ELON UNIVERSITY

FINANCIAL & AUDIT REPORT
May 31, 2010 & 2009

CONTENTS

FINANCIAL OVERVIEW 2009 - 2010

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

http://www.elon.edu/e-web/bft/business/annual_report_2010/default.xhtml

A major highlight during the past year was the adoption of The Elon Commitment strategic plan. The vision for the plan is simple and powerful: to engage students' minds and inspire them to act as leaders and global citizens. Key to Elon's success will be a continued focus on increasing the level of academic challenge, with a strong emphasis on foundational liberal arts and sciences. This plan will strengthen Elon University in numerous ways by increasing the breadth and depth of its programs and providing key facilities and resources to support this progress.

Elon continues a strong showing in many of the national rankings and surveys that are but one indication of the institutions strength and vitality. Elon University is still ranked as one of the nation's best values by Kiplinger's, and as the nation's top "up and coming" university.

Perhaps the most important recognition for the university came when Elon was chosen to shelter a Phi Beta Kappa chapter in 2009-2010. Fewer than 10% of colleges and universities in the United States have such a privilege.

This demand provides a solid financial base for the institution and all major financial indicators moved in a favorable direction this past year which is shown in the following pages. Even during a major global economic recession Elon continues to have strong financial results. Some highlights include an increase in assets and net assets (assets minus liabilities) of 14.3% and 10.9% respectively and net tuition revenue (tuition minus financial aid) grew by 3.4%. The university endowment reached its highest point in history, topping the $100 million mark for the first time.

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

Leo M. Lambert
President

Gerald Whittington
Senior 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, 2010 and 2009, 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
Senior Vice President for Business, Finance and Technology

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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, 2010 and 2009, 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, 2010 and 2009, 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 26, 2010

ELON UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2010 and 2009

	2010	2009
ASSETS:		
Cash and cash equivalents	$ 16,504,940	$ 2,017,516
Accounts receivable, net	2,047,511	2,466,266
Prepaid expenses and other assets	1,240,444	653,511
Inventories	82,703	62,317
Deposits with bond trustee	20,095,931	-
Contributions receivable, net	9,329,494	10,157,908
Investments	140,070,517	131,658,775
Loans to students, net	4,124,334	3,915,128
Bond issue costs	779,839	583,094
Construction in progress	4,541,465	1,180,881
Property and equipment, net	194,562,929	191,510,330
Total Assets	$ 393,380,107	$ 344,205,726
LIABILITIES:		
Accounts payable	$ 3,640,607	$ 3,014,518
Accrued liabilities	11,167,100	10,161,014
Student deposits	5,023,090	4,544,332
Deferred revenue	2,353,425	2,015,689
Other liabilities	2,981,695	2,819,266
Bonds payable	75,785,000	57,940,000
Obligation under interest rate swap agreements	3,224,757	2,252,635
U.S. Government advances for student loans	3,951,397	4,144,179
Total Liabilities	108,127,071	86,891,633
NET ASSETS:		
Unrestricted	179,653,251	160,471,686
Temporarily Restricted	28,518,263	24,214,626
Permanently Restricted	77,081,522	72,627,781
Total Net Assets	285,253,036	257,314,093
Total Liabilities and Net Assets	$ 393,380,107	$ 344,205,726

See accompanying notes.

ELON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Tuition and fees	$142,082,245	$ -	$ -	$142,082,245
Tuition discount	(26,328,550)	-	-	(26,328,550)
Net tuition	115,753,695	-	-	115,753,695
Sales and service of auxiliary enterprises	24,997,967	-	-	24,997,967
Federal grants	790,046	-	-	790,046
State grants	1,995,243	-	-	1,995,243
Other grants	111,570	500	-	112,070
Contributions	1,850,110	2,321,324	2,330,729	6,502,163
Contributions - pledges	20,000	2,054,016	1,110,175	3,184,191
Investment income	559,509	304,364	-	863,873
Gain on investments	7,752,014	4,055,104	685,896	12,493,014
Loss on disposal of property and equipment	(86,843)	-	-	(86,843)
Athletics	2,767,393	153,681	-	2,921,074
Other sources	1,191,747	106,134	37,227	1,335,108
	157,702,451	8,995,123	4,164,027	170,861,601
Net Assets Released From/To Restrictions	4,401,772	(4,691,486)	289,714	-
Total Revenues, Gains and Other Support	162,104,223	4,303,637	4,453,741	170,861,601
EXPENSES:				
Instruction	68,537,761	-	-	68,537,761
Student services	23,249,102	-	-	23,249,102
Auxiliary enterprises	21,231,672	-	-	21,231,672
Academic support	7,950,885	-	-	7,950,885
Institutional support	20,981,116	-	-	20,981,116
Total Expenses	141,950,536	-	-	141,950,536
Increase in Net Assets before Nonoperating Activity	20,153,687	4,303,637	4,453,741	28,911,065
NONOPERATING ACTIVITY:				
Change in value of interest rate swap agreements	(972,122)	-	-	(972,122)
Total Nonoperating Activity	(972,122)	-	-	(972,122)
Increase in Net Assets	19,181,565	4,303,637	4,453,741	27,938,943
Net Assets - Beginning of Year	160,471,686	24,214,626	72,627,781	257,314,093
Net Assets - End of Year	$179,653,251	$ 28,518,263	$ 77,081,522	$285,253,036

