| 2016-17 | \$32,685 | \$419 | \$5,728 | \$5,767 | \$44,599 |
| 2017-18 | \$33,829 | \$444 | \$5,900 | \$5,969 | \$46,142 |
| 2018-19 | \$34,850 | \$469 | \$6,020 | \$6,210 | \$47,549 |
| 2019-20 | \$36,082 | \$489 | \$6,225 | \$6,460 | \$49,256 |
| 2020-21 | \$37,414 | \$507 | \$6,455 | \$6,686 | \$51,062 |
| 2021-22 | \$38,218 | \$507 | \$6,593 | \$6,829 | \$52,147 |
| 2022-23 | \$41,734 | \$507 | \$6,817 | \$7,069 | \$56,127 |
| 2023-24 | \$44,029 | \$507 | \$7,056 | \$7,422 | \$59,014 |



This graph was not subjected to auditing procedures. Please see the independent auditors' report on additional information at page 5.

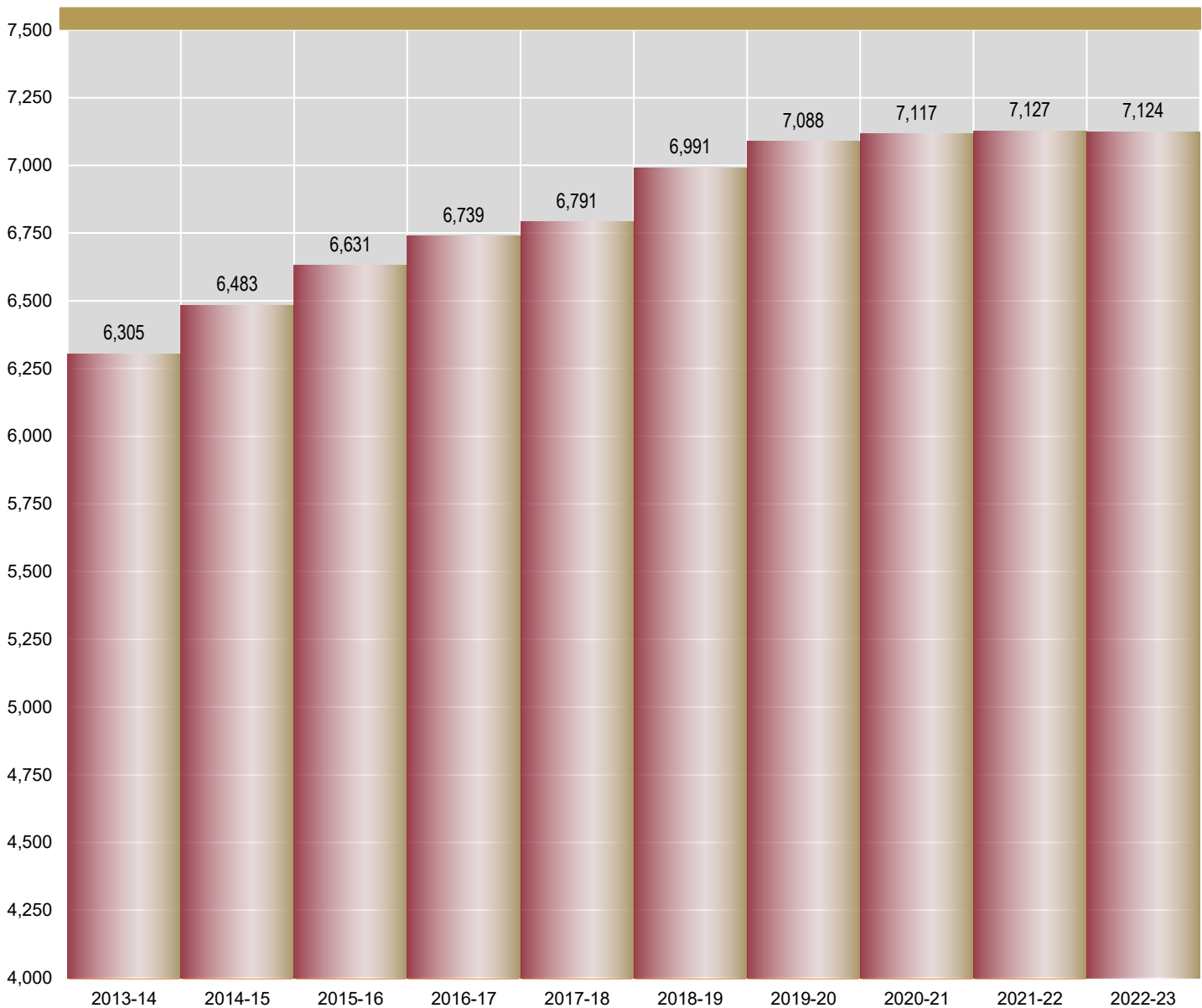
ELON UNIVERSITY

STUDENT ENROLLMENT

2014-2023

This graph shows a 10-year trend of total enrollment on a head-count basis. While the undergraduate first year enrollment remains strong, enrollment in specific graduate programs has declined resulting in a student body comparable to the 2021-22 enrollment for 2022-23.

| ACADEMIC YEAR | UNDERGRADUATE | GRADUATE | TOTAL |
|---------------|---------------|----------|-------|
| 2013-14 | 5,599 | 706 | 6,305 |
| 2014-15 | 5,782 | 701 | 6,483 |
| 2015-16 | 5,903 | 728 | 6,631 |
| 2016-17 | 6,008 | 731 | 6,739 |
| 2017-18 | 6,045 | 746 | 6,791 |
| 2018-19 | 6,196 | 795 | 6,991 |
| 2019-20 | 6,277 | 811 | 7,088 |
| 2020-21 | 6,291 | 826 | 7,117 |
| 2021-22 | 6,302 | 825 | 7,127 |
| 2022-23 | 6,338 | 786 | 7,124 |



This graph was not subjected to auditing procedures. Please see the independent auditors' report on additional information at page 5.

