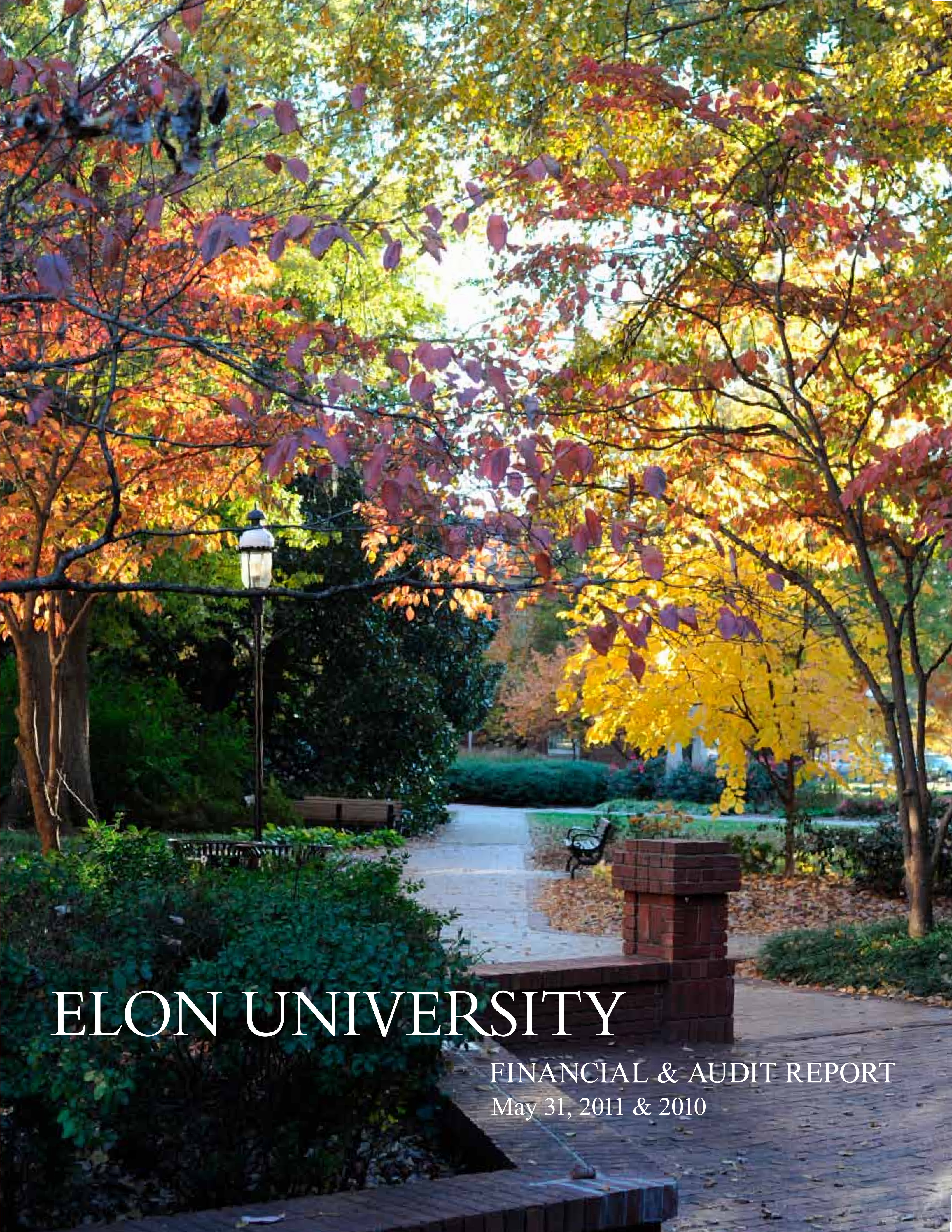

ELON UNIVERSITY

FINANCIAL & AUDIT REPORT

May 31, 2011 & 2010

CONTENTS

FINANCIAL OVERVIEW 2010 - 2011

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 its programs. The details of some of these achievements are found at our Annual Report website:

