

ELON

A full-page background image featuring a silhouette of a church steeple against a vibrant, orange-hued sunset sky with scattered clouds. The steeple is dark and pointed, with a weather vane at the very top. The word 'ELON' is printed in a large, serif font on the left side, and 'Annual Report 2006' is on the right.

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Annual Report 2006

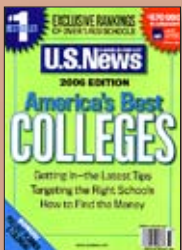


Elon reaches new heights in **national recognition**



One of the nation's 'hottest colleges'

Elon was named one of the 25 "hottest colleges" in the nation in the 2006 edition of the Newsweek/Kaplan college guide. Elon is named the hottest school in the nation for student engagement. Newsweek/Kaplan highlights Elon's active, engaged style of teaching and learning, noting the high percentage of students who work collaboratively on assignments as well as the number of students who study abroad.

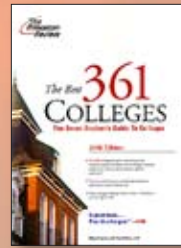


#5 in *U.S. News*

U.S. News & World Report ranks Elon #5 among 130 Southern master's-level universities in its 2006 *America's Best Colleges* guide. This is Elon's highest ranking ever in the nation's most widely read survey of quality in higher education. In addition, Elon's academic programs were mentioned more often than any other school in the nation in the *U.S. News* survey. Elon was recognized for excellence in first-year experiences, study abroad, internships, undergraduate research, learning communities, service learning and senior capstone experiences. As the top North Carolina school in the regional rankings, Elon earns outstanding scores for academic reputation, student retention and graduation rates.

Tops in engaged learning

For the sixth year in a row, Elon scored among the nation's top colleges and universities in the 2005 National Survey of Student Engagement (NSSE). The survey, the most comprehensive assessment of effective practices in higher education, includes data from 237,000 students at 528 four-year colleges and universities. Nearly 97 percent of Elon respondents rated their college experience as excellent or good, compared with a national average of 87 percent. Elon students gave high marks to their experiences on each of five benchmarks of excellence: level of academic challenge, active and collaborative learning, student-faculty interaction, enriching educational experiences and supportive campus environment.

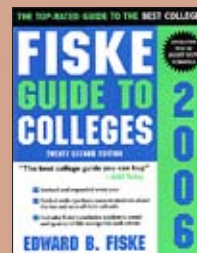


A Princeton Review 'best value' college

Elon was named one of the nation's top 47 "best value" private colleges and universities by The Princeton Review. The 2007 edition of *America's Best Value Colleges* recommends schools based on excellent academics, generous financial aid packages and affordable costs.

For the third year, The Princeton Review lists Elon among the nation's top schools in its 2006 *The Best 361 Colleges* guide. The guide notes that Elon's emphasis on internships, volunteering and studying abroad "encourages students to explore the world beyond campus."

In addition, The Princeton Review named Elon's MBA program the best administered business program in the nation in the 2006 edition of *The Best 237 Business Schools*. The guide, based on a national survey of business school students, notes that Elon students praised the school's flexible scheduling, engaged learning and affordable cost.



Fiske Guide calls Elon a 'best buy'

The 2006 *Fiske Guide to Colleges* lists Elon as one of 28 "best buy" universities in the nation. In addition, the guide says Elon is a "rapidly rising star among liberal arts colleges in the Southeast and an emerging name nationwide." The guide notes Elon's "welcoming environment and supportive faculty" and says the university has a "strong emphasis on global perspectives and hands-on learning in the classroom."

#1 in study abroad

Elon ranks first among the nation's master's-level colleges and universities in the number of students studying abroad. About 63 percent of Elon's graduating seniors have at least one study abroad experience before they graduate.



A national leader in **engaged learning**



School of Law opens in Greensboro

After three years of preparation, the Elon University School of Law opened in downtown Greensboro in August with the goal of creating a national model of engaged learning in legal education.

At the foundation of the program are solid courses in legal knowledge and skills, along with opportunities for students to gain constant, constructive feedback from about 60 lawyers and judges from the community who will volunteer in the school. Students will choose from study concentrations in litigation, business, public interest and general practice.

The curriculum will also emphasize leadership education. Through courses, seminars and hands-on experiences, students will gain a deep understanding of their obligations to become leaders in their profession and in their communities.

Founding Dean Leary Davis has recruited outstanding faculty who are in tune with Elon's distinctive approach to legal education. The faculty members have taught at top-tier law schools around the world.

About 525 students from 49 universities applied for the 115 spots in the inaugural class; about 31 percent of applicants were accepted for admission. The median grade point average of the entering class is 3.3

with an LSAT median score of 152. Students in the inaugural class hail from North Carolina's largest state universities, as well as Harvard, Yale, Duke and the University of Virginia.

Two special partnerships will provide innovative learning experiences for students. The North Carolina Business Court will be located in the law school, using the school's courtroom and giving students daily opportunities to observe and interact with a working

court. Across the street from the school is the American Judicature Society's new Institute of Forensic Science and Public Policy. Students and faculty will collaborate closely with the institute's staff on research about the role of DNA and other scientific advancements in our judicial system.

The school is led by an advisory board, which is chaired by former presidential adviser David Gergen and includes prominent judges, attorneys and business leaders.



The law school's main building is named in honor of Greensboro business leader H. Michael Weaver, who worked with colleagues at the Joseph M. Bryan Foundation to help make the law school a reality.

School of Communications gains accreditation

In May 2006, Elon's School of Communications received national accreditation from the Accrediting Council on Education in Journalism and Mass Communication (ACEJMC). Elon is now the 18th private



university in the world to have an accredited communications school, joining Syracuse, Columbia, Northwestern, Miami, University of Southern California and Pontificia Universidad Catolica de Chile.

Members of ACEJMC cited Elon's assessment process as a national model for other universities and called the Elon self-study a "Best of Show" for those contemplating ACEJMC accreditation.

Students tackle AIDS in Namibia

In January 2006, the inaugural class of Elon's Periclean Scholars teamed up with students from the Polytechnic of Namibia and the University of Namibia to host the Future Leaders Summit on HIV/AIDS in Namibia. The summit was a resounding success and was featured in a story on the CNN International program "Inside Africa."

The summit was the culmination of three years of work by the Periclean Scholars to raise awareness of the spread of HIV/AIDS in Namibia. The Periclean Scholars program is the centerpiece of Elon's Project Pericles program, which seeks to instill an ethic of service in students. Elon is one of 20 schools selected to participate in Project Pericles.

Students complete record number of service hours

Elon students continued their remarkable record of service to the local community during the 2005-2006 academic year, contributing more than 88,000 hours of service. Nearly 90 percent of seniors have participated in some form of service work through classes, student organizations, Elon's Kernodle Center for Service

Learning, Elon Volunteers! or in the community.

Students participate in annual service events such as the Cystic Fibrosis Walk and Special Olympics as well as work with a number of local organizations, including the Burlington Boys

and Girls Club, Family Abuse Services and the Positive Attitude Youth Center. Elon's annual dance marathon, Elonthon, shattered its previous record by raising more than \$117,000 for Duke Children's Hospital. Members of campus Greek organizations participated in a variety of philanthropic projects, while students in more than 20 student organizations and service programs raised money and collected food and toys for various charities in 2005-2006.

Students assist Hurricane Katrina victims

Elon students, faculty and staff traveled to the Gulf Coast region five times in the past year to assist the victims of Hurricane Katrina. Students led fundraising drives on campus, which were followed by four service trips to Bay St. Louis, Miss., where volunteers helped with storm cleanup and rebuilding efforts. A special Winter Term course examined civic responsibilities of citizens in times of natural disasters and included a service trip to the devastated region, while campus panels discussed the impact of the storm and the need for ongoing assistance in the region.



Building excellent facilities



Koury Business Center

The Ernest A. Koury, Sr. Business Center has opened as the new home of Elon's Martha and Spencer Love School of Business. The three-story, 60,000-square-foot facility includes the William Garrard Reed Finance Center with real-time data from global financial markets; the LaRose Digital Theater, which is wired for video conferencing and multimedia presentations; the LabCorp Suite for Executive Education; the James B. and Anne Ellington Powell Lobby; and the Wallace L. Chandler Fountain and Plaza. The center also features computer labs, research spaces, and classrooms and breakout rooms designed to enhance group discussions and activities. Students in all majors will have classes in the new center.

