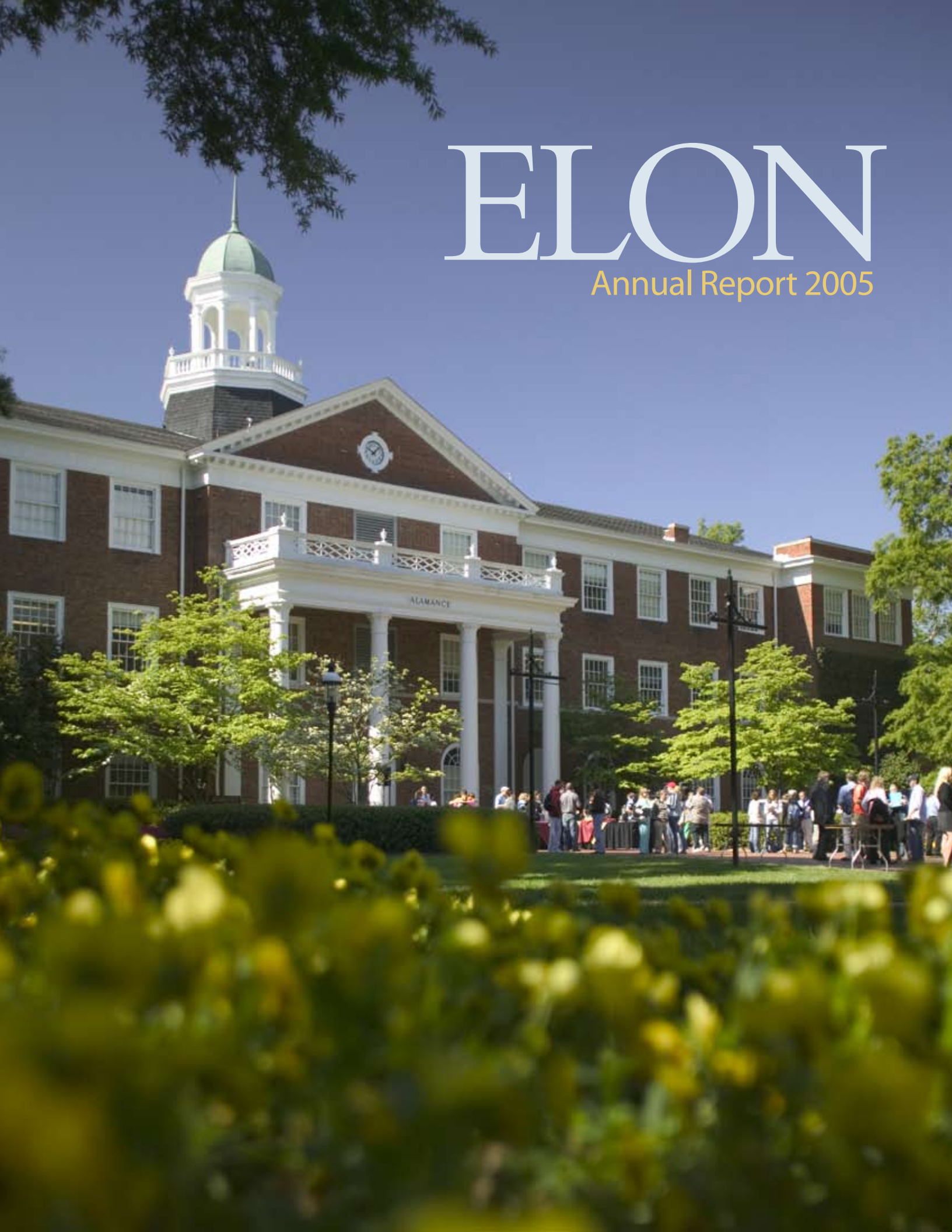
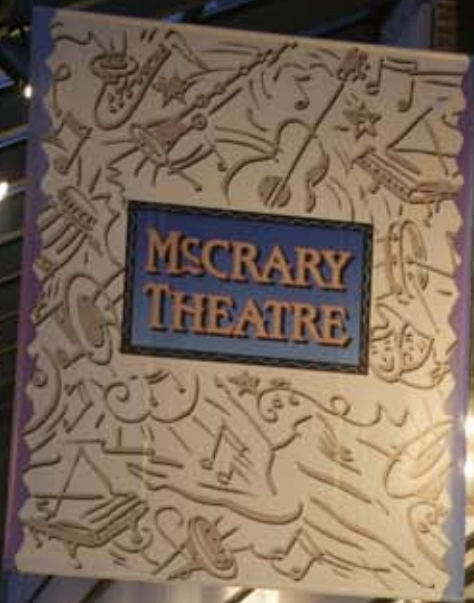


ELON

Annual Report 2005





Elon in the spotlight

Elon received its highest rankings ever in the nation's most prestigious college guides.

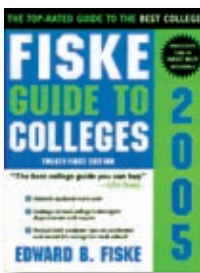


#6 in U.S. News & World Report

The 2005 edition of *U.S. News' "America's Best Colleges"* guide ranked Elon 6th among 131 master's-level universities in the South, up from 9th in the 2004 guide. Elon was the top North Carolina school in the regional rankings, earning outstanding scores for academic reputation, student retention and graduation rates.

Elon's excellent freshman retention rate and four-year graduation rate placed the university among the leaders in those categories. In addition, four Elon programs were included in the national "Programs to Look For" lists, including study abroad, service learning opportunities, first-year experiences and learning communities.

U.S. News also ranked Elon's Doctor of Physical Therapy program in the top third of the nation's accredited physical therapy programs. Elon joins the University of North Carolina at Chapel Hill and Duke University as the only North Carolina physical therapy programs ranked in the top 100 programs.



Elon premieres in Fiske Guide

For the first time, Elon was included in the 2005 "Fiske Guide to Colleges," one of the nation's top-selling guides. "The Fiske Guide," which lists 297 of the nation's "best and most interesting" colleges and universities, called Elon a "rapidly rising star...with a welcoming environment and a supportive faculty."

The guide also lists Elon among 23 of the nation's "best buy" private colleges and universities, making Elon one of only seven schools in the South to receive that distinction.

Princeton Review highlights academic quality

Princeton Review's "The Best 357 Colleges" guide included Elon for the second consecutive year. The university earned its highest-ranking score ever in academic quality. The guide also placed Elon on its top 20 list of most beautiful campuses in the nation. Elon was the only North Carolina school to make that list.

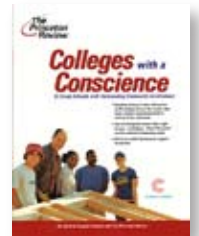


Elon among 'Colleges with a Conscience'

The Princeton Review and Campus Compact named Elon one of the nation's "Colleges with a Conscience" for fostering social responsibility and public service. The university was included in Princeton Review's book, *Colleges with a Conscience: 81 Great Schools with Outstanding Community Involvement*.

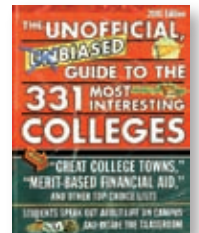
Princeton Review and Campus Compact, a national organization committed to the civic purposes of higher education, developed the list of top schools from a pool of more than 900 colleges. Criteria for selection included the colleges' admissions practices and scholarships rewarding community service; support for service-learning programs, student activism, and student voice in school governance; and level of social engagement of the student body.

Elon is one of four schools chosen from North Carolina. The other schools are Duke University, North Carolina State University and the University of North Carolina at Chapel Hill.



Kaplan praises distinctive learning style

The 2005 edition of Kaplan's "331 Most Interesting Colleges" guide included a profile of Elon for the third year in a row. The guide recognized Elon's "experiential education and a supportive community on a gorgeous campus" as well as the excellent resources for students in McMichael Science Center and Belk Library.



Graduation rates among best in nation

Elon's six-year graduation rate of 71 percent is the best among master's-level universities in North Carolina and ranks in the top 8 percent nationally, according to a report by The Education Trust.

The graduation rate study measured four-year and six-year graduation rates at 1,400 colleges and universities in 2003. Elon's four-year graduation rate of 62 percent ranked in the top 6 percent of the nation's master's-level schools. Nationally, fewer than 40 percent of all students graduate in four years and only about 57 percent graduate in six years.

For African American students, Elon's six-year graduation rate of 72 percent ranked 7th among 456 master's-level schools in the nation. The report cites Elon as one of only 15 schools in the nation where there is a small or non-existent gap between the graduation rates of African American and white students. For Hispanic students, Elon's six-year graduation rate of 72.7 percent ranked 19th among the nation's master's-level schools.

The survey also ranked the top schools in freshman-to-sophomore year retention rates. Eighty-seven percent of Elon freshmen return for their sophomore year, ranking the university 18th among 456 national master's-level universities.

