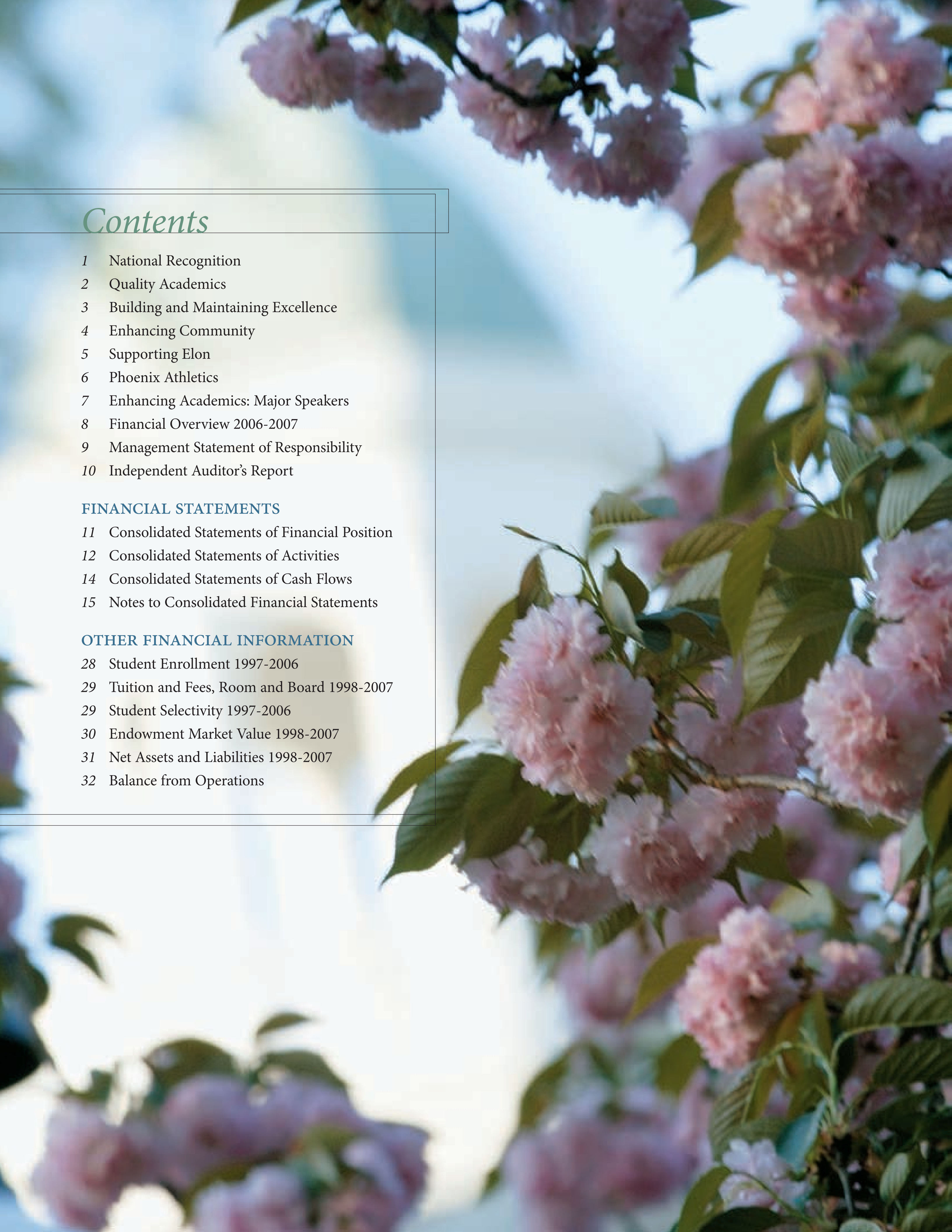
ELON

2007 ANNUAL REPORT



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National Recognition

LEADING THE NATION IN SERVICE

Elon was named one of the nation's top three universities for community service in 2006, earning a Presidential Award in the first President's Higher Education Community Service Honor Roll. Elon's service programs were recognized for innovation, effectiveness and quality.

Nearly 90 percent of students participate in service at Elon, from weekly tutoring sessions to in-depth projects that are connected with their academic courses.

TOPS IN INTERNATIONAL EDUCATION

Elon was named one of the top schools in the nation for international education by NAFSA: Association of International Educators. The university is one of four institutions to receive the organization's prestigious 2007 Senator Paul Simon Award for Campus Internationalization.

The award is given to universities that demonstrate innovative internationalization efforts, including study abroad and international student services.

Elon continues to rank as the nation's top master's-level university for study abroad programs, according to the 2006 Open Doors report by the Institute of International Education. About 64 percent of Elon students study abroad at least once during their time at the university.

RANKED #3 IN *U.S.NEWS & WORLD REPORT*

U.S. News ranked Elon #3 among 127 Southern master's-level institutions in its 2007 "America's Best Colleges" guide. This is Elon's highest ranking ever. In addition, Elon was cited by the magazine in its national ranking of excellence in seven different programs: service learning, undergraduate research, study abroad, learning communities, first-year experiences, internships and senior capstone experiences.

RECOGNIZED AS BEST VALUE

Kiplinger's Personal Finance magazine has named Elon one of the nation's top 50 best value private universities. The April 2007 edition of *Kiplinger's* ranks Elon #1 overall in the total costs category and #27 overall on the best value list. Elon is the only university in the ranking with total costs lower than $30,000.

Quality Academics

ELON SCHOOL OF LAW OPENS

The Elon University School of Law opened in downtown Greensboro on Aug. 10, 2006.

At the foundation of the curriculum are solid courses to develop legal knowledge and skills, along with opportunities for students to be mentored by more than 40 local lawyers and judges called "preceptors." Students choose from study concentrations in litigation, business, public interest and general practice.

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

Two special partnerships provide innovative learning experiences for students. The North Carolina Business Court is located in the law school, using the school's courtroom and giving students daily opportunities to 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, whose staff collaborate closely with Elon students and faculty.

ELON ACADEMY WELCOMES INAUGURAL CLASS FOLLOWING MAJOR STARTUP GIFT

Twenty-six students were selected for the inaugural class of the Elon Academy, an academic enrichment program created by the university for students in the Alamance-Burlington School System.

The year-round academy, which targets academically talented students with financial need or no family history of college attendance, combines three annual intensive four-week summer residential experiences at Elon with academic and enrichment activities throughout the school year.

Edna Truitt Noiles '44 and her husband, Douglas, of New Canaan, Conn., made a generous gift to provide startup funding for Elon Academy.

SCHOOL OF COMMUNICATIONS HOUSES N.C. OPEN GOVERNMENT COALITION

Elon's School of Communications is the new home of the North Carolina Open Government Coalition, which promotes the state's Sunshine Laws and freedom of information about the operation of the government for media and citizens.

The coalition unites organizations in the state that believe public access to government records, meetings and activities is vital to a healthy democracy. As part of the partnership with the coalition, Elon communications faculty will develop teaching tools and outreach programs, and host an annual celebration of open government.

TOM ARCARO NAMED N.C. PROFESSOR OF THE YEAR

Sociology professor Tom Arcaro was named the 2006 North Carolina Professor of the Year by the Carnegie Foundation for the Advancement of Teaching. He is the first Elon professor to receive this prestigious recognition.