Construction is underway on three additional buildings adjacent to Koury Business Center. They include a new dining hall and two residence halls. Completion is scheduled for fall 2007.

New Academic Village pavilions

Groundbreaking ceremonies were held April 18 for the fourth and fifth pavilions of Elon's Academic Village, the center for arts and sciences programs on campus. The William Henry Belk Pavilion

will house Elon's Center for the Advancement of Teaching and Learning, and the Luvene Holmes and Royall H. Spence Jr. Pavilion will house the philosophy and religious studies departments.



Both pavilions are scheduled to be completed in fall 2007. When complete, the Academic Village will include seven buildings and an outdoor amphitheatre.

New student housing

The first four buildings of The Oaks student housing complex have taken the place of Jordan Center along Williamson Avenue, opposite Koury Center and the Center for the Arts.



When the full complex is complete, The Oaks will include six residence hall buildings, with a total of 516 beds, and a commons building. The first four buildings of The Oaks house 348 students, and the final two buildings, scheduled for completion Feb. 1, 2007, will house 168 students.



Driving range, club sports fields open on South Campus

During the 2005-2006 school year, Elon completed work on the buildings and grounds of South Campus, which features the new Phoenix Club Sports Fields, a new driving range, Johnston Hall, Harden Clubhouse and Holt Chapel.

In September 2005, alumni had their first chance to see the renovated Johnston Hall on South Campus, which includes Elon's new Alumni Center. This historic building provides office space for Institutional Advancement staff, including the office of alumni relations. The first floor of Johnston Hall includes a large meeting room, two smaller meeting rooms and Alumni Hall, which serves as a meeting and gathering place for alumni whenever they return to campus.



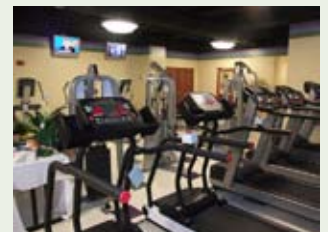
Holt Chapel was built in 1957 on the grounds of Elon Homes for Children. It was renovated in 2005 to host a variety of religious



and student life events and was rededicated on May 4, 2006. A lead gift by the late Iris Holt McEwen Coupland of Burlington and additional gifts by Elon parents Joe and Anne Hsu of Winston-Salem, N.C., and Jack Shaw '58 and his wife, Jane, of Greenville, S.C., provided funding for the project. The chapel serves as a center for student and religious life activity on South Campus, including meetings of student groups, honor societies and fraternities and sororities as well as religious services.

Elon, Alamance Regional Medical Center open joint center

Elon University and Alamance Regional Medical Center (ARMC) have opened the new Center for Fitness & Human Movement Studies on the ARMC campus. The center allows Elon faculty and students to work with ARMC staff on joint



research studies and provides expanded clinical training opportunities for Elon's physical therapy and exercise science students. U.S. Rep. Howard Coble (R-N.C.) helped provide \$125,000 in federal start-up funding for the center.

While human movement labs in area university medical centers are devoted to research, the Elon-ARMC lab will establish a unique combination of research and clinical services for the community. The 4,300-square-foot center includes a biomechanics laboratory, a metabolic testing laboratory, a vestibular rehabilitation center, an electrophysiology laboratory and a fitness center.

Phoenix teams complete year of **distinction and change**



Basketball

Elon's men's basketball squad clinched its first Southern Conference North Division championship in 2006. The Phoenix were 7-0 at home against Southern Conference competition, and Elon won its last eight home games. The team, which finished 15-14 overall and 10-4 in the conference, reached the semifinals of the SoCon tournament as the No. 2 seed. Head men's basketball coach Ernie Nestor was named SoCon Coach of the Year.

Outstanding individual performance

Elon University junior Jessica Clendenning (Chesapeake, Va./Hickory) was crowned the Southern Conference Women's Track and Field Athlete of the Week in April 2006 by the league's track and field coaches. Clendenning set the new Elon milestone in the pole vault at the Duke Invitational, leaping to a height of 3.70 meters (12-01.50). Twice during her career, the four-time all-conference vaulter has posted a then-program-best performance of 3.65 meters (11-11.75), but she had never surpassed 12 feet prior to this event.

Men's Soccer

The Southern Conference named head soccer coach Darren Powell Coach of the Year for 2005. Powell, in his first year as Phoenix head coach, turned around a program that went 4-11-5 overall last season to a team that posted a 9-9-2 record and finished third in the Southern Conference.



Baseball

The Phoenix baseball team enjoyed one of the most successful seasons in school history in 2006, setting a school record with 45 wins and earning Elon's first victory in postseason play at the NCAA Division I level. The team also won the Southern Conference regular season championship and was ranked in Baseball America's top-25 listing for the first time ever.

Head coach Mike Kennedy '91 was named Southern Conference Coach of the Year as the Phoenix scored impressive regular-season wins over traditional baseball powers South Carolina and Auburn.

Elon earned its second NCAA regional tournament bid since moving to the Division I level. Assigned to the Clemson, S.C., regional, the Phoenix scored a 5-4 win over Mississippi State to open postseason play, but subsequent losses to the Bulldogs and host Clemson knocked Elon out of the double-elimination tournament.



Lembo named Elon football coach

Pete Lembo, who won 44 games in five seasons as head football coach at Lehigh University, is Elon's new head football coach. Lembo, 35, is the country's second-youngest NCAA Division I head football coach.

Lembo spent the past eight years at Lehigh, serving the Mountain Hawks as an assistant coach for three seasons before taking over as head coach in 2001. Each of those eight squads finished the season ranked among the country's top 25 teams.

Tennis

The fortunes of the men's tennis team improved dramatically in 2005-2006 as head coach Michael Leonard '91 guided the Phoenix to a 19-5 overall record, including 8-1 in SoCon play, and the regular season co-championship. The team put together a nine-match winning streak at one point in the season and finished the year 12-0 at home.

Leonard, who won All-Conference and All-America accolades during his Elon tennis career, was named Southern Conference Coach of the Year.

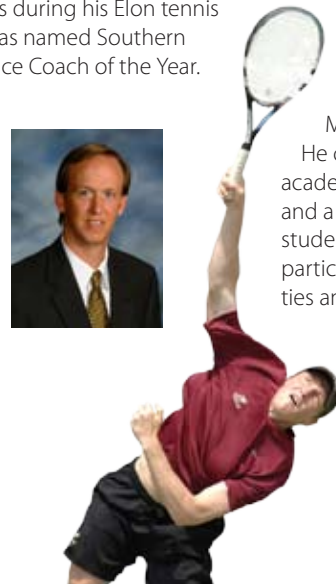


Blank succeeds Alan White as athletic director

Dave Blank, who previously served as director of athletics at Drake University, in Des Moines, Iowa, is the new director of athletics at Elon. Blank began his duties in spring 2006, succeeding Alan White, who retired in May after 35 years at Elon.

White was one of the nation's longest-serving and most respected leaders in collegiate sports. Under his leadership, Elon's athletics program maintained a strong winning tradition, while evolving from NAIA membership, through NCAA Division II, to the current NCAA Division I affiliation as a member of the Southern Conference. During White's tenure, Elon won 53 conference titles, 12 conference Excellence Awards and four national championships.

At Drake, Blank directed a 17-sport NCAA Division I athletics program that competes in the Missouri Valley Conference. He created a comprehensive academic assistance program and a new Life Skills program for student-athletes, encouraging participation in community activities and career development.



Elon completes record fundraising year

Elon completed its most successful fundraising year ever in 2005-2006, raising \$13.5 million in gifts. Elon's Institutional Advancement division was recognized for excellence in fundraising by the Council for the Advancement and Support of Education (CASE), the world's leading organization for education professionals who work in development, alumni relations and communications.

Elon received the 2006 CASE WealthEngine Award for overall improvement in educational fundraising, recognizing exemplary efforts over the past three years. Elon is one of only three schools to receive the award in the private comprehensive university category.

The record \$13.5 million fundraising total includes funds for the new Elon University School of Law and Ernest A. Koury, Sr. Business Center as well as money for endowed scholarships and program enrichment. Alumni contributed over \$3.4 million, while parents, friends, faculty and staff donated more than \$4 million. In addition, Elon raised \$3.9 million from foundations and \$1 million from corporations.