Elon looks to the future with a **School of Law**

After more than two years of comprehensive review, Elon's Board of Trustees voted to establish a School of Law in downtown Greensboro, N.C. The school, which will enroll its first class in fall 2006, will bring a new, exciting dimension to Elon's academic programs and strengthen ties with the Greensboro community. The Joseph M. Bryan Foundation led a fund-raising effort to provide \$10 million in start-up financing. The school will be located in the former Central Public Library building, which is being transformed into a four-story, 84,000-square-foot showcase for legal education. The facility will feature a courtroom and jury room, specialized classrooms and labs, and an extensive law library with wireless computing technology and a comprehensive collection of electronic and print legal resources.

The school will also be the only law school in North Carolina and one of only a handful in the nation to house a working court. The North Carolina Business Court will be located on the school's main floor and will hear complex business cases referred by the state Supreme Court, giving students and faculty a front-row seat to the proceedings of one of the state's most distinguished courts.

The School of Law's ideal location is within two blocks of the region's federal and state courts and some of North Carolina's most prestigious law firms. Leary Davis, a respected leader in North Carolina legal education who helped found the law school at Campbell University, is the founding dean of the Elon University School of Law. An advisory board comprised of distinguished judges, attorneys and business leaders will guide the school's formation.



a



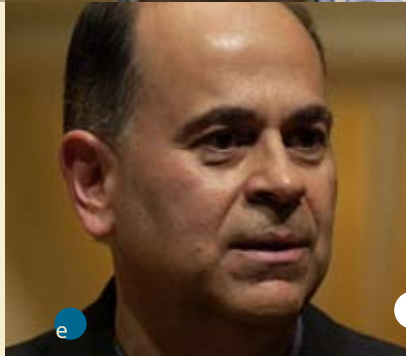
b



c



d



e

- a. John Glenn
- b. Anna Quindlen
- c. Christine Todd Whitman
- d. Matthew Szulik
- e. William Pesce

Learning happens everywhere

At Elon, learning happens in and out of the classroom. One of the ways the university enhances the academic environment is to bring world leaders and scholars to campus each year to speak to students, faculty and staff.

During the 2004-2005 academic year, students heard from an impressive lineup of speakers, including former astronaut and U.S. Senator John Glenn; *Newsweek* columnist, author and Pulitzer Prize winner Anna Quindlen; and Christine Todd Whitman, former EPA administrator and New Jersey governor.

In addition to these speakers, Elon hosted two executives at major corporations who discussed the qualities of leadership in the global era. Matthew Szulik, president and CEO of software company Red Hat, and William Pesce, president and CEO of publishing firm John Wiley and Sons, offered examples from their own careers to show that it is possible to succeed in business and stay true to a core set of values. The visits of Szulik and Pesce were particularly special because they are parents of Elon students.

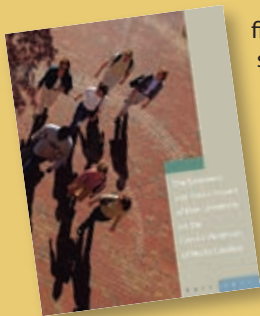
Elon contributes \$243 million to regional economy, study shows

Elon generates approximately \$243 million in economic activity annually in Alamance, Guilford, Orange and Durham counties. In addition, nearly 3,200 jobs exist in the region due to the presence of the university.

Those are among the findings of a first-of-its-kind study of the economic and social impacts of Elon, which was released in fall 2004. Economists in the university's Martha and Spencer Love School of Business conducted the study, which takes into account the operations of the university, campus construction and spending by employees, students, visitors to campus and Elon alumni who live in the region.

Elon is the fourth-largest employer in Alamance County, with 1,208 employees of the university and ARAMARK, its food service vendor. Seventy percent of Elon employees live in Alamance County and 14 percent live in Guilford County.

The study also assesses the social impact of the university on the region. About half of Elon's 22,000 alumni live in North Carolina and nearly 5,000 live in the four-county region. Elon students, faculty and staff volunteer thousands of hours working with local charities and non-profit organizations, while academic programs partner with local schools, businesses and government agencies on public service projects.



Supporting academic excellence

Elon continued its commitment to provide resources to support excellence, adding 38 new faculty and staff positions as well as significant investments in technology and financial aid in the 2005-2006 budget, which topped \$100 million for the first time. Even with the increased investments, tuition, room and board levels remained well below the national average for private colleges and universities.

New faculty positions allowed Elon to maintain its low student-faculty ratio and adjust faculty workload, giving professors more time to develop and teach new courses, conduct research and mentor students, and provide service to the campus community. Elon has added 78 new faculty positions since 2000, a 39 percent increase in just five years. This substantial investment has allowed the university to keep class sizes small and ensure close faculty-student interaction, which is a hallmark of an Elon education.

The budget funds the fourth year of Elon's Technology Plan, including a special new investment for renewal and replacement of classroom equipment, as well as additional library books and electronic information resources. The budget also included funding to maintain the university's policy of no deferred maintenance on facilities.



Investing in outstanding facilities

Elon is well known for creating ideal spaces for living, learning and playing. During 2004-2005, the university continued its investment in excellent facilities.

Providing faculty with additional space and resources to develop innovative teaching methods inspired The Belk Foundation to make a major gift to name the fourth pavilion in Elon's Academic Village, the university's arts and sciences quad. The pavilion will house the new Center for the Advancement of Teaching and Learning, where faculty will experiment with a variety of teaching techniques to enhance student learning. When complete, the Academic Village will feature seven buildings and an outdoor amphitheater. The new pavilion will be named in honor of William Henry Belk, the founder of Belk department stores and father of John M. Belk, chairman of The Belk Foundation Board of Advisors.

The campaign to build the Ernest A. Koury, Sr. Business Center continued to gain momentum, with donors contributing \$10 million to build the new home for Elon's Martha and Spencer Love School of Business. A lead gift by Maurice Koury in honor of his brother launched the fund-raising campaign. When it opens in fall 2006, the three-story, 60,000-square-foot facility will include the LaRose Digital Theater, which will be wired for video conferencing and multimedia presentations; the LabCorp Suite for Executive Education; the William Garrard Reed Finance Center with real-time data from global financial markets; the James B. and Anne Ellington Powell Lobby; and the Wallace L. Chandler Fountain and Plaza.

Also this year, the Phoenix baseball program took a major step forward with the installation of a new lighting system, making night games and practices a reality. The new lights, funded in part by a group of parents and alumni, will help Elon attract top competitors to campus, including teams from UNC-Chapel Hill and Clemson University.



Scale model of the Ernest A. Koury, Sr. Business Center

Student-athletes make the grade

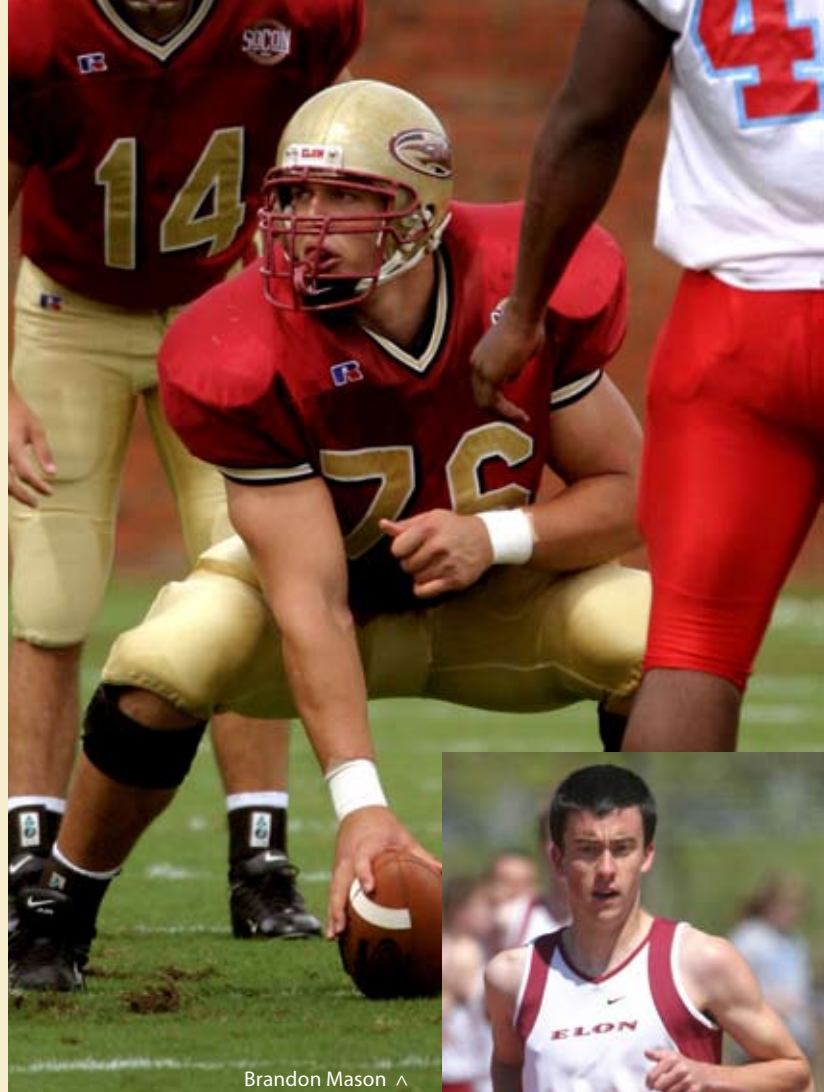
Elon student-athletes continued to shine in the classroom as well as on the playing fields.

