ELON UNIVERSITY

FINANCIAL & AUDIT REPORT

MAY 31, 2009 & 2008

CONTENTS

FINANCIAL OVERVIEW 2008 - 2009

Presented on the following pages are the financial results for Elon University for the fiscal year 2009. During this period, higher education, as well as the United States and the world, have experienced great turmoil in financial markets and the economy. Many institutions are financially stretched and stressed. Elon weathered this time well with enrollment remaining strong during the year and full enrollment expected for fall 2009. For this past academic year 9,434 freshman applications were received for 1,291 seats and the average SAT score increased to 1840 (consists of: math score – 615; verbal score – 610; writing score – 615). Elon has not only maintained its strong financial position, but has moved forward in achieving strategic goals and made substantial progress in preparing its next long-term strategic plan. Elon continues a strong showing in many of the national rankings and surveys that are an additional indication of the institution's strength and vitality.

Along with the rest of the world, the University did experience some decline in investment values during the fiscal year, but most key financial ratios moved in a positive direction. Full enrollment, combined with prudent business practices, resulted in Elon's continued excellent financial health. Accomplishments in academics, cultural arts, athletics, and in the construction and renovation of facilities have been a significant reason for Elon's sound financial footing. The details of some of these achievements are found at www.elon.edu/annualreport.

Net tuition revenue (tuition minus financial aid) grew by 11.2% and Unrestricted Net Assets, before non-operating adjustments, increased by 1.5%. Due to valuation declines in investments there was a decrease in assets and net assets (assets minus liabilities) of -0.7% and -1.4% respectively, but removing investment declines from these ratios would result in respective increases of +3.9% and +4.6%. Given the economic climate, these ratios show that Elon continues on sound financial footing, and remains poised to meet the aspirations of its new strategic plan.

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, 2009 and 2008, 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 and to the best of their knowledge and belief.

Leo M. Lambert
President

Gerald Whittington
Vice President for Business, Finance and Technology

STOUT
STUART
McGOWEN
& KING LLP

Certified Public Accountants

Advisors to Management

Member of PCPS, the AICPA Alliance For CPA Firms

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, 2009 and 2008, 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, 2009 and 2008, 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

August 14, 2009

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ELON UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2009 and 2008

	2009	2008
ASSETS:		
Cash and cash equivalents	$ 2,017,516	$ 1,966,791
Accounts receivable, net	2,466,266	1,745,616
Prepaid expenses and other assets	653,511	571,479
Inventories	62,317	77,333
Contributions receivable, net	10,157,908	11,808,841
Investments	131,658,775	135,847,203
Loans to students, net	3,915,128	3,685,008
Bond issue costs	583,094	633,696
Construction in progress	1,180,881	1,821,064
Property and equipment, net	191,510,330	188,310,890
Total Assets	$ 344,205,726	$ 346,467,921
LIABILITIES:		
Accounts payable	$ 3,014,518	$ 3,752,278
Accrued liabilities	10,161,014	8,328,930
Student deposits	4,544,332	3,896,655
Deferred revenue	2,015,689	1,804,432
Other liabilities	2,819,266	1,584,911
Bonds payable	57,940,000	61,090,000
Obligation under interest rate swap agreements	2,252,635	832,640
U.S. Government advances for student loans	4,144,179	4,299,479
Total Liabilities	86,891,633	85,589,325
NET ASSETS:		
Unrestricted	160,471,686	179,156,040
Temporarily Restricted	24,214,626	12,984,074
Permanently Restricted	72,627,781	68,738,482
Total Net Assets	257,314,093	260,878,596
Total Liabilities and Net Assets	$ 344,205,726	$ 346,467,921

See accompanying notes.

ELON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Tuition and fees	$134,603,263	$ -	$ -	$134,603,263
Tuition discount	(22,613,283)	-	-	(22,613,283)
Net tuition	111,989,980	-	-	111,989,980
Sales and service of auxiliary enterprises	25,924,480	-	-	25,924,480
Federal grants	687,234	-	-	687,234
State grants	1,918,397	-	-	1,918,397
Other grants	142,453	-	-	142,453
Contributions	1,788,994	1,851,495	1,650,714	5,291,203
Contributions - pledges	1,000	1,526,679	3,271,350	4,799,029
Investment income	1,087,346	521,153	(193,810)	1,414,689
Loss on investments	(9,427,842)	(6,493,302)	(1,164,263)	(17,085,407)
Loss on disposal of property and equipment	(115,032)	-	-	(115,032)
Athletics	2,332,249	115,349	-	2,447,598
Other sources	1,606,879	11,127	(55,301)	1,562,705
	137,936,138	(2,467,499)	3,508,690	138,977,329
Net Assets Released From/To Restrictions	5,805,728	(6,186,337)	380,609	-
Total Revenues, Gains and Other Support	143,741,866	(8,653,836)	3,889,299	138,977,329
EXPENSES:				
Instruction	66,212,013	-	-	66,212,013
Student services	22,641,954	-	-	22,641,954
Auxiliary enterprises	22,834,101	-	-	22,834,101
Academic support	7,705,629	-	-	7,705,629
Institutional support	21,728,140	-	-	21,728,140
Total Expenses	141,121,837	-	-	141,121,837
Increase (Decrease) in Net Assets before Nonoperating Activity	2,620,029	(8,653,836)	3,889,299	(2,144,508)
NONOPERATING ACTIVITY:				
Change in value of interest rate swap agreements	(1,419,995)	-	-	(1,419,995)
Change in net assets due to the Uniform Prudent Management of Institutional Funds Act	(19,884,388)	19,884,388	-	-
Total Nonoperating Activity	(21,304,383)	19,884,388	-	(1,419,995)
(Decrease) Increase in Net Assets	(18,684,354)	11,230,552	3,889,299	(3,564,503)
Net Assets - Beginning of Year	179,156,040	12,984,074	68,738,482	260,878,596
Net Assets - End of Year	$160,471,686	$ 24,214,626	$ 72,627,781	$257,314,093

See accompanying notes.