http://www.elon.edu/e-web/bft/business/annual_report_2011/

Elon continues to receive top national rankings – one indication of the institution's strength and vitality. Elon University has been ranked as the nation's top "up-and-coming" university and the nation's "number one school to watch" and is consistently ranked by *Kiplinger's* as one of the nation's best values. *Newsweek* named Elon "The Leader in Engaged Learning." The university received environmental accolades from *U.S. News & World Report* and the Sierra Club, and for the second year in a row, Elon was named one of the nation's most "environmentally responsible green colleges" by The Princeton Review. Elon's MBA program was ranked #1 in the South and #5 nationally, and signaling successful completion of the accreditation process, the Elon University School of Law received full approval by the American Bar Association.

Elon University continues to invest in academic programs and facilities. The university created the School of Health Sciences to house the current doctor of physical therapy program and the newly created physician assistant studies master's program. Three new residence halls were constructed to open in August 2011. In line with the university's sustainability master plan, these new buildings surround Elon's first geothermal system, which provides environmentally friendly heating and cooling. Through Elon's Kernodle Center for Service Learning and Community Engagement, the school also launched Campus Kitchen to assist in feeding the hungry of Alamance County.

Increasing enrollment in Elon's undergraduate and graduate programs provides a solid financial base for the institution. All major financial indicators moved in a favorable direction this past year, which is detailed in the following pages. Even during the recent major global economic recession, Elon continues to have strong financial results. Some highlights include an increase in assets and net assets (assets minus liabilities) from fiscal year 2010 of 9.0% and 12.2% respectively, as well as a 6.1% growth in net tuition revenue (tuition minus financial aid). The university endowment continued its recent growth and again reached its highest point in history, topping the $123 million mark at fiscal year end, for the first time.

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

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, 2011 and 2010, 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

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, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elon University as of May 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Stout Stuart McGowen & King, LLP

September 16, 2011

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ELON UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2011 and 2010

	2011	2010
ASSETS:		
Cash and cash equivalents	$ 5,898,578	$ 16,504,940
Accounts receivable, net	3,042,080	2,047,511
Prepaid expenses and other assets	874,317	1,240,444
Inventories	82,590	82,703
Deposits with bond trustee	5,730,843	20,095,931
Contributions receivable, net	9,653,911	9,329,494
Investments	178,893,194	140,070,517
Loans to students, net	4,261,076	4,124,334
Bond issue costs	722,736	779,839
Construction in progress	19,539,795	4,541,465
Property and equipment, net	200,183,585	194,562,929
Total Assets	$ 428,882,705	$ 393,380,107
LIABILITIES:		
Accounts payable	$ 5,662,703	$ 3,640,607
Accrued liabilities	12,034,959	11,167,100
Student deposits	4,901,360	5,023,090
Deferred revenue	2,598,960	2,353,425
Other liabilities	3,620,661	2,981,695
Obligation under capital leases	477,515	-
Bonds payable	72,355,000	75,785,000
Obligation under interest rate swap agreements	3,459,296	3,224,757
U.S. government advances for student loans	3,750,108	3,951,397
Total Liabilities	108,860,562	108,127,071
NET ASSETS:		
Unrestricted	203,286,450	179,653,251
Temporarily restricted	32,084,636	28,518,263
Permanently restricted	84,651,057	77,081,522
Total Net Assets	320,022,143	285,253,036
Total Liabilities and Net Assets	$ 428,882,705	$ 393,380,107

See accompanying notes.

