ELON UNIVERSITY

Financial & Audit Report

May 31, 2013 & 2012

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ELON UNIVERSITY

FINANCIAL OVERVIEW 2012 – 2013

We are pleased to present to you the continued strong financial results of another productive year at Elon University. The institution's financial strength is indicative of accomplishments in all of its programs. The details of some of these achievements are located on our Annual Report website:

http://www.elon.edu/e-web/bft/business/annual_report_2013/.

Elon University continues to receive top national rankings - one indication of the institution's strength and vitality. Elon earned a long list of top honors in the 2013 "America's Best Colleges" rankings by *U.S. News & World Report*, including the #1 "up-and-coming" university in the South and the #1 master's-level university in the South with "an unusually strong commitment to undergraduate teaching." Elon also earned recognition in the *U.S. News* "Great Schools, Great Prices" rankings, rating among the top 15 Southern universities based on a combination of academic quality and net costs for students and their families. In addition, Elon is consistently ranked by *Kiplinger's* and *Fiske* as one of the nation's best values. For the 11th consecutive year The Princeton Review has included Elon in its list of the "Best 378 Colleges" in the nation. *Bloomberg Businessweek* named Elon's MBA program the nation's #1 part-time program and gave the undergraduate business program a top-50 national ranking. The President's Community Service Honor Roll recognized the university for the seventh year as a national leader in service-learning and civic engagement. Elon is also a leading producer of Peace Corps volunteers and one of the top universities for producing Fulbright scholars. The university's commitment to sustainability and other environmental initiatives has been recognized by *U.S. News & World Report* and the Sierra Club, and for the fourth consecutive year, The Princeton Review has named Elon one of the most "environmentally responsible green colleges" in the United States.

Elon University continues to invest in academic programs and facilities. The university continued its commitment to creating a premier residential campus with the opening of The Station at Mill Point neighborhood in August 2012. The 24 townhouse-style homes and commons building provide 324 juniors and seniors with an off-campus experience while remaining part of the university community. Lakeside Dining Hall, which opened in February 2013, provides 38,000 square feet of state-of-the-art dining and meeting space and includes international food options. Hunt Softball Park, which also opened in February 2013, is the newest addition to Elon's athletics facilities. The Numen Lumen Pavilion, the university's multifaith center, opened in March 2013 to nurture interfaith dialogue, reflection, and understanding.

Elon expanded its campus with the purchase of the 20-acre Snyder Campus of Elon Homes and Schools for Children, located adjacent to the university's South Campus. The land and buildings will provide expanded space for academic and student life programs, as well as health and wellness services for students, faculty, and staff.

Consistent with the university's sustainability efforts, the number of LEED-certified buildings on campus has increased to 17, including homes in The Station at Mill Point neighborhood.

Increasing enrollment in Elon's undergraduate and graduate programs provides a solid financial base for the institution. All major financial indicators moved in a favorable direction this past year, which is detailed in the following pages. Some highlights include an increase in assets and net assets (assets minus liabilities) of 20% and 14%, respectively, as well as a 6.7% growth in net tuition revenue (tuition minus financial aid). The university's endowment continued its recent growth and ended the year with a market value of $159 million as of May 31, 2013, the highest in Elon's history.

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

Leo M. Lambert	Gerald Whittington
President	Senior Vice President for Business, Finance and Technology

ELON UNIVERSITY

MANAGEMENT STATEMENT OF RESPONSIBILITY

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

The management of Elon University maintains a system of internal control designed to provide reasonable assurance, on a cost-effective basis, that assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable for preparing financial statements. This system of control provides reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or detected within a timely period. Key elements in the system include the communication of policies and procedures, selection and training of qualified personnel, and organizational arrangements that provide an appropriated division of responsibility. Management believes that, as of May 31, 2013 and 2012, 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's management and independent auditor to review matters relating to financial reporting, auditing and internal control. To ensure auditor independence, the independent auditor has full and free access to the Audit Committee during the meetings both with management present and in executive session without management present.

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

Leo M. Lambert
President

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Elon University:

We have audited the accompanying consolidated financial statements of **Elon University** (the University) (a nonprofit North Carolina corporation), which comprise the consolidated statement of financial position as of May 31, 2013, and the related consolidated statement of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements of Elon University as of and for the year ended May 31, 2012 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2012 financial statements in their report dated September 21, 2012.

Grant Thornton LLP

Charlotte, North Carolina
September 20, 2013

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ELON UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2013 and 2012

	2013	2012
ASSETS:		
Cash and cash equivalents	$ 16,572,619	$ 5,947,326
Accounts receivable, net	3,124,078	2,215,433
Prepaid expenses and other assets	2,063,626	1,212,205
Inventories	78,211	68,039
Deposits with bond trustee	37,295,185	18,695,138
Contributions receivable, net	5,525,091	6,839,278
Investments	211,336,740	187,522,905
Loans to students, net	3,874,838	4,396,765
Bond issue costs	1,238,308	1,089,839
Construction in progress	23,594,224	32,164,352
Property and equipment, net	274,352,321	222,594,352
Total Assets	$ 579,055,241	$ 482,745,632
LIABILITIES:		
Accounts payable	$ 7,826,987	$ 7,029,093
Accrued liabilities	12,561,756	12,817,947
Student deposits	5,507,299	5,450,896
Deferred revenue	2,947,772	2,793,287
Other liabilities	5,594,122	4,126,969
Obligation under capital leases	1,037,888	1,150,819
Bonds payable	159,395,000	109,105,000
Obligation under interest rate swap agreements	9,126,616	11,416,065
U.S. Government advances for student loans	3,455,674	3,534,937
Total Liabilities	207,453,114	157,425,013
NET ASSETS:		
Unrestricted	244,096,239	207,606,347
Temporarily restricted	33,934,344	31,130,768
Permanently restricted	93,571,544	86,583,504
Total Net Assets	371,602,127	325,320,619
Total Liabilities and Net Assets	$ 579,055,241	$ 482,745,632

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

ELON UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended May 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS:				
Revenues and gains:				
Tuition and fees	$ 177,051,421	$ -	$ -	$ 177,051,421
Tuition discount	(34,367,708)	-	-	(34,367,708)
Net tuition	142,683,713	-	-	142,683,713
Sales and service of auxiliary enterprises	31,398,680	-	-	31,398,680
Federal grants	817,029	-	-	817,029
State grants	1,567,074	-	-	1,567,074
Other grants	753,602	-	-	753,602
Contributions	13,676,078	4,211,895	1,688,637	19,576,610
Contributions - Pledges	-	2,386,523	463,678	2,850,201
Investment income	699,663	403,946	-	1,103,609
Gain on investments	6,624,300	6,754,721	4,475,988	17,855,009
Loss on disposal of property and equipment	(1,767,931)	-	-	(1,767,931)
Athletics	3,288,465	245,029	-	3,533,494
Other sources	1,339,013	186,652	54,662	1,580,327
Total Revenues and Gains	201,079,686	14,188,766	6,682,965	221,951,417
Net Assets Released From/To Restrictions	11,080,115	(11,385,190)	305,075	-
Total Revenues, Gains and Other Support	212,159,801	2,803,576	6,988,040	221,951,417
Expenses:				
Instruction	86,462,802	-	-	86,462,802
Student services	29,073,578	-	-	29,073,578
Auxiliary enterprises	29,964,252	-	-	29,964,252
Academic support	7,423,122	-	-	7,423,122
Institutional support	25,035,604	-	-	25,035,604
Total Expenses	177,959,358	-	-	177,959,358
Increase in Net Assets before change in interest rate swap agreements	34,200,443	2,803,576	6,988,040	43,992,059
Change in value of interest rate swap agreements	2,289,449	-	-	2,289,449
Increase in Net Assets	36,489,892	2,803,576	6,988,040	46,281,508
Net Assets - Beginning of Year	207,606,347	31,130,768	86,583,504	325,320,619
Net Assets - End of Period	$ 244,096,239	$ 33,934,344	$ 93,571,544	$ 371,602,127