Renowned speakers enhance learning

Presidential biographer Edmund Morris delivered the Baird Pulitzer Prize Lecture during Elon's Fall Convocation in 2005. Morris received the Pulitzer Prize and the American Book Award in 1980 for *The Rise of Theodore Roosevelt* and published the bestseller *Dutch: A Memoir of Ronald Reagan*. The Baird Pulitzer Prize Lecture Series, endowed by James Baird and his wife, Jane, of Burlington, N.C.,



brings recipients of the Pulitzer Prize to the Elon campus.

Last February, Ben Bradlee, vice president and executive editor of *The Washington Post* during the Watergate scandal, was Elon's third Isabella Cannon Distinguished Visiting Professor of Leadership. Bradlee held a question-and-answer session with students and gave an evening lecture. Bradlee also conducted a 30-minute interview with broadcast communications students in Elon's School of Communications.

Tickets sold out early for Elon's Spring Convocation for Honors featuring former U.S. Secretary of State Gen. Colin L. Powell. Powell delivered the convocation address, participated in a question-and-answer session and met with students in Elon's ROTC program during his visit to campus.

Providing resources for academic excellence

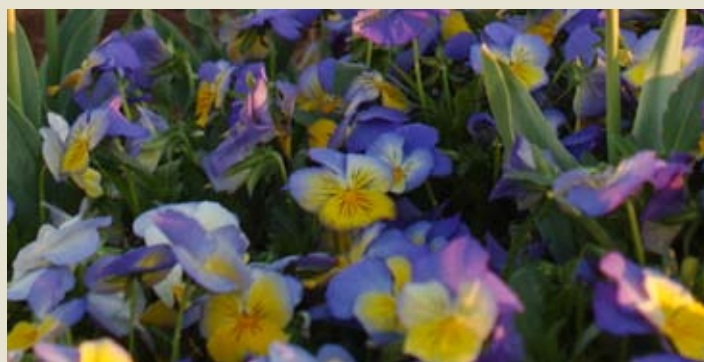
Elon's 2006-2007 budget includes resources for additional faculty, learning resources and financial aid for the next fiscal year, while continuing to keep costs affordable.

Additional faculty have been added to keep class sizes small. This year's student-faculty ratio of 14.5-to-1 is the lowest in Elon's history, and Elon will continue to add full-time faculty and academic staff positions, giving professors more time to create and teach new courses, conduct research with students and remain at the forefront of their fields.

In addition, the 2006-2007 budget funds the fourth year of the long-range technology plan and the sixth consecutive year of increases in the library acquisitions budget.

Federal grant furthers green campus goal

A \$1 million federal grant is funding the conversion of Elon's shuttle buses from gasoline power to biodiesel fuel technology. Elon purchased biodiesel buses that reduce air pollution and greenhouse gas emissions by burning a fuel that contains vegetable oils. The grant also pays for construction of passenger pick-up and drop-off stations and a special biodiesel fuel filling station. The conversion will help the university reduce costs by cutting the use of fossil fuels. Elon's trams and shuttle buses travel more than 50,000 miles each academic year and provide transportation to nearly 135,000 passengers. U.S. Rep. Howard Coble (R-N.C.) assisted in securing the \$1 million grant.



Beautiful as well as green

Elon's campus was recently designated as a botanical garden, serving as a model for stewardship of the environment and the conservation of plants. The campus landscape will be used as an educational resource, with an expanded diversity of plants and interactive displays. Status as a botanical garden will help the university qualify for grants and gifts related to landscaping and bring additional recognition to Elon's 582-acre campus. The botanical garden designation coincides with Elon's recent acceptance as a member of the American Association of Botanical Gardens and Arboreta.

Elon University Financial and Audit Report

for the years ended May 31, 2006 and 2005

Elon, North Carolina

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Financial Overview 2005-2006

We are glad to share with you this financial report and audit for 2005-06 for Elon University. The report is an accurate and fair description of the financial condition of the University and provides insight into its general health.

Achievements and progress at Elon over the past year have moved the University to even higher levels of excellence and continued progress in the current strategic plan, NewCentury@Elon. Construction of new facilities, significant strengthening and accomplishments in academics, strong national rankings for the institution, and success on the athletic fields are all highlighted in the preceding pages, and we hope that you will review them.

These accomplishments have further strengthened the demand for admission to Elon. For this past academic year 9,065 freshman applications were received for approximately 1,200 seats, and the average SAT score increased to 1208. This demand, along with successful fundraising, continues to provide a very strong financial base for the institution, and all of the major financial indicators continued a more than decade-long movement in a favorable direction this past year, which is shown on the following pages.

Some highlights include an increase in assets and net assets (assets minus liabilities) of 15.3% and 10.6% respectively and a growth in net tuition revenue (tuition minus financial aid) of 11.3%.

This strong financial foundation, combined with the significant program achievements noted in this report, places Elon in an excellent position for further progress in all areas during the coming years.

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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005, 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 & KINGS LLP

Burlington, North Carolina
August 4, 2006

STATEMENTS OF FINANCIAL POSITION May 31, 2006 and 2005

	2006	2005
ASSETS:		
Cash and cash equivalents	\$ 1,699,278	\$ 2,005,755
Accounts receivable, net	2,222,027	2,668,740
Prepaid expenses and other assets	458,378	316,058
Inventories	62,942	68,528
Contributions receivable, net	4,665,900	6,265,487
Investments	123,851,552	98,133,953
Loans to students, net	4,504,976	4,769,497
Bond issue costs	757,484	637,932
Benefit under interest rate swap agreements	373,695	-
Construction in progress	19,538,407	5,196,593
Property and equipment, net	143,427,204	141,391,510
Total Assets	301,561,843	261,454,053
LIABILITIES:		
Accounts payable	5,297,368	3,291,160
Accrued liabilities	7,658,691	6,204,041
Student deposits	3,397,705	2,939,239
Deferred revenue	2,856,800	2,351,081
Notes payable	209,948	337,746
Bonds payable	67,265,000	51,010,000
Obligation under interest rate swap agreements	-	581,446
U.S. Government advances for student loans	4,468,065	4,567,381
Total Liabilities	91,153,577	71,282,094
NET ASSETS:		
Unrestricted		
Designated for capital projects and reserves (mandatory/nonmandatory)	28,757,729	22,967,469
Net investment in plant	93,671,387	89,440,519
Accumulated gains on endowment	18,053,031	17,201,268
Total Unrestricted	140,482,147	129,609,256
Temporarily restricted	22,503,967	16,500,128
Permanently restricted	47,422,152	44,062,575
Total Net Assets	210,408,266	190,171,959
Total Liabilities and Net Assets	\$ 301,561,843	\$ 261,454,053

See accompanying notes.

STATEMENT OF ACTIVITIES for the year ended May 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS:				
Revenues and gains:				
Tuition and fees	\$ 92,688,718	\$ -	\$ -	\$ 92,688,718
Tuition discount	(15,351,839)	-	-	(15,351,839)
Net tuition	77,336,879	-	-	77,336,879
Sales and service of auxiliary enterprises	20,863,472	-	-	20,863,472
Federal grants	670,395	5,362	-	675,757
State grants	1,485,411	-	-	1,485,411
Other grants	272,347	3,337,893	-	3,610,240
Contributions	1,558,983	3,502,850	2,158,750	7,220,583
Contributions - pledges	2,000	317,163	588,664	907,827
Investment income - endowment	565,424	529,295	143,133	1,237,852
Other investment income	1,638,584	219,063	7,167	1,864,814
Gain (Loss) on investments	1,986,174	(516,293)	421,138	1,891,019
Athletics	1,504,691	11,515	-	1,516,206
Other sources	1,036,632	89,407	27,311	1,153,350
Total Revenues and Gains	108,920,992	7,496,255	3,346,163	119,763,410
Net assets released from / to restrictions	1,479,002	(1,492,416)	13,414	-
Total Revenues and Gains and Other Support	110,399,994	6,003,839	3,359,577	119,763,410
Expenses:				
Instruction	45,822,291	-	-	45,822,291
Student services	16,888,551	-	-	16,888,551
Auxiliary enterprises	17,231,291	-	-	17,231,291
Academic support	5,546,176	-	-	5,546,176
Institutional support	14,851,337	-	-	14,851,337
Total Expenses	100,339,646	-	-	100,339,646
Increase in Net Assets before change in interest rate swap agreements	10,060,348	6,003,839	3,359,577	19,423,764
Change in value of interest rate swap agreements	955,141	-	-	955,141
Increase in Net Assets before change in accounting principle	11,015,489	6,003,839	3,359,577	20,378,905
Cummulative effect of change in accounting principle	(142,598)	-	-	(142,598)
Increase in Net Assets	10,872,891	6,003,839	3,359,577	20,236,307
Net Assets - Beginning of Year	129,609,256	16,500,128	44,062,575	190,171,959
Net Assets - End of Year	\$ 140,482,147	\$ 22,503,967	\$ 47,422,152	\$ 210,408,266

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	1,832,424	5,475,254
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	535,988	2,161,120
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 / to 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 agreements	7,317,295	7,426,238	3,009,614	17,753,147
Change in value of interest rate swap agreements	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.