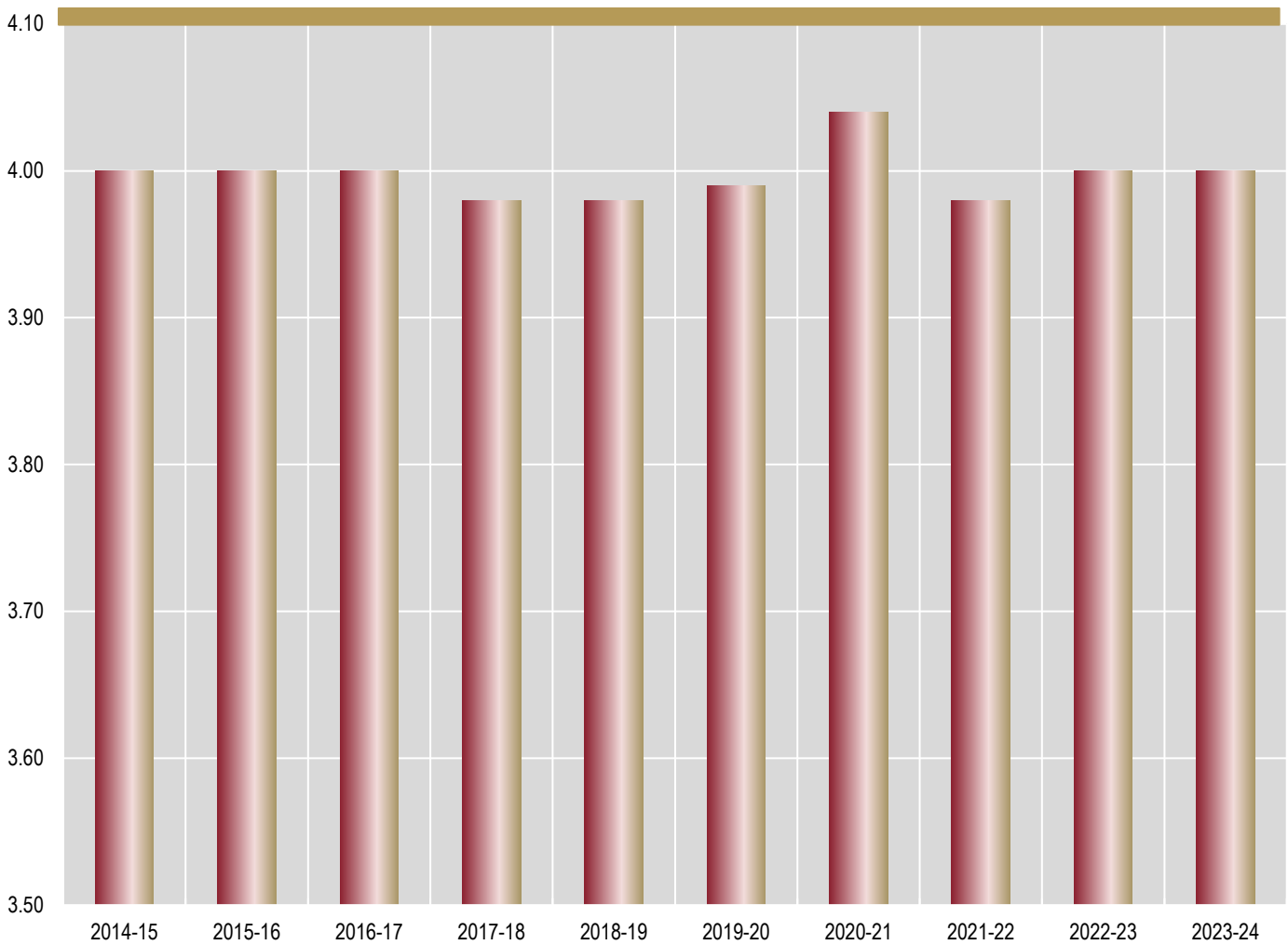
ELON UNIVERSITY

**STUDENT
SELECTIVITY**

2015-2024

Measures of student quality have remained consistently high over the last 10 years. The average GPA is 4.00. Academic year 2021 is the first year Elon used the common application.

| ACADEMIC YEAR | Applications | GPA |
|---------------|--------------|------|
| 2014-15 | 10,442 | 4.00 |
| 2015-16 | 10,257 | 4.00 |
| 2016-17 | 10,095 | 4.00 |
| 2017-18 | 9,622 | 3.98 |
| 2018-19 | 10,729 | 3.98 |
| 2019-20 | 10,500 | 3.99 |
| 2020-21 | 15,305 | 4.04 |
| 2021-22 | 17,815 | 3.98 |
| 2022-23 | 17,530 | 4.00 |
| 2023-24 | 18,775 | 4.00 |