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

ELON UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended May 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS:				
Revenues and gains:				
Tuition and fees	$ 165,928,171	$ -	$ -	$ 165,928,171
Tuition discount	(31,923,257)	-	-	(31,923,257)
Net tuition	134,004,914	-	-	134,004,914
Sales and service of auxiliary enterprises	29,735,518	-	-	29,735,518
Federal grants	699,327	-	-	699,327
State grants	1,710,228	-	-	1,710,228
Other grants	165,207	33,000	-	198,207
Contributions	2,478,258	4,241,577	2,210,690	8,930,525
Contributions - Pledges	-	651,250	425,775	1,077,025
Investment income	736,478	310,885	7,494	1,054,857
Gain on investments	(594,802)	(524,225)	(719,615)	(1,838,642)
Loss on disposal of property and equipment	(1,857,164)	-	-	(1,857,164)
Athletics	3,273,079	295,788	-	3,568,867
Other sources	1,289,492	155,139	11,358	1,455,989
Total Revenues and Gains	171,640,535	5,163,414	1,935,702	178,739,651
Net Assets Released From/To Restrictions	6,120,537	(6,117,282)	(3,255)	-
Total Revenues, Gains and Other Support	177,761,072	(953,868)	1,932,447	178,739,651
Expenses:				
Instruction	81,111,031	-	-	81,111,031
Student services	26,593,041	-	-	26,593,041
Auxiliary enterprises	26,459,544	-	-	26,459,544
Academic support	7,427,870	-	-	7,427,870
Institutional support	23,892,920	-	-	23,892,920
Total Expenses	165,484,406	-	-	165,484,406
Increase (decrease) in Net Assets before change in interest rate swap agreements	12,276,666	(953,868)	1,932,447	13,255,245
Change in value of interest rate swap agreements	(7,956,769)	-	-	(7,956,769)
Increase (decrease) in Net Assets	4,319,897	(953,868)	1,932,447	5,298,476
Net Assets - Beginning of Year	203,286,450	32,084,636	84,651,057	320,022,143
Net Assets - End of Period	$ 207,606,347	$ 31,130,768	$ 86,583,504	$ 325,320,619

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

ELON UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

May 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	$ 46,281,508	$ 5,298,476
Adjustments to Reconcile Increase in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	9,437,139	8,986,386
Amortization of bond issue costs	86,904	75,843
Contributions of assets - other	(999,206)	(505,929)
Contributions of assets - property and equipment	(10,208,267)	-
Contributions of assets - endowment	(123,473)	(56,556)
Contributions restricted to endowment	(2,003,842)	(2,579,908)
(Gain) loss on investments	(17,885,009)	1,838,642
Loss on disposal of property and equipment	1,767,931	1,857,164
(Increase) decrease in:		
Accounts receivable	(908,645)	826,647
Prepaid expenses and other assets	(851,421)	(337,888)
Inventories	(10,172)	14,551
Contributions receivable	1,314,187	2,814,633
Loans to students	521,927	(135,689)
Increase (decrease) in:		
Accounts payable	797,894	1,366,390
Accrued liabilities	61,104	782,988
Student deposits	56,403	549,536
Deferred revenue	154,485	194,327
Other liabilities	1,467,153	506,308
Obligation under interest rate swap agreements	(2,289,449)	7,956,769
U.S. Government advances for student loans	(79,263)	(215,171)
Net cash provided by operating activities	26,587,888	29,237,519
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	17,677,036	6,776,908
Purchases of investments	(22,606,656)	(16,739,332)
Proceeds from disposal of property and equipment	9,680	-
Purchases of property and equipment	(44,103,672)	(44,906,501)
Increase in deposits with bond trustee	(18,600,047)	(12,964,295)
Net cash used by investing activities	(67,623,659)	(67,833,220)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bond issuance	54,595,000	40,340,000
Payments for bond issue costs	(235,373)	(442,946)
Reduction of capital leases	(520,878)	(299,069)
Principal payments on bonds	(4,305,000)	(3,590,000)
Contributions restricted to endowment	2,127,315	2,636,464
Net cash provided by financing activities	51,661,064	38,644,449
Net increase in cash and cash equivalents	10,625,293	48,748
Cash and cash equivalents, Beginning of year	5,947,326	5,898,578
Cash and cash equivalents, End of year	$ 16,572,619	$ 5,947,326

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

NOTE A: Summary of Significant Accounting Policies

(1) Organization

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

(2) Tax Status

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

(3) Consolidation

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

(4) Basis of Presentation

The accompanying consolidated financial statements of the university have been prepared on the accrual basis of accounting and in accordance with the reporting principles of not-for-profit accounting. Accounting standards require unconditional promises-to-give be recorded as receivables and revenue within the appropriate net asset category.

(5) Classification of Net Assets

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

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

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

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

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

(6) Fund Accounting

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

(7) Cash and Cash Equivalents

For purposes of the financial statements, cash and cash equivalents consist of demand deposit accounts, money market accounts and highly liquid investment accounts. The university maintains its cash and cash equivalents with several financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation. At May 31, 2013 and 2012, non-interest bearing accounts are fully insured while interest-bearing accounts are insured up to $250,000. Non-domestic accounts along with investment accounts are uninsured. Total uninsured cash and cash equivalents are $31,344,140 and $18,540,865 at May 31, 2013 and 2012, respectively.

A separate demand deposit account, which holds cash for the Federal Perkins Loan Program, is required and maintained by the university. The balance in this account is $98,359 and $46,893 at May 31, 2013 and 2012, respectively.

(8) Accounts Receivable

Accounts receivable include obligations from students in the normal course of operations and consist principally of billings for Summer Sessions I, post graduate programs and summer trips. Student receivables are stated at the amount billed, are uncollateralized and unpaid accounts bear no interest.

Payment for all classes is due on or before registration day of each semester. Students are not allowed to register until payment has been made. The university does extend credit plans to its students in the normal course of business. Credit plans must be prearranged and all payments are due before the close of the semester. The total amount included in accounts receivable at May 31, 2013 past due 120 days or more is $315,107. 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 $65,000 and $50,000 at May 31, 2013 and 2012, respectively.

(9) Inventories

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

(10) Deposits with Bond Trustee

Deposits with bond trustee consist of unexpended proceeds from the 2012 and 2011 bond issues. These funds are invested in short-term, highly liquid securities and will be used for construction of certain facilities.

(11) 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 a discount rate of 3.25%.

(12) Investments

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

(13) Endowment Funds

A donor's stipulation that requires a gift to be invested in perpetuity or for a specified term creates an endowment fund. Net appreciation on endowment funds is not permanently restricted unless such net appreciation has been permanently restricted by the donor or by law. Accordingly, market appreciation on permanently restricted endowment funds is generally classified in the consolidated financial statements as part of temporarily restricted net assets. It is the practice of the university to prudently invest pooled endowment funds consistent with the endowment asset allocation policy approved by the Board of Trustees. The university's spending policy is based on the moving three year average of the market value of the pooled endowment which equated to a spending policy rate of 4.5% at May 31, 2013 and 2012, respectively.

(14) Split-Interest Agreements

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

(15) Loans to Students

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

(16) Bond Issue Costs

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

(17) Interest Rate Swap Agreements

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

(18) 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 estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment donated with explicit restrictions on use and contributions of cash that must be used to acquire property and equipment are reported as temporarily or permanently restricted support. In the absence of donor stipulations regarding how long donated assets must be maintained, the university reports expirations of donor restrictions when the donated or acquired assets are placed in service. The university reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

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

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

(19) Revenue Recognition

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

(20) Contributions

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

If the university is able to satisfy a donor's restrictions in the same period the contribution is received, the restricted contribution is reported as unrestricted support. The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(21) Use of Estimates

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

NOTE B: Fair Value Measurements

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

At May 31, 2013, fair value of financial assets and financial liabilities is as follows:

	Level 1	Level 2	Level 3	**Total**
Contributions receivable	$ -	$ -	$ 5,525,091	$ 5,525,091
Investments:				
Cash & cash equivalents	20,359,504	-	-	20,359,504
Domestic equities/funds	3,219,203	-	-	3,219,203
Foreign equities/funds	1,028,972	-	-	1,028,972
Asset backed	-	13,246,843	-	13,246,843
Government and corporate bonds	19,671,681	-	-	19,671,681
U.S. government	951,009	-	-	951,009
Real estate	-	-	938,648	938,648
REITs	60,525	-	-	60,525
Other	783,439	-	-	783,439
Limited partnerships	-	-	146,846,271	146,846,271
Outside perpetual trusts	-	-	4,230,645	4,230,645
Loans to students	-	3,874,838	-	3,874,838
Financial Assets	**$ 46,074,333**	**$ 17,121,681**	**$ 157,540,655**	**$ 220,736,669**
Split-interest agreements - (accrued liabilities)	$ -	$ 803,859	$ -	$ 803,859
Refundable advances (CRUTs) - (other liabilities)	-	1,429,293	-	1,429,293
Obligation under interest rate swap agreements	-	9,126,616	-	9,126,616
Financial Liabilities	**$ -**	**$ 11,359,768**	**$ -**	**$ 11,359,768**