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 STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	$ 27,938,943	$ (3,564,503)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	8,315,059	9,024,203
Amortization of bond issue costs	50,602	50,602
Contributions of assets - other	(790,305)	(207,943)
Contributions of assets - endowment	(302,514)	(124,807)
Contributions restricted to endowment	(3,138,390)	(4,797,257)
(Gain) loss on investments	(12,493,014)	17,085,407
Loss on disposal of property and equipment	86,843	115,032
(Increase) decrease in:		
Accounts receivable	418,755	(720,650)
Prepaid expenses and other assets	(586,933)	(82,032)
Inventories	(20,386)	15,016
Contributions receivable	828,414	1,650,933
Loans to students	(209,206)	(230,120)
Increase (decrease) in:		
Accounts payable	626,089	(737,760)
Accrued liabilities	1,006,086	1,832,084
Student deposits	478,758	647,677
Deferred revenue	337,736	211,257
Other liabilities	162,429	1,234,355
Obligation under interest rate swap agreements	972,122	1,419,995
U.S. Government advances for student loans	(192,782)	(155,300)
Net Cash Provided by Operating Activities	23,488,306	22,666,189
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	33,207,914	68,673,591
Purchases of investments	(28,664,536)	(81,362,627)
Proceeds from disposal of property and equipment	33,935	2,408
Purchases of property and equipment	(14,520,820)	(11,700,900)
Increase in deposits with bond trustee	(20,095,931)	-
Net Cash Used by Investing Activities	(30,039,438)	(24,387,528)
Cash Flows from Financing Activities:		
Proceeds from bond issuance	21,135,000	-
Payments for bond issue costs	(247,348)	-
Principal payments on bonds	(3,290,000)	(3,150,000)
Contributions restricted to endowment	3,440,904	4,922,064
Net Cash Provided by Financing Activities	21,038,556	1,772,064
Net Increase in Cash and Cash Equivalents	14,487,424	50,725
Cash and Cash Equivalents, Beginning of Year	2,017,516	1,966,791
Cash and Cash Equivalents, End of Year	$ 16,504,940	$ 2,017,516
Supplemental Disclosure:		
Cash payments for interest (net of amount capitalized)	$ 887,530	$ 1,444,346

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) 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. Accounting standards require unconditional promises-to-give be recorded as receivables and revenue within the appropriate net asset category.

In June 2009, the Financial Accounting Standards Board (FASB) issued The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (the Codification). The Codification became the single source for all authoritative U.S. generally accepted accounting principles for periods ending after September 15, 2009. As the Codification was not intended to change or alter existing U.S. generally accepted principles, it did not have an impact on the university's financial statements.

(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:

<u>Unrestricted</u> – 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.

<u>Temporarily Restricted</u> – 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 ten commercial banks. Eight of the ten bank accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 at May 31, 2010 and 2009, respectively. Uninsured balances were approximately $39,993,660 and $31,297,275 at May 31, 2010 and 2009, respectively. The remaining two bank accounts are non-domestic accounts used for study abroad purposes.

A separate demand deposit account, which holds cash for the Federal Perkins Loan Program, is required and maintained by the university. The balance in this account was $291,811 and $631,491 at May 31, 2010 and 2009, respectively.

(8) Accounts Receivable:

Accounts receivable includes obligations from students in the normal course of operations and consists 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, 2010 past due 120 days or more was $46,104. 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 at May 31, 2010 and 2009, respectively.

(9) Inventories:

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

(10) Deposits with bond trustee:

Deposits with bond trustee consist of unexpended proceeds from the 2010 bond issue. These funds are invested in short-term, highly liquid securities and will be used for construction of certain facilities.

(11) Contributions Receivable:

Contributions receivable are stated at 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 2.75% and 3.30% at May 31, 2010 and 2009, respectively.

(12) Investments:

In September 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)* (ASU 2009-12). ASU 2009-12 amends FASB Accounting Standards Codification 820, *Fair Value Measurements*, to offer investors a practical expedient for measuring the fair value of investments that do not have a readily determinable fair value, but are provided with Net Asset Value (NAV), or its equivalent, by the investee. Use of this method is permissible when it is probable that the investment will not be sold in the short term and eliminates the complexities and practical difficulties faced in adjusting the NAV as provided by the investee in order to determine fair value of an alternative investment.

The university's investments include a diverse portfolio of securities and investment vehicles. The university reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Consolidated Statements of Financial Position. Alternative investments, predominately a minority interest in an investment partnership, are valued at NAV as provided by the investees and in accordance with the aforementioned ASU 2009-12. Management of the university believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Consolidated Statements of Activities. The university reports its real estate investments at fair value as of the dates the investments were purchased by or donated to the university.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2010 and 2009

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

(13) Endowment Funds:

A donor's stipulation that requires a gift to be invested in perpetuity or for a specified term creates an endowment fund. Net appreciation on endowment funds is not permanently restricted unless such net appreciation has been permanently restricted by the donor or by law. Accordingly, market appreciation on permanently restricted endowment funds is generally classified in the 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 4.6% and 4.7% at May 31, 2010 and 2009, respectively.

(14) Split-Interest Agreements:

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

(15) Bond Issue Costs:

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

(16) Interest Rate Swap Agreements:

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

(17) 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.

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

(17) Property and Equipment: (continued)

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.

(18) 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.

(19) 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.

(20) Reclassifications:

Certain items in the 2009 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 Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. This 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. ASC 820, as amended, also requires entities to disclose information to enable users of financial statements to assess the inputs used to develop the fair value measurements.

NOTE B: Fair Value Measurements: (continued)

The university adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures*, 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.

ASC 820 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. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Valuation techniques are the market, cost or income approach.

As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

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

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

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

At May 31, 2010, fair value of financial assets and financial liabilities were as follows:

	Level 1	Level 2	Level 3	Total
Contributions receivable	$ -	$ 9,329,494	$ -	$ 9,329,494
Investments	45,113,177	3,637,466	91,319,874	140,070,517
Loans to students	-	4,124,334	-	4,124,334
Total Assets	$ 45,113,177	$ 17,091,294	$ 91,319,874	$ 153,524,345
Split-interest agreements (accrued liabilities)	$ -	$ 644,738	$ -	$ 644,738
Refundable advances-CRUT’s (other liabilities)	-	1,265,543	-	1,265,543
Obligation under interest rate swap agreements	-	3,224,757	-	3,224,757
Total Liabilities	$ -	$ 5,135,038	$ -	$ 5,135,038

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2010 and 2009

NOTE B: Fair Value Measurements: (continued)

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

At May 31, 2010, 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 in accordance with FASB ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)* (see Note A (12)). Management of the university believes this information is a reasonable estimate of fair value; however, because the alternative investments are not readily marketable and subject to redemption restrictions, the fair value is subject to uncertainty and therefore may differ from the amounts ultimately realized from these investments.