Phoenix football center Brandon Mason earned a spot on the 2004 ESPN The Magazine Academic All-America first team in the university division category. Mason is the first Elon football player in 25 years to receive the first-team honor. The award was one of several for Mason during the past year.

In fall 2004, the National Football Foundation and College Hall of Fame named Mason one of its 2004 National Scholar-Athletes and the recipient of an \$18,000 postgraduate fellowship. Mason was also named to the First Team All-Southern Conference by the league's coaches for the second year in a row and to the First Team All-SoCon by conference media. In December 2004, he was named to the Division I-AA Athletics Directors Association Academic All-Star Team for the third consecutive year. A Martinsville, Va., native, Mason graduated from Elon in 2004 and is enrolled in the university's MBA program. As an undergraduate, he was named to the President's List six times, the Dean's List twice and the Athletics Director's Honor Roll all eight semesters. He graduated with a 3.81 grade point average.

Men's cross country runner John Tumbleston of Boone, N.C., was named to the 2004 College Sports Information Directors of America Academic (Co-SIDA) All-District III Men's Track and Field/Cross Country Team in the university division. Tumbleston has a 3.99 GPA and has been named to the President's List and the Athletics Director's Honor Roll four times each. He is also a member of the Academic All-Southern Conference Team.

Men's tennis standout Pramote Malasitt of Bangkok, Thailand, was honored with a spot on the 2004 CoSIDA Academic All-District III Men's At-Large Team. The computer science major has earned an overall GPA of 3.92 and earned a 4.0 GPA during four semesters of study at Elon. He has been named to the President's List five times and Dean's List once.



Brandon Mason ^

▽ Pramote Malasitt

John Tumbleston ^



Alan White



Athletics director receives top award

Elon Athletics Director Alan White was named the 2004-2005 NCAA Division I-AA Athletics Director of the Year for the Southeast Region. He was one of 25 administrators selected for the regional awards, sponsored by The National Association of Collegiate Directors of Athletics and GeneralSports TURF Systems.

White has served as Elon athletics director since 1979, guiding the program through the transition from NAIA membership to NCAA I-AA status. Elon teams have won four national championships, 53 conference titles and 12 conference Excellence Awards during his tenure. In addition, athletics facilities have been enhanced, including construction of Rhodes Stadium, Belk Track and White Field, which is named for White and his wife, Norma.

Record number of applications enhances quality

Top rankings in college guides and a growing national reputation for excellence in hands-on learning helped push applications for admission to new heights in fall 2004.

Elon received a record 8,064 applications, up 12 percent from 2003 and 34 percent higher than 2001. The substantial increase in applications allows Elon to be more selective and shape each freshman class to ensure diversity in talents and experiences.

Elon competes for students with many of the nation's best colleges and universities. In fall 2004, Elon enrolled its most academically talented class ever, with 59 percent of freshmen graduating in the top quartile of their high school classes. The average freshman SAT score has increased each year since 1992 and stood at 1170 in fall 2004, 10 points higher than the previous year. The average high school grade point average of freshmen was 3.6.

Student receives prestigious Goldwater Scholarship

Geoffrey Lynn, a sophomore chemistry major from Deland, Fla., is the first Elon student to earn the prestigious Goldwater Scholarship. Lynn will receive up to \$7,500 during each of the next two years to cover the cost of tuition, fees, books and room and board.

Lynn has participated extensively in undergraduate research at Elon, including making a presentation at the university's Student Undergraduate Research Forum in spring 2005. He continued his scholarly work over the summer as part of Elon's Summer Undergraduate Research Experience program. For the scholarship, Lynn

wrote an essay on drug delivery and how it can be used most efficiently in the fight against cancer and other diseases.

"Elon had a lot to do with giving me the credentials to get this award," says Lynn, who plans to pursue graduate school in the medical and research fields. He credits the office of undergraduate research with giving him the confidence to present at two national conferences.

The scholarship program honoring the late Sen. Barry Goldwater is considered the premier undergraduate award of its kind in those fields. During 2004-2005, 320 scholarships were awarded from a field of 1,091 students.

Faculty scholarship makes international headlines

During the past year, Elon faculty gained national and international attention for their scholarly works.

History professor David Crowe spent seven years and traveled to four continents researching material for his definitive biography, *Oskar Schindler: The Untold Account of His Life, Wartime Activities and the True Story Behind the List*. The book, which gives new insights into the legendary Schindler, was featured in *The New York Times* as well as in numerous newspapers across Europe. Crowe is recognized as an expert on the Roma, or Gypsies, of Eastern Europe and Russia.

Also receiving international media attention was "Imagining the Internet," a complex research project that documents the history of the Internet and forecasts the future.

Janna Quitney Anderson, director of Internet projects for Elon's School of Communications, worked with students and Lee Rainie, a member of the school's advisory board and director of the Pew Internet and American Life Project, to document what technology pioneers envisioned for the Internet in the early 1990s. Once that predictions database was complete, Anderson and Rainie created a survey to find out what technology experts predict will happen in the next decade. The findings made headlines around the world, led by a feature in *The New York Times*, and drew tens of thousands of visitors to Elon's "Imagining the Internet" Web site at www.elon.edu/predictions.



David Crowe



Janna Quitney Anderson and student Marian Bruno

ELON UNIVERSITY FINANCIAL AND AUDIT REPORT

for the years ended May 31, 2005 and 2004

Elon, North Carolina

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FINANCIAL OVERVIEW 2004-2005

With the vibrancy and vision that are hallmarks of its success, Elon University enjoyed another successful year. Major steps were taken toward the completion of the NewCentury@Elon strategic plan, including enhancing academic excellence, providing excellent new and renovated facilities, and increasing financial resources. Details of many of these strategic steps are described in the preceding pages, and we hope that you will review them.

The University is proudly committed to its policy of no deferred maintenance. The impressive consequences of this Board of Trustees mandate can be observed in the campus's beautiful facilities and immaculate grounds.

Elon University continues to grow stronger financially: net assets for the year increased 10.3% and net tuition revenue grew by 11.6%. A strengthened balance sheet was the result of total assets increasing 7.0% and liabilities *decreasing*—for the second year in a row—1.1%. These financial indicators demonstrate that the University's progress includes not only enhanced academic programs, but also solid financial success.

Leo M. Lambert
President

Gerald Whittington
Vice President for Business, Finance and Technology

MANAGEMENT STATEMENT OF RESPONSIBILITY

The management of Elon University has prepared the accompanying 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 financial statements are prevented or detected within a timely period. Key elements in the systems include the communication of policies and procedures, selection and training of qualified personnel, and organizational arrangements that provide an appropriate division of responsibility. Management believes that, as of May 31, 2005 and 2004, 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 financial statements through its Audit Committee, which is composed of Trustees who are independent of Elon University management. The Audit Committee meets at least 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 their audit were true and accurate and to the best of their knowledge and belief.

Leo M. Lambert
President

Gerald Whittington
Vice President for Business, Finance and Technology

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Elon University
Elon, North Carolina

We have audited the accompanying statements of financial position of Elon University (a nonprofit organization) as of May 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elon University as of May 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

STOUT STUART MCGOWEN & KING LLP

Burlington, North Carolina
August 5, 2005

STATEMENTS OF FINANCIAL POSITION May 31, 2005 and 2004

	2005	2004
ASSETS:		
Cash and cash equivalents	\$ 2,005,755	\$ 1,508,668
Accounts receivable, net	2,512,068	1,102,975
Contributions receivable, net	6,265,487	3,296,390
Prepaid expenses and other assets	231,408	168,572
Inventories	68,528	88,148
Investments	98,330,618	87,172,059
Loans to students, net	4,769,497	4,522,768
Bond issue costs	637,932	694,650
Construction in progress	5,196,593	3,048,819
Property and equipment, net	141,391,510	142,704,177
Total Assets	\$ 261,409,396	\$ 244,307,226
LIABILITIES:		
Accounts payable	\$ 3,291,160	\$ 3,565,520
Accrued liabilities	6,316,056	5,192,709
Student deposits	2,782,567	2,743,388
Notes payable	337,746	456,187
Deferred revenue	2,351,081	1,312,271
Bonds payable	51,010,000	53,565,000
Interest rate swap agreement liability	581,446	689,995
U.S. Government advances for student loans	4,567,381	4,471,893
Total Liabilities	71,237,437	71,996,963
NET ASSETS:		
Unrestricted		
Designated for capital projects and reserves (mandatory/nonmandatory)	22,967,469	17,602,942
Net investment in plant	89,440,519	88,002,349
Accumulated gains on endowment	17,201,268	16,578,121
Total Unrestricted	129,609,256	122,183,412
Temporarily restricted	16,500,128	9,073,890
Permanently restricted	44,062,575	41,052,961
Total Net Assets	190,171,959	172,310,263
Total Liabilities and Net Assets	\$ 261,409,396	\$ 244,307,226

See accompanying notes.