At May 31, 2012, fair value of financial assets and financial liabilities is as follows:

	Level 1	Level 2	Level 3	**Total**
Contributions receivable	$ -	$ -	$ 6,839,278	$ 6,839,278
Investments:				
Cash & cash equivalents	21,757,659	-	-	21,757,659
Domestic equities/funds	3,357,561	-	-	3,357,561
Foreign equities/funds	90,092	-	-	90,092
Asset backed	-	11,227,675	-	11,227,675
Government and corporate bonds	23,809,705	-	-	23,809,705
U.S. government	952,970	-	-	952,970
Real estate	-	-	1,114,870	1,114,870
REITs	20,530	-	-	20,530
Other	616,721	-	-	616,721
Limited partnerships	-	-	120,769,918	120,769,918
Outside perpetual trusts	-	-	3,805,204	3,805,204
Loans to students	-	4,396,765	-	4,396,765
Financial Assets	**$ 50,605,238**	**$ 15,624,440**	**$ 132,529,270**	**$ 198,758,948**
Split-interest agreements - (accrued liabilities)	$ -	$ 829,144	$ -	$ 829,144
Refundable advances (CRUTs) - (other liabilities)	-	1,301,929	-	1,301,929
Obligation under interest rate swap agreements	-	11,416,065	-	11,416,065
Financial Liabilities	**$ -**	**$ 13,547,138**	**$ -**	**$ 13,547,138**

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

At May 31, 2013, valuation methodologies used to measure fair value of financial assets and financial liabilities are as follows:

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

Investments - to the extent that the university directly owns and controls the investment, valuation is based on unadjusted quoted prices for identical assets in active markets that the university can access. Real estate is recorded at the acquisition price if purchased and appraised value if donated. For other investments, predominately "alternative investments", valuation is based on information supplied by external investment managers in accordance with FASB ASU2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. Management of the university believes this information is a reasonable estimate of fair value; however, because the alternative investments are not readily marketable and subject to redemption restrictions, the fair value is subject to uncertainty and therefore may differ from the amounts ultimately realized from these investments.

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

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

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

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

The following schedule summarizes changes in fair value of Level 3 financial assets during the years ended May 31, 2013 and 2012:

	Contributions Receivable	Real Estate	Alternative Investments	Perpetual Trusts	Total
Balance, May 31, 2011	$ 9,653,911	$ 1,177,870	$ 111,705,134	$ 4,168,244	$ 126,705,159
Change in value	101,395	(63,000)	(480,686)	(363,040)	(805,331)
Purchases/Gifts	-	-	16,185,000		16,185,000
Pledges	1,077,025	-	-		1,077,025
Sales	-	-	(6,639,530)	-	(6,639,530)
Collections	(3,993,053)	-	-	-	(3,993,053)
Balance, May 31, 2012	$ 6,839,278	$ 1,114,870	$ 120,769,918	$ 3,805,204	$ 132,529,270
Change in value	(293,000)	66,400	16,841,004	419,187	17,033,591
Purchases/Gifts	-	-	15,635,000	19,854	15,654,854
Pledges	2,850,200	-	-	-	2,850,200
Sales	-	(242,622)	(6,399,651)	(13,600)	(6,655,873)
Collections	(3,871,387)	-	-	-	(3,871,387)
Balance, May 31, 2013	$ 5,525,091	$ 938,648	$ 146,846,271	$ 4,230,645	$ 157,540,655

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

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

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

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

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

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

The university is contractually committed to provide additional funding for alternative investments under the terms of these partnership agreements. At May 31, 2013, these unfunded commitments amounted to $31,700.

NOTE C: Contributions Receivable

The payment timing of outstanding contributions receivable at May 31, 2013, is estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One Year	$ 1,131,397	$ 1,438,728	$ 3,851	$ 2,573,976
2 - 4 Years	910,576	1,815,633	-	2,726,209
5 Plus Years	829	224,077	-	224,906
Total	**$ 2,042,802**	**$ 3,478,438**	**$ 3,851**	**$ 5,525,091**

The payment timing of outstanding contributions receivable at May 31, 2012, is estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One Year	$ 1,889,336	$ 1,467,309	$ 8,642	$ 3,365,287
2 - 4 Years	1,845,873	1,099,435	4,594	2,949,902
5 Plus Years	189,283	334,806	-	524,089
Total	**$ 3,924,492**	**$ 2,901,550**	**$ 13,236**	**$ 6,839,278**

Contributions receivable are shown net of a collection allowance of $605,803 and $510,777 and a discount of $178,356 and $279,270 at May 31, 2013 and 2012, respectively.

A concentration exists when a pledge balance from an individual donor, to include entities under the donor's control, exceeds 10% of the total amounts receivable. These concentrations amounted to $1,500,000 and $810,000 at May 31, 2013 and 2012, respectively.

NOTE D: Investments

Major categories of investments at May 31, 2013 and 2012, are as follows:

	2013		2012	
	Cost	**Market**	**Cost**	**Market**
Non-endowment funds:				
Money market funds	$ 13,887,765	$ 13,888,028	$ 9,621,611	$ 9,621,611
Certificates of deposit	4,417,818	4,417,818	9,758,658	9,758,658
Equities	797,850	491,330	798,227	336,008
Fixed income	31,118,074	31,197,823	33,452,577	33,528,825
U.S. government obligations	1,011,536	929,257	991,415	920,193
Real estate	336,747	336,747	464,369	464,369
Other	544,820	544,820	417,316	417,316
Alternative investments	491,843	521,677	486,842	474,505
	52,606,453	52,327,500	55,991,015	55,521,485
Endowment and similar funds:				
Money market funds	$ 2,192,416	$ 2,194,801	$ 2,491,022	$ 2,491,036
Equities	4,680,200	5,968,425	4,893,677	5,140,450
Fixed income	3,021,585	3,149,951	2,872,669	2,950,644
U.S. government obligations	21,085	21,751	31,608	32,777
Real estate	601,901	601,901	650,501	650,501
Other	725,584	747,817	463,103	440,599
Alternative investments	109,550,333	146,324,594	99,156,415	120,295,413
	120,793,104	159,009,240	110,558,995	132,001,420
Total	**$ 173,399,557**	**$ 211,336,740**	**$ 166,550,010**	**$ 187,522,905**

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

Investment returns are reported net of investment fees. The amount of fees paid during the fiscal years ended May 31, 2013 and 2012, are $1,200,440 and $964,606, respectively.

NOTE E: Endowment and Similar Funds

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

In 2008, North Carolina adopted UPMIFA, which the university has interpreted 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 temporarily restricted net assets until appropriated for expenditure. The university records the investment returns on the specific-purpose endowment funds in temporarily restricted net assets and makes those earnings available for expenditure for the donor-restricted purposes.

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

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

The endowment pool utilizes a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). External investment managers are employed to oversee the endowment and tasked with the objective of achieving returns that equal or exceed five percentage points (net of fees and in excess of spending and inflation). These investment managers utilize a highly diversified mixture of equities, fixed income and alternative investments. The university's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

The Board of Trustees has approved an endowment spending policy whereby distributions are based on the moving three year average of the market value of the pooled endowment. The applicable rate was 4.5% for the years ended May 31, 2013 and 2012, respectively. Actual endowment return earned in excess of distributions under this policy is reinvested as part of the university's endowment. For years where actual endowment return is less than distributions under the policy, the shortfall is covered by available gains from prior years. Specific appropriation for expenditure of unrestricted funds under the university's endowment spending policy occurs each spring when the Board approves the university's operating budget for the ensuing fiscal year. All donor-restricted returns are invested until appropriated for expenditure by the institution.