STATEMENTS OF CASH FLOWS for the years ended May 31, 2006 and 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

	2006	2005
Change in net assets	\$ 20,236,307	\$ 17,861,696
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	6,118,731	6,060,027
Amortization bond issue costs	(119,552)	56,718
Contributions of property	(1,355,402)	(33,534)
Contributions restricted to endowment	(2,753,215)	(2,546,226)
Gain on investments	(2,392,026)	(2,233,295)
Loss on disposition of operational assets	501,008	320,778
Cumulative effect of change in accounting principle	142,598	-
(Increase) decrease in assets:		
Accounts receivable	446,712	(1,409,093)
Contributions receivable	1,599,588	(2,969,097)
Prepaid expenses and other assets	(142,320)	(62,836)
Inventories	5,585	19,620
Loans to students	264,521	(246,729)
Benefit under interest rate swap agreements	(373,695)	-
Increase (decrease) in liabilities:		
Accounts payable	2,006,208	(274,360)
Accrued liabilities	919,908	1,123,347
Student deposits	458,466	39,179
Deferred revenue	505,719	1,038,810
Obligation under interest rate swap agreements	(581,446)	(108,549)
U.S. Government advances for student loans	(99,315)	95,488
Net Cash Provided by Operating Activities	25,388,380	16,731,944

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	23,074,061	26,779,120
Purchases of investments	(45,399,636)	(35,704,384)
Proceeds from sales of operational assets	2,400	9,638
Purchases of operational assets	(22,252,099)	(7,192,016)
Net Cash Used by Investing Activities	(44,575,274)	(16,107,642)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of indebtedness - bonds	18,905,000	-
Repayment of principal on indebtedness - bonds	(2,650,000)	(2,555,000)
Repayment of principal on indebtedness - other debt	(127,798)	(118,441)
Contributions restricted to endowment	2,753,215	2,546,226

Net Cash Provided (Used) by Financing Activities	18,880,417	(127,215)
Net Increase (Decrease) in Cash and Cash Equivalents	(306,477)	497,087
Cash and Cash Equivalents at Beginning of Year	2,005,755	1,508,668
Cash and Cash Equivalents at End of Year	\$ 1,699,278	\$ 2,005,755

Supplemental disclosure:

Cash payments for interest (net of amount capitalized)	\$ 1,385,351	\$ 1,150,355
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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 activities 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 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 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 \$2,785,411 and \$2,862,622 at May 31, 2006 and 2005, 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 \$357,815 and \$997,305 at May 31, 2006 and 2005, respectively.

(6) Accounts Receivable:

Accounts receivable consist of obligations from students in the normal course of operations and 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, 2006 past due 120 days or more was \$55,557. Payments of accounts receivable are allocated to the specific student account.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 120 days from the billing date and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The amount of the allowance was \$33,000 for each of the years ended May 31, 2006 and 2005.

(7) Contribution Receivables:

Contribution receivables 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, computer hardware 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 practice of the University to prudently invest pooled endowment funds consistent with the endowment asset allocation policy approved

NOTE A: Summary of Significant Accounting Policies *continued*

by the Board of Trustees. The University has an annual spending policy of 5% of the 36 – month moving market average.

(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 Agreements:

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 increases in unre-

stricted 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 reporting period received 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.

(15) Use of Estimates:

The preparation of 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.

(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 receiv-

able 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 2006, 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) Change in Accounting Principle:

Effective for the year ended May 31, 2006, the University implemented Financial Accounting Standards Board (FASB) Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. FIN 47 requires an entity to recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability can be reasonably estimated. The fair value of a liability for conditional asset retirement obligations must be recognized when incurred, generally upon acquisition, construction, or development. When the liability is initially recorded, the University capitalizes the cost, less accumulated depreciation, by increasing the carrying amounts of the related properties. Application of this new accounting principle resulted in an initial increase in net property and equipment of \$383,233 and a conditional asset retirement obligation of \$534,744 (Note H). The cumulative effect of this accounting change decreased unrestricted net assets by \$142,598. There would not have been a material effect on the financial results for 2005 and 2006 had these liabilities been recorded at the beginning of 2005.

(19) Reclassifications:

Certain items in the 2005 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, 2006, is estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One year	\$ 264,473	\$ 1,840,243	\$ -	\$ 2,104,716
2 - 4 years	367,868	2,187,369	-	2,555,237
5 Plus years	5,947	-	-	5,947
	\$ 638,288	\$ 4,027,612	\$ -	\$ 4,665,900

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

Contributions receivable are shown net of a collection allowance of \$256,329 and \$344,216 and a discount of \$204,352 and \$234,621 at May 31, 2006 and 2005, respectively. Individual pledges that exceeded 10% of total receivables amounted to \$800,000 at May 31, 2006.

NOTE C: Investments

Investments at May 31, 2006 and 2005 are as follows:

	2006		2005	
	Cost	Market	Cost	Market
Investments:				
Money market funds	\$ 38,363,238	\$ 38,363,238	\$ 19,397,800	\$ 19,397,800
Bonds	8,175,155	8,125,659	7,981,781	8,010,633
Equities	891,374	444,705	906,286	458,888
Certificates of Deposit	5,567,602	5,567,602	5,123,318	5,123,318
Real Estate	1,199,161	1,199,161	709,162	709,162
U.S. Government Securities	3,330,860	3,198,643	3,216,498	3,157,720
Other assets	1,051	1,051	1,051	1,051
	57,528,441	56,900,059	37,335,896	36,858,572
Endowment and Similar Funds:				
Fixed income	\$ 14,223,236	\$ 13,673,478	\$ 15,542,926	\$ 15,665,834
Equities	39,048,807	45,506,348	31,264,938	36,110,136
Money market funds	3,046,406	3,046,406	5,143,614	5,143,614
Real Estate	389,596	387,537	230,293	230,293
Mutual funds	4,290,787	4,337,724	4,094,496	4,125,504
	60,998,832	66,951,493	56,276,267	61,275,381
Total Investments	\$ 118,527,273	\$ 123,851,552	\$ 93,612,163	\$ 98,133,953

NOTE C: Investments continued

Investment returns are reported net of investment management fees. The amount of these fees at May 31, 2006 and 2005 were \$336,409 and \$275,137 respectively.

Included in investment money market funds are proceeds from the 2006 bond issue in the amount of \$18,356,892. These funds are to be used for improvements to the University's campus.

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, 2006 and 2005 are as follows:

	2006	2005
Permanently restricted	\$ 46,688,645	\$ 43,140,486
Temporarily restricted	241,065	435,964
Unrestricted	20,021,783	17,698,931
	<hr/>	<hr/>
	\$ 66,951,493	\$ 61,275,381

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 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.

	2006	2005
Income restricted to scholarship:		
Asset Value	\$ 1,005,771	\$ 918,607
Income	42,489	40,240
Income restricted to professorship:		
Asset Value	\$ 772,805	\$ 720,333
Income	37,229	35,106
Unrestricted income:		
Asset Value	\$ 2,184,971	\$ 2,134,752
Income	40,424	40,914

NOTE D: Planned Giving Agreements and Trusts continued**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 over which the University is a trustee are valued at market rates and are included as investments in the Statement of Financial Position.

	2006	2005
Asset Value	\$ 311,951	\$ 309,832

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 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.

	2006	2005
Annuities Liability	\$ 522,208	\$ 531,403

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.

	2006	2005
Unitrust Liability	\$ 871,616	\$ 396,170

Interest paid on these contracts was \$66,769 and \$36,847 for years ended May 31, 2006 and 2005, 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.