ELON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Tuition and fees	$120,481,965	$ -	$ -	$120,481,965
Tuition discount	(19,744,010)	-	-	(19,744,010)
Net tuition	100,737,955	-	-	100,737,955
Sales and service of auxiliary enterprises	24,479,925	-	-	24,479,925
Federal grants	611,465	-	-	611,465
State grants	1,845,406	-	-	1,845,406
Other grants	214,981	475,451	-	690,432
Contributions	2,811,811	2,009,080	4,307,779	9,128,670
Contributions - pledges	20,000	2,353,631	5,699,029	8,072,660
Investment income	2,587,736	762,290	192,846	3,542,872
Gain (loss) on investments	(5,487,413)	34,208	119,392	(5,333,813)
Loss on disposal of property and equipment	(388,086)	-	-	(388,086)
Athletics	2,281,130	121,500	-	2,402,630
Other sources	1,247,369	110,605	10,561	1,368,535
	130,962,279	5,866,765	10,329,607	147,158,651
Net Assets Released From/To Restrictions	3,364,941	(3,443,313)	78,372	-
Total Revenues, Gains and Other Support	134,327,220	2,423,452	10,407,979	147,158,651
EXPENSES:				
Instruction	60,335,124	-	-	60,335,124
Student services	20,189,255	-	-	20,189,255
Auxiliary enterprises	22,671,872	-	-	22,671,872
Academic support	7,431,762	-	-	7,431,762
Institutional support	18,948,311	-	-	18,948,311
Total Expenses	129,576,324	-	-	129,576,324
Increase in Net Assets before Nonoperating Activity	4,750,896	2,423,452	10,407,979	17,582,327
NONOPERATING ACTIVITY:				
Change in value of interest rate swap agreements	(952,932)	-	-	(952,932)
Total Nonoperating Activity	(952,932)	-	-	(952,932)
Increase in Net Assets	3,797,964	2,423,452	10,407,979	16,629,395
Net Assets - Beginning of Year	175,358,076	10,560,622	58,330,503	244,249,201
Net Assets - End of Year	$179,156,040	$ 12,984,074	$ 68,738,482	$260,878,596

See accompanying notes.

ELON UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
(Decrease) Increase in Net Assets	$ (3,564,503)	$ 16,629,395
Adjustments to Reconcile (Decrease) Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	9,024,203	8,798,765
Amortization of bond issue costs	50,602	59,460
Contributions of assets	(94,840)	(817,775)
Contributions restricted to endowment	(4,922,064)	(10,006,808)
Loss on investments	17,085,407	5,333,813
Loss on disposal of property and equipment	115,032	388,086
(Increase) decrease in:		
Accounts receivable	(720,650)	(79,999)
Prepaid expenses and other assets	(82,032)	(29,920)
Inventories	15,016	(33,722)
Contributions receivable	1,650,933	(1,100,655)
Loans to students	(230,120)	323,237
Benefit under interest rate swap agreements	-	120,292
Increase (decrease) in:		
Accounts payable	(737,760)	(2,535,869)
Accrued liabilities	1,832,084	1,008,128
Student deposits	647,677	168,660
Deferred revenue	211,257	112,554
Other liabilities	1,234,355	(751,328)
Obligation under interest rate swap agreements	1,419,995	832,640
U.S. Government advances for student loans	(155,300)	(70,675)
Net Cash Provided by Operating Activities	22,779,292	18,348,279
Cash Flows from Investing Activities:		
Proceeds from sale and maturities of investments	68,560,488	44,613,519
Purchases of investments	(81,362,627)	(54,874,132)
Proceeds from disposal of property and equipment	2,408	19,954
Purchases of property and equipment	(11,700,900)	(15,207,295)
Net Cash Used by Investing Activities	(24,500,631)	(25,447,954)
Cash Flows from Financing Activities:		
Principal payments on bonds	(3,150,000)	(3,400,000)
Principal payments on other debt	-	(72,053)
Contributions restricted to endowment	4,922,064	10,006,808
Net Cash Provided by Financing Activities	1,772,064	6,534,755
Net Increase (Decrease) in Cash and Cash Equivalents	50,725	(564,920)
Cash and Cash Equivalents, Beginning of Year	1,966,791	2,531,711
Cash and Cash Equivalents, End of Year	$ 2,017,516	$ 1,966,791
Supplemental Disclosure:		
Cash payments for interest (net of amount capitalized)	$ 1,444,346	$ 2,086,674

See accompanying notes.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE A: Summary of Significant Accounting Policies:

(1) Organization:

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

(2) 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.

(3) Consolidation:

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

(4) Basis of Presentation:

The accompanying consolidated financial statements of the university have been prepared on the accrual basis of accounting and in accordance with the reporting principles of not-for-profit accounting 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.

(5) Classification of Net Assets:

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

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

Temporarily Restricted – Net assets whose use by the university is subject to donor-imposed stipulations or a function of law, that can be fulfilled by actions of the university pursuant to those stipulations or that expire by the passage of time.

NOTE A: Summary of Significant Accounting Policies: (continued)

(5) Classification of Net Assets: (continued)

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/to restriction).

(6) 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.

(7) 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 $250,000 and $100,000 at May 31, 2009 and 2008, respectively. Uninsured balances were approximately $31,297,275 and $6,052,047 at May 31, 2009 and 2008, 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 $631,491 and $888,288 at May 31, 2009 and 2008, respectively.

(8) Accounts Receivable:

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

Payment for all classes is due on or before registration day of each semester. Students are not allowed to register until payment has been made. The university does extend credit plans to its students in the normal course of business. 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, 2009 past due 120 days or more was $62,302. Payments of accounts receivable are allocated to the specific student account.

NOTE A: Summary of Significant Accounting Policies: (continued)

(8) Accounts Receivable: (continued)

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 total of the allowance was $40,000 and $30,000 at May 31, 2009 and 2008, respectively.

(9) Contributions Receivable:

Contributions receivable are stated at their present value, net of an allowance for uncollectible contributions receivable. The allowance is based on management's analysis of specific promises made. Present value was calculated using a discount rate of 3.3% at May 31, 2009 and 2008.

(10) 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.

(11) Investments:

Investments include a diverse portfolio of securities and investment vehicles. The university reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Consolidated Statements of Financial Position. Certain alternative investments, primarily minority ownership in hedge funds, derivative instruments and other private equity type assets, are typically valued by third-parties and corroborated by management via internal and external resources. The university believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Consolidated Statements of Activities. The university reports its real estate investments at fair value as of the dates the investments were purchased by or donated to the university.

(12) Endowment Funds:

A donor's stipulation that requires a gift to be invested in perpetuity or for a specified term creates an endowment fund. Net appreciation on endowment funds is not permanently restricted unless such net appreciation has been permanently restricted by the donor or by law. Accordingly, market appreciation on permanently restricted endowment funds is classified in the financial statements as part of temporarily restricted net assets. It is the practice of the university to prudently invest pooled endowment funds consistent with the endowment asset allocation policy approved by the Board of Trustees. The university's spending policy fluctuates based on the moving 3-year average of the market value of the pooled endowment. The rate ranges between 4.5% and 5%, based on a 3-year average. The spending policy rate was 4.7% at May 31, 2009 and 2008.