Endowment totals as of May 31, 2013 and 2012, are as follows:

	2013	2012
Contributions receivable, net	$ 2,042,802	$ 3,924,492
Investments	159,009,240	132,001,420
Accrued and other liabilities	(2,232,890)	(1,967,365)
Total	**$ 158,819,152**	**$ 133,958,547**

Endowment net asset compositions as of May 31, 2013 and 2012, are as follows:

	2013	2012
Unrestricted – Board designated	$ 45,007,833	$ 31,753,916
Unrestricted – Donor designated	1,061,109	(1,160)
Temporarily restricted	20,192,900	16,558,745
Permanently restricted	92,557,310	85,647,046
Total	**$ 158,819,152**	**$ 133,958,547**

Changes in endowment net assets during the years ended May 31, 2013 and 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, May 31, 2011	$ 24,366,838	$ 19,993,165	$ 83,767,475	$ 128,127,478
Contributions - Donors	-	-	2,636,464	2,636,464
Contributions - Board designated	9,000,000	-	-	9,000,000
Investment income	-	31,573	7,489	39,062
Gain (loss) on investments	(1,064,310)	164,020	(731,715)	(1,632,005)
Spending policy	(861,271)	(3,722,816)	-	(4,584,087)
Transfers	311,499	92,803	(32,667)	371,635
Balance, May 31, 2012	31,752,756	16,558,745	85,647,046	133,958,547
Contributions - Donors	-	-	2,127,315	2,127,315
Contributions - Board designated	9,750,000	-	-	9,750,000
Investment income	-	201,610	-	201,610
Gain on investments	5,426,982	7,840,621	4,477,874	17,745,477
Spending policy	(860,796)	(4,435,940)	-	(5,296,736)
Transfers	-	27,864	305,075	332,939
Balance, May 31, 2013	$ 46,068,942	$ 20,192,900	$ 92,557,310	$ 158,819,152

The fair value of assets associated with individual donor restricted endowment funds may fall below the historic gift value. These deficiencies amounted to $0 and $221,384 at May 31, 2013 and 2012, respectively. In accordance with GAAP, deficiencies of this nature first reduce available temporarily restricted net assets. Any remaining loss shall reduce unrestricted net assets. While UPMIFA allows spending from these so-called underwater funds, the university deemed it prudent not to spend from them during the years ended May 31, 2013 and 2012.

NOTE F: Planned Giving Agreements and Trusts

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

Outside Perpetual Trusts

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

	2013	2012
Trustee distributions restricted to scholarship:		
Asset value	$ 1,122,079	$ 1,010,932
Trustee distributions	13,600	33,154
Trustee distributions restricted to professorship:		
Asset value	$ 895,978	$ 764,891
Trustee distributions	37,287	35,943
Unrestricted trustee distributions:		
Asset value	$ 2,212,589	$ 2,029,381
Trustee distributions	78,008	82,479

Pooled (or Life) Income Fund

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

	2013	2012
Asset Value	$ 247,990	$ 210,514

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.

	2013	2012
Annuities liability	$ 698,135	$ 570,441
Total contributions to charitable gift annuities	199,750	335,000
Change in value of charitable gift annuities	(36,592)	(33,690)

Charitable Remainder Unitrusts

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

	2013	2012
Unitrust liability	$ 167,113	$ 124,004
Change in value of charitable remainder trusts	7,830	(523)

NOTE G: Loans to Students

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

	2013	2012
Perkins loans receivable are due from students, payable in monthly or quarterly minimum installments of $40 or $120, respectively. Interest is computed at an annual rate of 5%. These loans are unsecured. Receivables are net of an allowance for doubtful accounts totaling $40,000 at May 31, 2013 and 2012.	$ 3,380,561	$ 3,892,247
Elon loans receivable are due from students, payable in minimum monthly installments that range from $50 to $120. Interest is computed at an annual rate not to exceed 5%. Some of these loans are secured by a cosigner. Receivables are net of an allowance for doubtful accounts totaling $30,000 at May 31, 2013 and 2012.	494,277	504,518
Total	**$ 3,874,838**	**$ 4,396,765**

NOTE H: Financing Receivables

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

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

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

At May 31, 2013 and 2012, student loans are as follows:

	2013	2012
Federal Perkins loan program	$ 3,420,561	$ 3,932,247
Institutional loans	524,277	534,518
	3,944,838	4,466,765
Less allowance for doubtful accounts:		
Beginning of the year	(70,000)	(70,000)
Increases	(76,815)	(759)
Charge offs	76,815	759
End of year	(70,000)	(70,000)
Student loans receivable, net	$ 3,874,838	$ 4,396,765

At May 31, 2013 and 2012, past due amounts are as follows:

	1-60 Days Past Due	60-90 Days Past Due	Over 90 Days Past Due	Total
2013	$ 13,677	$ 647	$ 573,042	$ 587,366
2012	15,291	962	526,087	542,340

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, 2013 and 2012, default rates are as follows:

	2013	2012
Federal Perkins loan program	2.08%	1.98%
Institutional loans - Undergraduate	6.63%	6.56%
Institutional loans - Graduate	5.29%	6.88%

NOTE I: Construction in Progress

Projects in process at May 31, 2013 and 2012, are as follows:

2013 Project Description		Cost Incurred Through 5/31/13	Estimated Date of Completion
Global Neighborhood Phase 1 (2012 bond issue)	$	18,353,867	August 2013
Global Neighborhood Phase 2 (2012 bond issue)		2,855,874	August 2014
Admissions Building		269,773	January 2015
Koury Field House Renovation		382,850	August 2013
Martin Alumni Center		282,906	August 2013
Softball Team Building		152,176	December 2013
Others		1,296,778	Various
Total	**$**	**23,594,224**	

2012 Project Description		Cost Incurred Through 5/31/12	Estimated Date of Completion
Global Neighborhood concept development (2012 bond issue)	$	2,133,858	August 2012
The Station at Mill Point (2011 bond issue)		17,735,373	August 2012
McMichael Lower Level Renovation		250,468	August 2012
Lakeside Dining Hall (2011 bond issue)		7,591,608	December 2012
Numen Lumen Pavilion		1,357,966	January 2013
Global Neighborhood (2012 bond issue)		1,549,130	August 2014
Others		1,545,949	Various
Total	**$**	**32,164,352**	

NOTE J: Property and Equipment

Property and equipment at May 31, 2013 and 2012, are as follows:

		2013		2012
Land and land improvements	$	47,832,723	$	41,168,446
Buildings		279,532,229		235,460,458
Computers and related equipment		4,347,537		4,406,528
Library resources		10,127,969		10,487,797
Vehicles		4,217,869		4,095,203
Audiovisual equipment		2,782,171		2,691,208
Science equipment		2,059,770		1,971,003
Software		2,162,768		2,156,760
Telephone systems and equipment		170,771		324,436
Other moveable assets		8,949,410		8,101,428
Collections		2,064,568		2,064,568
		364,247,785		312,927,835
Less: Accumulated depreciation		89,895,464		90,333,483
Total	**$**	**274,352,321**	**$**	**222,594,352**

Depreciation expense is $9,437,139 and $8,986,386 for the years ended May 31, 2013 and 2012, respectively.

NOTE K: Accrued Liabilities

Accrued liabilities at May 31, 2013 and 2012, are as follows:

	2013	2012
Salaries and wages	$ 7,340,204	$ 7,277,554
Compensated absences	3,465,088	4,061,299
Split-interest agreements	803,859	829,144
Employee benefits and payroll taxes	(1,560)	(9,628)
Conditional asset retirement obligations	342,283	659,578
Accrued other	611,882	-
Total	**$ 12,561,756**	**$ 12,817,947**

<u>Compensated Absences</u>

Eligibility for vacation is based on continuous service with the university. Employees earn vacation based on their length of service. The maximum number of accumulated vacation days an employee 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 employee contract. Sick leave accrues at the rate of one day per month. Unused sick leave may accumulate up to 130 days; however, accumulated sick leave will not be paid at separation from service. Since the university has no obligation for the accumulated sick leave until it is actually taken, no liability for unpaid sick leave has been recorded in these consolidated financial statements.

<u>Conditional Asset Retirement Obligations</u>

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 2.7%.

NOTE L: Other Liabilities

Other liabilities at May 31, 2013 and 2012, are as follows:

	2013	2012
Agency obligations	$ 2,038,912	$ 1,397,623
Refundable advances - Exchange transactions	2,125,917	1,427,417
Refundable advances - CRUTs	1,429,293	1,301,929
Total	**$ 5,594,122**	**$ 4,126,969**

<u>Agency Obligations</u>

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 their proportionate share of investment earnings and decreased by distributions as well as by their proportionate share of investment losses. The obligation amounted to $521,677 and $474,505 at May 31, 2013 and 2012, respectively.