	2006	2005
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 for each of the years ended May 31, 2006 and 2005.	\$ 4,124,673	\$ 4,327,800
Elon loans receivable are 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 \$33,495 and \$51,598 for the years ended May 31, 2006 and 2005, respectively.	380,303	441,697
	\$ 4,504,976	\$ 4,769,497

NOTE F: Construction In Progress

Projects in process at May 31, 2006 and 2005 are as follows:

2006 PROJECT DESCRIPTION	Costs Incurred Through 5/31/06	Estimated Date of Completion
Koury Business Center	\$ 10,098,506	August 2006
Law School - Building	7,429,719	August 2006
Elon West - Renovation for the Arts	733,593	August 2006
Center for the Arts Renovation	45,873	August 2006
Academic Village #5 - Ctr. for Teaching and Learning	49,749	June 2007
Academic Village #4 - Religion & Philosophy	48,539	June 2007
New Dining Hall (2006 Bond Issue)	283,315	July 2007
New Residence Halls (2006 Bond Issue)	279,550	July 2007
Others	569,563	Various
Total	\$ 19,538,407	

2005 PROJECT DESCRIPTION	Cost Incurred Through 5/31/05	Estimated Date of Completion
Koury Business Center	\$ 2,225,772	August 2006
Law School - Building	1,305,275	August 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	

NOTE G: Property and Equipment

Property and equipment at May 31, 2006 and 2005 are as follows:

	2006	2005
Land and land improvements	\$ 22,698,848	\$ 20,351,236
Buildings	148,189,077	144,973,028
Moveable assets:		
Computers and computer equipment	3,233,371	3,709,250
Library books	7,201,673	6,224,515
Cars and other vehicles	2,662,281	2,483,228
Audiovisual equipment	1,677,599	1,543,498
Science equipment	1,323,292	1,268,764
Software	1,040,185	997,952
Telephone systems and equipment	649,379	637,352
Other moveable assets	4,619,351	4,128,375
Total moveable assets	22,407,131	20,992,934
Collections	1,854,688	1,839,688
	195,149,744	188,156,886
Accumulated depreciation	(51,722,540)	(46,765,376)
	\$ 143,427,204	\$ 141,391,510

NOTE H: Accrued Liabilities

Accrued liabilities at May 31, 2006 and 2005 are as follows:

	2006	2005
Salaries and wages	\$ 4,398,485	\$ 4,118,050
Vacation	1,252,525	1,087,272
Annuities and unitrusts	1,393,824	927,573
Employee benefits and payroll taxes	79,113	71,146
Conditional asset retirement obligations	534,744	-
	\$ 7,658,691	\$ 6,204,041

ACCRUED VACATION AND SICK PAY

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.

CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Effective for the year ended May 31, 2006, the University implemented Financial Accounting Standards Board (FASB) Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. The conditional asset retirement obligation represents the liability for a legal obligation to perform asset retirement activities when the retirement is conditional on a future event and the liability's fair value can be reasonably estimated. At May 31, 2006, \$534,744 represents the present value of estimated costs at the anticipated settlement date.

NOTE I: Bonds and Notes Payable

Long-term debt at May 31, 2006 and 2005 is as follows:

Revenue Bonds, series 1997; \$17,815,000 serial bonds due March 1997 through 2019, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 and continued through 2003 and will begin again in 2009 and continue through 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 Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.

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 Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.

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.

	2006	2005
Revenue Bonds, series 1997	\$ 17,215,000	\$ 17,215,000
Revenue Bonds, series 1998	11,225,000	11,740,000
Revenue Bonds, series 2000	3,675,000	3,815,000

NOTE I: Bonds and Notes Payable continued

	2006	2005
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.	7,360,000	8,115,000
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.	2,215,000	3,250,000
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.	6,670,000	6,875,000
Revenue Bonds, series 2006; \$18,905,000 serial bonds due March 2006 thru 2031, bearing a weekly variable market interest rate paid monthly. Principal payments begin in 2008 and will continue until 2031. The University made certain covenants, including covenants regarding payments of obligations, rights of inspection, use of proceeds, and sale of property. These bonds are issued through the North Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America. Revenue Bonds, series 2006 are subject to an interest rate swap agreement referenced in footnote J.	18,905,000	-
Subtotal - Bonds Payable	\$ 67,265,000	\$ 51,010,000
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%.	209,948	337,746
Subtotal - Notes Payable	209,948	337,746
Total - Bonds and Notes Payable	\$ 67,474,948	\$ 51,347,746

Aggregate maturities of long-term debt for the fiscal year ending May 31, 2006, are as follows:

2007	\$ 2,912,895
2008	3,472,053
2009	3,150,000
2010	3,290,000
2011	3,430,000
Thereafter	51,220,000
	\$ 67,474,948

Total interest costs incurred related to bonds and notes payable were \$1,731,023 and \$1,207,570 for the years ended May 31, 2006 and 2005, respectively, and of these amounts \$349,370 and \$94,062, respectively, were capitalized as a cost of construction.

NOTE J: Interest Rate Swap Agreements

The University has recorded three interest rate swap agreements on the Statement of Financial Position at fair market value. Agreements involve series 2001A, 2001B and 2006 bond issues, and allow the University to exchange variable for fixed rate interest payment obligations with 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 3.62% to 4.10%, 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. Currently, principle maturities on the debt conclude in 2031.

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 benefit (obligation) under interest rate swap agreements at May 31, 2006 and 2005 is as follows:

	2006	2005
Series 2001A	\$ (161,762)	\$ (509,207)
Series 2001B	(9,221)	(72,239)
Series 2006	544,678	-
	\$ 373,695	\$ (581,446)

NOTE K: Financial Aid (Tuition Discount)

The University awards financial aid based on academic merit, need and leadership. Gross tuition discounts were 16.6% and 16.8% for the years ended May 31, 2006 and 2005, respectively. The unfunded discount rate was 13.1% for each of the years ended May 31, 2006 and 2005. 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.

	2006		2005	
	Dollars	Percentage	Dollars	Percentage
Unfunded discount	\$ 12,112,320	13.1%	\$ 10,970,167	13.1%
Funded discount	3,239,519	3.5%	3,054,440	3.7%
Total	\$ 15,351,839	16.6%	\$ 14,024,607	16.8%
Gross Tuition	\$ 92,688,718		\$ 83,529,187	

NOTE L: Gift Revenue

Major categories of gift revenue, including gift pledges, for the years ending May 31, 2006 and 2005 are as follows:

	2006	2005
Annual fund	\$ 1,495,724	\$ 1,414,812
Endowment funds	2,753,215	2,369,798
Capital projects	3,256,896	6,962,570
Other	622,575	687,441
	\$ 8,128,410	\$ 11,434,621

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 \$18,862,787 and \$17,237,693 for the years ended May 31, 2006 and 2005, respectively. Allocations of specific program expenses are as follows:

Program	2006			
	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	\$ 2,845,392	\$ 1,922,063	\$ 1,874,330	\$ 6,641,785
Student services	1,412,881	954,401	447,482	2,814,764
Auxiliary enterprises	3,969,768	2,681,578	578,389	7,229,735
Academic support	557,957	376,900	157,228	1,092,085
Institutional support	272,078	183,789	628,551	1,084,418
	\$ 9,058,076	\$ 6,118,731	\$ 3,685,980	\$ 18,862,787

Program	2005			
	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

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 \$2,828,514 and \$2,604,130 for the years ended May 31, 2006 and 2005, respectively.

NOTE O: Fundraising

Fundraising costs were \$2,559,902 and \$2,239,041 for the years ended May 31, 2006 and 2005, respectively. These costs are included with other costs and are shown as "Institutional Support" on the Statement of Activities.

NOTE P: Student Housing

CHF – Elon, LLC was formed during the fiscal year ended May 31, 2006, by Collegiate Housing Foundation, a 501(c)(3) corporation in Mobile, Alabama, for the purpose of providing student housing for Elon University students. The Board of Directors of CHF – Elon, LLC is completely independent of the University.

The University leases 13.852 acres of land to CHF – Elon, LLC, which are used to provide student housing. The lease provides for annual distributions of net available cash flow as the lease payment to the University and expires in 2041. CHF – Elon, LLC has financed the housing using its own taxable bonds with no recourse to the University. The parties to the lease have entered into an agreement contracting with the University to manage the student housing over the life of the ground lease.