Arcaro was recognized for his extraordinary dedication to undergraduate teaching. He has taught at Elon for more than 20 years, and is known for going beyond the walls of the classroom to give students hands-on learning experiences. He is also the director of Elon's Project Pericles, a national program to promote social responsibility and citizenship among college students.

Building and Maintaining Excellence

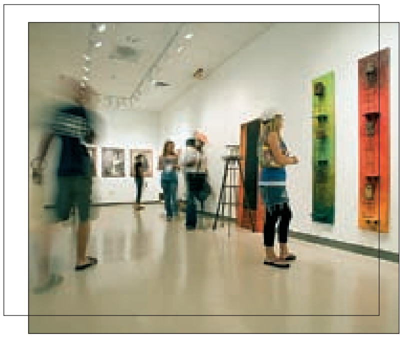
KOURY BUSINESS CENTER OPENS

The Ernest A. Koury, Sr. Business Center opened this year as the new home of Elon's Martha and Spencer Love School of Business. Students in all academic majors have classes in the new center.

The center includes the LaRose Digital Theatre, which is 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 and the James B. and Anne Ellington Powell Lobby. The Wallace L. Chandler Fountain and Plaza enhance the entrance to Koury Business Center.

The most recent addition to the facility is the Doherty Center for Entrepreneurial Leadership, established and endowed by a $1 million gift from Elon parents Edward and Joan Doherty of Saddle River, N.J. The Doherty Center focuses on experiential education and preparing students for success as entrepreneurs.

ARTS WEST OPENS



Elon West, formerly the physical plant headquarters on Haggard Avenue, is the new home of the art department. The facility, renamed Arts West, includes classrooms, a photo lab, and ceramics, painting and digital art studios. The building also includes storage for the university's library collections as well as music faculty offices.

NEW ACADEMIC VILLAGE PAVILIONS OPEN

Two new pavilions in the Academic Village opened in summer 2007. A gift from Royall H. Spence, Jr. '42 named the Luvene Holmes and Royall H. Spence, Jr. Pavilion, which houses the philosophy and religious studies departments. A gift from The Belk Foundation of Charlotte, N.C., named the William Henry Belk Pavilion. It houses Elon's Center for the Advancement of Teaching and Learning, which allows faculty to develop innovative teaching methods.

Enhancing Community

BECOMING A GREENER CAMPUS

As part of the university's effort to "go green," Elon has implemented a sustainability plan with the goal of minimizing the university's impact on the environment.

Members of the Elon community have recycled and cut energy and water use. Students, faculty and staff also participated in RecycleMania, a 10-week competition to reduce waste. More than 47 tons of recyclable materials were collected during the

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Please recycle.

event. The university also installed energy-efficient compact fluorescent light bulbs around campus.

E^2 SOCIAL NETWORK DEBUTS

In April 2007, the university launched E^2 (Elon Town Square), an online social network for members of the Elon community. By creating personal profiles, E^2 users can reconnect with friends and classmates, interact with faculty and staff, form Elon groups, and create an online portfolio of their work.

Similar to popular sites like Facebook and MySpace, E^2 is open only to Elon alumni, students, faculty, staff and parents. Within two months of its launch, more than 3,700 people had registered on the network.

Supporting Elon

DONORS ENDOW SCHOLARSHIPS

In 2006-2007, Elon received many major endowment gifts that will fund a variety of scholarships for talented students with financial need.

Furman C. Moseley, Jr. of Seattle, a 1956 Elon alumnus, made a $5 million gift in honor of his wife, Susan Reed Moseley, on her 70th birthday. The gift, which is the largest scholarship gift in Elon's history, will endow scholarships for deserving female students.

Howard Arner '63 and his wife, Beverly Frye Arner '66, of Jacksonville, Fla., made a $1 million planned gift to build the endowment, including support for athletics.

Phyllis S. Pruden and her late husband, Peter D. Pruden, Jr., of Suffolk, Va., made a $454,344 gift to the Peter D. Pruden and Phyllis S. Pruden Scholarship, which assists students studying business administration, economics or accounting.

The Martha and Spencer Love Foundation gave $262,000 to Elon to establish the Love Awards for Excellence in Business Leadership. These scholarships will be awarded to business students who exhibit exceptional leadership skills.

The amphitheater in Elon's Academic Village has been named for Irwin Belk, a Charlotte, N.C., business leader and philanthropist who made a $251,000 gift to Elon.

In an effort to promote global awareness and a commitment to service, Elon parents Carole and Douglas Bruns endowed the Carole and Douglas Bruns Endowment for International Service Learning with a $250,000 gift.

Parents John and Nancy Cavanaugh of New Canaan, Conn., established The Cavanaugh Family Funds, which was used to match new scholarship gifts.

Elon received a $150,000 grant from the Arthur Vining Davis Foundations to establish the Elon Teaching and Learning Partnership.

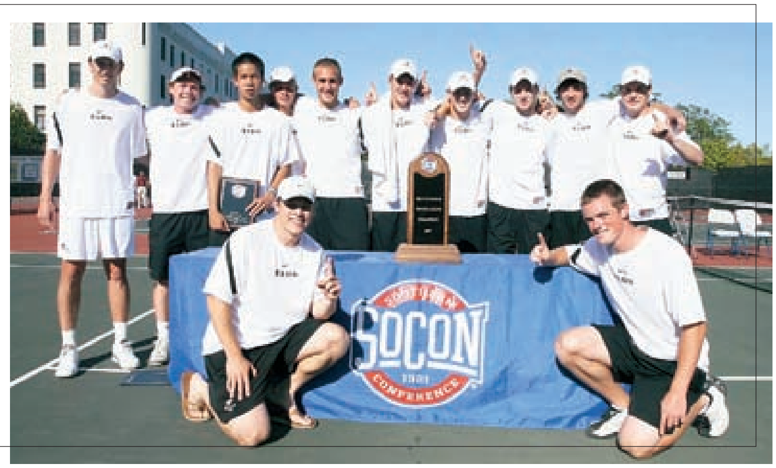
Parents Damion and Sherri Carufe of Atlanta donated $125,000 to endow the Carufe Family Scholarship, which assists deserving Phoenix baseball players.

Parents Tom and Debbie McInerney of Weatogue, Conn., gave $100,000 to endow the Meghan A. McInerney Scholarship, which assists students in any academic field of study who exhibit superb leadership skills, character and intellect.

PHOENIX CLUB LAUNCHED TO SUPPORT ATHLETICS SCHOLARSHIPS

Elon's new Phoenix Club allows donors to provide annual scholarship support to student athletes on 16 teams. Gifts to the Phoenix Club have an immediate impact on the entire athletics program by helping to fund the maximum number of scholarships allowed by the NCAA.

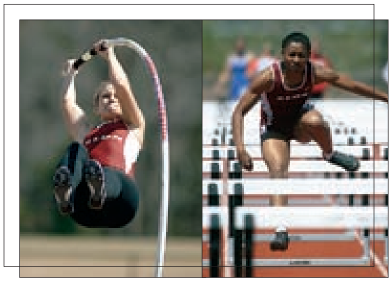
Phoenix Athletics



MEN'S TENNIS WINS FIRST SOCON TITLE, SECURES NCAA TOURNAMENT BID

Elon captured the 2007 Southern Conference Men's Tennis Championship in spring 2007, giving the university its first SoCon tournament title and automatic NCAA tournament bid in any sport since joining the conference four years ago. The Phoenix advanced to the NCAA Regionals before losing to Clemson University.