Refundable Advances - Exchange Transactions

As of May 31, 2012, the university has five exchange transaction agreements with an existing service provider. The university consented to extend the service provider's agreement for ten years and in exchange the service provider transferred amounts totaling $2,915,000 to the university with the stipulation that the monies be expended on specific capital purchases. Each contract further stipulates that if either party to the transaction should terminate the agreement during the ten years, the university will return the unamortized portion of the refundable advance, calculated on a straight-line basis. One agreement contains a contingent interest penalty, which would be added to the refundable advance only in the event of early termination. This contingent interest penalty totaled $223,585 at May 31, 2013, and has not been included in the consolidated financial statements.

On August 1, 2009, the university entered into an exchange transaction with an existing service provider. The university consented to extend the service provider's agreement for eight years and in exchange the service provider transferred $300,000 to the university with no stipulation governing its use. It was agreed that if the university terminates this relationship during the eight years, the unamortized portion of the refundable advance, calculated on a straight-line basis, will be returned.

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 Trust's assets reported as other liabilities in the Consolidated Statements of Financial Position. Absent a change in the revocable beneficiary, assets held in the Trusts will be recognized as contribution revenue upon the trusts' termination.

NOTE M: Obligation Under Capital Leases

The university acquired computers and related equipment under the provisions of long-term leases. For financial reporting purposes, minimum lease payments have been capitalized. The leases expire at various times through September 2015.

Property held under capital leases at May 31, 2013 and 2012, is as follows:

	2013	2012
Computers and related equipment	$ 1,721,492	$ 1,631,412
Less: Accumulated amortization	653,600	444,913
Total	**$ 1,067,892**	**$ 1,186,499**

Amortization of assets under capital leases is included in depreciation expense and amounted to $523,886 and $345,581 for the years ended May 31, 2013 and 2012, respectively.

Future minimum lease payments under capital leases and the net present value of the future minimum lease payments at May 31, 2013, are as follows:

Year ending May 31	Amount
2014	$ 499,905
2015	499,905
2016	79,550
Total lease payments	1,079,360
Less: Amounts representing interest	41,472
Present value of future minimum lease payments	**$ 1,037,888**

Total interest costs incurred related to the obligation under capital leases are $47,927 and $27,339 for the years ended May 31, 2013 and 2012, respectively.

NOTE N: Bonds Payable

The following bonds were issued through the North Carolina Capital Facilities Finance Agency. All issues with the exception of Series 2012 are secured by a letter of credit. Effective August 1, 2012 management replaced the former provider of these letters, Bank of America with two new lenders, TD Bank and US Bank. Terms of the new letters are substantially similar to those that were replaced. The 2012 bonds were issued as a direct purchase by BB&T. The university has made certain covenants including use of the proceeds and sale of project property.

Remaining principal balances at May 31, 2013 and 2012, are as follows:

	2013	2012
Revenue Bonds, Series 1997 - $17,815,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 and continued through 2003 and began again in 2009 and will continue through 2019.	$ 12,910,000	$ 13,850,000
Revenue Bonds, Series 1998 - $14,010,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 and will continue through 2021.	6,890,000	7,595,000
Revenue Bonds, Series 2000 - $4,325,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2002 and will continue through 2023.	2,480,000	2,675,000
Revenue Bonds, Series 2001A - $9,640,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2002 and will continue through 2014. The bonds are subject to an interest rate swap agreement referenced in Note O.	1,075,000	2,095,000
Revenue Bonds, Series 2001C - $7,255,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2004 and will continue through 2026.	4,960,000	5,235,000
Revenue Bonds, Series 2006 - $18,905,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2008 and will continue through 2031. The bonds are subject to an interest rate swap agreement referenced in Note O.	15,575,000	16,180,000
Revenue Bonds, Series 2010 - $21,135,000, bearing a weekly variable market interest rate paid monthly. Principal payments will begin in 2013 and will continue through 2035. The bonds are subject to an interest rate swap agreement referenced in Note O.	20,570,000	21,135,000
Revenue Bonds, Series 2011 - $40,340,000, bearing a weekly variable market interest rate paid monthly. Principal payments will begin in 2014 and will continue through 2036. The bonds are subject to an interest rate swap agreement referenced in Note O.	40,340,000	40,340,000
Revenue Bonds, Series 2012-$54,595,000, bearing a weekly variable market interest rate paid monthly. Principal payments will begin in 2015 and will continue through 2037.	54,595,000	-
Total	**$ 159,395,000**	**$ 109,105,000**

Aggregate maturities of bonds payable at May 31, 2013, are as follows:

2014	$ 4,490,000
2015	5,720,000
2016	5,930,000
2017	6,145,000
2018	6,365,000
Thereafter	130,745,000
Total	**$ 159,395,000**

Total interest costs incurred related to bonds payable are $3,236,615 and $2,387,942 for the years ended May 31, 2013 and 2012, respectively, and of these amounts $1,029,098 and $1,267,634, respectively, are capitalized as a cost of construction.

NOTE O: Obligation Under Interest Rate Swap Agreements

The university has recorded four interest rate swap agreements on the Consolidated Statements of Financial Position at fair value. Agreements involve series 2001A, 2006, 2010, and 2011 bond issues, and allow the university to exchange variable for fixed rate interest payment obligations. The swap agreements are used to minimize the impact of future interest rate changes. Effective July 1, 2012 management renegotiated these agreements, under substantially similar terms from the previous provider Bank of America to Wells Fargo.

Under the agreements, payments are made or received based on the difference between fixed rates listed below and 65% to 70% of the USD-LIBOR BBA index. The university anticipates holding the interest rate swap agreements until all debt under the agreements has been retired. Principal maturities on the remaining debt conclude in 2036.

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

The obligation under interest rate swap agreements at May 31, 2013 and 2012, is as follows:

	Fixed Rate	2013	Fixed Rate	2012
Series 2001A	4.26%	$ 29,526	4.10%	$ 95,210
Series 2006	3.78%	2,986,066	3.62%	3,676,029
Series 2010	3.30%	2,346,267	3.14%	2,813,396
Series 2011	3.01%	3,764,757	2.85%	4,831,430
Total		**$ 9,126,616**		**$ 11,416,065**

NOTE P: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at May 31, 2013 and 2012, are as follows:

	2013	2012
Contributions to buildings and equipment	$ 3,362,008	$ 3,981,770
Endowment related funds	25,647,173	21,768,191
Split-interest agreements and term endowments	651,180	575,890
Non-endowed contributions for scholarships and operations	4,273,983	4,804,917
Temporarily restricted net assets	**$ 33,934,344**	**$ 31,130,768**

Permanently restricted net assets at May 31, 2013 and 2012, are as follows:

	2013	2012
Permanent endowment funds	$ 90,421,198	$ 81,553,624
Contributions receivable, net	2,042,802	3,924,492
Split-interest agreements and term endowments	473,866	471,711
Student loan funds	633,678	633,677
Permanently restricted net assets	**$ 93,571,544**	**$ 86,583,504**

NOTE Q: Financial Aid (Tuition Discount)

The university awards financial aid based on academic merit, need and leadership. Gross tuition discounts are 19.5% and 19.3% for the years ended May 31, 2013 and 2012, respectively. The unfunded discount rate is16.6% and 16.3% for the years ended May 31, 2013 and 2012, 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).