ELON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Tuition and fees	$152,729,077	$ -	$ -	$152,729,077
Tuition discount	(29,956,368)	-	-	(29,956,368)
Net tuition	122,772,709	-	-	122,772,709
Sales and service of auxiliary enterprises	27,715,560	-	-	27,715,560
Federal grants	911,673	-	-	911,673
State grants	1,797,641	-	-	1,797,641
Other grants	156,609	-	-	156,609
Contributions	2,778,959	1,648,275	1,742,388	6,169,622
Contributions - pledges	27,011	2,065,470	2,208,502	4,300,983
Investment income	668,359	327,297	-	995,656
Gain on investments	6,126,701	9,055,128	3,446,103	18,627,932
Loss on disposal of property and equipment	(312,430)	-	-	(312,430)
Athletics	2,991,751	165,986	-	3,157,737
Other sources	1,367,048	187,876	45,146	1,600,070
	167,001,591	13,450,032	7,442,139	187,893,762
Net Assets Released From/To Restrictions	9,756,263	(9,883,659)	127,396	-
Total Revenues, Gains and Other Support	176,757,854	3,566,373	7,569,535	187,893,762
EXPENSES:				
Instruction	75,638,148	-	-	75,638,148
Student services	24,707,004	-	-	24,707,004
Auxiliary enterprises	23,049,377	-	-	23,049,377
Academic support	7,323,245	-	-	7,323,245
Institutional support	22,172,342	-	-	22,172,342
Total Expenses	152,890,116	-	-	152,890,116
Increase in Net Assets before Nonoperating Activity	23,867,738	3,566,373	7,569,535	35,003,646
NONOPERATING ACTIVITY:				
Change in value of interest rate swap agreements	(234,539)	-	-	(234,539)
Increase in Net Assets	23,633,199	3,566,373	7,569,535	34,769,107
Net Assets - Beginning of Year	179,653,251	28,518,263	77,081,522	285,253,036
Net Assets - End of Year	$203,286,450	$ 32,084,636	$ 84,651,057	$320,022,143

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)
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 STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	$ 34,769,107	$ 27,938,943
Adjustments to Reconcile Increase in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	8,339,432	8,315,059
Amortization of bond issue costs	60,702	50,603
Contributions of assets - other	(214,827)	(790,306)
Contributions of assets - endowment	(76,756)	(302,514)
Contributions restricted to endowment	(3,874,134)	(3,138,390)
Gain on investments	(18,627,932)	(12,493,014)
Loss on disposal of property and equipment	312,430	86,843
(Increase) decrease in:		
Accounts receivable	(994,569)	418,755
Prepaid expenses and other assets	366,127	(586,933)
Inventories	113	(20,386)
Contributions receivable	(324,417)	828,414
Loans to students	(136,742)	(209,206)
Increase (decrease) in:		
Accounts payable	2,022,096	626,089
Accrued liabilities	867,859	1,006,086
Student deposits	(121,730)	478,758
Deferred revenue	245,535	337,736
Other liabilities	638,966	162,429
Obligation under interest rate swap agreements	234,539	972,122
U.S. government advances for student loans	(201,289)	(192,782)
Net Cash Provided by Operating Activities	23,284,510	23,488,306
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	22,756,348	33,207,914
Purchases of investments	(42,736,266)	(28,664,536)
Proceeds from disposal of property and equipment	20,000	33,935
Purchases of property and equipment	(28,631,809)	(14,520,820)
Decrease (increase) in deposits with bond trustee	14,365,088	(20,095,931)
Net Cash Used by Investing Activities	(34,226,639)	(30,039,438)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bond issuance	-	21,135,000
Payments for bond issue costs	(3,599)	(247,348)
Reduction of capital leases	(181,524)	-
Principal payments on bonds	(3,430,000)	(3,290,000)
Contributions restricted to endowment	3,950,890	3,440,904
Net Cash Provided by Financing Activities	335,767	21,038,556
Net (Decrease) Increase in Cash and Cash Equivalents	(10,606,362)	14,487,424
Cash and Cash Equivalents, Beginning of Year	16,504,940	2,017,516
Cash and Cash Equivalents, End of Year	$ 5,898,578	$ 16,504,940

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:

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 and cash equivalents consist of demand deposit accounts, money market accounts and highly liquid investment accounts. The Federal Deposit Insurance Corporation insures a majority of these accounts against the risk of loss for up to $250,000. Non-domestic accounts along with investment accounts are uninsured. Total uninsured cash and cash equivalents are approximately $42,346,462 and $39,993,660 at May 31, 2011 and 2010, respectively.