NOTE A: Summary of Significant Accounting Policies: (continued)

(13) Split-Interest Agreements:

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

(14) Bond Issue Costs:

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

(15) Interest Rate Swap Agreements:

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

(16) Property and Equipment:

It is the university's policy to capitalize property and equipment valued over $5,000. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment donated with explicit restrictions on 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 lives.

NOTE A: Summary of Significant Accounting Policies: (continued)

(17) Contributions:

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

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

(18) 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.

(19) Reclassifications:

Certain items in the 2008 report have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported change in net assets.

NOTE B: Fair Value Measurements:

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. The new FASB rule does not supersede all applications of fair value in other pronouncements, but creates a fair value hierarchy and prioritizes the inputs to valuation techniques for use in most pronouncements. It requires entities to assess the significance of an input to the fair value measurement in its entirety. Statement 157 also requires entities to disclose information to enable users of financial statements to assess the inputs used to develop the fair value measurements. SFAS 157 is effective for fiscal periods beginning after November 15, 2007, with the following exception; FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, defers the effective date to fiscal years beginning after November 15, 2008, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

NOTE B: Fair Value Measurements: (continued)

The university adopted the provisions of SFAS No. 157, *Fair Value Measurements*, as of June 1, 2008, for financial assets and financial liabilities. Adoption and subsequent implementation of this statement did not have a material impact on the university's consolidated financial statements.

SFAS 157 is a technical standard which defines fair value, establishes a consistent framework for measuring fair value and expands disclosures for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Valuation techniques are the market, cost or income approach.

As a basis for considering such assumptions, SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 - quoted prices for identical assets or liabilities in active markets,

Level 2 - quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-based valuations in which significant inputs are corroborated by observable market data and

Level 3 - valuation techniques in which significant inputs are unobservable.

At May 31, 2009, fair value of financial assets and financial liabilities were as follows:

	Level 1	Level 2	Level 3	Total
Contributions receivable	$ -	$ 10,157,908	$ -	$ 10,157,908
Investments	46,502,683	3,090,296	82,065,796	131,658,775
Loans to students	-	3,915,128	-	3,915,128
Total Assets	$ 46,502,683	$ 17,163,332	$ 82,065,796	$ 145,731,811
Split-interest agreements (accrued liabilities)	$ -	$ 730,337	$ -	$ 730,337
Refundable advances - CRUT's (other liabilities)	-	1,286,967	-	1,286,967
Obligation under interest rate swap agreements	-	2,252,635	-	2,252,635
Total Liabilities	$ -	$ 4,269,939	$ -	$ 4,269,939

NOTE B: Fair Value Measurements: (continued)

At May 31, 2009, valuation methodologies used to measure fair value of financial assets and financial liabilities were as follows:

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

Investments - to the extent that the university directly owns and controls the investment, valuation is based on unadjusted quoted prices for identical assets in active markets that the university can access. Real estate is recorded at the acquisition price if purchased and appraised value if donated. For other investments, predominately "alternative investments", valuation is based on information supplied by external investment managers. The university believes this information is a reasonable estimate of fair value; however, because these investments are not readily marketable, their fair value is subject to uncertainty and therefore may differ from the value that would have been used had an active market for such investments existed.

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

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

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

The following schedule summarizes changes in fair value of Level 3 financial assets (real estate and alternative investments) during the year ended May 31, 2009:

	Real Estate	Alternative Investments	Total
Balance, June 1, 2008	$ 1,571,954	$ 9,489,361	$ 11,061,315
Change in value	-	(6,332,297)	(6,332,297)
Purchases (sales)	(490,000)	31,704,191	31,214,191
Transfers into Level 3	-	46,122,587	46,122,587
Balance, May 31, 2009	$ 1,081,954	$ 80,983,842	$ 82,065,796

Change in value of alternative investments is included in gain (loss) on investments on the consolidated statements of activities.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE C: Contributions Receivable:

The payment timing of outstanding contributions receivable at May 31, 2009, were estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One Year	$ 1,634,985	$ 1,015,159	$ -	$ 2,650,144
2 – 4 Years	4,723,514	2,023,126	-	6,746,640
5 Plus Years	670,021	91,103	-	761,124
Total	$ 7,028,520	$ 3,129,388	$ -	$ 10,157,908

The payment timing of outstanding contributions receivable at May 31, 2008, were estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One Year	$ 2,392,240	$ 1,349,623	$ 19,000	$ 3,760,863
2 – 4 Years	4,853,177	2,378,391	-	7,231,568
5 Plus Years	815,168	1,242	-	816,410
Total	$ 8,060,585	$ 3,729,256	$ 19,000	$ 11,808,841

Contributions receivable are shown net of a collection allowance of $581,949 and $652,971 and a discount of $557,927 and $597,606 at May 31, 2009 and 2008, respectively.

Individual pledge balances that exceeded 10% of total receivables amounted to $2,000,000 and $2,413,400 at May 31, 2009 and 2008, respectively.

NOTE D: Investments:

Investments at May 31, 2009 and 2008, consisted of the following:

	2009		2008	
	Cost	Market	Cost	Market
Investments:				
Money market funds	$ 28,192,031	$ 28,192,031	$ 32,568,448	$ 32,568,448
Certificates of deposit	5,382,551	5,382,551	6,184,844	6,184,844
Equities	789,871	371,051	818,522	553,055
Fixed income	5,000	5,000	5,476,043	5,281,680
U.S. Government obligations	3,726,524	3,411,143	3,618,793	3,520,427
Real estate	464,161	464,161	954,161	954,161
Other	282,202	282,202	254,446	254,446
Alternative investments	12,232,963	11,405,228	-	-
	$ 51,075,303	$ 49,513,367	$ 49,875,257	$ 49,317,061

NOTE D: Investments: (continued)

	2009		2008	
	Cost	Market	Cost	Market
Endowment and Similar Funds:				
Money market funds	$ 5,028,905	$ 5,028,905	$ 3,066,771	$ 3,066,771
Equities	6,514,880	5,219,503	51,165,687	57,401,213
Fixed income	1,620,367	1,591,962	16,167,356	15,853,755
Real estate	617,793	617,793	617,793	617,793
Other	108,632	108,632	101,249	101,249
Alternative investments	74,342,119	69,578,613	9,316,677	9,489,361
	88,232,696	82,145,408	80,435,533	86,530,142
	$ 139,307,999	$ 131,658,775	$ 130,310,790	$ 135,847,203

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

Alternative investments consist of minority ownership in funds of hedge funds, limited partnerships interests, common (collective) trust funds and other private equity type assets. Alternative investment managers employ a variety of investment techniques involving both public and private investments, the most common of which involve futures contracts, short sales, private equity and hedges against currency translation risk for investments denominated in other than U.S. dollars.