Phoenix coach Michael Leonard, a 1991 Elon alumnus, was named SoCon Coach of the Year for the second consecutive year.



CLENDENNING, PRICE WIN SOCON TRACK TITLES

Jessica Clendenning and Dominique Price became the first Elon athletes ever to claim women's indoor track league titles at the Southern Conference Championships in February 2007.

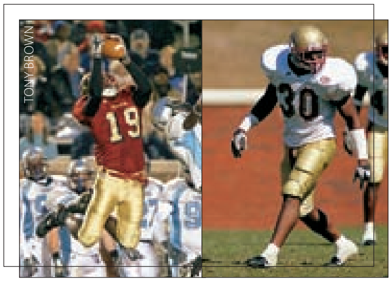
Clendenning captured the pole vault crown, vaulting to a school-record and conference-record performance of 13 feet .25 inches. In the 60-meter hurdles final, Price sprinted to first place by tying her school-record time of 8.67 seconds.

HUDGINS, NKANG NAMED ALL-AMERICAN IN FOOTBALL; NKANG DRAFTED BY NFL

Freshman wide receiver Terrell Hudgins and senior linebacker Chad Nkang earned second-team honors on the Associated Press NCAA-IAA All-America team following the 2006 season. It marked the first time two Elon football players have earned AP All-America honors at the I-AA level in the same season.

Hudgins led the Southern Conference and was ranked second nationally in receiving yards. Nkang, who earned AP All-America honors for the second straight year, was the top tackler in the SoCon.

Nkang also became the first Elon player to be selected in the National Football League draft since 1992. He was chosen by the Jacksonville Jaguars.



WWW.ELONPHOENIX.COM

Elon Phoenix fans can find scores and much more on the university's new athletics Web site, which debuted in April 2007. The site, www.elonphoenix.com, showcases student athletes with more feature stories and photos, audio and video clips, up-to-the-minute game results and statistics on every competition.

Enhancing Academics: Major Speakers

Retired U.S. Supreme Court Justice Sandra Day O'Connor and Pulitzer Prize-winning author Frank McCourt led the list of prominent speakers at Elon in 2006-2007.

O'Connor dedicated the Elon University School of Law and delivered the Fall Convocation address in September 2006, while McCourt delivered the Baird Pulitzer Prize Lecture in February 2007.

Other speakers included national radio personality Tom Monaghan, the founder and former CEO of Domino's Pizza, and Elon alumna Kerrii Anderson, who is president and CEO of Wendy's International, Inc.

Financial Overview 2006-2007

We are glad to share with you this financial report and audit for Elon University for 2006-2007. The report is an accurate and fair description of the financial condition of the University and provides insight into its general health.

As outlined in the preceding pages, in the past year the University made great strides toward achieving the goals of its current strategic plan, NewCentury@Elon. New academic programs were introduced, new faculty positions were added, and new technology was acquired to enhance teaching and learning. Several major new facilities were opened. Alumni financial support for Elon, always generous, reached new heights this past year. The University's strong showings in national rankings are another indication of its vitality.

This success has accelerated the demand for admission to Elon. In the past academic year, 9,204 applications were submitted for approximately 1,280 seats in the freshman class, and the average SAT score increased to 1217. Admissions success coupled with successful fundraising provide a solid financial base for the institution. As indicated on the following pages, all major financial indicators continue to move in favorable directions. Highlights include an increase in assets and net assets (assets minus liabilities) of 11.3% and 16.1% respectively and growth of net tuition revenue (tuition minus financial aid) by 15.2%. A strong financial foundation, the University's best year in a decade of excellent performances, and the significant achievements noted in this report place Elon in an outstanding position for further progress in all areas.

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, 2007 and 2006, 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 three times annually with the University's management and independent auditor to review matters relating to financial reporting, auditing and internal control. To ensure auditor independence, the independent auditor has full and free access to the Audit Committee during the meetings both with management present and in executive session without management present.

The independent accounting firm is engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Elon University. The auditor was given unrestricted access to all financial records and related data including minutes of all meetings of the Board of Trustees and its committees. All representations made to the independent auditor by University management during their audit were true and accurate 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 consolidated statements of financial position of Elon University (a nonprofit organization) as of May 31, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elon University as of May 31, 2007 and 2006, 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 17, 2007

Consolidated Statements of Financial Position

May 31, 2007 and 2006

	2007	2006
ASSETS:		
Cash and cash equivalents	$ 2,531,711	$ 1,982,670
Accounts receivable, net	1,665,617	833,412
Prepaid expenses and other assets	541,559	458,378
Inventories	43,611	62,942
Contributions receivable, net	10,708,186	4,665,900
Investments	130,177,207	123,851,552
Loans to students, net	4,008,245	4,504,976
Bond issue costs	693,156	757,484
Benefit under interest rate swap agreements	120,292	373,695
Construction in progress	14,520,833	19,538,407
Property and equipment, net	169,536,052	143,427,204
Total Assets	$ 334,546,469	$ 300,456,620
LIABILITIES:		
Accounts payable	$ 6,288,147	$ 5,297,368
Accrued liabilities	7,828,748	7,658,691
Student deposits	3,727,995	3,397,705
Deferred revenue	1,691,878	1,468,185
Other liabilities	1,828,293	283,392
Notes payable	72,053	209,948
Bonds payable	64,490,000	67,265,000
U.S. Government advances for student loans	4,370,154	4,468,065
Total Liabilities	90,297,268	90,048,354
NET ASSETS:		
Unrestricted		
Designated for capital projects and reserves (mandatory/nonmandatory)	26,541,739	28,757,729
Net investment in plant	122,142,590	93,671,387
Accumulated gains on endowment	26,673,747	18,053,031
Total Unrestricted	175,358,076	140,482,147
Temporarily restricted	10,560,622	22,503,967
Permanently restricted	58,330,503	47,422,152
Total Net Assets	244,249,201	210,408,266
Total Liabilities and Net Assets	$ 334,546,469	$ 300,456,620

See accompanying notes.