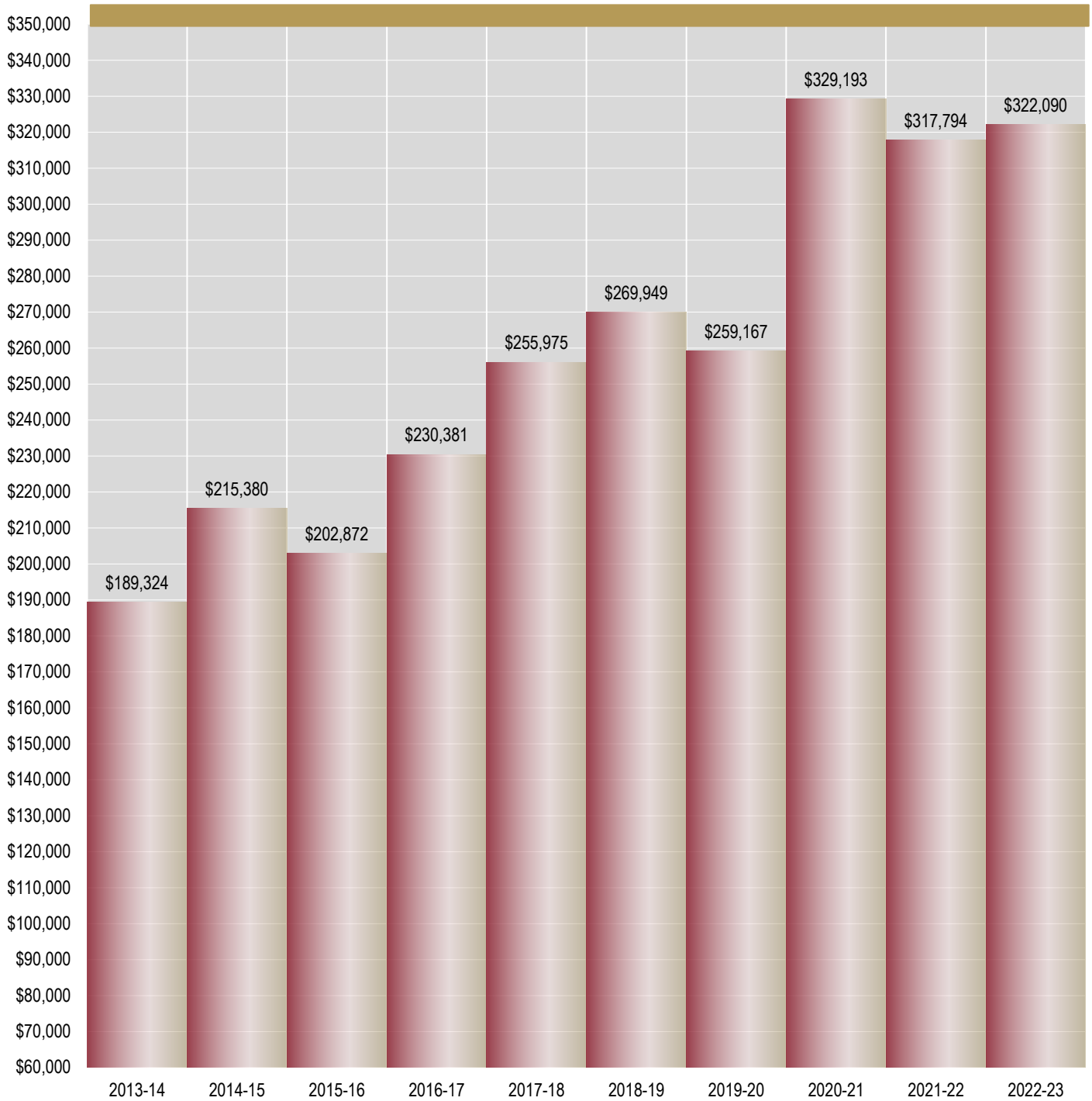


This graph was not subjected to auditing procedures.
Please see the independent auditors' report on additional information at page 5.

ENDOWMENT MARKET VALUE (000)

The overall trend of the endowment market value has been positive over the past 10 years, experiencing a growth of nearly \$133 million in the 10 year span.

2014-2023



This graph was not subjected to auditing procedures.

Please see the independent auditors' report on additional information at page 5.