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 is $77,124 and $291,811 at May 31, 2011 and 2010, 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, 2011 past due 120 days or more is $135,340. 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 180 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 is $40,150 and $40,000 at May 31, 2011 and 2010, 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 is calculated using a discount rate of 3.25% and 2.75% at May 31, 2011 and 2010, respectively.

(12) Investments:

Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*, which became effective for the university during its fiscal year ended May 31, 2010, amends FASB Accounting Standards Codification 820, Fair Value Measurements. The pronouncement offers 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 ownership interest in a limited partnership investment fund, 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 are purchased by or donated to the university.

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 three year average of the market value of the pooled endowment. The rate ranges between 4.5% and 5%, based on a three year average. The spending policy rate is 4.6% for each of the years ended May 31, 2011 and 2010.

(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) Loans to Students:

Loans to students include Federal Perkins and institutional loans which are reported at their estimated net realizable amounts.

(16) Bond Issue Costs:

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

(17) Interest Rate Swap Agreements:

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

(18) 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.

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

(18) 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.

(19) 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.

(20) 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.

(21) Reclassifications:

Certain items in the 2010 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:

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a consistent framework for measuring fair value and expands disclosure about fair value measurements. It 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. The university applies the provisions of ASC 820 to financial assets and financial liabilities.

NOTE B: Fair Value Measurements: (continued)

ASC 820 is a technical standard which 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, 2011, fair value of financial assets and financial liabilities is as follows:

	Level 1	Level 2	Level 3	Total
Contributions receivable	$ -	$ 9,653,911	$ -	$ 9,653,911
Investments:				
Cash (CDs & MMAs)	24,696,290	105,578	-	24,801,868
Domestic equities/funds	3,766,699	1,911,881	-	5,678,580
Foreign equities/funds	1,418,820	513,516	-	1,932,336
Asset backed	15,927,958	-	-	15,927,958
Corporate bonds	14,516,866	1,426,800	-	15,943,666
U.S. government	957,915	-	-	957,915
Real estate	-	-	1,177,870	1,177,870
REITs	30,088	210,469	-	240,557
Other	527,310	-	-	527,310
Limited partnerships	-	-	111,705,134	111,705,134
Loans to students	-	4,261,076	-	4,261,076
Financial Assets	$ 61,841,946	$ 18,083,231	$ 112,883,004	$ 192,808,181
Split-interest agreements - (accrued liabilities)	$ -	$ 703,492	$ -	$ 703,492
Refundable advances (CRUTs) - (other liabilities)	-	1,401,400	-	1,401,400
Obligation under interest rate swap agreements	-	3,459,296	-	3,459,296
Financial Liabilities	$ -	$ 5,564,188	$ -	$ 5,564,188

NOTE B: Fair Value Measurements: (continued)

At May 31, 2010, fair value of financial assets and financial liabilities is 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
Financial Assets	$ 45,113,177	$ 17,091,294	$ 91,319,874	$ 153,524,345
Split-interest agreements - (accrued liabilities)	$ -	$ 644,738	$ -	$ 644,738
Refundable advances (CRUTs) - (other liabilities)	-	1,265,543	-	1,265,543
Obligation under interest rate swap agreements	-	3,224,757	-	3,224,757
Financial Liabilities	$ -	$ 5,135,038	$ -	$ 5,135,038

At May 31, 2011, valuation methodologies used to measure fair value of financial assets and financial liabilities are 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.

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.

NOTE B: Fair Value Measurements: (continued)

The following schedule summarizes changes in fair value of Level 3 financial assets (real estate and alternative investments) during the years ended May 31, 2010 and 2011:

	Real Estate	Alternative Investments	Total
Balance, June 1, 2009	$ 1,081,954	$ 80,983,842	$ 82,065,796
Change in value	-	10,354,072	10,354,072
Purchases/Gifts	-	19,805,200	19,805,200
Sales	-	(20,823,110)	(20,823,110)
Transfers out of Level 3	(82,084)	-	(82,084)
Balance, May 31, 2010	999,870	90,320,004	91,319,874
Change in value	-	17,305,184	17,305,184
Purchases/Gifts	178,000	8,936,811	9,114,811
Sales	-	(4,856,865)	(4,856,865)
Balance, May 31, 2011	$ 1,177,870	$ 111,705,134	$ 112,883,004

Change in value of alternative investments is included in gain 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.