Consolidated Statement of Activities

FOR THE YEAR ENDED MAY 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGES IN NET ASSETS:				
Revenues and gains:				
Tuition and fees	$ 105,782,335	$ -	$ -	$ 105,782,335
Tuition discount	(16,705,605)	-	-	(16,705,605)
Net tuition	89,076,730	-	-	89,076,730
Sales and service of auxiliary enterprises	21,676,525	-	-	21,676,525
Federal grants	481,559	-	-	481,559
State grants	1,631,354	-	-	1,631,354
Other grants	203,718	2,651,428	-	2,855,146
Contributions	1,876,402	1,718,229	1,837,036	5,431,667
Contributions - pledges	19,000	2,356,442	8,066,248	10,441,690
Investment income - endowment	598,779	596,918	-	1,195,697
Other investment income	2,845,327	315,820	-	3,161,147
Gain (Loss) on investments	10,282,882	187,621	460,239	10,930,742
Loss on disposal of property and equipment	(688,075)	-	-	(688,075)
Athletics	1,662,007	24,493	-	1,686,500
Other sources	1,238,558	103,197	514,734	1,856,489
Total Revenues and Gains	130,904,766	7,954,148	10,878,257	149,737,171
Net Assets released from / to restrictions	19,867,399	(19,897,493)	30,094	-
Total Revenues and Gains and Other Support	150,772,165	(11,943,345)	10,908,351	149,737,171
Expenses:				
Instruction	52,584,404	-	-	52,584,404
Student services	18,525,254	-	-	18,525,254
Auxiliary enterprises	20,636,893	-	-	20,636,893
Academic support	6,596,362	-	-	6,596,362
Institutional support	17,299,920	-	-	17,299,920
Total Expenses	115,642,833	-	-	115,642,833
Increase in Net Assets before change in interest rate swap agreements	35,129,332	(11,943,345)	10,908,351	34,094,338
Change in value of interest rate swap agreements	(253,403)	-	-	(253,403)
Increase (Decrease) in Net Assets	34,875,929	(11,943,345)	10,908,351	33,840,935
Net Assets - Beginning of Year	140,482,147	22,503,967	47,422,152	210,408,266
Net Assets - End of Year	$ 175,358,076	$ 10,560,622	$ 58,330,503	$ 244,249,201

See accompanying notes.

Consolidated 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	2,487,182	(516,293)	421,138	2,392,027
Loss on disposal of property and equipment	(501,008)	-	-	(501,008)
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
Cumulative 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.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED MAY 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	$ 33,840,935	$ 20,236,307
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	7,610,680	6,118,731
Amortization of bond issue costs	64,328	(119,552)
Contributions of property	(70,930)	(1,355,402)
Contributions restricted to endowment	(9,903,282)	(2,753,215)
Gain on investments	(10,930,742)	(2,392,027)
Loss on disposal of property and equipment	688,075	501,008
Cumulative effect of change in accounting principle	-	142,598
(Increase) decrease in assets:		
Accounts receivable	(832,205)	446,713
Contributions receivable	(6,042,286)	1,599,588
Prepaid expenses and other assets	(83,181)	(142,320)
Inventories	19,331	5,585
Loans to students	496,731	264,521
Benefit under interest rate swap agreements	253,403	(373,695)
Increase (decrease) in liabilities:		
Accounts payable	305,863	2,006,208
Accrued liabilities	130,319	919,908
Student deposits	330,290	458,466
Deferred revenue	223,693	505,719
Other liabilities	1,544,901	283,392
Obligation under interest rate swap agreements	-	(581,446)
U.S. Government advances for student loans	(97,911)	(99,315)
Net Cash Provided by Operating Activities	17,548,012	25,671,772
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	37,615,347	23,074,061
Purchases of investments	(33,010,259)	(45,399,636)
Proceeds from disposal of property and equipment	2,100	2,400
Purchases of property and equipment	(28,596,546)	(22,252,099)
Net Cash Used by Investing Activities	(23,989,358)	(44,575,274)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	-	18,905,000
Principal payments on bonds	(2,775,000)	(2,650,000)
Principal payments on other debt	(137,895)	(127,798)
Contributions restricted to endowment	9,903,282	2,753,215
Net Cash Provided by Financing Activities	6,990,387	18,880,417
Net Increase (Decrease) in Cash and Cash Equivalents	549,041	(23,085)
Cash and Cash Equivalents at Beginning of Year	1,982,670	2,005,755
Cash and Cash Equivalents at End of Year	$ 2,531,711	$ 1,982,670
Supplemental disclosure:		
Cash payments for interest (net of amount capitalized)	$ 2,351,104	$ 1,385,351

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) CONSOLIDATION:

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

(3) BASIS OF PRESENTATION:

The accompanying consolidated financial statements of the University have been prepared on the accrual basis of accounting and in accordance with the reporting principles of not-for-profit accounting 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 consolidated statement of financial position, a consolidated statement of activities and a consolidated statement of cash flows.

(4) CLASSIFICATION OF NET ASSETS:

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

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

■ Temporarily Restricted – Net assets 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).

(5) 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.

(6) 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 $2,726,674 and $2,785,411 at May 31, 2007 and 2006, 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 $684,642 and $357,815 at May 31, 2007 and 2006, respectively.

(7) ACCOUNTS RECEIVABLE:

Accounts receivable consist of obligations from students in the normal course of operations and consist principally of billings for Summer Session I and post graduate programs. 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, 2007 past due 120 days or more was $72,597. 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, 2007 and 2006.

(8) CONTRIBUTIONS RECEIVABLE:

Contributions receivable are stated at their present value, net of an allowance for uncollectible contributions receivable. The

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

allowance is based on management's analysis of specific promises made. Present value is calculated using a 3% discount rate.

(9) INVENTORIES:

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

(10) 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.

(11) 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 by the Board of Trustees. The University has an annual spending policy of 4.8% of the 36 – month moving market average.

(12) BOND ISSUE COSTS:

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

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

(14) INTEREST RATE SWAP AGREEMENTS:

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

(15) CONTRIBUTIONS:

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

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.

(16) 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.

(17) 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.

(18) 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.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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.

(19) 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.

(20) RECLASSIFICATIONS:
Certain items in the 2006 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, 2007, are estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One year	$ 2,824,156	$ 1,051,206	$ 19,000	$ 3,894,362
2 - 4 years	4,242,887	2,464,031	-	6,706,918
5 Plus years	102,714	4,192	-	106,906
Total	$ 7,169,757	$ 3,519,429	$ 19,000	$ 10,708,186

The payment timing of outstanding contributions receivable at May 31, 2006, are 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
Total	$ 638,288	$ 4,027,612	$ -	$ 4,665,900

Contributions receivable are shown net of a collection allowance of $592,301 and $256,329 and a discount of $545,538 and $204,352 at May 31, 2007 and 2006, respectively. Individual pledges that exceeded 10% of total receivables amounted to $6,496,755 and $800,000 at May 31, 2007 and 2006, respectively.

NOTE C: INVESTMENTS

Investments at May 31, 2007 and 2006 are as follows:

	2007		2006	
	Cost	Market	Cost	Market
Investments:				
Money Market Funds	$ 30,855,791	$ 30,855,791	$ 38,363,238	$ 38,363,238
Certificates of Deposit	5,872,525	5,872,525	5,567,602	5,567,602
Equities	892,975	596,170	891,374	444,705
Fixed Income	8,422,235	8,405,591	8,175,155	8,125,659
U.S. Government Obligations	3,468,141	3,350,931	3,330,860	3,198,643
Real Estate	1,199,161	1,199,161	1,199,161	1,199,161
Other Assets	1,051	1,051	1,051	1,051
	$ 50,711,879	$ 50,281,220	$ 57,528,441	$ 56,900,059
Endowment and Similar Funds:				
Money Market Funds	$ 3,522,359	$ 3,522,359	$ 3,046,406	$ 3,046,406
Equities	54,859,478	69,347,811	41,653,241	48,172,013
Fixed Income	6,914,314	6,795,524	15,909,589	15,345,537
Real Estate	230,293	230,293	389,596	387,537
	$ 65,526,444	$ 79,895,987	$ 60,998,832	$ 66,951,493
Total	$ 116,238,323	$ 130,177,207	$ 118,527,273	$ 123,851,552

Investment returns are reported net of investment management fees. The amount of these fees at May 31, 2007 and 2006 were $335,882 and $336,409 respectively.