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

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2010 and 2009

NOTE B: Fair Value Measurements: (continued)

Refundable advances - CRUT's - 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 years ended May 31, 2009 and 2010:

	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	-	10,354,072	10,354,072
Purchases (sales)	-	(1,017,910)	(1,017,910)
Transfers out of Level 3	(82,084)	-	(82,084)
Balance, May 31, 2010	$ 999,870	$ 90,320,004	$ 91,319,874

Change in value of alternative investments is included in gain (loss) on investments on the Consolidated Statements of Activities.

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

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

NOTE B: Fair Value Measurements: (continued)

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

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

The university is contractually committed to provide additional funding for alternative investments under the terms of these partnership agreements. At May 31, 2010, these unfunded commitments amounted to $88,500.

NOTE C: Contributions Receivable:

The payment timing of outstanding contributions receivable at May 31, 2010, were estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One Year	$ 2,003,192	$ 1,409,610	$ -	$ 3,412,802
2-4 Years	4,046,822	1,513,814	-	5,560,636
5 Plus Years	356,056	-	-	356,056
Total	$ 6,406,070	$ 2,923,424	$ -	$ 9,329,494

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

Contributions receivable are shown net of a collection allowance of $512,318 and $581,949 and a discount of $404,547 and $557,927 at May 31, 2010 and 2009, respectively.

Individual pledge balances that exceeded 10% of total receivables amounted to $2,000,000 at May 31, 2010 and 2009.

ELON UNIVERSITY
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For the Years Ended May 31, 2010 and 2009

NOTE D: Investments:

Investments at May 31, 2010 and 2009, consisted of the following:

	2010		2009	
	Cost	Market	Cost	Market
Non-Endowment Funds:				
Money market funds	$ 15,605,651	$ 15,605,651	$ 28,192,031	$ 28,192,031
Certificates of deposit	12,519,811	12,519,811	5,382,551	5,382,551
Equities	802,901	477,281	789,871	371,051
Fixed income	6,065,170	6,039,896	2,461,106	2,299,274
U.S. Government obligations	1,320,540	1,220,258	1,270,418	1,116,869
Real Estate	464,369	464,369	464,161	464,161
Other	295,131	295,131	282,202	282,202
Alternative investments	-	-	12,232,963	11,405,228
	37,073,573	36,622,397	51,075,303	49,513,367
Endowments and Similar Funds:				
Money market funds	4,467,591	4,467,591	5,028,905	5,028,905
Equities	6,439,682	6,183,666	6,514,880	5,219,503
Fixed income	1,791,534	1,799,690	1,620,367	1,591,962
U.S. Government obligations	30,156	30,612	-	-
Real Estate	535,501	535,501	617,793	617,793
Other	111,056	111,056	108,632	108,632
Alternative investments	84,598,864	90,320,004	74,342,119	69,578,613
	97,974,384	103,448,120	88,232,696	82,145,408
	$ 135,047,957	$ 140,070,517	$ 139,307,999	$ 131,658,775

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.

NOTE D: Investments: (continued)

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.

Investment returns are reported net of investment fees. The amount of fees paid during the fiscal years ended May 31, 2010 and 2009 were $626,910 and $561,844, 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 five percentage points (net of fees and in excess of spending and inflation). These investment managers utilize a highly diversified mixture of equities, fixed income and alternative investments. The university's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

The Board of Trustees has approved an endowment spending policy whereby distributions are based on the moving three year average of the market value of the pooled endowment. The applicable rates are 4.6% and 4.7% for the years ended May 31, 2010 and 2009, respectively. Actual endowment return earned in excess of distributions under this policy is reinvested as part of the university's endowment. For years where actual endowment return is less than distributions under the policy, the shortfall is covered by available gains from prior years. Specific appropriation for expenditure of unrestricted funds under the university's endowment spending policy occurs each spring when the Board approves the university's operating budget for the ensuing fiscal year. All donor-restricted returns are invested until appropriated for expenditure by the institution.

Endowment totals as of May 31, 2010 and 2009, were as follows:

	2010	2009
Contributions receivable, net	$ 6,406,070	$ 7,028,520
Investments	103,448,120	82,145,408
Accrued and other liabilities	(1,028,055)	(885,178)
	$ 108,826,135	$ 88,288,750

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2010 and 2009

NOTE E: Endowment and Similar Funds: (continued)

Endowment net asset compositions as of May 31, 2010 and 2009, were as follows:

	2010	2009
Unrestricted – Board designated	$ 20,754,827	$ 11,591,579
Unrestricted – Donor designated	(1,591,483)	(6,865,903)
Temporarily restricted	13,419,704	11,628,337
Permanently restricted	76,243,087	71,934,737
	$ 108,826,135	$ 88,288,750

Changes in endowment net assets during the years ended May 31, 2010 and 2009, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 1, 2008	$ 26,331,514	$ 250,826	$ 67,982,637	$ 94,564,977
Contributions – donors	-	2,492	4,922,064	4,924,556
Contributions – board designated	6,145,000	-	-	6,145,000
Investment income/(loss)	-	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	(611,125)	(3,083,166)	-	(3,694,291)
Transfers	1,106,494	1,024,120	388,109	2,518,723
Balance, May 31, 2009	4,725,676	11,628,337	71,934,737	88,288,750
Contributions – donors	-	9,125	3,332,741	3,341,866
Contributions – board designated	8,075,000	-	-	8,075,000
Investment income	-	66,426	-	66,426
Gain on investments	6,876,754	3,999,069	685,896	11,561,719
Spending policy	(1,011,057)	(3,062,157)	-	(4,073,214)
Transfers	496,971	778,904	289,713	1,565,588
Balance, May 31, 2010	$ 19,163,344	$ 13,419,704	$ 76,243,087	$ 108,826,135

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2010 and 2009

NOTE E: Endowment and Similar Funds: (continued)

In August 2008, the Financial Accounting Standards Board issued the staff position, *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* which was codified in FASB ASC 958-205. The standard 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). The standard 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 the standard for the year ended May 31, 2009.