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.

NOTE B: Fair Value Measurements: (continued)

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, 2011, these unfunded commitments amounted to $61,700.

NOTE C: Contributions Receivable:

The payment timing of outstanding contributions receivable at May 31, 2011, is estimated to be:

	Permanently Restricted	Temporarily Restricted	Unrestricted	Total
One Year	$ 2,695,208	$ 2,259,292	$ -	$ 4,954,500
2-4 Years	3,157,018	834,112	-	3,991,130
5 Plus Years	276,726	431,555	-	708,281
Total	$ 6,128,952	$ 3,524,959	$ -	$ 9,653,911

The payment timing of outstanding contributions receivable at May 31, 2010, is 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

Contributions receivable are shown net of a collection allowance of $527,267 and $512,318 and a discount of $364,175 and $404,547 at May 31, 2011 and 2010, respectively.

Individual pledge balances that exceeded 10% of total receivables amounted to $1,600,000 and $2,000,000 at May 31, 2011 and 2010, respectively.

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For the Years Ended May 31, 2011 and 2010

NOTE D: Investments:

Major categories of investments at May 31, 2011 and 2010, are as follows:

	2011		2010	
	Cost	Market	Cost	Market
Non-Endowment Funds:				
Money market funds	$ 12,697,704	$ 12,697,704	$ 15,605,651	$ 15,605,651
Certificates of deposit	10,069,433	10,069,433	12,519,811	12,519,811
Equities	800,334	347,514	802,901	477,281
Fixed income	29,656,063	29,887,057	6,065,170	6,039,896
U.S. government obligations	969,984	904,533	1,320,540	1,220,258
Real estate	464,369	464,369	464,369	464,369
Other	377,160	377,160	295,131	295,131
Alternative investments	475,842	489,692	-	-
	55,510,889	55,237,462	37,073,573	36,622,397
Endowment and Similar Funds:				
Money market funds	2,034,196	2,034,731	4,467,591	4,467,591
Equities	6,272,961	7,263,402	6,439,682	6,183,666
Fixed income	1,890,233	1,984,567	1,791,534	1,799,690
U.S. government obligations	52,342	53,382	30,156	30,612
Real estate	713,501	713,501	535,501	535,501
Other	353,842	390,707	111,056	111,056
Alternative investments	88,819,317	111,215,442	84,598,864	90,320,004
	100,136,392	123,655,732	97,974,384	103,448,120
Total	$ 155,647,281	$ 178,893,194	$ 135,047,957	$ 140,070,517

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 predominately of a minority ownership interest in a limited partnership investment fund. 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, 2011 and 2010 are $1,102,562 and $626,910, 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.

NOTE E: Endowment and Similar Funds: (continued)

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 rate was 4.6% for each of the years ended May 31, 2011 and 2010. 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, 2011 and 2010, are as follows:

	2011	2010
Contributions receivable, net	$ 6,128,952	$ 6,406,070
Investments	123,655,732	103,448,120
Accrued and other liabilities	(1,657,206)	(1,028,055)
Total	$ 128,127,478	$ 108,826,135

Endowment net asset compositions as of May 31, 2011 and 2010, are as follows:

	2011	2010
Unrestricted – Board designated	$ 24,053,193	$ 20,754,827
Unrestricted – Donor designated	313,645	(1,591,483)
Temporarily restricted	19,993,165	13,419,704
Permanently restricted	83,767,475	76,243,087
Total	$ 128,127,478	$ 108,826,135

NOTE E: Endowment and Similar Funds: (continued)

Changes in endowment net assets during the years ended May 31, 2010 and 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 1, 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	-	88,696	-	88,696
Gain on investments	6,876,754	3,976,799	685,896	11,539,449
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
Contributions - donors	-	-	3,950,890	3,950,890
Contributions - board designated	575,000	-	-	575,000
Investment income	-	16,794	-	16,794
Gain on investments	5,391,668	9,769,965	3,428,553	18,590,186
Spending policy	(819,108)	(3,290,163)	-	(4,109,271)
Transfers	55,934	76,865	144,945	277,744
Balance, May 31, 2011	$ 24,366,838	$ 19,993,165	$ 83,767,475	$ 128,127,478

The fair value of assets associated with individual donor restricted endowment funds may fall below the historic gift value. These deficiencies amounted to $64,200 and $1,748,503 at May 31, 2011 and 2010, 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 the Uniform Prudent Management of Institutional Funds Act of 2006 (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, 2011 and 2010.