During the fiscal year ended May 31, 2009, a majority of the university's endowment assets were transferred to a new group of managers that specialize in endowment management. These managers have invested in alternative type investments. These investments are subject to redemption restrictions which prohibit withdrawals in excess of 5% annually for up to two years.

Investment returns are reported net of investment fees. The amount of fees paid during the fiscal years ended May 31, 2009 and 2008 were $561,844 and $535,946, respectively.

NOTE E: Endowment and Similar Funds:

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

The endowment pool utilizes a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). External investment managers are employed to oversee the endowment and tasked with the objective of achieving returns that equal or exceed the Consumer Price Index plus five percentage points (net of fees and in excess of spending and inflation). Toward this end, these firms utilize a highly diversified mixture of equities, fixed income and alternative investments.

NOTE E: Endowment and Similar Funds: (continued)

The Board of Trustees has approved an endowment spending policy whereby distributions are based on 4.7% of the trailing annual three-year average value of the endowment, as of May 31 of each year. Actual endowment return earned in excess of distributions under this policy is reinvested as part of the university's endowment. For years where actual endowment return is less than distributions under the policy, the shortfall is covered by available realized gains from prior years. Specific appropriation for expenditure of unrestricted funds under the university's endowment spending policy occurs each spring when the Board approves the university's operating budget for the ensuing fiscal year. All donor-restricted returns are invested until appropriated for expenditure by the institution.

Endowment totals as of May 31, 2009 and 2008, were as follows:

	2009	2008
Contributions receivable	$ 7,028,520	$ 8,060,585
Investments	82,145,408	86,530,142
Accrued and other liabilities	(885,178)	(25,750)
	$ 88,288,750	$ 94,564,977

Endowment net asset compositions as of May 31, 2009 and 2008, were as follows:

	2009	2008
Unrestricted – Board designated	$ 11,591,579	$ 7,112,049
Unrestricted – donor designated	(6,865,903)	19,219,465
Temporarily restricted	11,628,337	250,826
Permanently restricted	71,934,737	67,982,637
	$ 88,288,750	$ 94,564,977

Changes in endowment net assets during the years ended May 31, 2009 and 2008, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 1, 2007	$ 29,907,804	$ 234,948	$ 57,597,270	$ 87,740,022
Contributions - donors	-	-	10,006,808	10,006,808
Contributions - board	4,000,000	-	-	4,000,000
Investment income	1,120,353	(16,108)	185,676	1,289,921
Gain (loss) on investments	(5,315,923)	32,314	98,154	(5,185,455)
Spending policy	(3,336,247)	-	-	(3,336,247)
Transfers	(44,473)	(328)	94,729	49,928
Balance, May 31, 2008	$ 26,331,514	$ 250,826	$ 67,982,637	$ 94,564,977

NOTE E: Endowment and Similar Funds: (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, May 31, 2008	$ 26,331,514	$ 250,826	$ 67,982,637	$ 94,564,977
Contributions - donors	-	2,492	4,922,064	4,924,556
Contributions - board	6,145,000	-	-	6,145,000
Investment income	-	284,375	(193,810)	90,565
Loss on investments	(8,361,819)	(6,734,698)	(1,164,263)	(16,260,780)
UPMIFA reclassification	(19,884,388)	19,884,388	-	-
Spending policy	-	(3,694,291)	-	(3,694,291)
Transfers	495,369	1,635,245	388,109	2,518,723
Balance, May 31, 2009	$ 4,725,676	$ 11,628,337	$ 71,934,737	$ 88,288,750

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The university adopted FSP FAS 117-1 for the year ending May 31, 2009.

The state of North Carolina enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective March 17, 2009. The UPMIFA statutory guidelines focus on the prudent management, investment, and expenditure of donor-restricted endowment funds held by charitable organizations. The Board of Trustees has determined that the university's permanently restricted net assets meet the definition of endowment funds under UPMIFA. As such, the university has reviewed all of its endowment funds and has reclassified $19,884,388 from unrestricted net assets to temporarily restricted net assets as of May 31, 2009. The reclassification is reflected as a non-operating change in net assets in the consolidated financial statements for the year ended May 31, 2009.

The fair value of assets associated with individual donor restricted endowment funds may fall below the historic gift value. While UPMIFA allows spending from these so-called underwater funds, the university has deemed it prudent not to spend from them in the current fiscal year. In accordance with GAAP, deficiencies of this nature reduce available temporarily restricted net assets. Any remaining loss shall reduce unrestricted net assets. These deficiencies amounted to $6,865,903 and $866,983 at May 31, 2009 and 2008, respectively.

NOTE F: Planned Giving Agreements and Trusts:

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

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.

	2009	2008
Trustee distributions restricted to scholarship:		
Asset value	$ 733,704	$ 1,036,953
Trustee distributions	42,303	42,185
Trustee distributions restricted to professorship:		
Asset value	$ 636,543	$ 820,881
Trustee distributions	35,118	37,273
Unrestricted trustee distributions:		
Asset Value	$ 1,720,049	$ 2,377,640
Trustee distributions	83,981	64,859

Pooled (or Life) Income Fund

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

	2009	2008
Asset Value	$ 185,204	$ 252,054

NOTE F: Planned Giving Agreements and Trusts: (continued)

Charitable Gift Annuities

These are arrangements between donors and the university in which the donors contribute assets to the university in exchange for a promise by the university to pay a fixed amount for a specified period of time to individuals named by the donors. No trust exists, the assets received are held as general assets of the university, and the annuity liability is a general obligation of the university and is included in the accrued liabilities in the Consolidated Statements of Financial Position. The assets received are recognized at fair value when received, and an annuity payment liability is recognized at the present value of future cash flows expected to be paid to the beneficiary.