STATEMENT OF ACTIVITIES for the year ended May 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS:				
Revenues and gains:				
Tuition and fees	\$ 83,529,187	\$ -	\$ -	\$ 83,529,187
Tuition discount	(14,024,607)	-	-	(14,024,607)
Net tuition	69,504,580	-	-	69,504,580
Sales and service of auxiliary enterprises	18,646,256	-	-	18,646,256
Federal grants	520,894	-	-	520,894
State grants	1,326,632	-	-	1,326,632
Other grants	339,608	15,000	-	354,608
Contributions	1,401,636	2,241,194	2,008,852	5,651,682
Contributions - pledges	1,722	5,436,058	521,587	5,959,367
Investment income - endowment	553,097	351,129	-	904,226
Other investment income	832,938	78,046	5,397	916,381
Gain on investments	1,589,271	35,861	359,560	1,984,692
Athletics	1,026,588	13,245	-	1,039,833
Other sources	1,191,896	55,354	-	1,247,250
Total Revenues and Gains	96,935,118	8,225,887	2,895,396	108,056,401
Net assets released from restrictions	685,431	(799,649)	114,218	-
Total Revenues and Gains and Other Support	97,620,549	7,426,238	3,009,614	108,056,401
Expenses:				
Instruction	40,224,187	-	-	40,224,187
Student services	15,699,409	-	-	15,699,409
Auxiliary enterprises	15,335,229	-	-	15,335,229
Academic support	5,146,561	-	-	5,146,561
Institutional support	13,897,868	-	-	13,897,868
Total Expenses	90,303,254	-	-	90,303,254
Increase in net assets before change in interest rate swap liability	7,317,295	7,426,238	3,009,614	17,753,147
Change in value of interest rate swap liability	108,549	-	-	108,549
Increase in Net Assets	7,425,844	7,426,238	3,009,614	17,861,696
Net Assets - Beginning of Year	122,183,412	9,073,890	41,052,961	172,310,263
Net Assets - End of Year	\$ 129,609,256	\$ 16,500,128	\$ 44,062,575	\$ 190,171,959

See accompanying notes.

STATEMENT OF ACTIVITIES for the year ended May 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS:				
Revenues and gains:				
Tuition and fees	\$ 74,722,975	\$ -	\$ -	\$ 74,722,975
Tuition discount	(12,451,131)	-	-	(12,451,131)
Net tuition	62,271,844	-	-	62,271,844
Sales and service of auxiliary enterprises	17,266,738	-	-	17,266,738
Federal grants	610,975	86,766	-	697,741
State grants	1,319,950	-	-	1,319,950
Other grants	392,903	-	-	392,903
Contributions	2,510,493	1,102,647	1,899,670	5,512,810
Contributions - pledges	2,429	1,898,773	84,808	1,986,010
Investment income - endowment	552,293	288,675	-	840,968
Other investment income	457,638	100,729	5,131	563,498
Gain on investments	5,259,713	148,203	86,897	5,494,813
Athletics	1,170,713	1,210	-	1,171,923
Other sources	851,280	2,310	-	853,590
Total Revenues and Gains	92,666,969	3,629,313	2,076,506	98,372,788
Net assets released from restrictions	1,324,874	(1,305,275)	(19,599)	-
Total Revenues and Gains and Other Support	93,991,843	2,324,038	2,056,907	98,372,788
Expenses:				
Instruction	36,979,050	-	-	36,979,050
Student services	14,657,550	-	-	14,657,550
Auxiliary enterprises	14,943,940	-	-	14,943,940
Academic support	4,761,213	-	-	4,761,213
Institutional support	12,571,901	-	-	12,571,901
Total Expenses	83,913,654	-	-	83,913,654
Increase in net assets before change in interest rate swap liability	10,078,189	2,324,038	2,056,907	14,459,134
Change in value of interest rate swap liability	772,981	-	-	772,981
Increase in Net Assets	10,851,170	2,324,038	2,056,907	15,232,115
Net Assets - Beginning of Year	111,332,242	6,749,852	38,996,054	157,078,148
Net Assets - End of Year	\$ 122,183,412	\$ 9,073,890	\$ 41,052,961	\$ 172,310,263

See accompanying notes.

STATEMENTS OF CASH FLOWS for the years ended May 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 17,861,696	\$ 15,232,115
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	6,060,027	5,792,552
Amortization of bond issue costs	56,718	57,367
Contributions of property	(33,534)	(1,179,776)
Contributions restricted to endowment	(2,546,226)	(1,992,206)
Gain on investments	(2,233,295)	(5,612,982)
Loss on disposition of operational assets	320,778	101,952
(Increase) decrease in assets:		
Accounts receivable	(1,409,093)	(212,865)
Contributions receivable	(2,969,097)	(269,619)
Prepaid expenses and other assets	(62,836)	358,291
Inventories	19,620	(20,337)
Loans to students	(246,729)	(327,654)
Increase (decrease) in liabilities:		
Accounts payable	(274,360)	1,938,289
Accrued liabilities	1,123,347	468,264
Student deposits	39,179	260,972
Deferred revenue	1,038,810	227,026
Interest rate swap agreement liability	(108,549)	(772,981)
U.S. Government advances for student loans	95,488	99,296
Net Cash Provided by Operating Activities	16,731,944	14,147,704
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	26,779,120	25,883,231
Purchases of investments	(35,704,384)	(32,171,248)
Proceeds from sales of operational assets	9,638	21,684
Purchases of operational assets	(7,192,016)	(6,300,701)
Net Cash Used by Investing Activities	(16,107,642)	(12,567,034)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of principal on indebtedness - bonds	(2,555,000)	(2,420,000)
Repayment of principal on indebtedness - other debt	(118,441)	(206,939)
Contributions restricted to endowment	2,546,226	1,992,206
Net Cash Used by Financing Activities	(127,215)	(634,733)
Net Increase in Cash and Cash Equivalents	497,087	945,937
Cash and Cash Equivalents at Beginning of Year	1,508,668	562,731
Cash and Cash Equivalents at End of Year	\$ 2,005,755	\$ 1,508,668
Supplemental disclosure:		
Cash payments for interest (net of amount capitalized)	\$ 1,244,417	\$ 1,085,491

See accompanying notes.

NOTE A: Summary of Significant Accounting Policies

(1) Organization:

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

(2) Basis of Presentation:

The accompanying 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 as defined by Statement of Financial Accounting Standards (SFAS) No. 116 "Accounting for Contributions Received and Contributions Made," and SFAS No. 117 "Financial Statements of Not-for-Profit Organizations."

SFAS No. 116 requires unconditional promises-to-give be recorded as receivables and revenue within the appropriate net asset category. SFAS No. 117 establishes standards for general-purpose external financial statements of not-for-profit organizations, including a statement of financial position, a statement of changes in net assets and a statement of cash flows.

(3) Classification of Net Assets:

The accompanying 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 whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

■ **Permanently Restricted** – Net assets subject to donor-imposed stipulations that they be 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 their 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 restriction).

(4) Fund Accounting:

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

(5) Cash and Cash Equivalents:

For purposes of the financial statements, cash consists of demand deposits and highly liquid debt instruments with an original maturity of ninety days or less. The University maintains its cash balance in five commercial banks. Three of the five bank accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 each. Uninsured balances were approximately \$2,862,622 and \$3,287,431 at May 31, 2005 and 2004, respectively. The remaining two bank accounts are non-domestic accounts used for study abroad purposes.

A separate demand deposit account is required and maintained by the University which holds cash

for the Federal Perkins Loan Program. The balances in this account were \$997,305 and \$396,043 at May 31, 2005 and 2004, respectively.

(6) Accounts Receivable:

Accounts receivable consist of obligations from students in the normal course of operations and at May 31, 2005 consist principally of billings for Summer Sessions I and II and for the Doctor of Physical Therapy program. Accounts receivable are stated at the amount billed to the student, are uncollateralized, and unpaid accounts bear no interest.

Payment for all classes is due on or before registration day of each semester. Students are not allowed to register until payment has been made. The University does extend credit plans to its students in the normal course of business. These credit plans must be prearranged and all payments are due before the close of the semester. The total amount included in accounts receivable at May 31, 2005 past due 120 days or more was \$28,022. 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

NOTE A: Summary of Significant Accounting Policies continued

120 days from the billing date and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The amount of the allowance was \$33,000 and \$33,000 at May 31, 2005 and 2004, respectively.

(7) Contributions Receivable:

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

(8) Inventories:

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

(9) Investments:

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

(10) Endowment Funds:

A donor's stipulation that requires a gift be invested in perpetuity or for a specified term creates an endowment fund. Net appreciation on endowment funds is not permanently restricted unless such net appreciation has been permanently

restricted by the donor or by law. North Carolina statutes do not require net appreciation on endowment funds to be permanently restricted unless restricted by the donor. Accordingly, market appreciation on permanently restricted endowment funds is classified in the financial statements as part of unrestricted net assets. It is the policy of the University to invest pooled endowment funds 35% in fixed income instruments and 65% in equities. The spending policy is calculated at 5% of a 3-year moving average market value.