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 (Level 2) 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.

	2011	2010
Trustee distributions restricted to scholarship:		
Asset value	$ 1,041,945	$ 951,215
Trustee distributions	34,709	39,469

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

	2011	2010
Trustee distributions restricted to professorship:		
Asset value	$ 863,783	$ 732,169
Trustee distributions	33,658	33,852
Unrestricted trustee distributions:		
Asset value	$ 2,262,517	$ 1,954,082
Trustee distributions	71,239	43,603

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.

	2011	2010
Asset value	$ 232,806	$ 208,709

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.

	2011	2010
Annuities liability	$ 409,578	$ 417,650
Total contributions to charitable gift annuities	110,601	15,000
Change in value of charitable gift annuities	(45,851)	(41,314)

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.

	2011	2010
Unitrust liability	$ 142,103	$ 58,014
Total contributions to charitable remainder unitrusts	178,000	-
Change in value of charitable remainder trusts	10,749	4,981

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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.

	2011	2010
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, 2011 and 2010.	$ 3,776,512	$ 3,663,014
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 at May 31, 2011 and 2010.	484,564	461,320
Total	$ 4,261,076	$ 4,124,334

NOTE H: Construction in Progress:

Projects in process at May 31, 2011 and 2010, are as follows:

	Cost Incurred Through 5/31/11	Estimated Date of Completion
Colonnades student housing (2010 bond issue)	$ 10,222,836	August 2011
Geothermal field (2010 bond issue)	2,160,866	August 2011
Global Neighborhood concept development	2,098,544	August 2014
Global Neighborhood dining hall (2011 bond issue)	786,921	December 2012
The Station at Mill Point (2011 bond issue)	934,114	August 2012
Intramural fields and access road (2011 bond issue)	249,679	September 2011
Gerald L. Francis Center	1,697,986	December 2011
Multi-faith Center	101,457	December 2012
Elon Town Center	421,000	August 2011
Others	866,392	Various
Total	$ 19,539,795	

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE H: Construction in Progress: (continued)

	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	August 2011
Greek housing (2010 bond issue)	436,857	May 2011
Geothermal field (2010 bond issue)	129,821	August 2011
Others	352,049	Various
Total	$ 4,541,465	

NOTE I: Property and Equipment:

Property and equipment at May 31, 2011 and 2010, are as follows:

	2011	2010
Land and land improvements	$ 36,724,327	$ 34,906,434
Buildings	214,743,509	205,745,873
Computers and related equipment	3,426,893	3,169,603
Library resources	10,741,237	13,529,889
Vehicles	3,733,044	3,564,441
Audiovisual equipment	2,441,296	2,499,880
Science equipment	1,477,553	1,471,265
Software	1,758,352	1,680,352
Telephone systems and equipment	322,424	663,569
Other moveable assets	7,346,068	6,540,456
Collections	2,064,568	2,031,613
	284,779,271	275,803,375
Less: Accumulated depreciation	84,595,686	81,240,446
Total	$ 200,183,585	$ 194,562,929

Depreciation expense is $8,339,432 and $8,315,059 for the years ended May 31, 2011 and 2010, respectively.

NOTE J: Accrued Liabilities:

Accrued liabilities at May 31, 2011 and 2010, are as follows:

	2011	2010
Salaries and wages	$ 7,035,928	$ 6,487,728
Compensated absences	3,539,222	3,243,349
Split-interest agreements	703,492	644,738
Employee benefits and payroll taxes	114,079	154,481
Conditional asset retirement obligations	642,238	636,804
Total	$ 12,034,959	$ 11,167,100

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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

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 4.0%.