The state of North Carolina enacted 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 determined that the university's permanently restricted net assets meet the definition of endowment funds under UPMIFA. As such, the university reviewed all of its endowment funds and reclassified $19,884,388 from unrestricted net assets to temporarily restricted net assets at May 31, 2009. The reclassification is reflected as a nonoperating 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. These deficiencies amounted to $1,748,503 and $6,865,903 at May 31, 2010 and 2009, respectively. In accordance with GAAP, deficiencies of this nature first reduce available temporarily restricted net assets. Any remaining loss shall reduce unrestricted net assets. While UPMIFA allows spending from these so-called underwater funds, the university deemed it prudent not to spend from them during the years ended May 31, 2010 and 2009.

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.

	2010	2009
Trustee distributions restricted to scholarship:		
Asset value	$ 951,215	$ 733,704
Trustee distributions	39,469	42,303
Trustee distributions restricted to professorship:		
Asset value	$ 732,169	$ 636,543
Trustee distributions	33,852	35,118
Unrestricted trustee distributions:		
Asset value	$ 1,954,082	$ 1,720,049
Trustee distributions	43,603	83,981

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

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.

	2010	2009
Asset value	$ 208,709	$ 185,204

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.

	2010	2009
Annuities liability	$ 417,650	$ 468,745
Total contributions to charitable gift annuities	15,000	160,000
Change in value of charitable gift annuities	(41,314)	(34,111)

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.

	2010	2009
Unitrust liability	$ 58,014	$ 58,231
Change in value of charitable remainder trusts	4,981	(6,226)

ELON UNIVERSITY
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For the Years Ended May 31, 2010 and 2009

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.

	2010	2009
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, 2010 and 2009.	$ 3,663,014	$ 3,525,873
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 cosigner. Receivables are net of an allowance for doubtful accounts totaling $30,000 and $15,000 at May 31, 2010 and 2009, respectively.	461,320	389,255
	$ 4,124,334	$ 3,915,128

NOTE H: Construction in Progress:

Projects in process at May 31, 2010 and 2009 are as follows:

	Cost Incurred Through 5/31/10	Estimated Date of Completion
Alumni fieldhouse	$ 2,852,503	December 2010
Colonnades student housing (2010 bond issue)	770,235	July 2011
Greek housing (2010 bond issue)	436,857	July 2011
Geothermal field (2010 bond issue)	129,821	July 2011
Others	352,049	Various
Total	$ 4,541,465	

	Cost Incurred Through 5/31/09	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	

ELON UNIVERSITY
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For the Years Ended May 31, 2010 and 2009

NOTE I: Property and Equipment:

Property and equipment at May 31, 2010 and 2009 are as follows:

	2010	2009
Land and land improvements	$ 34,906,434	$ 31,170,845
Buildings	205,745,873	200,424,513
Computers and related equipment	3,169,603	3,976,334
Library resources	13,529,889	12,516,746
Vehicles	3,564,441	3,401,812
Audiovisual equipment	2,499,880	2,453,109
Science equipment	1,471,265	1,312,700
Software	1,680,352	1,854,541
Telephone systems and equipment	663,569	663,569
Other moveable assets	6,540,456	5,995,904
Collections	2,031,613	2,031,612
	275,803,375	265,801,685
Less: Accumulated depreciation	81,240,446	74,291,355
Total	$ 194,562,929	$ 191,510,330

Depreciation expense was $8,315,059 and $9,024,203 for the years ended May 31, 2010 and 2009, respectively.

NOTE J: Accrued Liabilities:

Accrued liabilities at May 31, 2010 and 2009 are as follows:

	2010	2009
Salaries and wages	$ 6,487,728	$ 5,872,324
Compensated absences	3,243,349	2,858,296
Split-interest agreements	644,738	730,337
Employee benefits and payroll taxes	154,481	84,788
Conditional asset retirement obligations	636,804	615,269
	$ 11,167,100	$ 10,161,014

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.

NOTE J: Accrued Liabilities: (continued)

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 3.5%.

NOTE K: Other Liabilities:

Other liabilities at May 31, 2010 and 2009 are as follows:

	2010	2009
Agency obligation	$ 749,485	$ 765,632
Refundable advances - exchange transactions	966,667	766,667
Refundable advances - CRUT's	1,265,543	1,286,967
Total	$ 2,981,695	$ 2,819,266

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 Advances - Exchange Transactions

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 $116,667 at May 31, 2010, and has not been included in the consolidated financial statements.

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

Refundable Advances- CRUT's

The university serves as trustee for several Charitable Remainder Unitrusts (CRUT's) 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.

ELON UNIVERSITY
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NOTE L: Bonds Payable:

Bonds payable at May 31, 2010 and 2009 are as follows:

	2010	2009
Revenue Bonds, Series 1997; $17,815,000 serial bonds due 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 regarding payment of obligations, rights of inspection, use of proceeds, and sale of project property. These bonds were issued through the North Carolina Carolina Capital Facilities Finance Agency, and are secured by a letter of credit with Bank of America.	$ 15,610,000	$ 16,430,000
Revenue Bonds, Series 1998; $14,010,000 serial bonds due 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 project 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.	8,915,000	9,530,000
Revenue Bonds, Series 2000; $4,325,000 serial bonds due through 2023, bearing a weekly variable market 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 project 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.	3,035,000	3,205,000

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2010 and 2009

NOTE L: Bonds Payable: (continued)

	2010	2009
Revenue Bonds, Series 2001A; $9,640,000 serial bonds due 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 project property. These bonds were issued through 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 Note M.	$ 4,005,000	$ 4,900,000
Revenue Bonds, Series 2001C; $7,255,000 serial bonds due 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 project 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.	5,755,000	6,000,000
Revenue Bonds, Series 2006; $18,905,000 serial bonds due through 2031, bearing a weekly variable market 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 project 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 Note M.	17,330,000	17,875,000

NOTE L: Bonds Payable: (continued)

	2010	2009
Revenue Bonds, Series 2010; $21,135,000 serial bonds due through 2035, bearing a weekly variable market interest rate paid monthly. Principal payments will begin in 2013 and will continue through 2035. The university made certain covenants, including covenants regarding payment of obligations, rights of inspection, use of proceeds, and sale of project 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 2010 are subject to an interest rate swap agreement referenced in Note M.	21,135,000	-
Total	$ 75,785,000	$ 57,940,000

Aggregate maturities of bonds payable at May 31, 2010, are as follows:

2011	$ 3,430,000
2012	3,590,000
2013	4,305,000
2014	4,490,000
2015	4,720,000
Thereafter	55,250,000
Total	$ 75,785,000

Total interest costs incurred related to bonds payable were $1,012,206 and $1,511,777 for the years ended May 31, 2010 and 2009, respectively, and of these amounts $124,676 and $67,431, respectively, were capitalized as a cost of construction.