(11) Bond Issue Costs:

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

(12) Property and Equipment:

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

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

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

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

(13) Interest Rate Swap:

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

(14) 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 increas-

es in unrestricted net assets. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. It is the University's policy to release restrictions on contributions received for long-lived assets when the asset is acquired or put into service.

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

(15) Use of Estimates:

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

NOTE A: Summary of Significant Accounting Policies continued

(16) Tax Status:

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

(17) Fair Value of Financial Instruments:

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

The carrying amounts for cash and cash equivalents, accounts and notes receivable, prepaid expenses and student deposits approximate fair value because of the short maturity of these instruments. The methods used to determine the carrying amounts for inventory, investments, and contributions receivable, and property and equipment are outlined in separate notes. A reasonable estimate of the fair value of loans to students under government loan programs and the accompanying liability to the U.S. government could not

be made because the notes receivable are not salable and can only be assigned to the U.S. government or its designees. The carrying value of loans to students under Elon University's loan programs approximates fair value, as the amount is comprised of a high volume of relatively small dollar loans.

Notes payable consists of general obligation notes for the purchase of real estate. The carrying value of the notes payable approximates fair value as interest rates are commensurate with current market rates on similar debt with the same maturities.

The carrying values of the University's 2001C, 2001B, 2001A, 2000, 1998 and 1997 bond issues approximate fair values as a portion of the interest obligations vary and are commensurate with market rates. The carrying value of the fixed portion of these issues is adjusted annually.

(18) Reclassifications:

Certain items in the 2004 report have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported change in net assets.

NOTE B: Contributions Receivable

The payment timing of outstanding contributions receivable at May 31, 2005, is estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One year	\$ 81,744	\$ 2,147,101	\$ 9,500	\$ 2,238,345
2-4 years	286,556	3,508,794	-	3,795,350
5 Plus years	8,560	223,232	-	231,792
	\$ 376,860	\$ 5,879,127	\$ 9,500	\$ 6,265,487

The payment timing of outstanding contributions receivable at May 31, 2004, is estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One year	\$ 153,769	\$ 1,213,179	\$ 19,000	\$ 1,385,948
2-4 years	76,078	1,502,278	13,778	1,592,134
5 Plus years	-	318,308	-	318,308
	\$ 229,847	\$ 3,033,765	\$ 32,778	\$ 3,296,390

Contributions receivable are shown net of a collection allowance of \$344,216 and \$181,260 and a discount of \$234,621 and \$147,547 at May 31, 2005 and 2004, respectively.

Individual pledges that exceeded 10% of total receivables amounted to \$1,550,000 at May 31, 2005.

NOTE C: Investments

Investments at May 31, 2005 and 2004 are as follows:

	2005		2004	
	Cost	Market	Cost	Market
Investments:				
Money market funds	\$ 19,397,800	\$ 19,397,800	\$ 13,709,257	\$ 13,709,257
Bonds	7,981,781	8,010,633	7,820,529	7,869,923
Equities	906,286	458,888	920,855	517,974
Mutual funds	-	-	19,188	19,188
Certificates of Deposit	5,123,318	5,123,318	3,602,870	3,602,870
Real Estate	709,162	709,162	861,862	861,862
U.S. Government Securities	3,216,498	3,157,720	3,132,711	3,090,562
Other assets	1,051	1,051	1,051	1,051
	37,335,896	36,858,572	30,068,323	29,672,687
Endowment and Similar Funds:				
Fixed income	\$ 15,602,926	\$ 15,726,093	\$ 13,518,662	\$ 13,248,304
Equities	31,394,938	36,240,782	29,105,537	34,457,635
Money market funds	5,149,374	5,149,374	4,032,834	4,032,834
Real Estate	230,293	230,293	230,293	230,293
Mutual funds	4,094,496	4,125,504	3,877,807	3,876,193
U.S. Government Securities	-	-	1,678,197	1,654,113
	56,472,027	61,472,046	52,443,330	57,499,372
Total Investments	\$ 93,807,923	\$ 98,330,618	\$ 82,511,653	\$ 87,172,059

Investment returns are reported net of investment management fees. The amount of these fees at May 31, 2005 and 2004 were \$275,137 and \$261,454 respectively.

ENDOWMENT INVESTED NET ASSETS

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

Endowment invested net assets at May 31, 2005 and 2004 are as follows:

	2005	2004
Permanently restricted	\$ 43,225,136	\$ 40,416,947
Temporarily restricted	435,964	465,887
Unrestricted	17,810,946	16,616,538
	\$ 61,472,046	\$ 57,499,372

NOTE D: Planned Giving Agreements and Trusts

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

Perpetual Trust

These are trusts created by donors for the benefit of the University and are reported as investments in the Statement 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 by the estimated future cash receipts from the trust's assets. The University has a one-half right to income generated from one of these trusts and full rights to income generated from the remaining trusts.

	2005	2004
Income restricted to scholarship:		
Asset Value	\$ 918,607	\$ 871,957
Income	40,240	22,250
Income restricted to professorship:		
Asset Value	\$ 720,333	\$ 678,007
Income	35,106	36,248
Unrestricted income:		
Asset Value	\$ 2,134,752	\$ 2,033,119
Income	40,914	42,243

Charitable Remainder Trust

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

	2005	2004
Asset Value	\$ 309,832	\$ 300,984

Charitable Gift Annuity Contracts

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

	2005	2004
Annuities Liability	\$ 955,605	\$ 260,893

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 unitrust liability is a general obligation of the University and is included in accrued liabilities in the Statement of Financial Position.

	2005	2004
Unitrust Liability	\$ 83,983	\$ 92,761

Interest paid on these contracts was \$36,847 and \$26,829 for years ended May 31, 2005 and 2004, respectively.

NOTE E: 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 funds to eligible students enrolled at the University. No interest accrues on these student loans while a student is enrolled at least halftime at any accredited school of higher education.

	2005	2004
Perkins loans receivable 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 for each of the years ended May 31, 2005 and 2004.	\$ 4,327,800	\$ 4,200,601
Elon loans receivable due from students payable in monthly installments of \$50 minimum. Interest is computed at an annual rate of 5%. These loans are secured by a co-signer. Receivables are net of an allowance for doubtful accounts totaling \$51,598 and \$61,487 for the years ended May 31, 2005 and 2004, respectively.	441,697	322,167
	\$ 4,769,497	\$ 4,522,768

NOTE F: Construction In Progress

Projects in process at May 31, 2005 and 2004 are as follows:

2005 PROJECT DESCRIPTION	Costs Incurred Through 5/31/05	Estimated Date of Completion
Koury Business Center	\$ 2,225,772	August 2006
Law School-Building	1,305,275	May 2006
Recreation Fields	1,123,578	August 2005
Johnston Hall	114,362	August 2005
Haggard Streetscape	245,239	July 2005
Others	182,367	Various
Total	\$ 5,196,593	

2004 PROJECT DESCRIPTION	Cost Incurred Through 5/31/04	Estimated Date of Completion
Koury Business Center	\$ 442,617	August 2006
Academic Village II	1,300,641	June 2004
Recreation Fields	639,070	August 2005
HVAC HBB/Smith/Carolina	598,019	September 2004
Haggard Streetscape	22,207	July 2005
Others	46,265	Various
Total	\$ 3,048,819	

NOTE G: Property and Equipment

Property and equipment at May 31, 2005 and 2004 are as follows:

	2005	2004
Land and land improvements	\$ 20,351,236	\$ 20,061,913
Buildings	144,973,028	142,594,757
Moveable assets:		
Computers and computer equipment	3,709,250	3,815,321
Library books	6,224,515	5,383,938
Cars and other vehicles	2,483,228	2,315,111
Audio visual equipment	1,543,498	1,469,131
Science equipment	1,268,764	1,230,314
Software	997,952	806,101
Telephone systems and equipment	637,352	649,980
Other moveable assets	4,128,375	3,759,248
Total moveable assets	20,992,934	19,429,144
Collections	1,839,688	1,839,688
	188,156,886	183,925,502
Accumulated depreciation	(46,765,376)	(41,221,325)
	\$ 141,391,510	\$ 142,704,177

NOTE H: Accrued Liabilities

Accrued liabilities at May 31, 2005 and 2004 are as follows:

	2005	2004
Salaries and wages	\$ 4,118,050	\$ 3,818,785
Vacation	1,087,272	978,946
Annuities and unitrusts	1,039,588	353,654
Employee benefits and payroll taxes	71,146	41,324
	\$ 6,316,056	\$ 5,192,709

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. Vacation time may be used until separation of service.