	2009	2008
Annuities liability	$ 468,745	$ 406,822
Total contributions to charitable gift annuities	160,000	-
Change in value of charitable gift annuities	(34,111)	35,156

Charitable Remainder Unitrusts

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

	2009	2008
Unitrust Liability	$ 58,231	$ 63,056
Change in value of charitable remainder trusts	(6,226)	(24,071)

NOTE G: Loans to Students:

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

NOTE G: Loans to Students: (continued)

	2009	2008
Perkins loans receivable are due from students, payable in monthly or quarterly minimum installments of $40 or $120, respectively. Interest is computed at an annual rate of 5%. These loans are unsecured. Receivables are net of an allowance for doubtful accounts totaling $40,000 at May 31, 2009 and 2008.	$ 3,525,873	$ 3,424,688
Elon loans receivable are due from students, payable in minimum monthly installments that range from $50 to $102. Interest is computed at an annual rate not to exceed 5%. Some of these loans are secured by a co-signer. Receivables are net of an allowance for doubtful accounts totaling $33,641 at May 31, 2009 and 2008.	389,255	260,320
Total	$ 3,915,128	$ 3,685,008

NOTE H: Construction in Progress:

Projects in process at May 31, 2009 and 2008 are as follows:

	Cost Incurred Through 05/31/09	Estimated Date of Completion
Golf Training Building and Greens	$ 247,532	July 2009
Holland House	62,095	August 2009
Powell Renovation	142,746	August 2009
Academic Plaza	40,862	August 2009
Pedestrian Tunnel	158,481	February 2010
Others	529,165	Various
Total	$ 1,180,881	

	Cost Incurred Through 05/31/08	Estimated Date of Completion
Law School Annex 2nd Floor	$ 359,130	August 2008
Lindner Builder	676,613	July 2009
O'Kelly Road Improvements	80,625	October 2008
Pedestrian Tunnel	155,636	February 2010
Others	549,060	Various
Total	$ 1,821,064	

ELON UNIVERSITY
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NOTE I: Property and Equipment:

Property and equipment at May 31, 2009 and 2008 are as follows:

	2009	2008
Land and land improvements	$ 31,170,845	$ 29,032,091
Buildings	200,424,513	192,557,824
Computers and related equipment	3,976,334	4,976,261
Library resources	12,516,746	11,429,162
Vehicles	3,401,812	3,151,312
Audiovisual equipment	2,453,109	2,483,390
Science equipment	1,312,700	1,377,091
Software	1,854,541	1,418,359
Telephone systems and equipment	663,569	664,925
Other moveable assets	5,995,904	6,350,329
Collections	2,031,612	1,998,613
	265,801,685	255,439,357
Accumulated depreciation	(74,291,355)	(67,128,467)
Total	$ 191,510,330	$ 188,310,890

Depreciation expense was $9,024,203 and $8,798,765 for the years ended May 31, 2009 and 2008, respectively.

NOTE J: Accrued Liabilities:

Accrued liabilities at May 31, 2009 and 2008 are as follows:

	2009	2008
Salaries and wages	$ 5,872,324	$ 5,408,183
Compensated absences	2,858,296	1,587,950
Split-interest agreements	730,337	673,238
Employee benefits and payroll taxes	84,788	56,354
Conditional asset retirement obligations	615,269	603,205
Total	$ 10,161,014	$ 8,328,930

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE J: Accrued Liabilities: (continued)

Compensated Absences

Eligibility for vacation is based on continuous service with the university. Employees earn vacation based on their length of service. The maximum number of accumulated vacation days an employee may carry forward into each calendar year is 20. Accumulated vacation time may be used or paid at time of separation. Other accrued compensated absences are by employee contract.

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

Conditional Asset Retirement Obligations

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations, the university recognizes a liability for the legal obligation to perform asset retirement activities when the retirement is conditional on a future event and the fair value can be reasonably estimated. The accrued conditional asset retirement obligation liability is calculated by determining the present value of estimated costs at the anticipated settlement date using a discount rate of 2%.

NOTE K: Other Liabilities:

Other Liabilities at May 31, 2009 and 2008 are as follows:

	2009	2008
Agency obligation	$ 765,632	$ 210,298
Refundable advance - exchange transaction	766,667	866,667
Refundable advances - CRUTs	1,286,967	507,946
Total	$ 2,819,266	$ 1,584,911

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 - Exchange Transaction

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. The contingent interest penalty, which would be added to the refundable advance only in the event of an early termination, amounted to $93,917 at May 31, 2009, and has not been included in the consolidated financial statements.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE K: Other Liabilities: (continued)

Refundable Advances- CRUTs

The university serves as trustee for several Charitable Remainder Unitrusts (CRUTs) having revocable beneficiaries. Trusts of this type are accounted for as refundable advances with an amount equal to the Trust's assets reported as other liabilities in the consolidated statements of financial position. Absent a change in the revocable beneficiary, assets held in the Trusts will be recognized as contribution revenue upon the trusts' termination.

NOTE L: Bonds Payable:

Long-term debt at May 31, 2009 and 2008 is as follows:

	2009	2008
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 began again in 2009 and will 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 Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	$ 16,430,000	$ 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 through 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.	9,530,000	10,120,000
Revenue Bonds, Series 2000; $4,325,000 serial bonds due June 2000 through 2023, bearing a weekly variable interest rate paid monthly. Principal payments began in 2002 and will continue through 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.	3,205,000	3,370,000

ELON UNIVERSITY
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For The Years Ended May 31, 2009 and 2008

NOTE L: Bonds Payable: (continued)

	2009	2008
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 through 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 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 M.	$ 4,900,000	$ 5,755,000
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 through 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.	6,000,000	6,230,000
Revenue Bonds, Series 2006; $18,905,000 serial bonds due March 2006 through 2031, bearing a weekly variable interest rate paid monthly. Principal payments began in 2008 and will continue through 2031. 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 2006 are subject to an interest rate swap agreement referenced in Footnote M.	17,875,000	18,400,000
Total	$ 57,940,000	$ 61,090,000

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE L: Bonds Payable: (continued)

Aggregate maturities of long-term debt at May 31, 2009, are as follows:

2009	$ 3,290,000
2010	3,430,000
2011	3,590,000
2012	3,740,000
2013	3,905,000
Thereafter	39,985,000
Total	$ 57,940,000

Total interest costs incurred related to bonds and notes payable were $1,511,777 and $2,217,130 for the years ended May 31, 2009 and 2008, respectively, and of these amounts $67,431 and $130,456, respectively, were capitalized as a cost of construction.

NOTE M: Interest Rate Swap Agreements:

The university has recorded two interest rate swap agreements on the Consolidated Statements of Financial Position at fair value. Agreements involve series 2001A 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 at 4.10% and 3.62%, and 65% and 70% of the USD-LIBOR BBA index. The university anticipates holding the interest rate swap agreements until all debt under the agreements has been retired. Principal maturities on the remaining debt conclude in 2031.

The university has only limited involvement with derivative financial instruments and does not use them for trading purposes. Fair 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 will be adjusted annually through Net Assets.

The obligation under interest rate swap agreements at May 31, 2009 and 2008 is as follows:

	2009	2008
Series 2001A	$ 377,999	$ 283,511
Series 2006	1,874,636	549,129
Total	$ 2,252,635	$ 832,640

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE N: Financial Aid (Tuition Discount):

The university awards financial aid based on academic merit, need and leadership. Gross tuition discounts were 16.8% and 16.4% for the years ended May 31, 2009 and 2008, respectively. The unfunded discount rate was 13.8% and 13.1% for the years ended May 31, 2009 and 2008, 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.