NOTE M: Obligation Under Interest Rate Swap Agreements:

The university has recorded three interest rate swap agreements on the Consolidated Statements of Financial Position at fair value. Agreements involve series 2001A, 2006 and 2010 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 of 3.13% 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. Principal maturities on the remaining debt conclude in 2035.

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

NOTE M: Obligation Under Interest Rate Swap Agreements: (continued)

The obligation under interest rate swap agreements at May 31, 2010 and 2009 is as follows:

	2010	2009
Series 2001A	$ 281,004	$ 377,999
Series 2006	1,998,119	1,874,636
Series 2010	945,634	-
	$ 3,224,757	$ 2,252,635

NOTE N: Financial Aid (Tuition Discount):

The university awards financial aid based on academic merit, need and leadership. Gross tuition discounts were 18.5% and 16.8% for the years ended May 31, 2010 and 2009, respectively. The unfunded discount rate was 15.1% and 13.8% for the years ended May 31, 2010 and 2009, respectively. Funded tuition discounts are derived from endowment revenue, private gifts and federal and state aid. Unfunded tuition discounts are derived from the general operating revenues of the university and income earned on Board designated funds (quasi endowment).

	2010		2009	
Total Tuition and Fees	Dollars	Percentage	Dollars	Percentage
Unfunded discount - general	$ 21,225,190	14.9%	$ 18,481,514	13.7%
Unfunded discount - quasi	255,215	.2%	75,350	.1%
Total unfunded discount	21,480,405	15.1%	18,556,864	13.8%
Funded discount	4,848,145	3.4%	4,056,419	3.0%
Total	$ 26,328,550	18.5%	$ 22,613,283	16.8%
Gross tuition and fees	$ 142,082,245		$ 134,603,263	

	2010		2009	
Undergraduate Tuition and Fees Only	Dollars	Percentage	Dollars	Percentage
Unfunded discount - general	$ 18,673,068	14.7%	$ 16,642,267	13.8%
Unfunded discount - quasi	255,215	.3%	75,350	.1%
Total unfunded discount	18,928,283	15.0%	16,717,617	13.9%
Funded discount	4,723,487	3.7%	4,009,683	3.3%
Total	$ 23,651,770	18.8%	$ 20,727,300	17.2%
Gross tuition and fees	$ 126,067,994		$ 120,681,278	

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2010 and 2009

NOTE O: Gift Revenue:

Major categories of gift revenue for the years ending May 31, 2010 and 2009, are as follows:

	2010	2009
Annual funds	$ 1,521,287	$ 1,575,328
Endowment and similar funds	3,440,904	5,069,556
Capital projects	2,404,873	1,895,812
Programs	1,834,048	1,211,270
Scholarships	485,242	338,266
	$ 9,686,354	$ 10,090,232

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 $25,169,086 and $26,071,468 for the years ended May 31, 2010 and 2009, respectively. Allocations of specific program expenses are as follows:

	2010			
Program	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	$ 4,261,394	$ 3,271,010	$ 1,815,500	$ 9,347,904
Student services	1,631,825	1,079,519	359,611	3,070,955
Auxiliary enterprises	5,015,842	3,318,185	1,454,607	9,788,634
Academic support	633,119	418,834	269,460	1,321,413
Instructional support	298,160	227,511	1,114,509	1,640,180
Total	$ 11,840,340	$ 8,315,059	$ 5,013,687	$ 25,169,086

	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
Instructional support	295,646	252,312	900,943	1,448,901
Total	$ 11,473,893	$ 9,024,203	$ 5,573,372	$ 26,071,468

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 $4,624,343 and $4,167,768 for the years ended May 31, 2010 and 2009, respectively.

NOTE R: Fund Raising:

Fundraising costs were $3,881,360 and $3,672,768 for the years ended May 31, 2010 and 2009, 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 $67,840 and $597,134 during the years ended May 31, 2010 and May 31, 2009, 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 $163,134 and $158,419 at May 31, 2010 and May 31, 2009, respectively. These balances are classified as accounts receivable in the Consolidated Statements of Financial Position.

NOTE T: Income Taxes:

Effective June 1, 2009, the university adopted FASB ASC 740, *Income Taxes*, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. The guidance requires the evaluation of tax positions taken or expected to be taken in the university's tax returns to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority upon examination.

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

NOTE T: Income Taxes: (continued)

Generally, federal income tax returns are subject to examination by the Internal Revenue Service for three years after they are filed. As of the report date (August 26, 2010), the university's federal Exempt Organization Business Income Tax Returns (Form 990T) for 2008, 2007 and 2006 remain subject to said examination.

NOTE U: 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, 2010 the university had outstanding contractual commitments and equipment purchase orders totaling approximately $20,167,238.

(3) Investment Commitments:

Elon University is obligated under investment fund agreements to periodically advance additional funding for these investments up to specified levels. At May 31, 2010, Elon had future commitments of $88,500.

(4) Operating Leases:

The university leases buildings, equipment and vehicles under operating leases that will expire in various years through 2016. Rent expense was $1,089,604 and $1,025,551 for the years ended May 31, 2010 and 2009, respectively. Commitments for minimum future rental payments are as follows:

Year Ending	Amount
2011	$ 1,081,855
2012	940,756
2013	705,734
2014	359,285
2015	206,363
Thereafter	111,920
Total minimum future rental payments	$ 3,405,913

The university also leases apartments and houses for student living under operating leases that will expire in 2011. Rent expense was $174,325 and $307,850 for the years ended May 31, 2010 and 2009, respectively. Rent expense is more than offset by housing revenue received from students living in these units. The university has a commitment of $223,200 for minimum future rental payments at May 31, 2010.