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

NOTE I: Bonds and Notes Payable

Long-term debt at May 31, 2005 and 2004 is as follows:

	2005	2004
Revenue Bonds, series 1997; \$17,815,000 serial bonds due March 1997 through 2019, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 through 2003 and will continue 2009 to 2019. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Educational Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	\$ 17,215,000	\$ 17,215,000
Revenue Bonds, series 1998; \$14,010,000 serial bonds due May 1998 through 2021, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 and will continue until 2021. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Educational Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	11,740,000	12,235,000
Revenue Bonds, series 2000; \$4,325,000 serial bonds due June 2000 through 2023, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2002 and will continue until 2023. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	3,815,000	3,950,000
Revenue Bonds, series 2001A; \$9,640,000 serial bonds due April 2001 through 2014, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2002 and will continue until 2014. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America. Revenue Bonds, series 2001A are subject to an interest rate swap agreement referenced in footnote J.	8,115,000	8,835,000
Revenue Bonds, series 2001B; \$5,305,000 serial bonds due October 2001 through 2008, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2002 and will continue until 2008. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America. Revenue Bonds, series 2001B are subject to an interest rate swap agreement referenced in footnote J.	3,250,000	4,260,000
Revenue Bonds, series 2001C; \$7,255,000 serial bonds due November 2001 through 2026, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2004 and will continue until 2026. The University made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of property. These bonds were issued through the North Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	6,875,000	7,070,000
Subtotal - Bonds Payable	\$ 51,010,000	\$ 53,565,000

NOTE I: Bonds and Notes Payable continued

Notes payable which are unsecured for purchase of real estate payable in semi-annual installments of principal and interest in the amount of \$54,616, with interest charged at a fixed rate of 7.75%.

	337,746	456,187
Subtotal - Notes Payable	337,746	456,187
Total - Bonds and Notes Payable	\$ 51,347,746	\$ 54,021,187

Aggregate maturities of long-term debt for the fiscal year ending May 31, 2005, are as follows:

2006	\$ 2,777,798
2007	2,912,895
2008	2,967,053
2009	2,625,000
2010	2,745,000
Thereafter	37,320,000
	\$ 51,347,746

Total interest cost incurred related to bonds and notes payable was \$1,207,570 and \$1,058,662 for the years ended May 31, 2005 and 2004, respectively, and of these amounts \$94,062 and \$0, respectively, was capitalized as a cost of construction.

NOTE J: Interest Rate Swap Agreements

The University has recorded two interest rate swap agreements on the Statement of Financial Position at fair market value. Agreements involve series 2001A and 2001B bond issues, and allow the University to exchange variable for fixed rate interest payment obligations with the Bank of America. The swap agreements are used to minimize the impact of future interest rate changes. Under the agreements, payments are made or received based on the difference between fixed rates, ranging from 3.84% to 4.10%, and 65% of the USD-LIBOR BBA index. The University anticipates holding the interest rate swap agreement until all debt under the agreements has been retired. Currently, principal maturities on the debt conclude in 2014.

The University has only limited involvement with derivative financial instruments and does not use them for trading purposes. Fair market value is determined using a yield curve and projected interest rates through maturity of the instrument. The change in fair value of the cash flow hedge is adjusted annually through Net Assets. The change in value of the swap liability was \$(108,549) and \$(772,981) at May 31, 2005 and 2004, respectively.

NOTE K: Financial Aid (Tuition Discount)

The University awards financial aid based on academic merit, need and leadership. Gross tuition discounts were 16.8% and 16.7% for the years ended May 31, 2005 and 2004, respectively. The unfunded discount rate was 13.1% and 12.5% for May 31, 2005 and 2004, respectively. Funded tuition discounts are derived from endowment, private gifts and federal and state aid. Unfunded tuition discounts are derived from the general operating revenues of the University.

	2005		2004	
	Dollars	Percentage	Dollars	Percentage
Unfunded discount	\$ 10,970,167	13.1%	\$ 9,342,204	12.5%
Funded discount	3,054,440	3.7%	3,108,927	4.2%
Total	\$ 14,024,607	16.8%	\$ 12,451,131	16.7%
Gross Tuition	\$ 83,529,187		\$ 74,722,975	

NOTE L: Gift Revenue

Major categories of gift revenue, including gift pledges, for the years ending May 31, 2005 and 2004 are as follows:

	2005	2004
Annual Fund	\$ 1,414,812	\$ 1,253,218
Endowment Funds	2,546,226	1,992,206
Capital Projects	6,962,570	3,841,052
Other	687,441	412,344
	\$ 11,611,049	\$ 7,498,820

NOTE M: Allocation of Expense

Expenses which are not directly charged to specific programs are allocated to those programs based on estimates. The totals of these allocations were \$17,237,693 and \$16,412,684 for the years ended May 31, 2005 and 2004, respectively. Allocations of specific program expenses are as follows:

	2005			
Program	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	\$ 2,659,923	\$ 1,908,303	\$ 1,094,361	\$ 5,662,587
Student services	1,255,600	900,802	413,080	2,569,482
Auxiliary enterprises	3,755,944	2,694,618	139,744	6,590,306
Academic support	534,163	383,223	(15,450)	901,936
Institutional support	241,253	173,081	1,099,048	1,513,382
	\$ 8,446,883	\$ 6,060,027	\$ 2,730,783	\$ 17,237,693

	2004			
Program	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	\$ 2,424,843	\$ 1,787,407	\$ 1,235,364	\$ 5,447,614
Student services	1,183,478	872,369	409,236	2,465,083
Auxiliary enterprises	3,540,202	2,609,564	213,505	6,363,271
Academic support	503,481	371,127	(18,016)	856,592
Institutional support	206,323	152,085	921,716	1,280,124
	\$ 7,858,327	\$ 5,792,552	\$ 2,761,805	\$ 16,412,684

NOTE N: 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 were \$2,604,130 and \$2,436,624 for the years ended May 31, 2005 and 2004, respectively.

NOTE O: Fund Raising

Fund-raising costs were \$2,239,041 and \$2,161,857 for the years ended May 31, 2005 and 2004, respectively. These costs are included with other costs and are shown as "Institutional Support" on the Statement of Activities.

NOTE P: 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 U.S. Department of Education. The Department of Education reserves the right to audit prior fiscal years. Such audits can result in the payment to the Department of Education of additional funds. Management believes that the result of any audit will not have a material effect on the University's financial statements.

(2) Construction and Purchase Commitments

The University had outstanding contractual commitments and equipment purchase orders totaling approximately \$14,346,835 and \$1,336,096 at May 31, 2005 and 2004, respectively.

(3) Investment Commitments

Elon University is obligated under an investment fund agreement to periodically advance additional funding for this investment up to specified levels. At May 31, 2005, Elon had future commitments of \$425,000.

(4) Operating Leases

The University leases buildings, equipment and vehicles under operating leases that will expire in various years through 2016. Rent expense was \$375,760 and \$378,398 for the years ended May 31, 2005 and 2004, respectively. Commitments for minimum future rental payments for each of the next 5 years and thereafter are as follows:

Year Ending	Amount	
2006	\$	346,478
2007		416,577
2008		317,717
2009		257,401
2010		262,752
Thereafter		1,179,858
Total minimum future rental payments	\$	2,780,783

The University also leases apartments and houses for student living under operating leases that will expire in various years through 2007. Rent expense was \$624,977 and \$926,277 for the years ended May 31, 2005 and 2004, respectively. Rent expense is more than offset by housing revenue received from students living in these units. Commitments for minimum future rental payments for each of the next five years are as follows:

Year Ending	Amount	
2006	\$	476,807
2007		38,605
2008		-
2009		-
2010		-
Total minimum future rental payments	\$	515,412

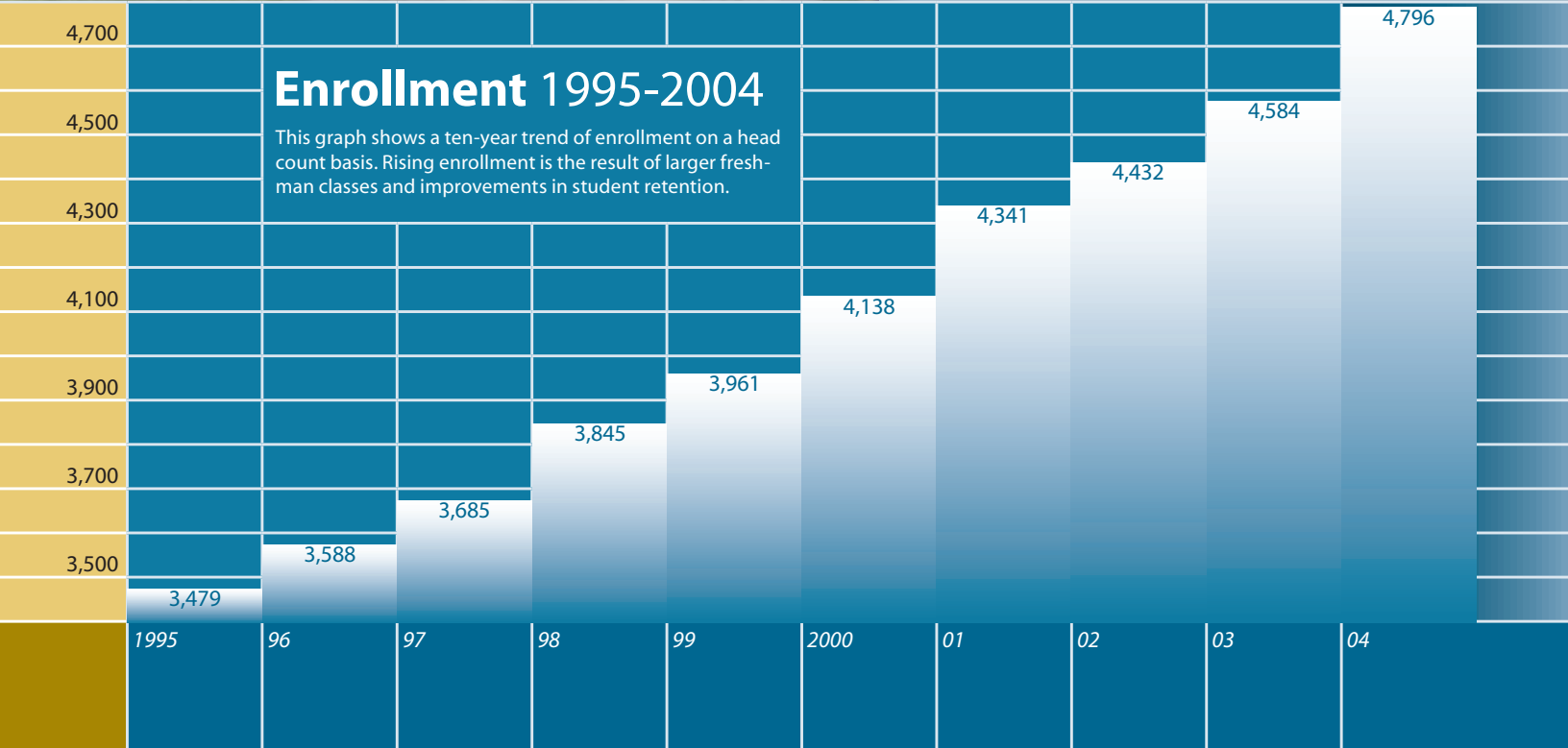
Several of the aforementioned leases contain renewal options for varying periods of time.