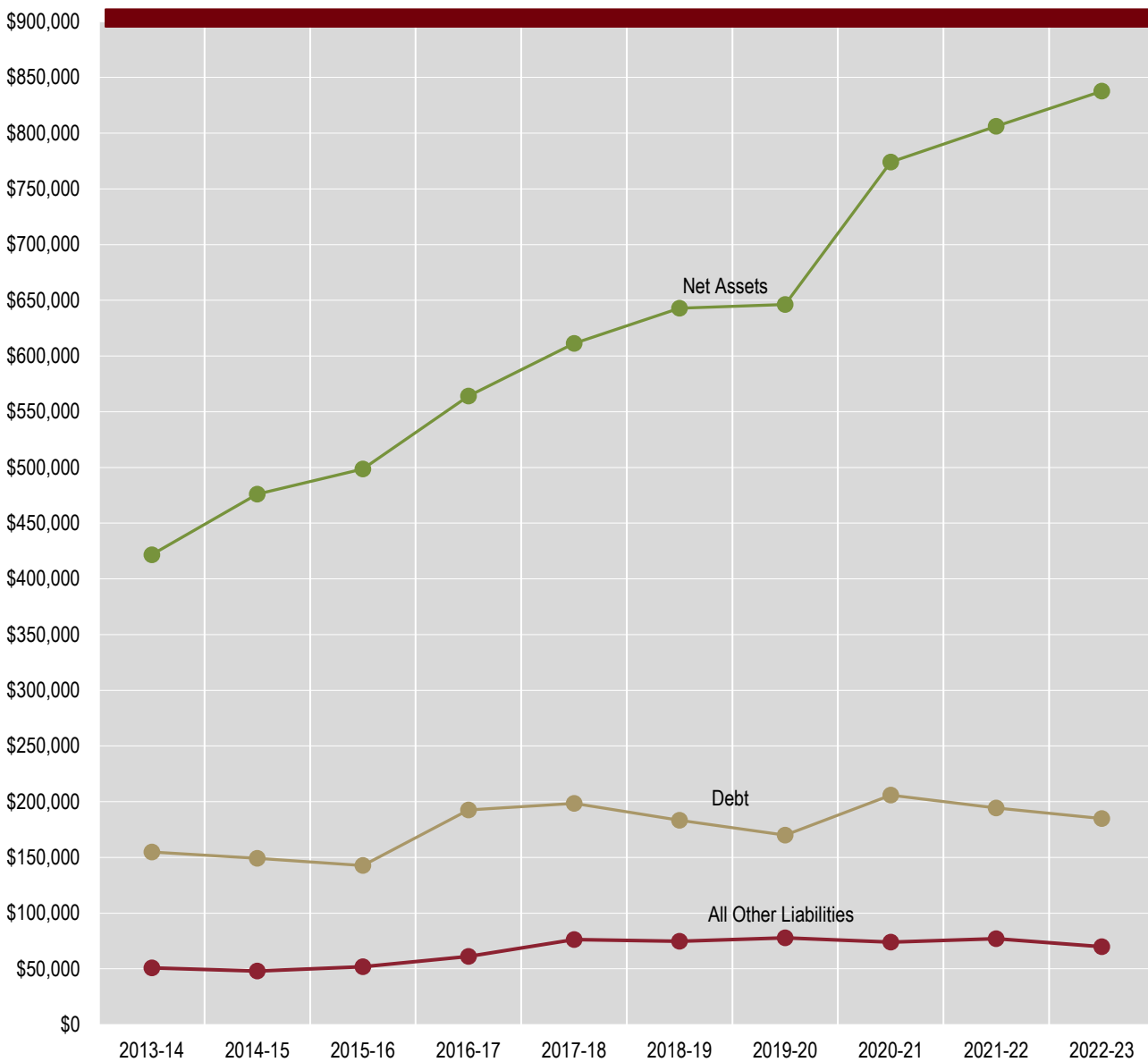
ELON UNIVERSITY

NET ASSETS AND LIABILITIES (000)

2014-2023

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.

| FISCAL YEAR | NET ASSETS | DEBT | ALL OTHER LIABILITIES |
|-------------|------------|-----------|-----------------------|
| 2013-14 | \$421,701 | \$154,905 | \$50,979 |
| 2014-15 | \$475,971 | \$149,185 | \$48,012 |
| 2015-16 | \$498,689 | \$142,723 | \$51,999 |
| 2016-17 | \$564,219 | \$192,600 | \$61,102 |
| 2017-18 | \$611,409 | \$198,568 | \$76,182 |
| 2018-19 | \$642,860 | \$183,424 | \$74,758 |
| 2019-20 | \$646,275 | \$170,068 | \$77,826 |
| 2020-21 | \$774,041 | \$205,893 | \$73,986 |
| 2021-22 | \$806,144 | \$194,472 | \$77,117 |
| 2022-23 | \$837,674 | \$184,799 | \$69,759 |



This graph was not subjected to auditing procedures. Please see the independent auditors' report on additional information at page 5.



FINANCIAL & AUDIT REPORT

MAY 31, 2023 & 2022