	2013		2012	
Total Tuition and Fees	**Dollars**	**Percentage**	**Dollars**	**Percentage**
Unfunded discount - general	$ 28,429,578	16.1%	$ 26,148,323	15.8%
Unfunded discount - quasi	880,100	0.5%	851,600	0.5%
Total unfunded discount	29,309,678	16.6%	26,999,923	16.3%
Funded discount	5,058,030	2.9%	4,923,334	3.0%
Total	$ 34,367,708	19.5%	$ 31,923,257	19.3%
Gross tuition and fees	$ 177,051,421		$ 165,928,171	

	2013		2012	
Undergraduate Tuition and Fees	**Dollars**	**Percentage**	**Dollars**	**Percentage**
Unfunded discount - general	$ 24,218,813	15.4%	$ 22,192,091	15.2%
Unfunded discount - quasi	880,100	0.6%	851,600	0.6%
Total unfunded discount	25,098,913	16.0%	23,043,691	15.8%
Funded discount	4,798,159	3.1%	4,814,659	3.3%
Total	$ 29,897,072	19.1%	$ 27,858,350	19.1%
Gross tuition and fees	$ 156,812,530		$ 145,954,581	

NOTE R: Gift Revenue

Major categories of gift revenue for the years ending May 31, 2013 and 2012, are as follows:

	2013	2012
Annual Funds	$ 2,311,270	$ 2,290,214
Endowment and similar funds	2,152,315	2,636,464
Capital projects	15,525,357	3,036,916
Restricted to programs	1,917,745	1,781,426
Restricted to scholarships	520,124	262,530
Total	**$ 22,426,811**	**$ 10,007,550**

NOTE S: Allocation of Expenses

Expenses which are not directly charged to specific programs are allocated to those programs based on estimates. The totals of these allocations are $34,768,516 and $31,104,800 for the years ended May 31, 2013 and 2012, respectively. Allocations of specific program expenses are as follows:

	2013			
Program	Physical Plant	Depreciation	Debt Service/Other	**Total**
Instruction	$ 4,744,402	$ 3,376,688	$ 2,640,168	$ 10,761,258
Student services	2,086,368	1,292,851	903,363	4,282,582
Auxiliary enterprises	6,833,366	4,193,804	5,456,103	16,483,273
Academic support	641,628	398,361	418,725	1,458,714
Institutional support	302,167	175,436	1,305,086	1,782,689
Total	**$ 14,607,931**	**$ 9,437,140**	**$ 10,723,445**	**$ 34,768,516**

	2012			
Program	Physical Plant	Depreciation	Debt Service/Other	**Total**
Instruction	$ 4,449,555	$ 3,494,997	$ 2,610,874	$ 10,555,426
Student services	1,984,905	1,234,357	764,301	3,983,563
Auxiliary enterprises	5,822,338	3,620,750	3,756,738	13,199,826
Academic support	663,019	412,313	419,064	1,494,396
Institutional support	312,241	223,969	1,335,379	1,871,589
Total	**$ 13,232,058**	**$ 8,986,386**	**$ 8,886,356**	**$ 31,104,800**

NOTE T: Retirement Plan

The university has a defined contribution pension plan covering substantially all employees. The plan has no post service benefits or further liabilities beyond the periodic contribution for each participating employee. Total contributions by the university to this plan are $5,366,664 and $5,025,480 for the years ended May 31, 2013 and 2012, respectively.

NOTE U: Fund Raising

Fundraising costs are $4,425,748 and $4,322,608 for the years ended May 31, 2013 and 2012, respectively. These costs are included with other costs and are shown as institutional support on the Consolidated Statement of Activities.

NOTE V: Student Housing

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

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

CHF – Elon, LLC has a June 30 fiscal year end. As such, calculation of any ground lease payment due the university (net available cash flow) will be determined after the close of CHF – Elon, LLC's fiscal year and is not earned by the university until that time. The university earned ground lease income of $629,476 and $544,806 during the years ended May 31, 2013 and 2012, 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 $360,053 and $56,217 at May 31, 2013 and 2012, respectively. These balances are classified as accounts receivable in the Consolidated Statements of Financial Position.

NOTE W: Income Taxes

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

Generally, federal income tax returns are subject to examination by the Internal Revenue Service for three years after they are filed. As of the report date (September 20, 2013), the university's federal Exempt Organization Business Income Tax Returns (Form 990-T) for 2012, 2011 and 2010 remain subject to said examination.

NOTE X: Supplemental Disclosures of Cash Flow Information

During the years ended May 31, 2013 and 2012, cash payments for interest on bonds and capital leases amounted to $2,255,444 and $1,147,647, respectively. These numbers are net of amounts capitalized as cost of construction.

The university received noncash contributions in stock totaling $1,122,679 and $562,485 during the years ended May 31, 2013 and 2012, respectively.

The university received noncash contributions in property within our investment portfolio totaling $57,759 and $0 during the years ended May 31, 2013 and 2012, respectively.

The university received noncash contributions in property, plant and equipment totaling $10,208,267 and $0 during the years ended May 31, 2013 and 2012, respectively.

The university disposed of distressed assets resulting in a noncash decrease in accrued liabilities of $317,295 and $0 during the years ended May 31, 2013 and 2012, respectively.

Computers and related equipment costing $970,406 and $972,373 were acquired under the terms of capital leases during the years ended May 31, 2013 and 2012, respectively. The cost of property acquired as well as the initial lease obligations have been excluded from the Consolidated Statements of Cash Flows.

The university disposed of capital leases resulting in a noncash decrease in obligations under capital leases of $562,459 and $0 during the years ended May 31, 2013 and 2012, respectively.

NOTE Y: Commitments and Contingencies

(1) Department of Education Funds

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

(2) Construction and Purchase Commitments

As of May 31, 2013 the university had outstanding contractual commitments and equipment purchase orders totaling $25,850,841.

(3) Investment Commitments

Elon University is obligated under investment fund agreements to periodically advance additional funding for these investments up to specified levels. At May 31, 2013, the university had future commitments of $31,700.

(4) Operating Leases

The university leases buildings, equipment and vehicles under operating leases that will expire in various years through 2027. Rent expense was $959,259 and $951,353 for the years ended May 31, 2013 and 2012, respectively. Commitments for minimum future rental payments for each of the next five years and thereafter are as follows:

Year Ending	Amount
2013	$ 916,618
2014	848,786
2015	654,506
2016	476,361
2017	387,832
Thereafter	3,339,577
Total minimum future rental payments	**$ 6,623,680**

The university also leases apartments and houses for student housing under operating leases that will expire in 2014. Rent expense was $847,836 and $973,668 for the years ended May 31, 2013 and 2012, respectively. Rent expense is more than offset by housing revenue received from students living in these units. The university has a commitment of $43,200 for minimum future rental payments at May 31, 2013.

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

(5) Employment Related Commitments

Elon University has entered into employment related agreements with certain employees which obligate the university to potential future payments. At May 31, 2013, those maximum potential future payments under these agreements are $6,044,071.

(6) Contingencies

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

NOTE Z: Subsequent Events

Subsequent events related to the consolidated financial statements have been evaluated through September 20, 2013, the date the consolidated financial statements were issued, and it has been determined that there are no events that require adjustment to, or disclosure in, these consolidated financial statements.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Elon University:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Elon University as of and for the year ended May 31, 2013, and our report thereon dated September 20, 2013 expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on these consolidated financial statements as a whole.

The accompanying graphs of tuition and fees, room and board 2004 - 2013, student enrollment 2003 - 2012, student selectivity 2004 - 2013, endowment market value 2004 - 2013 and net assets and liabilities 2004 – 2013 are presented for purpose of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