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

NOTE U: Commitments and Contingencies: (continued)

(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, 2010, those maximum potential future payments under these agreements are $4,388,441.

(6) Exchange Transaction:

On June 25, 2001, the university entered into an agreement with an existing service provider which was 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 was scheduled to pass to the university at the end of the service period (fifteen years).

Contractually, if either party terminated the agreement prior to expiration (fifteen years), the university was required to pay to the service provider its unamortized total investment, calculated on a straight-line basis and title to the real estate would immediately pass to the university. During the year ended May 31, 2010, the university terminated the agreement and purchased the real estate from the service provider for $467,741, the unamortized total investment.

(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 decreased to $5,000,000 on October 27, 2009. The line carried a variable rate of interest payable monthly at the British Bankers Association LIBOR rate plus 0.75%, adjusted monthly. The unused line of credit expired on January 27, 2010 and was not renewed.

(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 V: Subsequent Events:

The university has reviewed the events and transactions subsequent to year end and through August 26, 2010, the date the financial statements were available to be issued and has determined that there were no material events that would require disclosure in the university's financial statements through this date.

STOUT
STUART
McGOWEN
& KING LLP

Certified
Public
Accountants

Advisors to
Management

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, 2010 and 2009 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 2001 - 2010, student enrollment 2000 - 2009, student selectivity 2000 - 2009, endowment market value 2001 - 2010 and net assets and liabilities 2001 - 2010 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.

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For CPA Firms

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August 26, 2010

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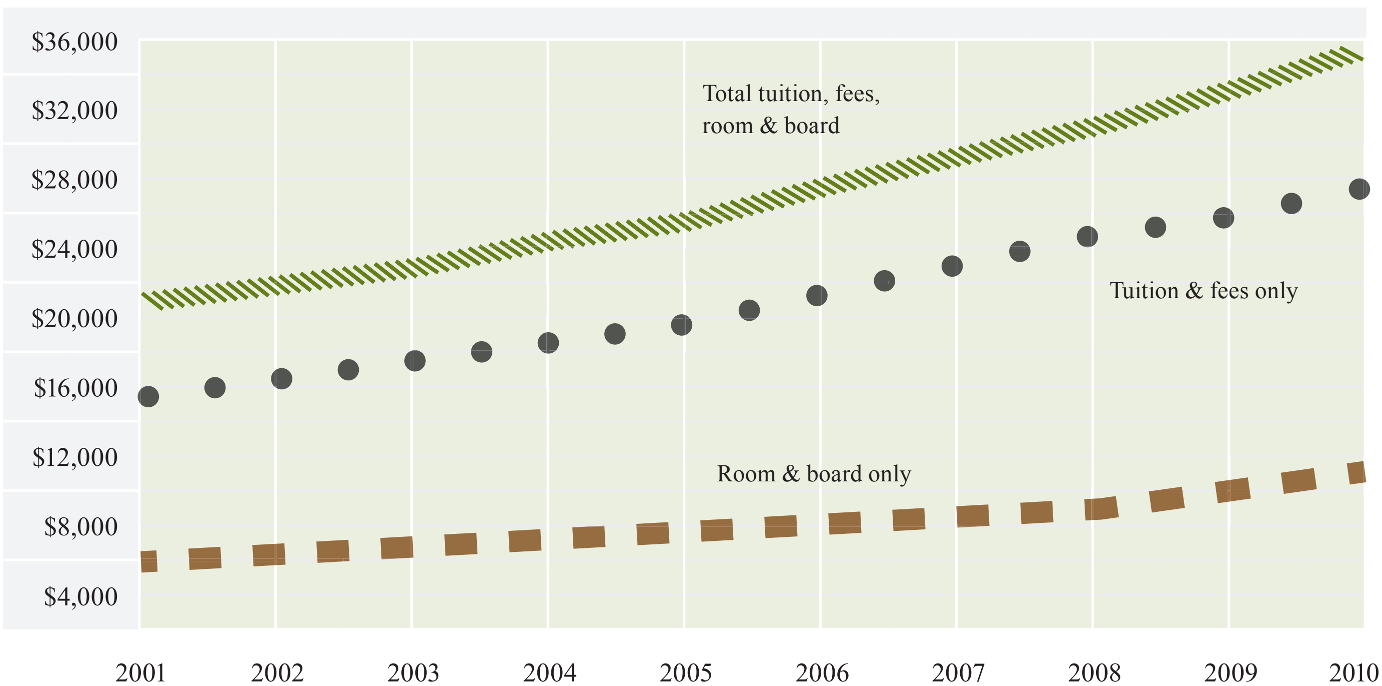
ADDITIONAL INFORMATION PROVIDED BY ELON UNIVERSITY