Included in investment money market funds are proceeds from the 2006 bond issue in the amount of $7,732,497 and $18,356,892 at May 31, 2007 and 2006, respectively. 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, 2007 and 2006 are as follows:

	2007	2006
Permanently restricted	$ 57,597,270	$ 46,688,645
Temporarily restricted	234,948	241,065
Unrestricted	22,063,769	20,021,783
Total	$ 79,895,987	$ 66,951,493

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 TRUSTS

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

	2007	2006
Income restricted to scholarship:		
Asset Value	$ 1,097,051	$ 1,005,771
Income	40,043	42,489
Income restricted to professorship:		
Asset Value	$ 918,444	$ 772,805
Income	35,815	37,229
Unrestricted income:		
Asset Value	$ 2,477,193	$ 2,184,971
Income	48,779	40,424

POOLED (OR LIFE) INCOME FUND

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

	2007	2006
Asset Value	$ 250,139	$ 221,005

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 Consolidated Statements of Financial Position. The assets received are recognized at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the beneficiary.

	2007	2006
Annuities Liability	$ 461,504	$ 522,208

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 its present value is included in accrued liabilities in the Consolidated Statements of Financial Position.

	2007	2006
Unitrust Liability	$ 348,064	$ 871,616

Interest paid on these contracts was $47,863 and $66,769 for years ended May 31, 2007 and 2006, 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 and donor 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.

	2007	2006
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, 2007 and 2006.	$ 3,692,656	$ 4,124,673
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 $33,641 and $33,495 for the years ended May 31, 2007 and 2006, respectively.	315,589	380,303
Total	$ 4,008,245	$ 4,504,976

NOTE F: CONSTRUCTION IN PROGRESS

Projects in process at May 31, 2007 and 2006 are as follows:

2007 PROJECT DESCRIPTION	Costs Incurred Through 5/31/07	Estimated Date of Completion
Colonnades Dining Hall (2006 Bond Issue)	$ 9,003,383	August 2007
Colonnades Residence Halls (2006 Bond Issue)	5,024,157	August 2007
Academic Village Rotunda	49,265	August 2007
Alamance Renovation	58,026	August 2007
Pedestrian Tunnel	32,168	January 2009
Others	353,834	Various
Total	$ 14,520,833	

2006 PROJECT DESCRIPTION	Cost 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 - Center for Teaching and Learning	49,749	May 2007
Academic Village - Religion & Philosophy	48,539	May 2007
Colonnades Dining Hall (2006 Bond Issue)	283,315	August 2007
Colonnades Residence Halls (2006 Bond Issue)	279,550	August 2007
Others	569,563	Various
Total	$ 19,538,407	

NOTE G: PROPERTY AND EQUIPMENT

Property and equipment at May 31, 2007 and 2006 are as follows:

	2007	2006
Land and land improvements	$ 25,880,358	$ 22,698,848
Buildings	172,014,589	148,189,077
Moveable assets:		
Computers and computer equipment	4,421,543	3,233,371
Library resources	10,225,109	7,201,673
Cars and other vehicles	2,827,305	2,662,281
Audiovisual equipment	2,227,920	1,677,599
Science equipment	1,346,715	1,323,292
Software	1,243,124	1,040,185
Telephone systems and equipment	654,956	649,379
Other moveable assets	5,414,105	4,619,351
Total moveable assets	28,360,777	22,407,131
Collections	1,910,238	1,854,688
	228,165,962	195,149,744
Accumulated depreciation	(58,629,910)	(51,722,540)
Total	$ 169,536,052	$ 143,427,204

NOTE H: ACCRUED LIABILITIES

Accrued liabilities at May 31, 2007 and 2006 are as follows:

	2007	2006
Salaries and wages	$ 4,897,207	$ 4,398,485
Vacation	1,529,390	1,252,525
Annuities and unitrusts	809,568	1,393,824
Employee benefits and payroll taxes	18,102	79,113
Conditional asset retirement obligations	574,481	534,744
Total	$ 7,828,748	$ 7,658,691

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

During 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. Accordingly, the University recognizes a liability for the legal obligation to perform asset retirement activities when the retirement is conditional on a future event and the fair value can be reasonably estimated. The accrued conditional asset retirement obligation liability is calculated by determining the present value of estimated costs at the anticipated settlement date.

NOTE I: OTHER LIABILITIES

Other liabilities at May 31, 2007 and 2006 are as follows:

	2007	2006
Agency Obligations	$ 861,626	$ 283,392
Refundable Advance	966,667	-
Total	$ 1,828,293	$ 283,392

AGENCY OBLIGATIONS:

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

REFUNDABLE ADVANCE:

On January 1, 2007, the University entered into an exchange transaction with an existing service provider. The University consented to extend the service provider's agreement for ten years and in exchange the service provider transferred $1,000,000 to the University with the stipulation that the monies be expended on specific capital purchases. The contract further stipulated that if either party to the transaction should terminate the agreement during the ten years, the University will return the unamortized portion of the refundable advance, calculated on a straight-line basis, plus interest. At May 31, 2007, the unamortized portion of the refundable advance was $966,667. The contingent interest penalty, which would be added to the refundable advance only in the event of an early termination, amounted to $33,028 at May 31, 2007 and has not been included in the consolidated financial statements.

NOTE J: BONDS AND NOTES PAYABLE

Long-term debt at May 31, 2007 and 2006 is as follows:

	2007	2006
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.	$ 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 Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	10,685,000	11,225,000
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.	3,525,000	3,675,000

NOTE J: BONDS AND NOTES PAYABLE CONTINUED

		2007		2006
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 K.		6,575,000		7,360,000
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 K.		1,130,000		2,215,000
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.		6,455,000		6,670,000
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 K.		18,905,000		18,905,000
Subtotal - Bonds Payable	$	64,490,000	$	67,265,000
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%.		72,053		209,948
Subtotal - Notes Payable		72,053		209,948
Total	$	64,562,053	$	67,474,948

Aggregate maturities of long-term debt at May 31, 2007, are as follows:

2007	$	3,472,053
2008		3,150,000
2009		3,290,000
2010		3,430,000
2011		3,590,000
Thereafter		47,630,000
Total	$	64,562,053

Total interest costs incurred related to bonds and notes payable were $2,460,735 and $1,731,023 for the years ended May 31, 2007 and 2006, respectively, and of these amounts $157,494 and $349,370, respectively, were capitalized as a cost of construction.

NOTE K: INTEREST RATE SWAP AGREEMENTS

The University has recorded three interest rate swap agreements on the Consolidated Statements 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, 2007 and 2006 is as follows:

	2007	2006
Series 2001A	$ (157,796)	$ (161,762)
Series 2001B	(2,764)	(9,221)
Series 2006	280,852	544,678
Total	$ 120,292	$ 373,695

NOTE L: FINANCIAL AID (TUITION DISCOUNT)

The University awards financial aid based on academic merit, need and leadership. Gross tuition discounts were 15.8% and 16.6% for the years ended May 31, 2007 and 2006, respectively. The unfunded discount rate was 12.4% and 13.1% for each of the years ended May 31, 2007 and 2006, 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.