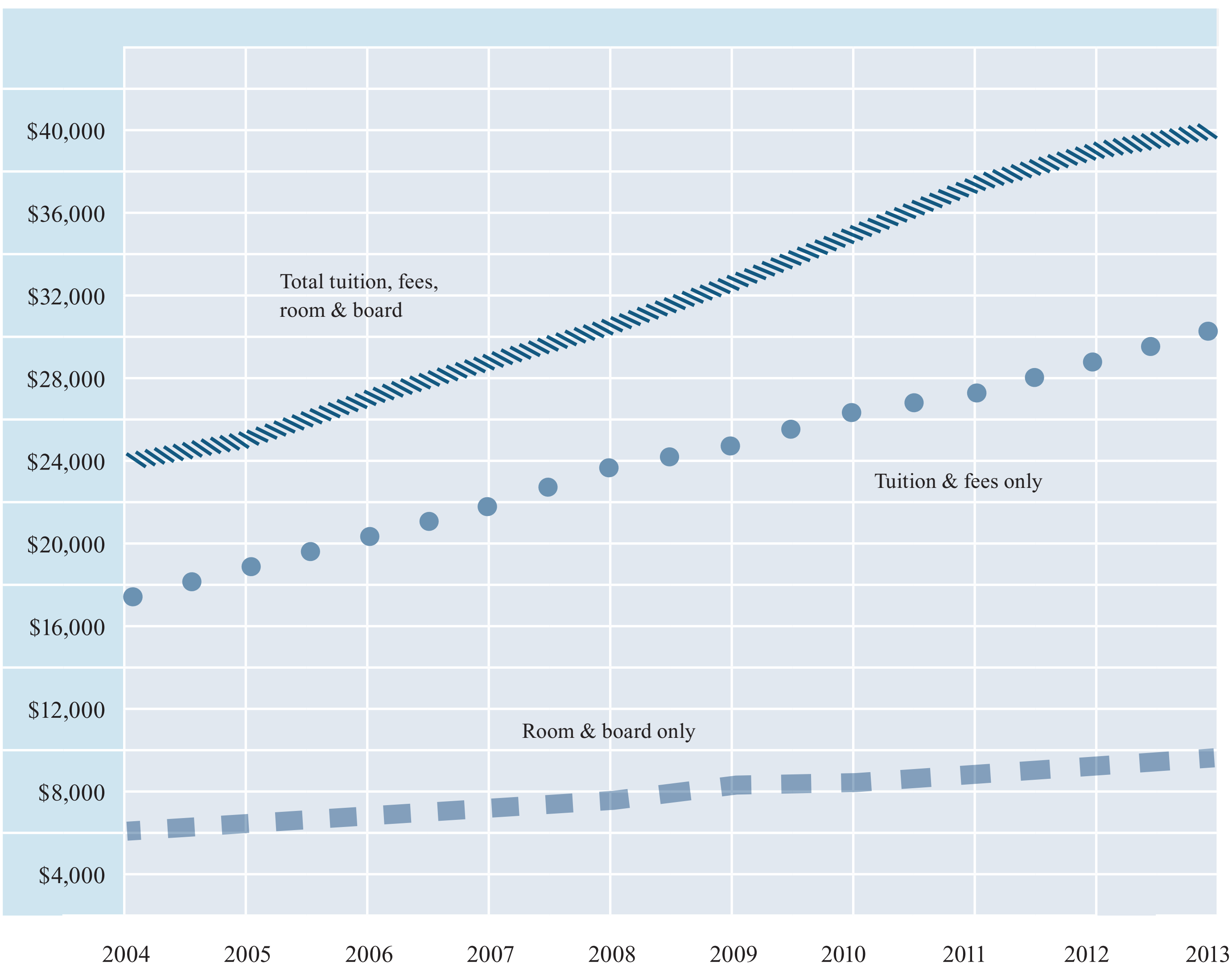
Charlotte, North Carolina
September 20, 2013

ADDITIONAL INFORMATION PROVIDED BY ELON UNIVERSITY

TUITION AND FEES, ROOM AND BOARD 2004–2013

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

FALL	TUITION	FEES	ROOM	BOARD	TOTAL
2004	$17,310	$245	$2,936	$3,074	$23,565
2005	$18,699	$250	$3,112	$3,310	$25,371
2006	$20,171	$270	$3,320	$3,530	$27,291
2007	$21,886	$280	$3,536	$3,760	$29,462
2008	$23,746	$330	$3,766	$4,004	$31,589
2009	$25,159	$330	$3,992	$4,244	$33,725
2010	$26,480	$347	$4,192	$4,456	$35,475
2011	$27,534	$347	$4,440	$4,650	$36,971
2012	$28,633	$347	$4,690	$4,790	$38,460
2013	$29,750	$399	$4,953	$4,944	$40,046



This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 36.

STUDENT ENROLLMENT 2003–2012

This graph shows a ten year trend of total enrollment on a head-count basis. Enrollment has been impacted by incoming freshman classes, continuing improved retention, and the addition of new graduate programs.

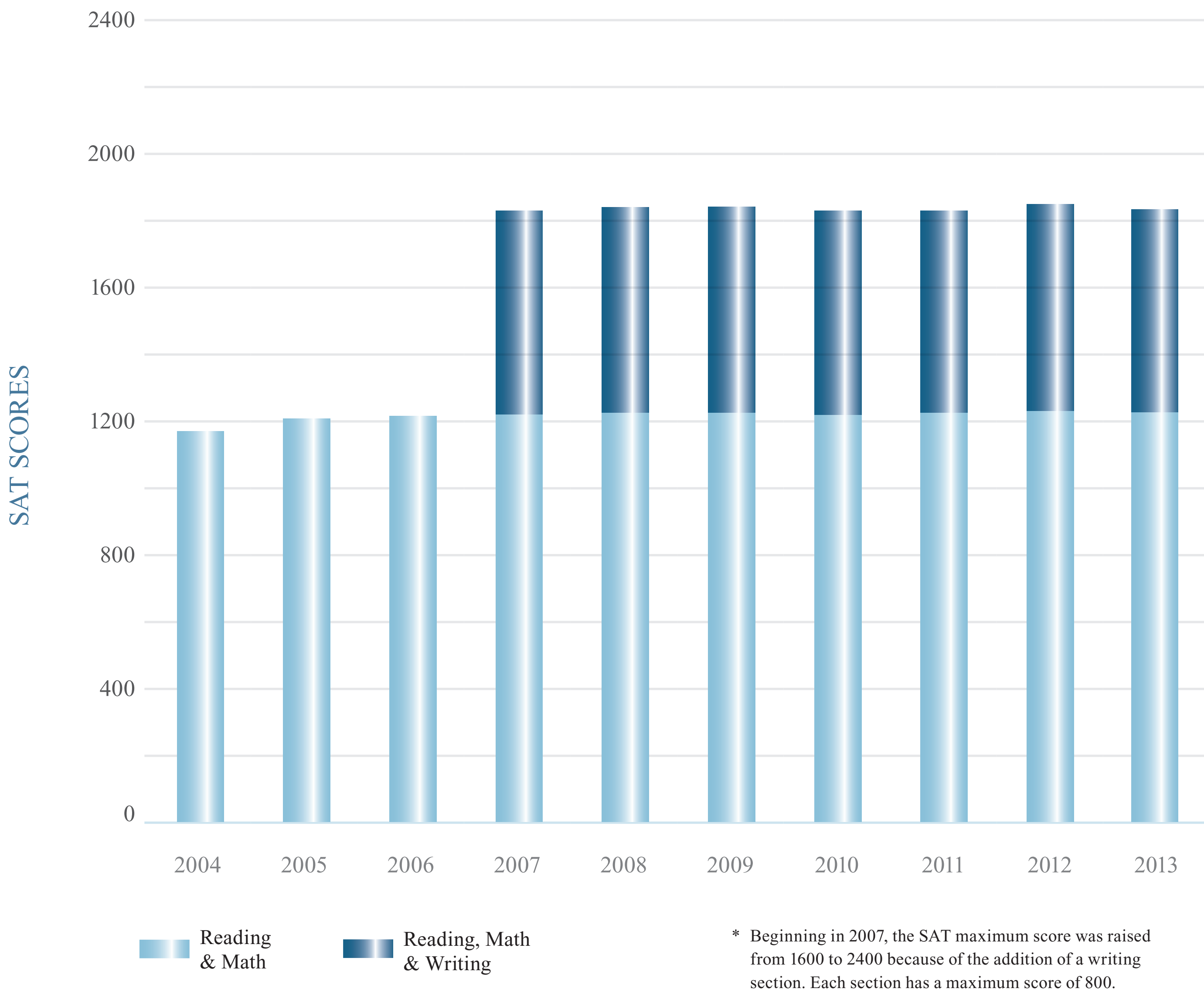
YEAR	UNDERGRADUATE	GRADUATE	TOTAL
2003	4,431	153	4,584
2004	4,622	174	4,796
2005	4,702	254	4,956
2006	4,849	381	5,230
2007	4,939	517	5,456
2008	4,992	636	5,628
2009	4,995	671	5,666
2010	5,032	677	5,709
2011	5,225	691	5,916
2012	5,357	672	6,029

This graph was not subjected to auditing procedures.
Please see the independent auditor’s report on additional information at page 36.