TUITION AND FEES, ROOM AND BOARD 2001–2010

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

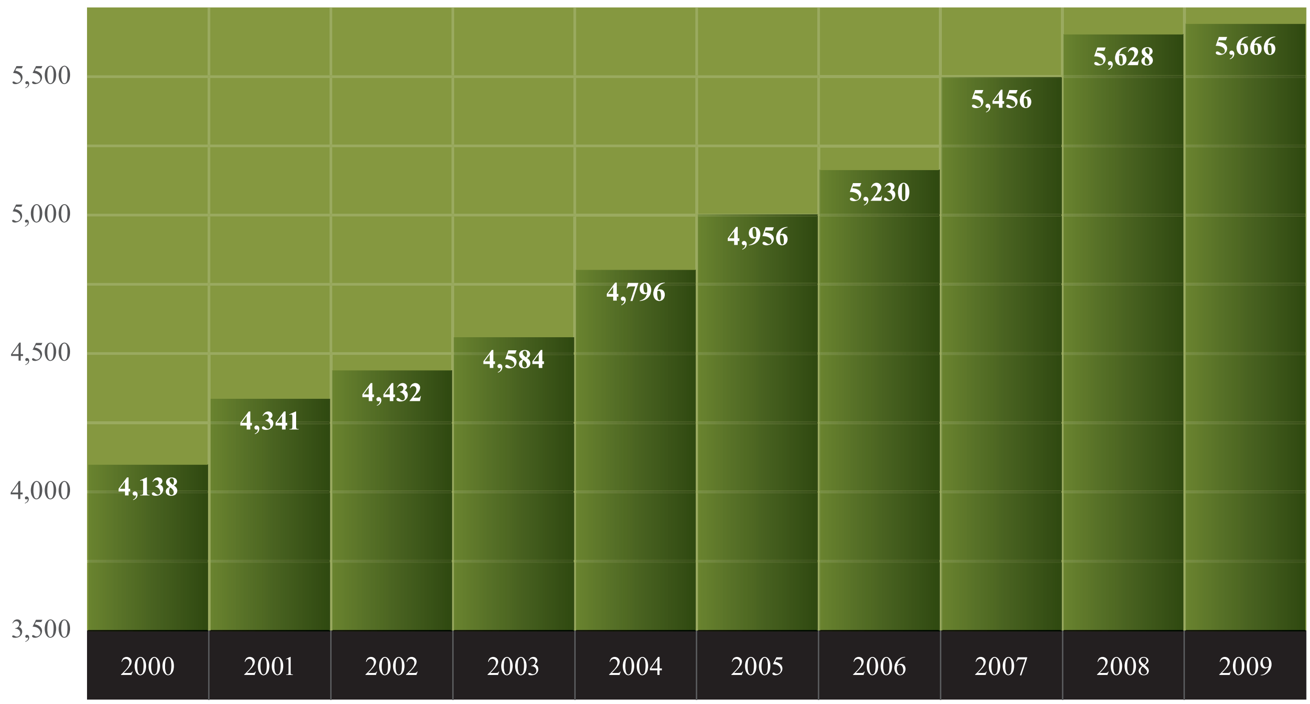


FALL	TUITION	FEES	ROOM	BOARD	TOTAL
2001	$14,335	$225	$2,216	$2,654	$19,430
2002	$15,280	$225	$2,336	$2,754	$20,595
2003	$16,325	$245	$2,770	$2,900	$22,240
2004	$17,310	$245	$2,936	$3,074	$23,565
2005	$18,699	$250	$3,112	$3,310	$25,371
2006	$20,171	$270	$3,320	$3,530	$27,291
2007	$21,886	$280	$3,536	$3,760	$29,462
2008	$23,746	$330	$3,766	$3,747	$31,589
2009	$25,159	$330	$3,992	$4,244	$33,725
2010	$26,480	$347	$4,192	$4,456	$35,475

Refer to independent auditor’s report on additional information.

STUDENT ENROLLMENT 2000–2009

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

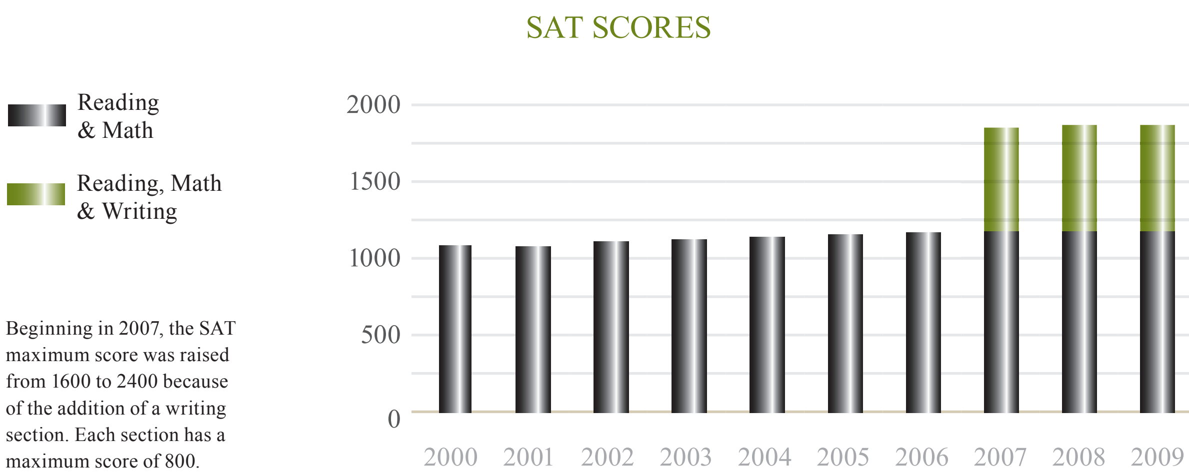


YEAR	UNDERGRADUATE	GRADUATE	TOTAL
2000	3,900	238	4,138
2001	4,160	181	4,341
2002	4,270	162	4,432
2003	4,431	153	4,584
2004	4,622	174	4,796
2005	4,702	254	4,956
2006	4,849	381	5,230
2007	4,939	517	5,456
2008	4,992	636	5,628
2009	4,995	671	5,666

Refer to independent auditor’s report on additional information.

STUDENT SELECTIVITY
2000–2009

Measures of student quality have increased consistently over the last ten years. Applications for admission regularly exceed 9,000 and the average SAT score has risen to 1843.*