The project was under construction at May 31, 2006, as a result there has been no income earned under the ground lease.

NOTE Q: 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 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 \$18,734,473 and \$14,346,835 at May 31, 2006 and 2005, 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, 2006, Elon had future commitments of \$335,342.

(4) OPERATING LEASES

The University leases buildings, equipment and vehicles under operating leases that will expire in various years through 2016. Rent expense was \$447,786 and \$375,760 for the years ended May 31, 2006 and 2005, respectively. Commitments for minimum future rental payments for each of the next 5 years and thereafter are as follows:

Year Ending	Amount	
2007	\$	480,075
2008		321,250
2009		260,780
2010		271,797
2011		262,752
Thereafter		936,402
Total minimum future rental payments	\$	2,533,056

The University also leases apartments and houses for student living under operating leases that will expire in 2007. Rent expense was \$631,686 and \$624,977 for the years ended May 31, 2006 and 2005, respectively. Rent expense is more than offset by housing revenue received from students living in these units. The University has a commitment of \$74,605 for minimum future rental payments for the year ended May 31, 2007.

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 foundations and donors 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. As of the May 31, 2006, Elon has received \$5,330,604 from the foundation to cover building renovations and construction expenses. As of May 31, 2006, the University has provided \$1,977,833 of the committed \$3,500,000.

(6) EMPLOYMENT RELATED COMMITMENTS

Elon University has entered into employment related agreements with its employees which obligate the University to potential future payments. At May 31, 2006, those maximum potential future payments under these agreements are \$3,411,203.

NOTE R: Subsequent Events

Subsequent to year end but prior to the report date (August 4, 2006), the University was party to the following:

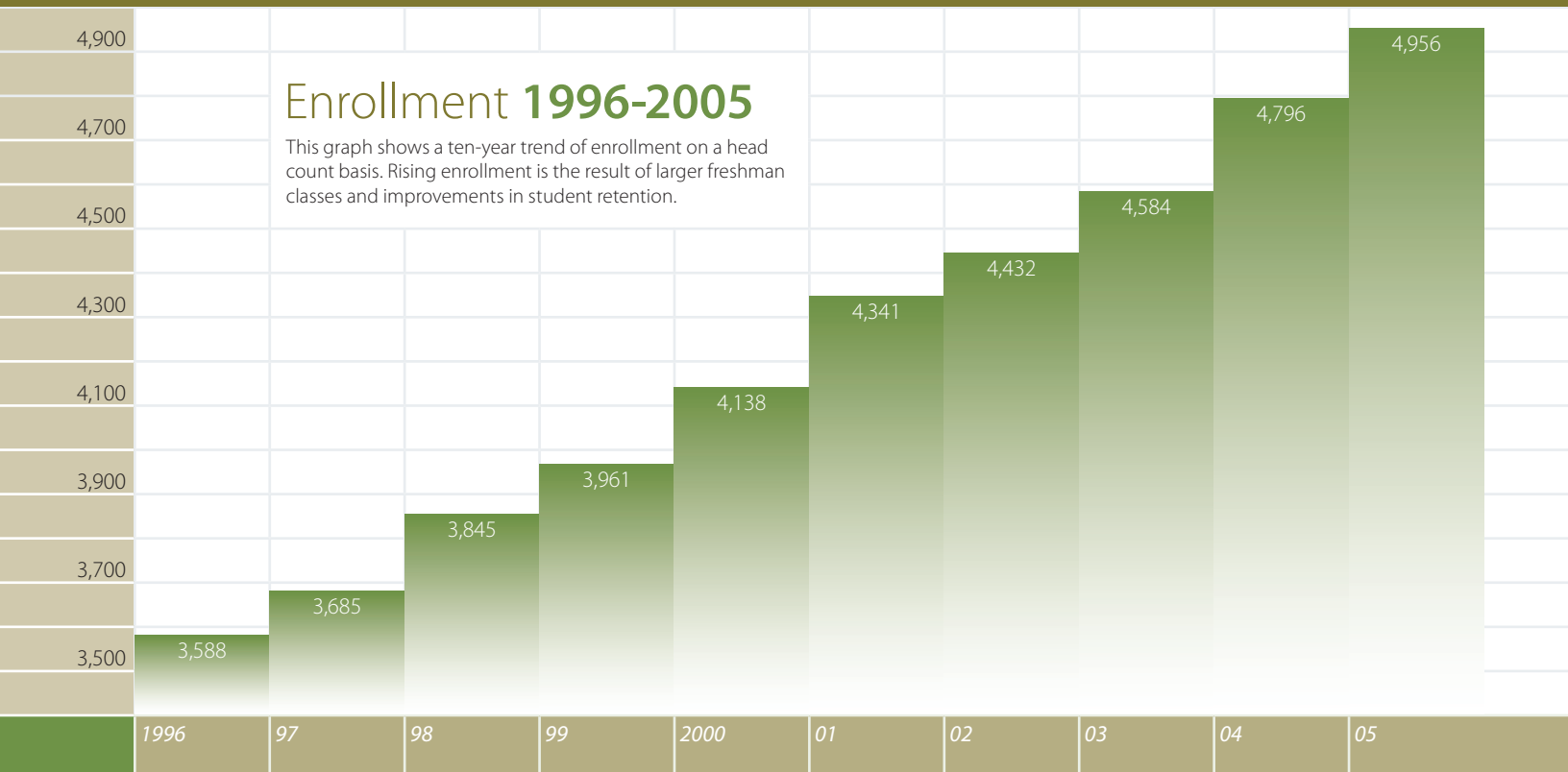
Purchase of assets: The University purchased two parcels of real estate at a total cost of \$625,000. No debt was incurred related to this purchase.

Realized loss on disposition of property: The University razed the remaining buildings on land being leased to an unrelated entity for use in providing student housing (Note P). The University realized a loss on this demolition of \$682,690.

Construction contracts: The University contracted for the construction of two new academic village buildings. These buildings are part of a plan approved in a prior fiscal year. The total contracted cost of these buildings is \$2,847,760. It is expected that these contracts will be paid with donor funds.