	2009		2008	
Total Tuition and Fees	Dollars	Percentage	Dollars	Percentage
Unfunded discount	$ 18,556,864	13.8%	$ 15,740,498	13.1%
Funded discount	4,056,419	3.0%	4,003,512	3.3%
Total	$ 22,613,283	16.8%	$ 19,744,010	16.4%
Gross tuition and fees	$ 134,603,263		$ 120,481,965	

	2009		2008	
Undergraduate Tuition and Fees Only	Dollars	Percentage	Dollars	Percentage
Unfunded discount	$ 16,717,617	13.9%	$ 14,671,648	13.3%
Funded discount	4,009,683	3.3%	3,926,754	3.6%
Total	$ 20,727,300	17.2%	$ 18,598,402	16.9%
Gross tuition and fees	$ 120,681,278		$ 110,034,492	

NOTE O: Gift Revenue:

Major categories of gift revenue for the years ending May 31, 2009 and 2008, are as follows:

	2009	2008
Annual funds	$ 1,575,328	$ 2,601,108
Endowment funds	5,069,556	10,006,808
Capital projects	1,895,812	1,988,415
Other	1,549,536	2,604,999
Total	$ 10,090,232	$ 17,201,330

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE P: Allocation of Expenses:

Expenses which are not directly charged to specific programs are allocated to those programs based on estimates. The totals of these allocations were $26,071,468 and $26,405,036 for the years ended May 31, 2009 and 2008, respectively. Allocations of specific program expenses are as follows:

	2009			
Program	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	$ 3,994,390	$ 3,456,608	$ 2,370,174	$ 9,821,172
Student Services	1,601,607	1,185,017	405,662	3,192,286
Auxiliary Enterprises	4,954,469	3,665,776	1,762,796	10,383,041
Academic Support	627,781	464,490	133,797	1,226,068
Institutional Support	295,646	252,312	900,943	1,448,901
Total	$ 11,473,893	$ 9,024,203	$ 5,573,372	$ 26,071,468

	2008			
Program	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	$ 3,817,422	$ 3,303,877	$ 2,616,404	$ 9,737,703
Student Services	1,521,927	1,164,975	494,376	3,181,278
Auxiliary Enterprises	4,714,885	3,609,057	2,090,875	10,414,817
Academic Support	597,423	457,303	165,346	1,220,072
Institutional Support	301,136	263,553	1,286,477	1,851,166
Total	$ 10,952,793	$ 8,798,765	$ 6,653,478	$ 26,405,036

NOTE Q: 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 $4,167,768 and $3,609,077 for the years ended May 31, 2009 and 2008, respectively.

NOTE R: Fund Raising:

Fundraising costs were $3,672,768 and $3,233,599 for the years ended May 31, 2009 and 2008, respectively. These costs are included with other costs and are shown as “Institutional Support” on the Consolidated Statement of Activities.

NOTE S: Student Housing

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

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

CHF – Elon, LLC has a June 30 fiscal year end. As such, calculation of any ground lease payment due the university (net available cash flow) will be determined after the close of CHF – Elon, LLC's fiscal year and is not earned by the university until that time. The university earned ground lease income of $597,134 and $206,727 during the years ended May 31, 2009 and May 31, 2008, respectively.

While fulfilling its management functions, the university will collect rental income and incur reimbursable expenses on behalf of CHF – Elon, LLC. Unsettled balances related to these transactions amounted to a net receivable of $158,419 and $57,973 at May 31, 2009 and May 31, 2008, respectively. These balances are classified as accounts receivable in the Consolidated Statements of Financial Position.

NOTE T: Commitments and Contingencies:

1) Department of Education Funds

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

2) Construction and Purchase Commitments

As of May 31, 2009 the university had outstanding contractual commitments and equipment purchase orders totaling approximately $2,164,377.

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, 2009, Elon had future commitments of $120,200.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended May 31, 2009 and 2008

NOTE T: 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 $1,025,551 and $752,345 for the years ended May 31, 2009 and 2008, respectively. Commitments for minimum future rental payments for each of the next 5 years and thereafter are as follows:

Year Ending	Amount
2010	$ 1,079,147
2011	988,736
2012	875,539
2013	639,293
2014	296,258
Thereafter	279,876
Total minimum future rental payments	$ 4,158,849

The university also leases apartments and houses for student living under operating leases that will expire in 2010. Rent expense was $307,850 and $115,743 for the years ended May 31, 2009 and 2008, 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, 2009.

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

5) Employment Related Commitments

Elon University has entered into employment related agreements with certain employees which obligate the university to potential future payments. At May 31, 2009, those maximum potential future payments under these agreements are $5,092,789.

6) Exchange Transaction

On June 25, 2001, the university entered into an agreement with an existing service provider which has been classified as an exchange transaction. The service provider, at the request of the university, acquired certain real estate adjacent to campus along with other personal property. Title to the real estate will pass to the university at the end of the service period (fifteen years).

Should either party terminate the agreement prior to expiration (fifteen years), the university shall pay to the service provider its unamortized total investment, calculated on a straight-line basis and title to the real estate will pass to the university. The unamortized portion of the total investment at May 31, 2009 is $467,741.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2009 and 2008

NOTE T: Commitments and Contingencies: (continued)

7) Line of Credit

On January 27, 2009, the university established an unsecured revolving line of credit in the amount of $10,000,000. Availability under this line will decrease to $5,000,000 on October 27, 2009 and fully expire on January 27, 2010. The line carries a variable rate of interest payable monthly at the British Bankers Association LIBOR rate plus 0.75%, adjusted monthly. The line of credit was unused at May 31, 2009.

8) Contingencies

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

NOTE U: Subsequent Events:

Subsequent to year end but prior to the report date (August 14, 2009), the university was party to the following:

Purchase of assets: The university purchased four real estate parcels totaling $633,393.

Construction, Renovation, and Improvements: The university has expended $343,800 for various construction, renovation and improvements to campus facilities.

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees
Elon University
Elon, North Carolina

Our report on our audits of the basic consolidated financial statements of Elon University as of May 31, 2009 and 2008 appears on page 4. The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying graphs of tuition and fees, room and board 2000 - 2009, student enrollment 1999 - 2008, student selectivity 1999 - 2008, endowment market value 2000 - 2009 and net assets and liabilities 2000 - 2009 are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we express no opinion on it.