	2007		2006	
Total Tuition	Dollars	Percentage	Dollars	Percentage
Unfunded discount	$ 13,070,521	12.4%	$ 12,112,320	13.1%
Funded discount	3,635,084	3.4%	3,239,519	3.5%
Total	$ 16,705,605	15.8%	$ 15,351,839	16.6%
Gross Tuition	$ 105,782,335		$ 92,688,718	

	2007		2006	
Undergraduate Tuition Only	Dollars	Percentage	Dollars	Percentage
Unfunded discount	$ 12,637,315	12.8%	$ 12,097,320	13.6%
Funded discount	3,588,881	3.6%	3,223,243	3.6%
Total	$ 16,226,196	16.4%	$ 15,320,563	17.2%
Gross Tuition	$ 99,070,730		$ 89,231,313	

NOTE M: GIFT REVENUE

Major categories of gift revenue, including gift pledges, for the years ending May 31, 2007 and 2006 are as follows:

	2007	2006
Annual fund	$ 1,663,378	$ 1,495,724
Endowment funds	9,903,283	2,753,215
Capital projects	2,653,711	3,256,896
Other	1,652,985	622,575
Total	$ 15,873,357	$ 8,128,410

NOTE N: 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 $23,414,355 and $18,862,787 for the years ended May 31, 2007 and 2006, respectively. Allocations of specific program expenses are as follows:

	2007			
Program	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	$ 3,707,516	$ 2,980,029	$ 2,015,929	$ 8,703,474
Student services	1,482,694	1,053,664	595,090	3,131,448
Auxiliary enterprises	4,165,919	2,960,476	1,763,073	8,889,468
Academic support	582,022	413,609	317,893	1,313,524
Institutional support	285,522	202,904	888,015	1,376,441
Total	$ 10,223,673	$ 7,610,682	$ 5,580,000	$ 23,414,355

	2006			
Program	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
Total	$ 9,058,076	$ 6,118,731	$ 3,685,980	$ 18,862,787

NOTE O: 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 $3,223,269 and $2,828,514 for the years ended May 31, 2007 and 2006, respectively.

NOTE P: FUNDRAISING

Fundraising costs were $2,959,621 and $2,559,902 for the years ended May 31, 2007 and 2006 respectively. These costs are included with other costs and are shown as "Institutional Support" on the Consolidated Statement of Activities.

NOTE Q: 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. CHF – Elon, LLC has financed the housing using its own taxable bonds with no recourse to the University. The Board of Directors of CHF – Elon, LLC is completely independent of the University. Student occupancy of this facility began in October of 2006. Final completion of construction occurred in May 2007.

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. Additionally, the University has contractually agreed to manage this housing project over the life of the ground lease.

CHF – Elon, LLC has a fiscal year end date of June 30, 2007. As such, calculation of any ground lease payment due the University (net available cash flow) will be calculated as of June 30, 2007 and is not earned by the University until that time. Accordingly, there is no ground lease revenue recorded in the Consolidated Statement of Activities for the year ended May 31, 2007.

On October 28, 2005, a Development Agreement for construction of the student housing was executed between CHF – Elon, LLC and Collegiate Development Services, LP. Elon University was specifically named a third party beneficiary of the Development Agreement. Management of and counsel to Elon University note that the University has not entered into any construction contracts with regard to the project. Accordingly, any lien enforcement lawsuits noted below should properly seek only to foreclose upon CHF – Elon, LLC's leasehold interest in the project and not the University's fee simple interest in the land on which the project is located. Furthermore, neither Collegiate Development Services, LP nor the subcontractors, have any contractual claims against the University.

As timely completion of the project was not achieved, CHF – Elon, LLC withheld liquidated damages from Collegiate Development Services, LP under the Development Agreement. In response, Collegiate Development Services, LP has asserted claims against CHF – Elon, LLC. Further, subcontractors have asserted liens against the project. The liens of Collegiate Development Services, LP and the subcontractors typically name Elon University in the lien documents, due to the fact that the University owns the fee simple interest in the real property on which the project is located. In addition, six lawsuits have been filed by subcontractors seeking to enforce their liens. Each of these lawsuits has also named Elon University due to its fee simple interest in the property.

NOTE R: 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

As of May 31, 2007 the University had outstanding contractual commitments and equipment purchase orders totaling approximately $6,392,264.

(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, 2007, Elon had future commitments of $245,000.

NOTE R: COMMITMENTS AND CONTINGENCIES CONTINUED

(4) OPERATING LEASES

The University leases buildings, equipment and vehicles under operating leases that will expire in various years through 2016. Rent expense was $524,449 and $447,786 for the years ended May 31, 2007 and 2006, respectively. Commitments for minimum future rental payments for each of the next 5 years and thereafter are as follows:

Year Ending		Amount
2008	$	431,031
2009		401,982
2010		411,499
2011		373,654
2012		308,223
Thereafter		675,450
Total minimum future rental payments	$	2,601,839

The University also leases apartments and houses for student living under operating leases that will expire in 2007. Rent expense was $463,565 and $631,686 for the years ended May 31, 2007 and 2006, respectively. Rent expense is more than offset by housing revenue received from students living in these units. The University has a commitment of $36,000 for minimum future rental payments at May 31, 2007.

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

(5) GRANT COMMITMENTS

Elon University established a School of Law, which began enrollment in fall 2006. The receipt of a $10,000,000 grant from foundations and donors provided start-up financing. By accepting this grant, the University 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. As of May 31, 2007, Elon has received $8,590,315 from the foundation and donors to cover building renovations, construction expenses and library start up costs. As of May 31, 2007, the University has fulfilled its commitment of $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, 2007, those maximum potential future payments under these agreements are $3,234,106.

NOTE S: SUBSEQUENT EVENTS

Subsequent to year end but prior to the report date (August 17, 2007), the University was party to the following:

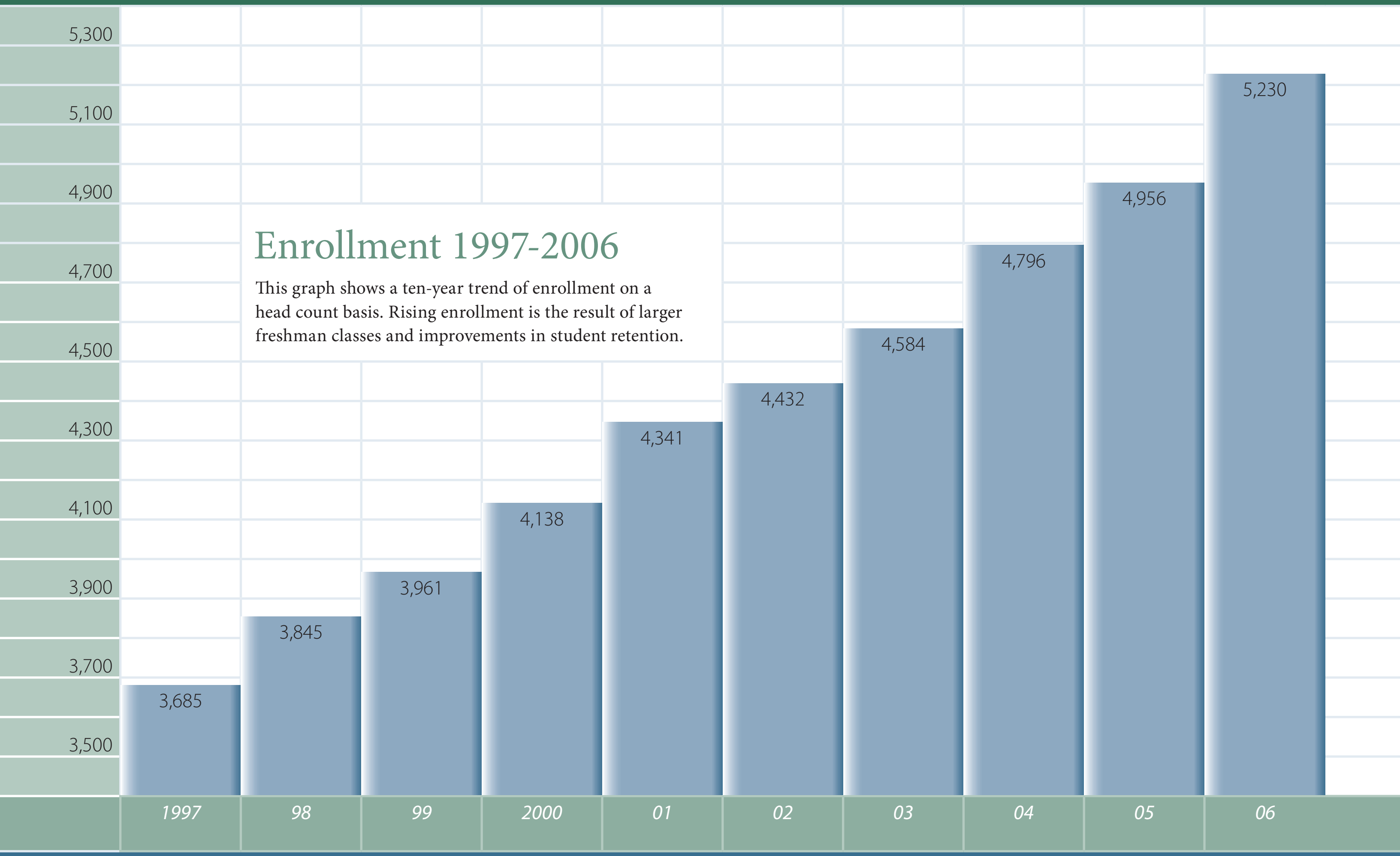
Purchase of assets: The University purchased three parcels of real estate at an initial cost of $1,684,000. One of these parcels has a contingent cost factor arrangement which may obligate the University to pay an additional $88,000, depending on future actions of the seller.

Realized loss on disposition of property: The University realized a loss of $234,277 on the demolition of three houses.

Year	Undergraduate	Graduate	Total
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
2006	4,849	381	5,230

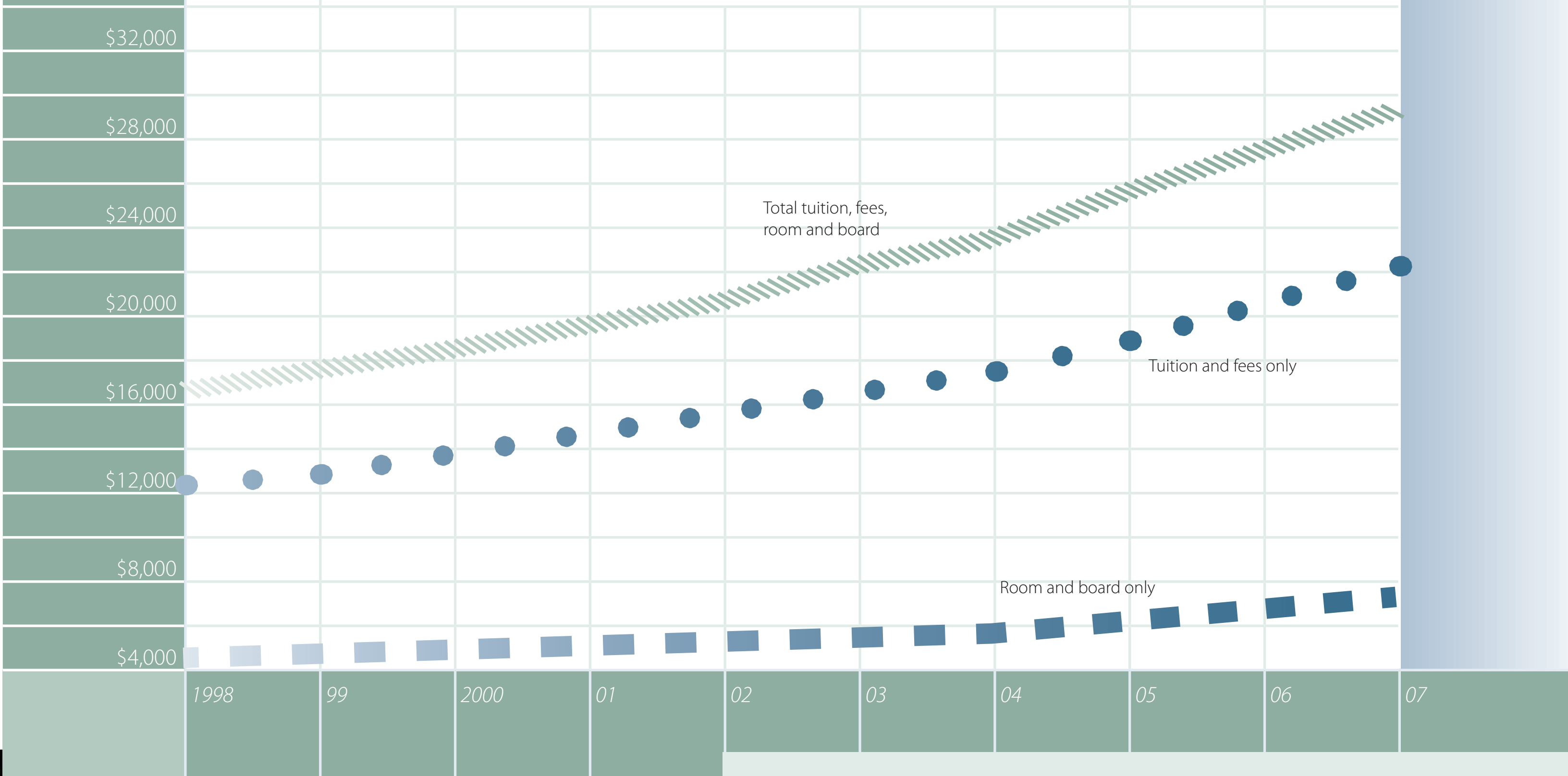
Enrollment 1997-2006

This graph shows a ten-year trend of enrollment on a head count basis. Rising enrollment is the result of larger freshman classes and improvements in student retention.