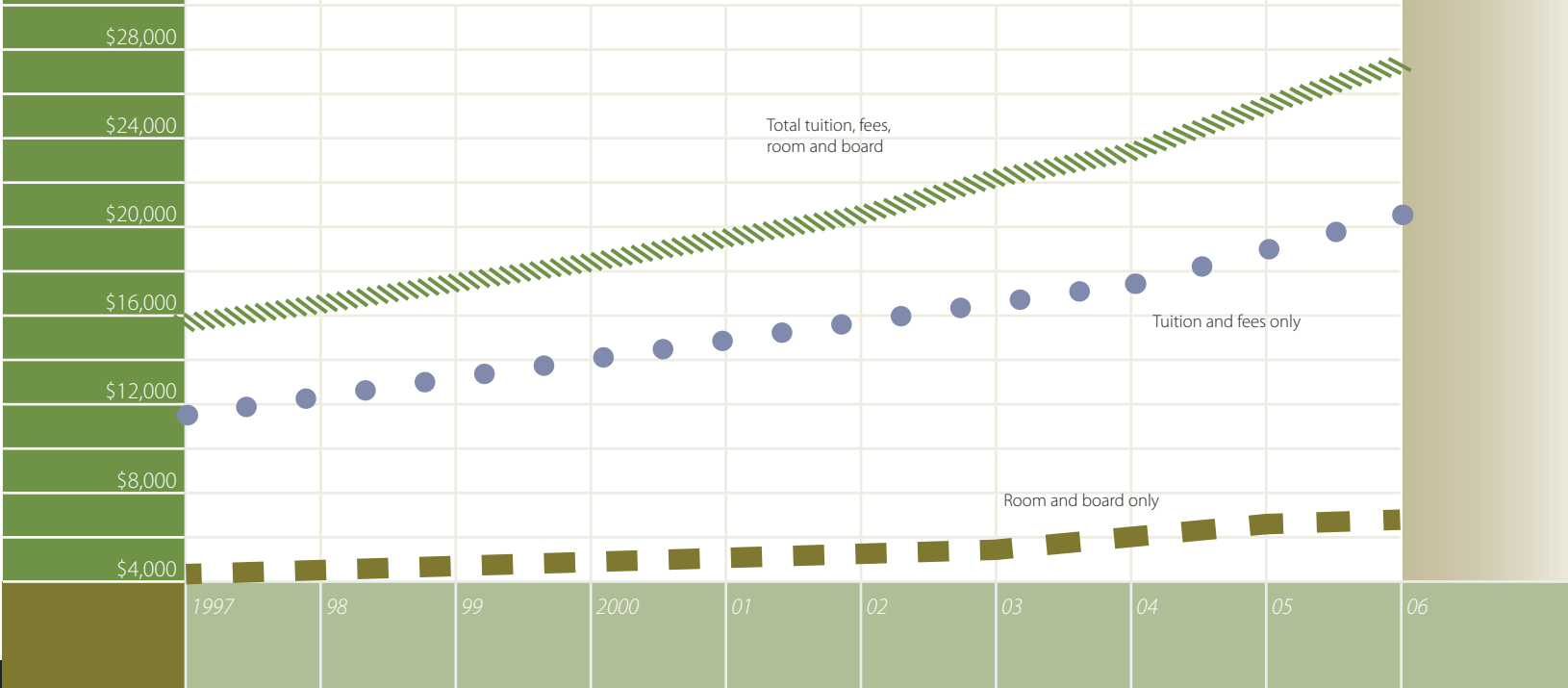


Year	Undergraduate	Graduate	Total
1996	3,427	161	3,588
1997	3,533	152	3,685
1998	3,641	204	3,845
1999	3,701	260	3,961
2000	3,900	238	4,138
2001	4,160	181	4,341
2002	4,270	162	4,432
2003	4,431	153	4,584
2004	4,622	174	4,796
2005	4,702	254	4,956



Tuition and Fee Rates 1997-2006

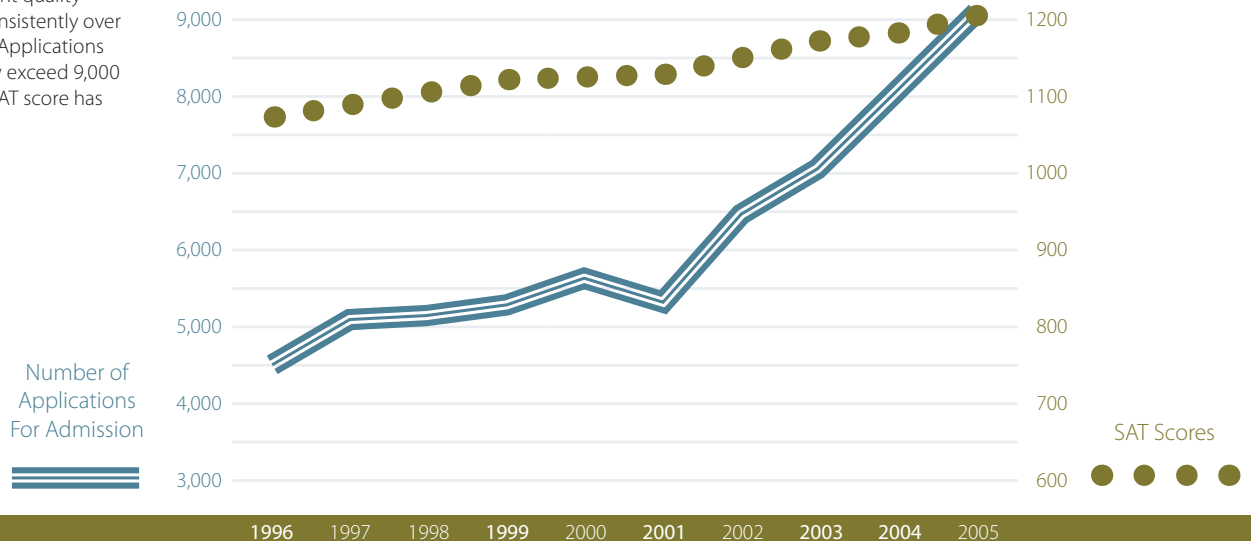
This chart shows the increase in tuition and fees, and room/board rates over a ten-year period.



Fall	Tuition	Fees	Room	Board	Total
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
2006	\$20,171	\$270	\$3,320	\$3,530	\$27,291

Student Selectivity 1996-2005

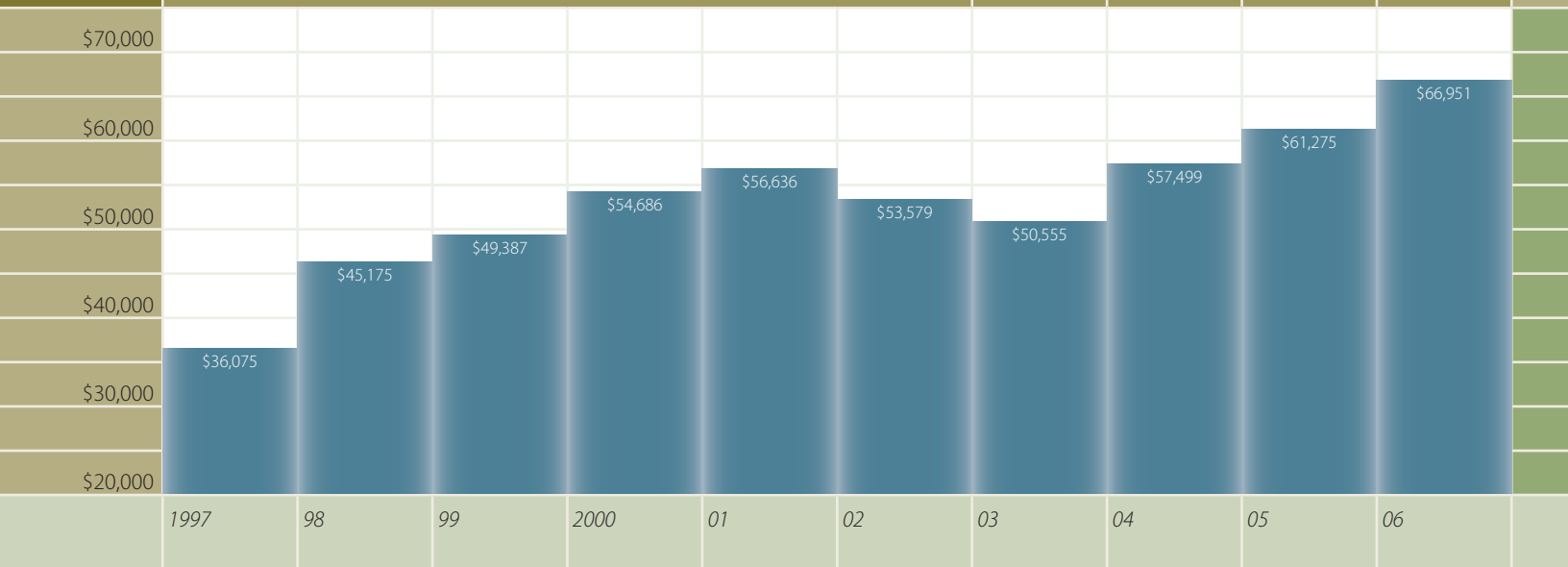
Measures of student quality have increased consistently over the last ten years. Applications for admission now exceed 9,000 and the average SAT score has risen to 1208.