(5) Grant Commitments

Elon University is establishing a School of Law which is currently scheduled to begin enrollment in fall 2006. The receipt of a \$10,000,000 grant from a local foundation will provide start-up financing. By accepting this grant, the University has committed to provide an additional \$3,500,000 of start-up funding, operate the School of Law for a minimum of ten years and maintain specified minimum enrollments. A contractual commitment for building renovations is included in the construction and purchase commitment total above.

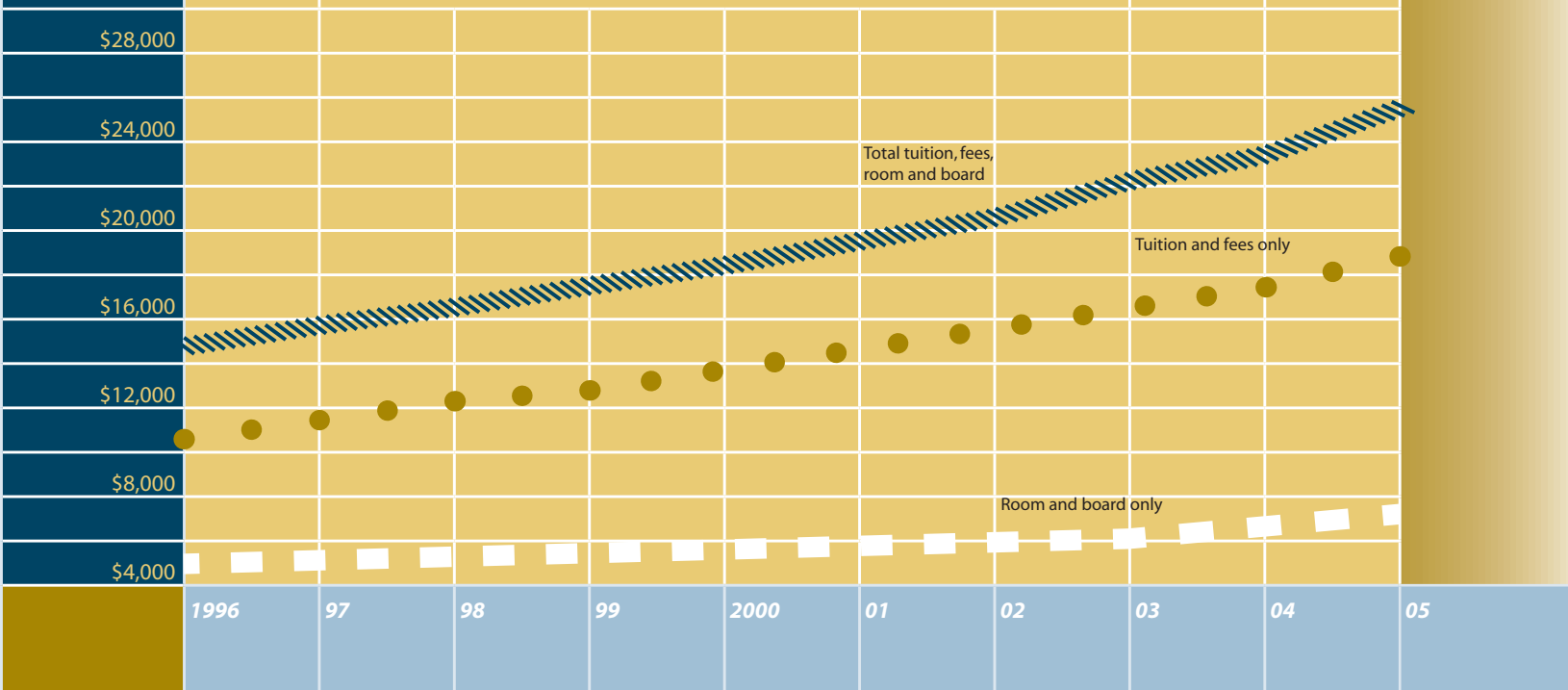


Year	Undergraduate	Graduate	Total
1995	3323	156	3479
1996	3427	161	3588
1997	3533	152	3685
1998	3641	204	3845
1999	3701	260	3961
2000	3900	238	4138
2001	4160	181	4341
2002	4270	162	4432
2003	4431	153	4584
2004	4622	174	4796



Tuition and Fee Rates 1996-2005

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

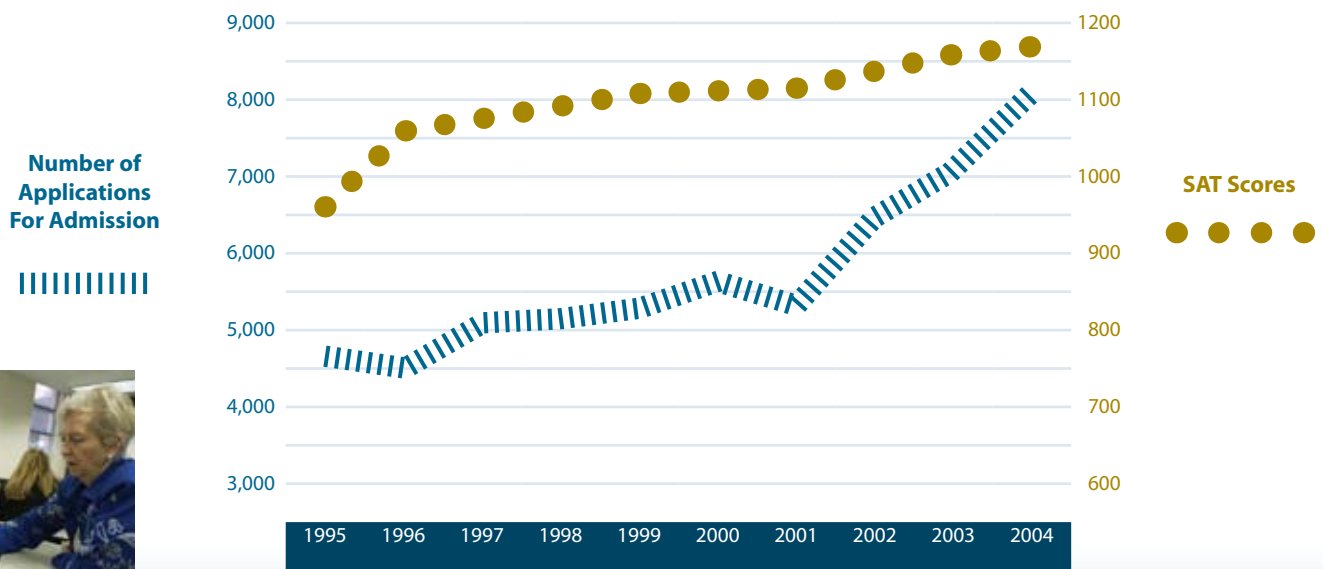


Fall	Tuition	Fees	Room	Board	Total
1996	\$10,477	\$190	\$1,900	\$2,340	\$14,907
1997	\$11,322	\$220	\$1,900	\$2,340	\$15,782
1998	\$11,928	\$220	\$1,994	\$2,456	\$16,598
1999	\$12,671	\$225	\$2,074	\$2,554	\$17,524
2000	\$13,556	\$225	\$2,120	\$2,540	\$18,441
2001	\$14,335	\$225	\$2,216	\$2,654	\$19,430
2002	\$15,280	\$225	\$2,336	\$2,754	\$20,595
2003	\$16,325	\$245	\$2,770	\$2,900	\$22,240
2004	\$17,310	\$245	\$2,936	\$3,074	\$23,565
2005	\$18,699	\$250	\$3,112	\$3,258	\$25,319