Tuition and Fee Rates 1998-2007

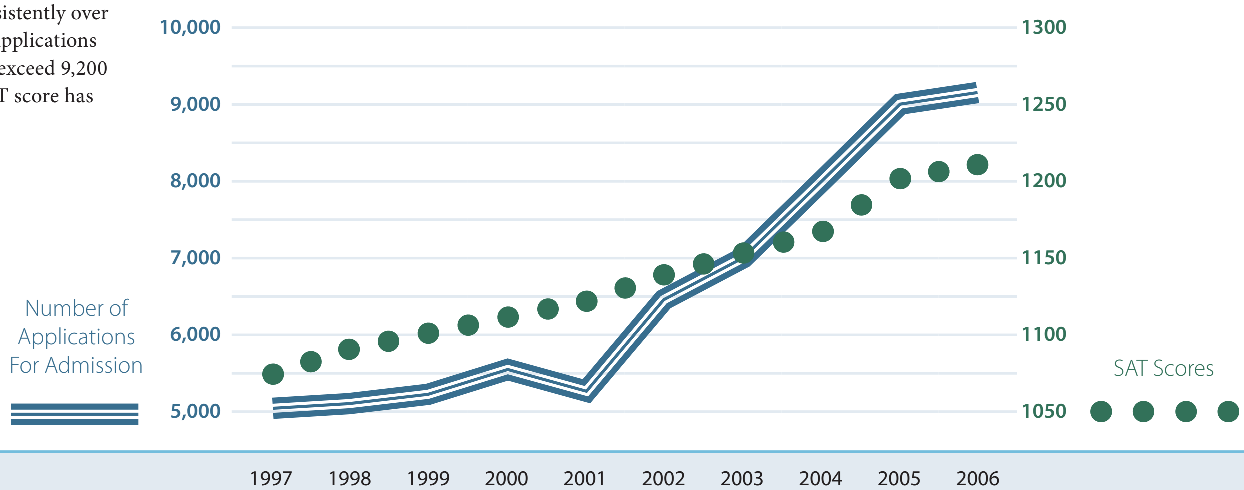
This chart shows the increase in tuition and fees, and room/board rates over a ten-year period.



Fall	Tuition	Fees	Room	Board	Total
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	$3,310	$25,371
2006	$20,171	$270	$3,320	$3,530	$27,291
2007	$21,886	$280	$3,536	$3,760	$29,462

Student Selectivity 1997-2006

Measures of student quality have increased consistently over the last ten years. Applications for admission now exceed 9,200 and the average SAT score has risen to 1217.

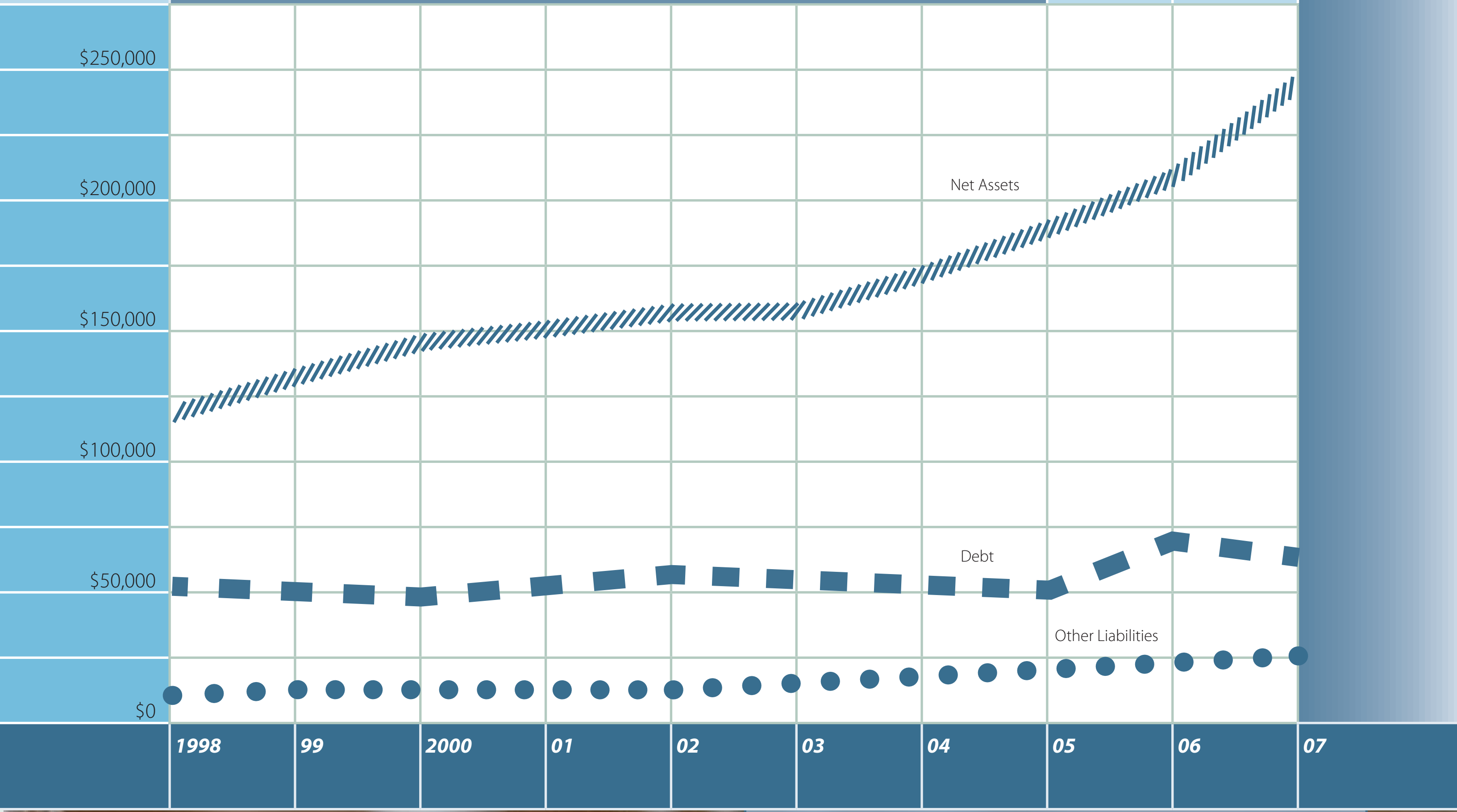


Endowment Market Value (000) 1998-2007

The market value of the endowment has grown over the past ten years in spite of the recent market fluctuations. For fiscal year 2007 returns were positive.

Total Net Assets/Long Term Debt and Other Liabilities (000) 1998-2007

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
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	$22,573
2007	$244,249	$64,562	$25,735

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	$	102,509,085
Tuition discount		(13,070,521)
Net tuition		89,438,564
Sales and service of auxiliary enterprises		21,676,524
Federal grants		-
State grants		-
Contributions		1,663,378
Contributions - pledges		-
Investment income - endowment		598,779
Other investment income		2,089,335
Gain on investments		41,173
Athletics		1,348,136
Other sources		715,874
Total Unrestricted Revenues and Gains		117,571,763
Net Assets released from restrictions		-
Total Unrestricted Revenues and Gains and Other Support		117,571,763
Expenses and transfers		
Instruction		43,869,745
Student services		16,374,777
Auxiliary enterprises		15,268,907
Academic support		5,987,005
Institutional support		16,967,503
Principal and interest payments on debt		5,301,879
Renewals, replacements and capital acquisition		1,783,109
Board endowment reserve		2,000,000
Other		323,154
Total Expenses and Transfers		107,876,079
Balance from Operations	$	9,695,684
REALLOCATION OF ENDOWMENT REALIZED GAINS		
2006-2007 endowment pooled funds average balance based on 3-year moving average	$	63,430,986
Spending allowance calculated at 4.8% of average balance		3,044,687
Income and transfers generated by endowment pooled investments		1,231,166
Difference between spending allocation and generated income		1,813,521
Spending allowance reinvested in permanent endowment	$	135,262

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