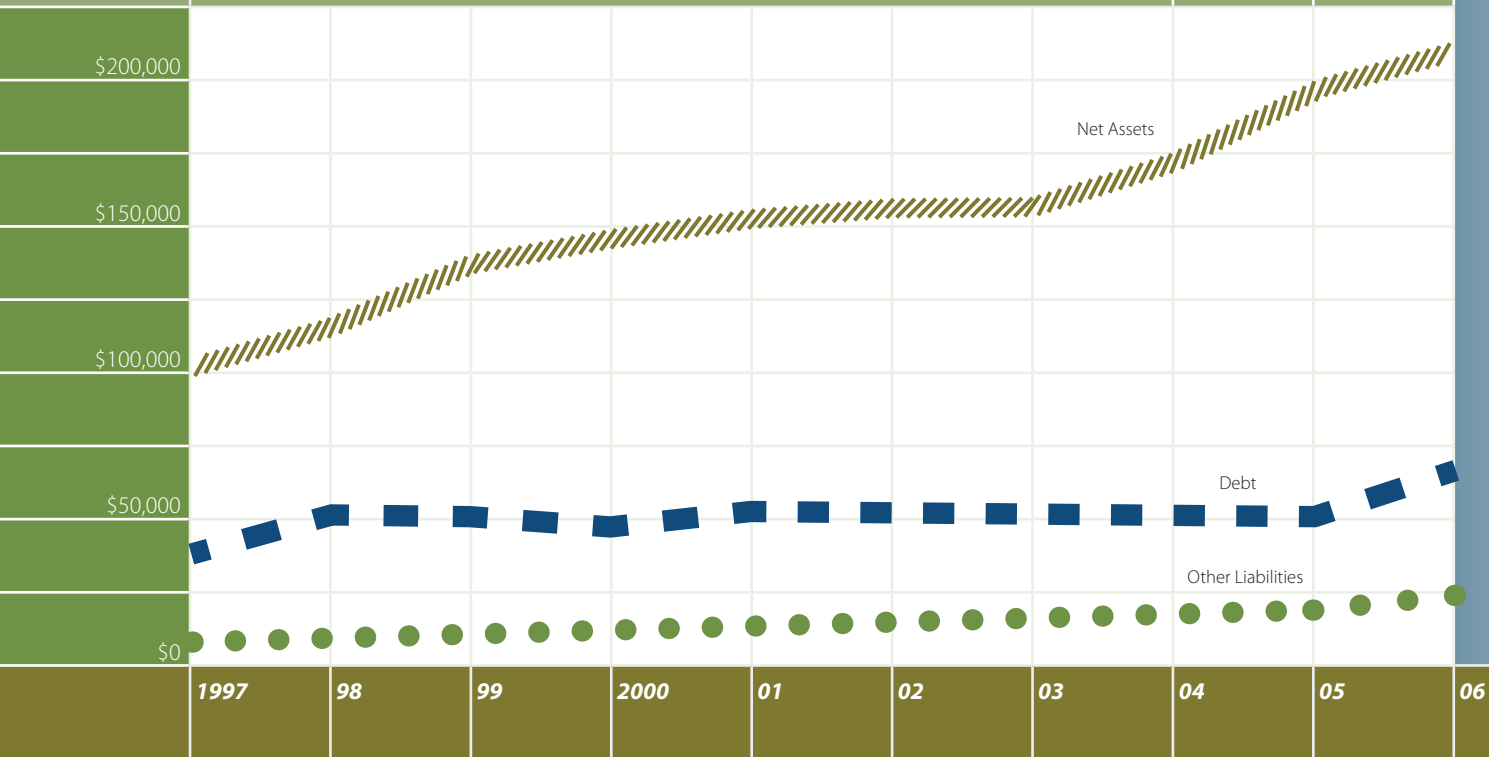
Endowment Market Value (000) 1997-2006

The market value of the endowment has grown over the past ten years in spite of the recent market fluctuations. For fiscal year 2006 returns were positive.

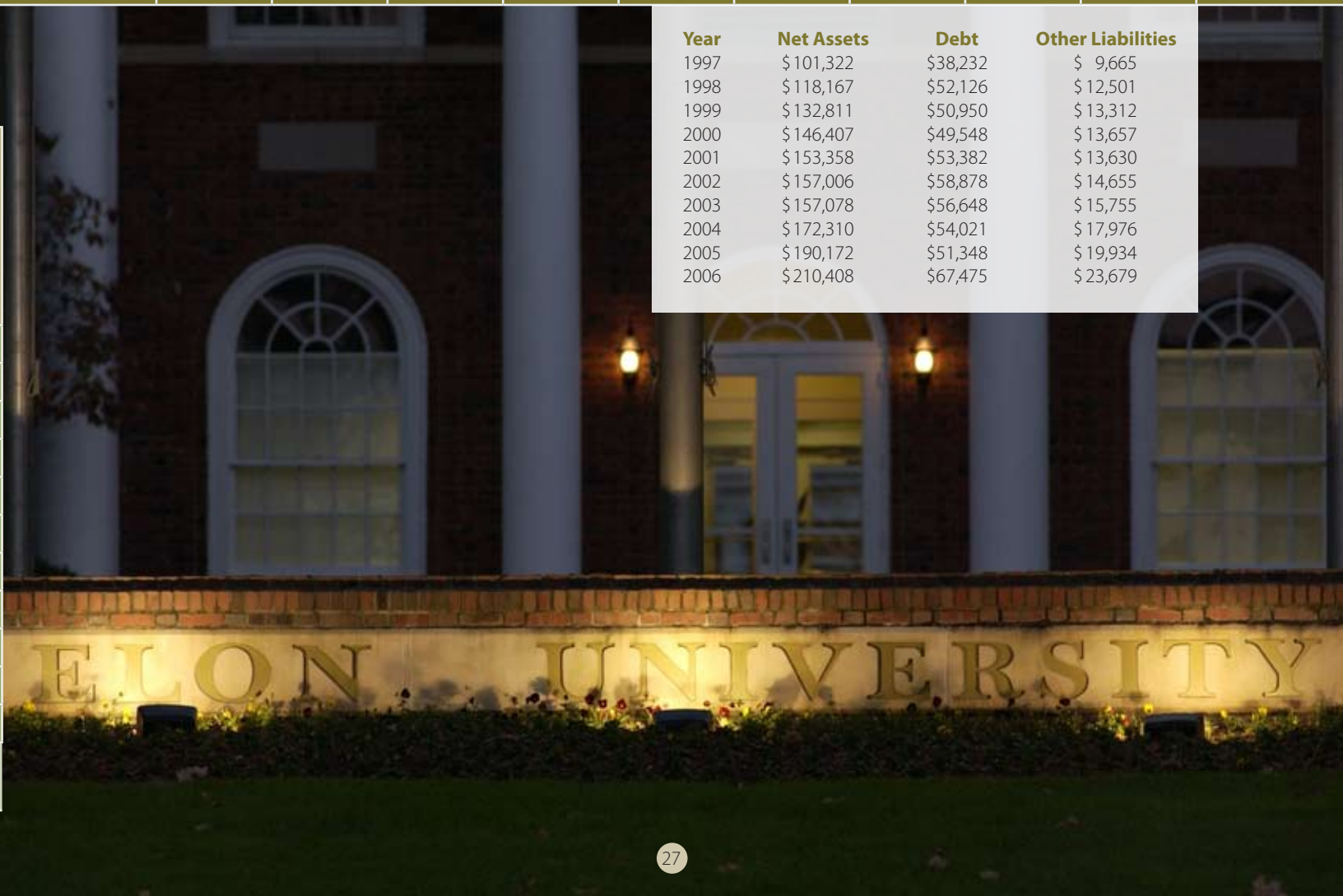


Total Net Assets/Long Term Debt and Other Liabilities (000) 1997-2006

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
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	\$ 19,934
2006	\$ 210,408	\$67,475	\$ 23,679



BALANCE FROM OPERATIONS

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

	Operating Fund
Changes in Unrestricted Net Assets:	
Revenues and gains:	
Tuition and fees	\$ 89,598,965
Tuition discount	(12,112,320)
Net tuition	77,486,645
Sales and service of auxiliary enterprises	20,863,480
Federal grants	-
State grants	-
Contributions	1,495,724
Contributions - pledges	-
Investment income - endowment	565,425
Other investment income	1,511,808
Loss on investments	(128,386)
Athletics	1,240,776
Other sources	531,094
Total Unrestricted Revenues and Gains	103,566,566
Net assets released from restrictions	-
Total Unrestricted Revenues and Gains and Other Support	103,566,566
Expenses and transfers	
Instruction	39,011,746
Student services	15,059,730
Auxiliary enterprises	13,959,903
Academic support	5,037,226
Institutional support	14,455,781
Principal and interest payments on debt	4,869,359
Renewals, Replacements and Capital Acquisition	2,267,795
Board Endowment Reserve	1,000,000
Other	210,161
Total Expenses and Transfers	95,871,701
Balance from Operations	\$ 7,694,865
REALLOCATION OF ENDOWMENT REALIZED GAINS	
2005-2006 endowment pooled funds average balance based on 3-year moving average	\$ 56,663,580
Spending allowance calculated at 5% of average balance	2,833,179
Income and transfers generated by endowment pooled investments	1,374,316
Difference between spending allocation and generated income	1,458,863
Spending allowance reinvested in permanent endowment	\$ 190,408





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