STUDENT SELECTIVITY
2004–2013

Measures of student quality have increased consistently over the last ten years. Applications for undergraduate admission exceeded 9,900 and the average SAT score is over 1830.*

YEAR	APPLICATIONS	SAT SCORES	SAT SCORES
2004	8,063	1169	
2005	9,065	1208	
2006	9,204	1216	
2007	9,380	1220	1830
2008	9,434	1225	1840
2009	9,041	1225	1843
2010	9,771	1218	1830
2011	9,079	1218	1832
2012	10,241	1229	1846
2013	9,950	1222	1831

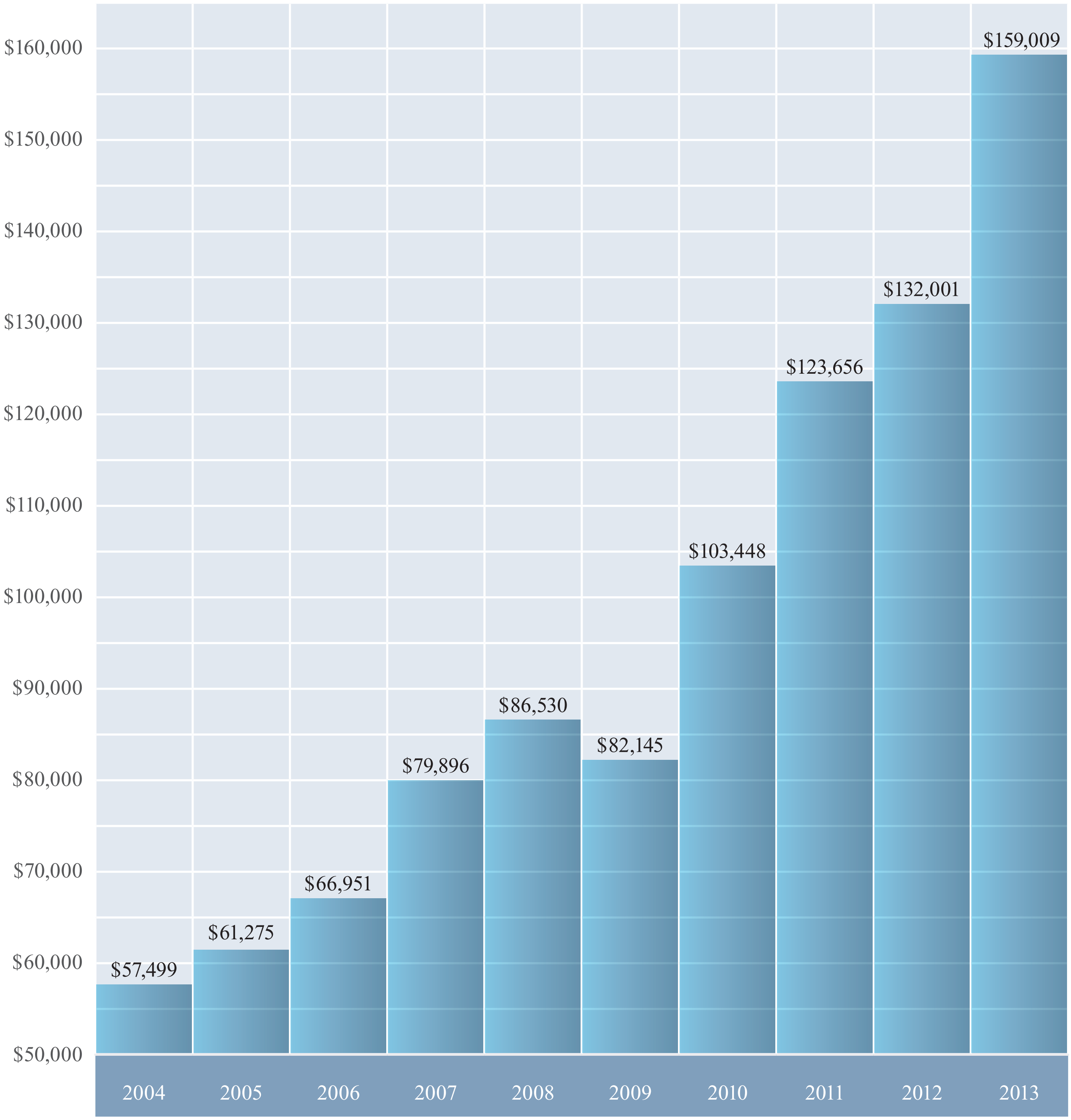


* Beginning in 2007, the SAT maximum score was raised from 1600 to 2400 because of the addition of a writing section. Each section has a maximum score of 800.

This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 36.

ENDOWMENT MARKET VALUE (000) 2004–2013

The overall trend of the endowment market value has been positive over the past ten years.

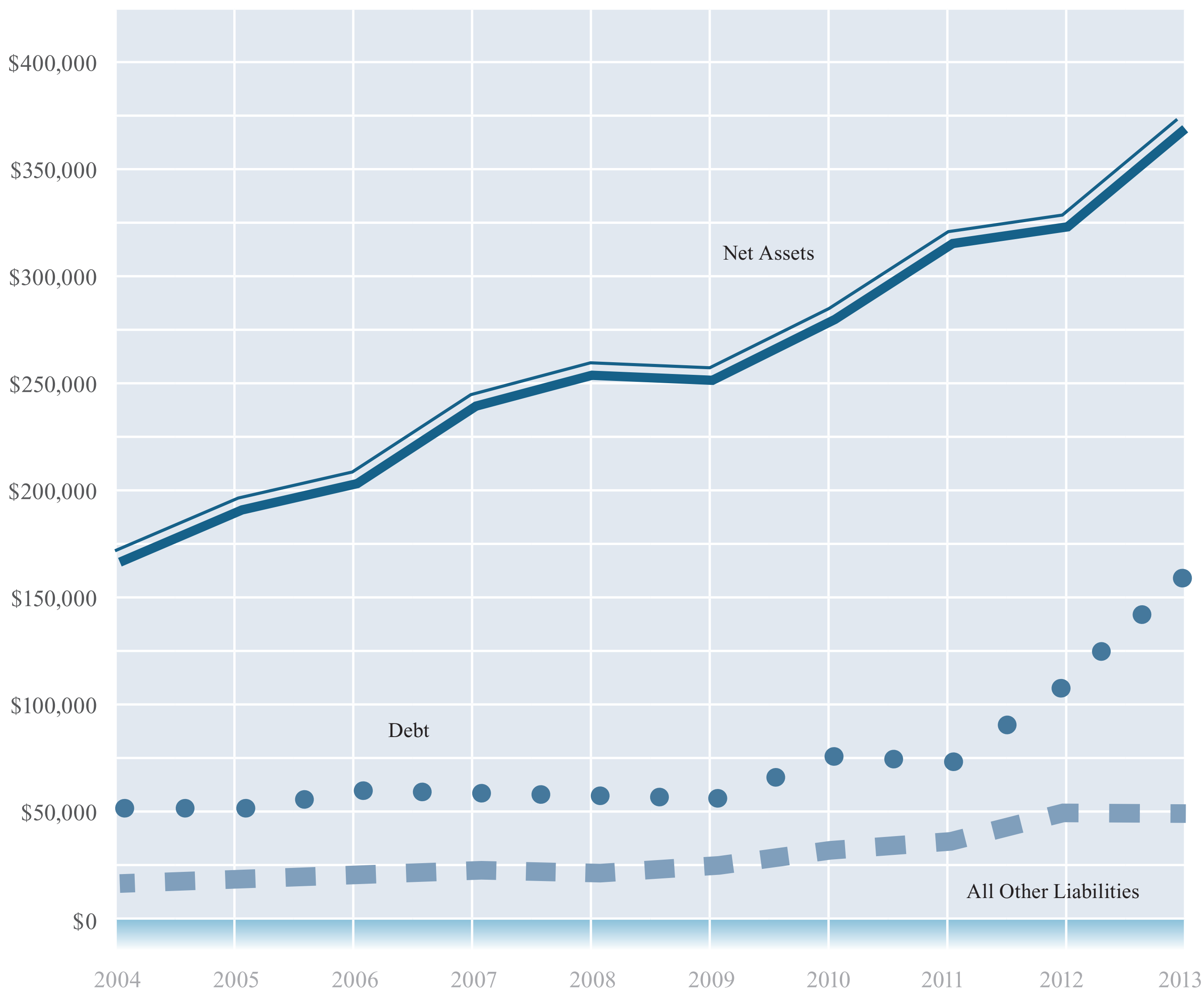


This graph was not subjected to auditing procedures.
Please see the independent auditor's report on additional information at page 36.

NET ASSETS AND LIABILITIES (000)
2004–2013

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

YEAR	NET ASSETS	DEBT	ALL OTHER LIABILITIES
2004	$172,310	$54,021	$17,976
2005	$190,172	$51,348	$19,934
2006	$210,408	$67,475	$22,573
2007	$244,249	$64,562	$25,735
2008	$260,879	$61,090	$24,499
2009	$257,314	$57,940	$28,952
2010	$285,253	$75,785	$32,342
2011	$320,022	$72,355	$36,506
2012	$325,321	$109,105	$48,320
2013	$371,602	$159,395	$48,058



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Please see the independent auditor's report on additional information at page 36.

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ELON UNIVERSITY

Financial & Audit Report

May 31, 2013 & 2012