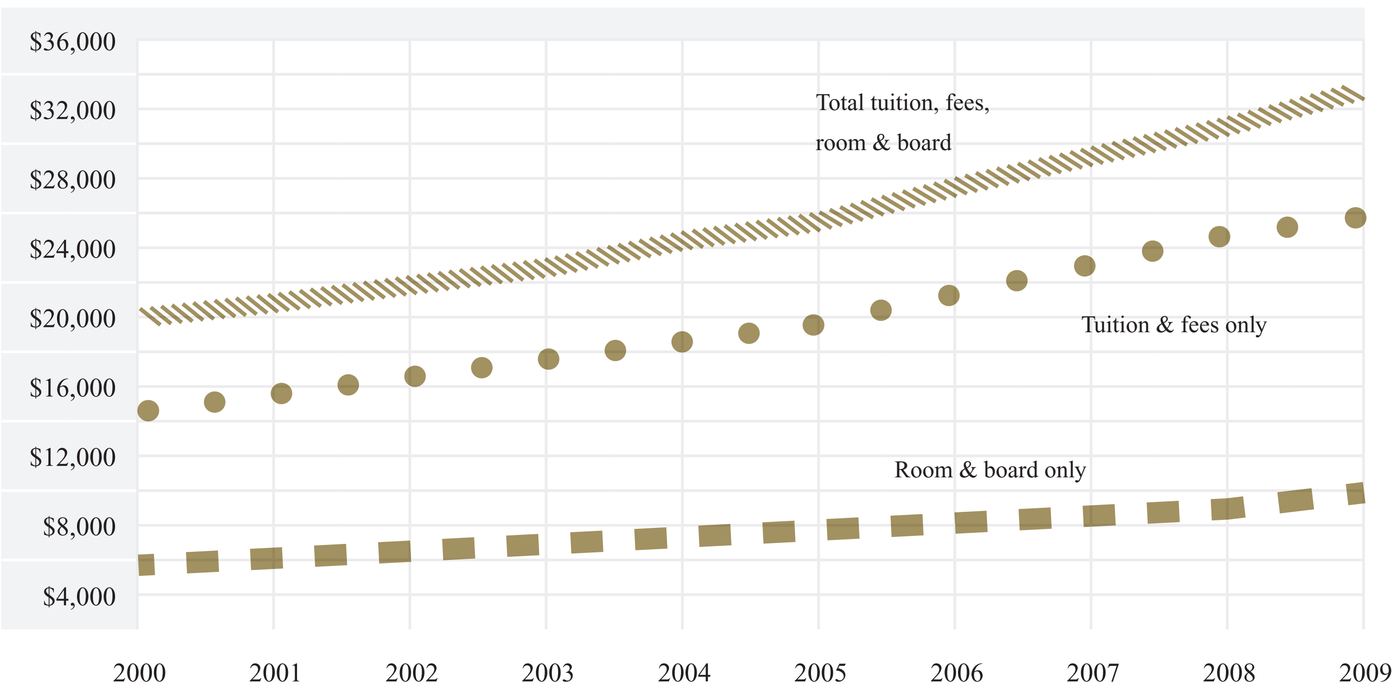
Stout Stuart McGowen & King LLP

August 14, 2009

ADDITIONAL INFORMATION PROVIDED BY ELON UNIVERSITY

TUITION AND FEES, ROOM AND BOARD 2000–2009

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

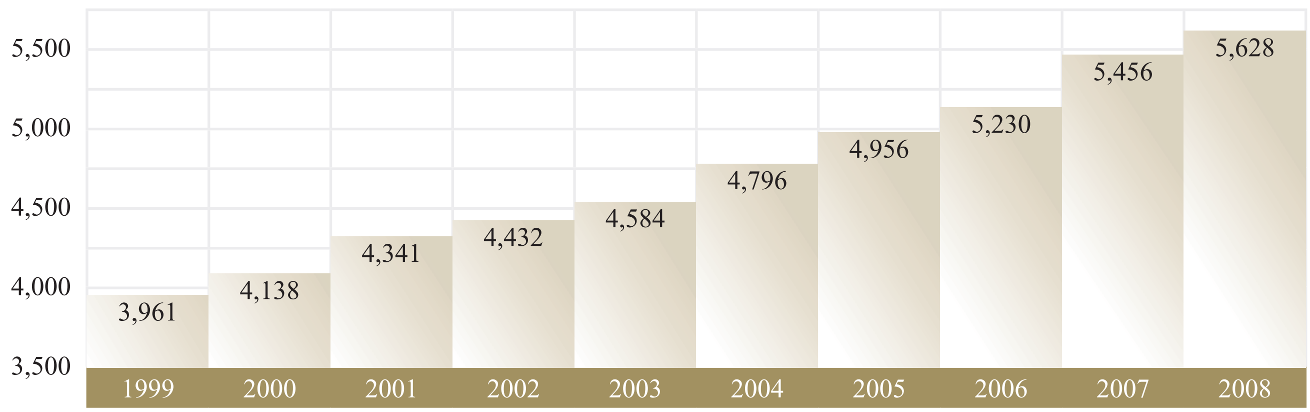


FALL	TUITION	FEES	ROOM	BOARD	TOTAL
2000	$13,556	$225	$2,120	$2,540	$18,441
2001	$14,335	$225	$2,216	$2,654	$19,430
2002	$15,280	$225	$2,336	$2,754	$20,595
2003	$16,325	$245	$2,770	$2,900	$22,240
2004	$17,310	$245	$2,936	$3,074	$23,565
2005	$18,699	$250	$3,112	$3,310	$25,371
2006	$20,171	$270	$3,320	$3,530	$27,291
2007	$21,886	$280	$3,536	$3,760	$29,462
2008	$23,746	$330	$3,766	$3,747	$31,589
2009	$25,159	$330	$3,992	$4,244	$33,725

Refer to independent auditor’s report on additional information.