Student Selectivity 1995-2004

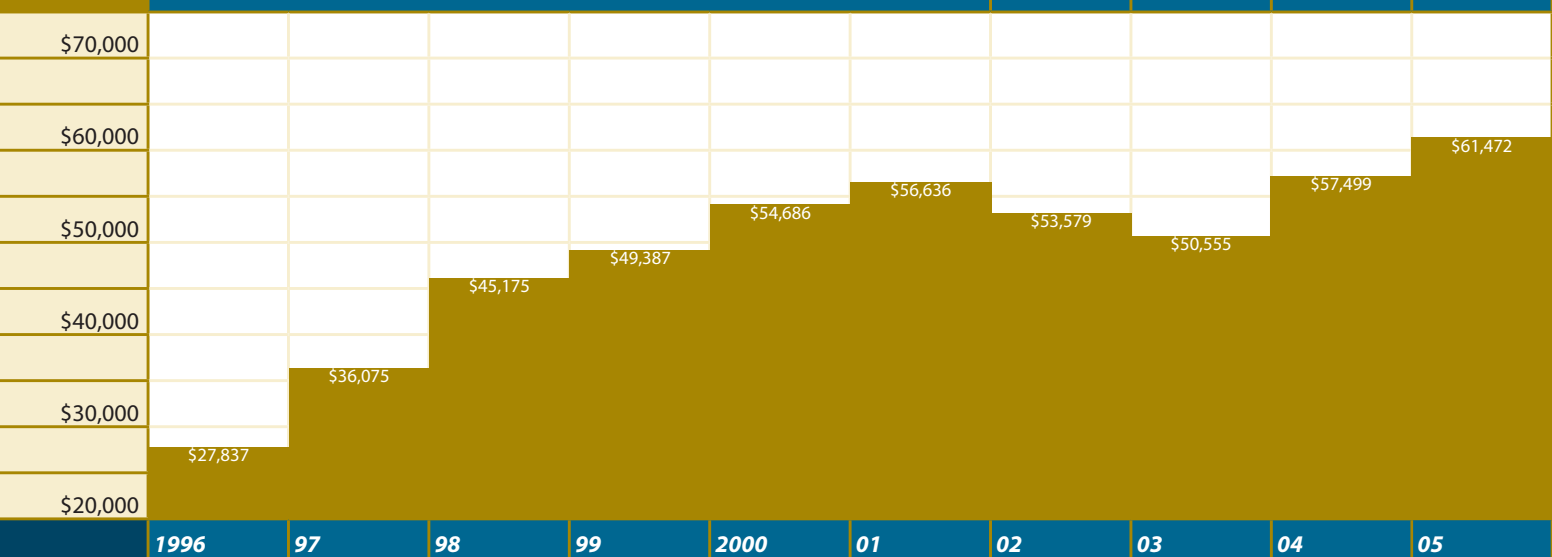
Measures of student quality have increased consistently over the last ten years. Applications for admission now exceed 8,000 and the average SAT score has risen to 1169.





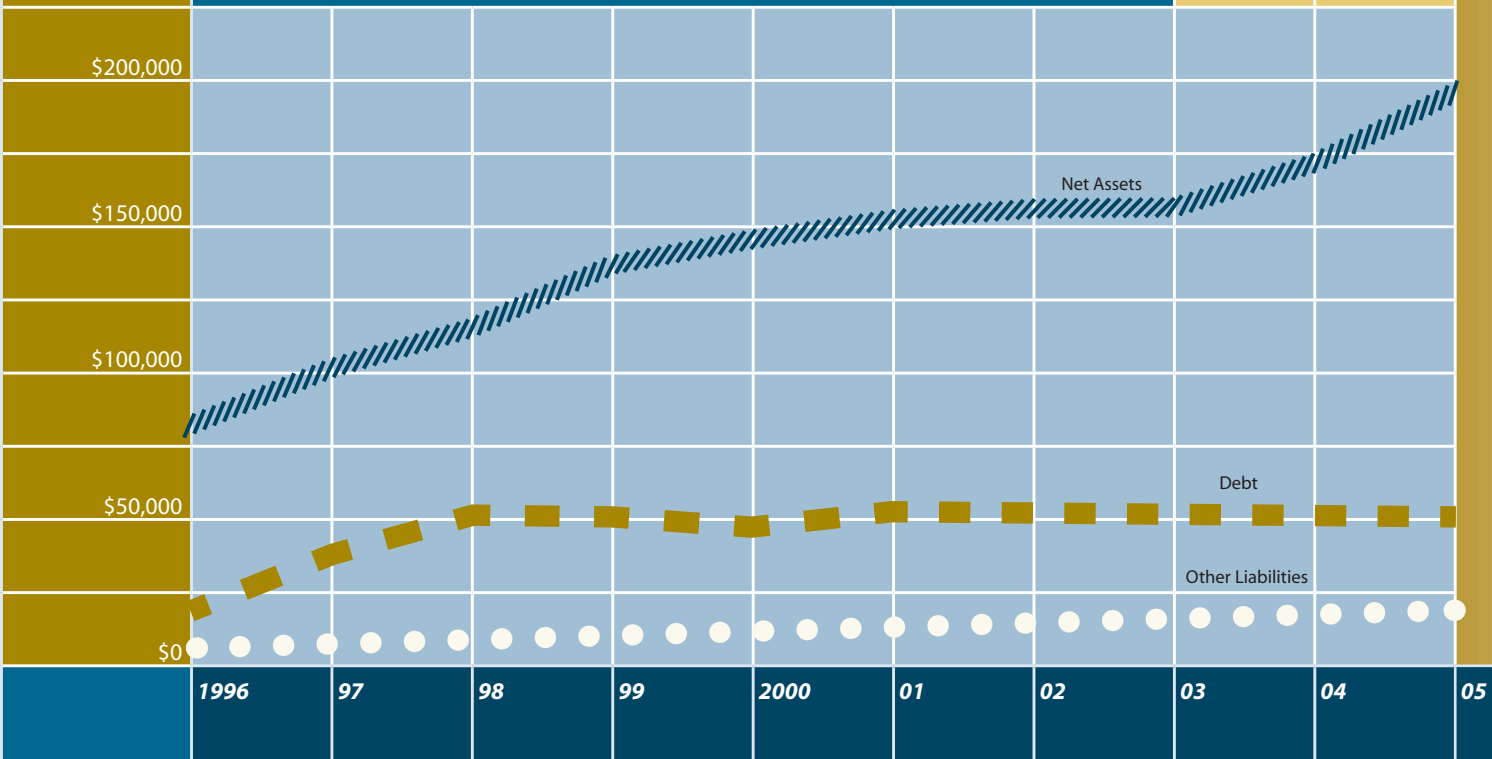
Endowment Market Value (000) 1996-2005

The market value of the endowment has grown over the past ten years in spite of the recent market fluctuations. For fiscal year 2005 returns were positive.



Total Net Assets/Long Term Debt and Other Liabilities (000) 1996-2005

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



Year	Net Assets	Debt	Other Liabilities
1996	\$ 82,531	\$21,508	\$ 8,175
1997	\$101,322	\$38,232	\$ 9,665
1998	\$118,167	\$52,126	\$12,501
1999	\$132,811	\$50,950	\$13,312
2000	\$146,407	\$49,548	\$13,657
2001	\$153,358	\$53,382	\$13,630
2002	\$157,006	\$58,878	\$14,655
2003	\$157,078	\$56,648	\$15,755
2004	\$172,310	\$54,021	\$17,976
2005	\$190,172	\$51,348	\$19,889

Balance from Operations

The schedule below calculates the balance from operations related to the unrestricted budget of the University.

	Operating Fund
Revenues and gains:	
Tuition and fees	\$ 80,748,073
Tuition discount	(10,970,167)
Net tuition	69,777,906
Sales and service of auxiliary enterprises	18,642,912
Federal grants	-
State grants	-
Contributions	1,414,812
Contributions - pledges	-
Investment income - endowment	542,914
Other investment income	760,246
Loss on investments	(33,836)
Athletics	972,917
Other sources	508,877
Total Unrestricted Revenues and Gains	92,586,748
Net assets released from restrictions	-
Total Unrestricted Revenues and Gains and Other Support	92,586,748
Expenses and transfers	
Instruction	33,881,468
Student services	14,160,258
Auxiliary enterprises	12,490,855
Academic support	4,638,409
Institutional support	13,599,007
Principal and interest payments on debt	4,064,911
Renewals and replacements	1,544,178
Greek housing	337,395
Other	538,200
Total Expenses and Transfers	85,254,681
Balance from Operations	\$ 7,332,067
REALLOCATION OF ENDOWMENT REALIZED GAINS	
2004-2005 endowment pooled funds average balance based on 3-year moving average	\$ 51,280,397
Spending allowance calculated at 5% of average balance	2,564,020
Income and transfers generated by endowment pooled investments	1,022,464
Difference between spending allocation and generated income	1,380,883
Excess spending allowance reinvested	\$ 160,673





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