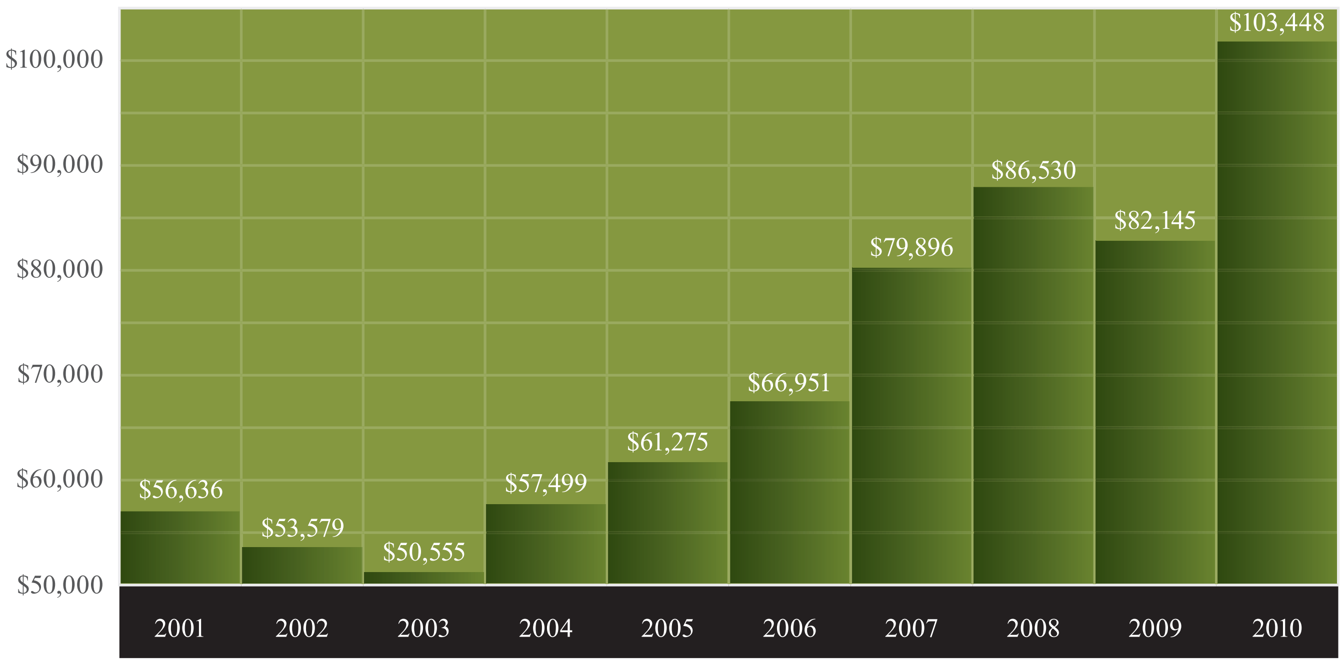


* Beginning in 2007, the SAT maximum score was raised from 1600 to 2400 because of the addition of a writing section. Each section has a maximum score of 800.

YEAR	APPLICATIONS	SAT SCORES	SAT SCORES
2000	5,626	1117	
2001	5,392	1125	
2002	6,504	1145	
2003	7,052	1159	
2004	8,063	1169	
2005	9,065	1208	
2006	9,204	1216	
2007	9,380	1220	1830
2008	9,434	1225	1840
2009	9,041	1225	1843

ENDOWMENT MARKET VALUE (000) 2001–2010

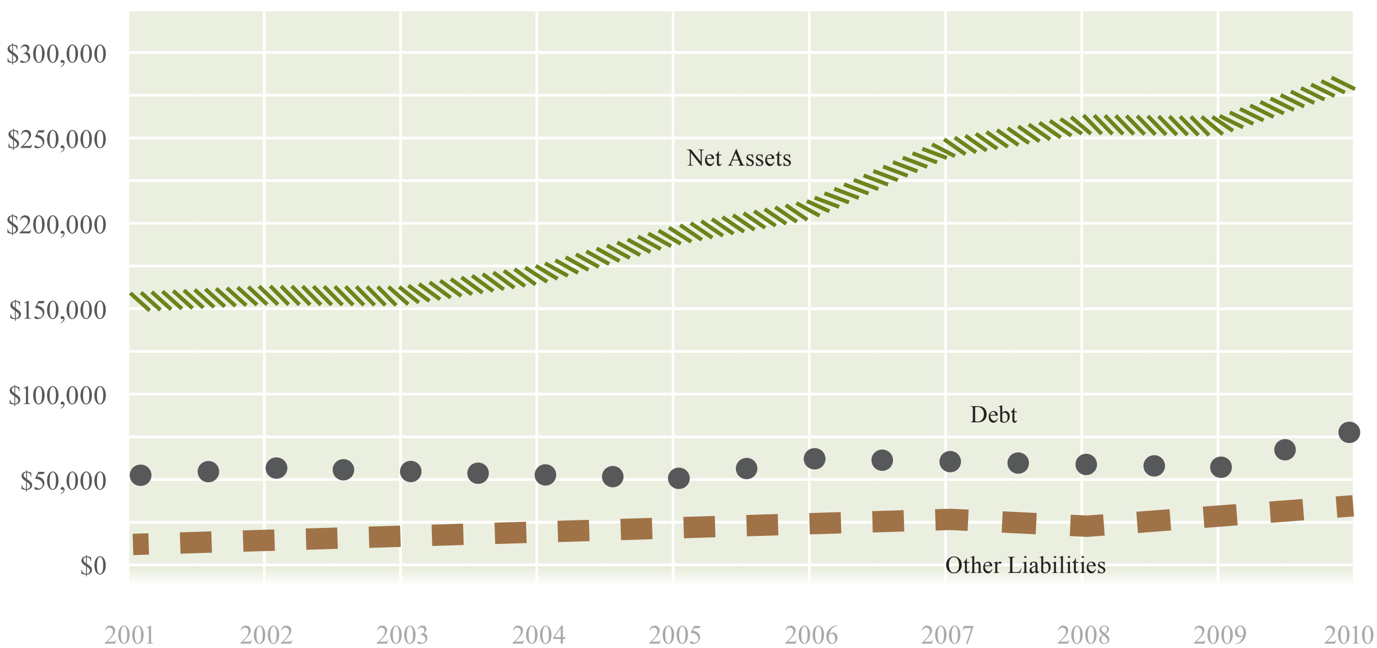
The overall trend of the endowment market value has been positive over the past ten years.



Refer to independent auditor’s report on additional information.

NET ASSETS AND LIABILITIES (000) 2001–2010

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
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
2010	$285,253	$75,785	$32,342

Refer to independent auditor’s report on additional information.

ELON UNIVERSITY

FINANCIAL & AUDIT REPORT

May 31, 2010 & 2009