STUDENT ENROLLMENT
1999–2008

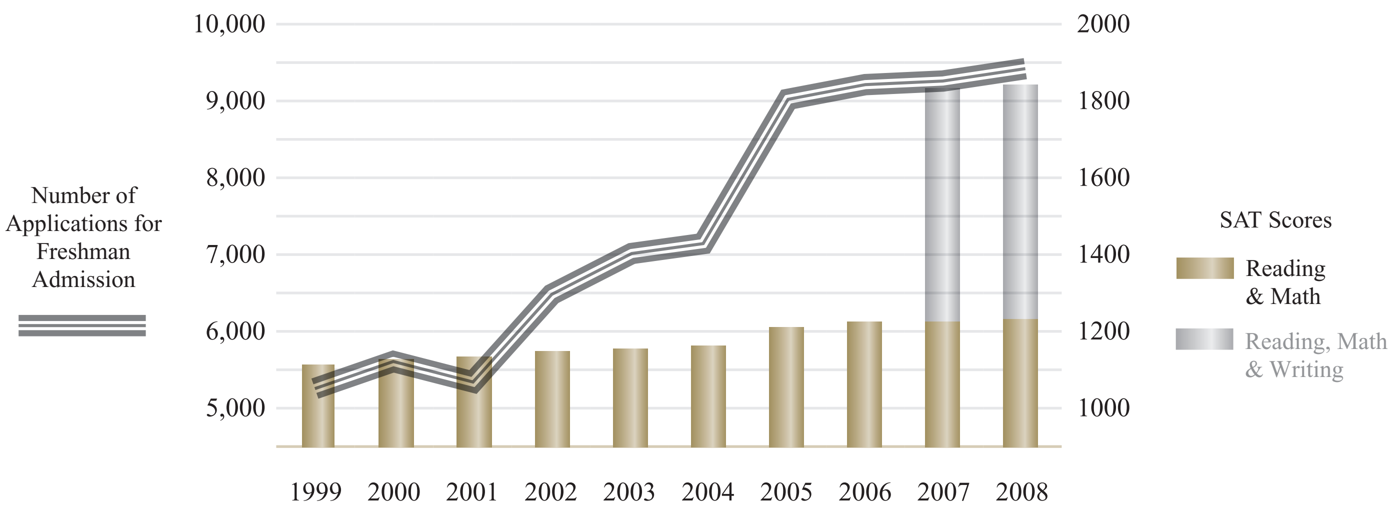
This graph shows a ten year trend of total enrollment on a head-count basis. Enrollment has been impacted by incoming freshman classes, continuing improved retention, and the addition of new graduate programs.



YEAR	UNDERGRADUATE	GRADUATE	TOTAL
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
2007	4,939	517	5,456
2008	4,992	636	5,628

STUDENT SELECTIVITY
1999–2008

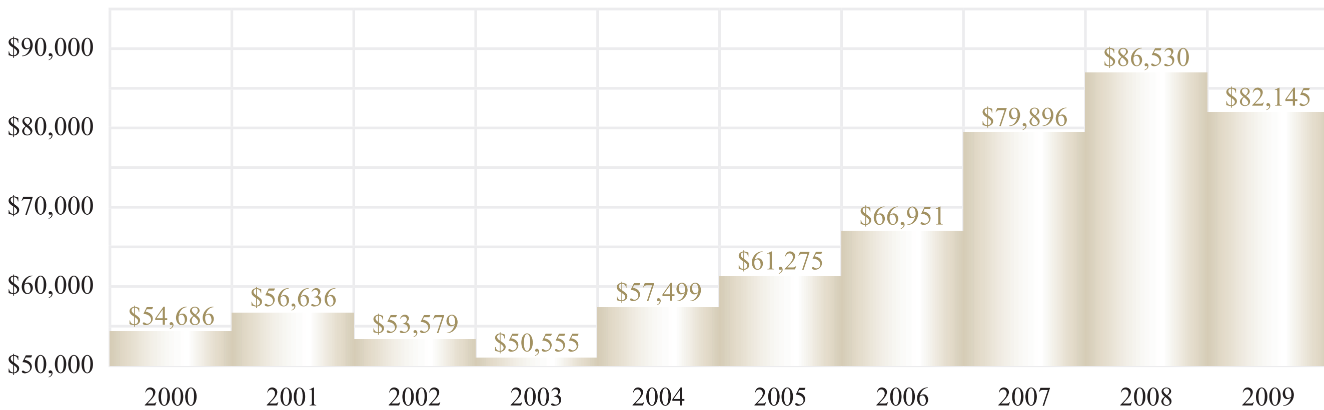
Measures of student quality have increased consistently over the last ten years. Applications for admission now exceed 9,400 and the average SAT score has risen to 1840.*



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

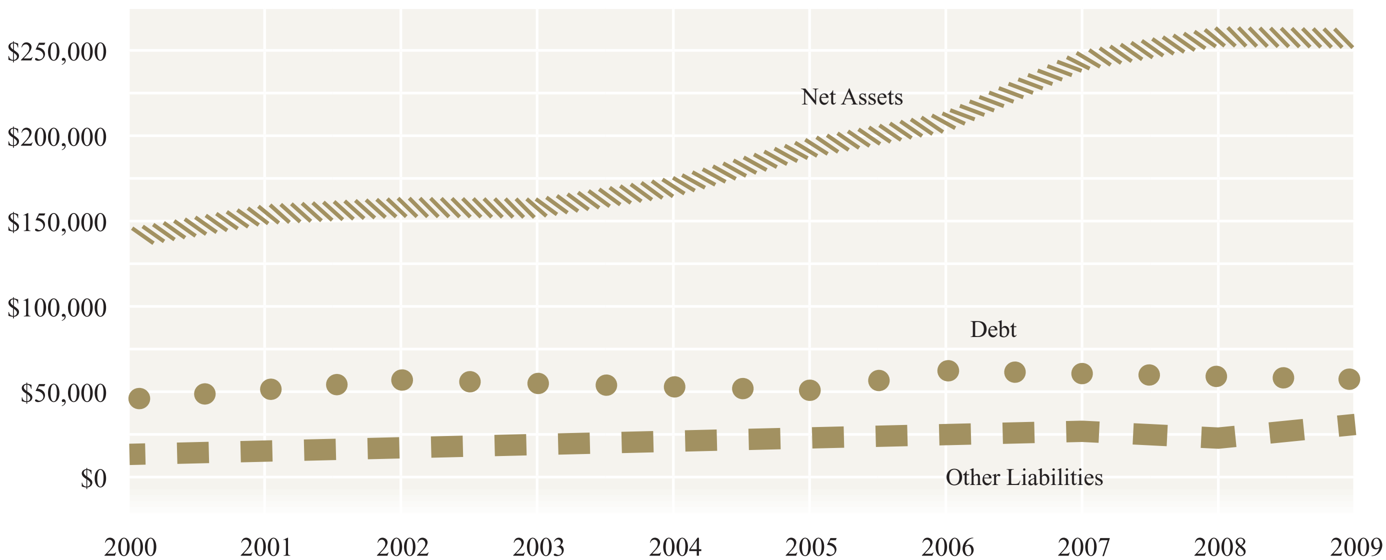
ENDOWMENT MARKET VALUE (000)
2000–2009

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



NET ASSETS AND LIABILITIES (000)
2000–2009

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



YEAR	NET ASSETS	DEBT	OTHER LIABILITIES
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
2008	$260,879	$61,090	$24,499
2009	$257,314	$57,940	$28,952

Refer to independent auditor’s report on additional information.

ELON
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FINANCIAL & AUDIT REPORT

MAY 31, 2009 & 2008