NOTE K: Other Liabilities:

Other liabilities at May 31, 2011 and 2010, are as follows:

	2011	2010
Agency obligations	$ 1,052,844	$ 749,485
Refundable advances - exchange transactions	1,166,417	966,667
Refundable advances - CRUTs	1,401,400	1,265,543
Total	$ 3,620,661	$ 2,981,695

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.

The university agreed to invest certain funds belonging to an unrelated not-for-profit organization. This transaction is accounted for as an agency obligation which is increased by additional investments from the not-for-profit as well as by their proportionate share of investment earnings. The obligation is decreased by distributions. During the year ended May 31, 2011, investments by the not-for-profit totaled $475,842 and allocable earnings equaled $13,849. There were no distributions.

NOTE K: Other Liabilities: (continued)

Refundable Advances - Exchange Transactions

As of May 31, 2011, the university has three exchange transaction agreements with an existing service provider. The university consented to extend the service provider's agreements for ten years and in exchange the service provider transferred amounts totaling $1,415,000 to the university with the stipulation that the monies be expended on specific capital purchases. Each contract further stipulates 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. One agreement contains a contingent interest penalty, which would be added to the refundable advance only in the event of an early termination. The contingent interest penalty totaled $128,917 at May 31, 2011, 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 - 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: Obligation Under Capital Leases:

The university acquired computer equipment under the provisions of long-term leases. For financial reporting purposes, minimum lease payments have been capitalized. The leases expire May 2013 and March 2014. The property under capital lease as of May 31, 2011 has a cost of $659,039, accumulated amortization of $99,333 and a net book value of $559,706. Amortization of the leased property is included in depreciation expense.

Future minimum lease payments under capital leases and the net present value of the future minimum lease payments at May 31, 2011, are as follows:

Year Ending May 31,	Amount
2012	$ 160,386
2013	196,445
2014	144,237
Total lease payments	501,068
Less: Amounts representing interest	23,553
Present value of future minimum lease payments	$ 477,515

Total interest costs incurred related to the obligation under capital leases are $11,585 and $0 for the years ended May 31, 2011 and 2010, respectively.

NOTE M: Bonds Payable:

The following bonds were issued through the North Carolina Capital Facilities Finance Agency and are secured by letters of credit with Bank of America. The University has made certain covenants including use of the proceeds and sale of project property.

Remaining principal balances at May 31, 2011 and 2010, are as follows:

	2011	2010
Revenue Bonds, Series 1997 - $17,815,000, 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.	$ 14,750,000	$ 15,610,000
Revenue Bonds, Series 1998 - $14,010,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2001 and will continue through 2021.	8,270,000	8,915,000
Revenue Bonds, Series 2000 - $4,325,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2002 and will continue through 2023.	2,860,000	3,035,000
Revenue Bonds, Series 2001A - $9,640,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2002 and will continue through 2014. The bonds are subject to an interest rate swap agreement referenced in Note N.	3,075,000	4,005,000
Revenue Bonds, Series 2001C - $7,255,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2004 and will continue through 2026.	5,500,000	5,755,000
Revenue Bonds, Series 2006 - $18,905,000, bearing a weekly variable market interest rate paid monthly. Principal payments began in 2008 and will continue through 2031. The bonds are subject to an interest rate swap agreement referenced in Note N.	16,765,000	17,330,000
Revenue Bonds, Series 2010 - $21,135,000, bearing a weekly variable market interest rate paid monthly. Principal payments will begin in 2013 and will continue through 2035. The bonds are subject to an interest rate swap agreement referenced in Note N.	21,135,000	21,135,000
Total	$ 72,355,000	$ 75,785,000

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NOTE M: Bonds Payable: (continued)

Aggregate maturities of bonds payable at May 31, 2011, are as follows:

2012	$ 3,590,000
2013	4,305,000
2014	4,490,000
2015	4,720,000
2016	4,930,000
Thereafter	50,320,000
Total	$ 72,355,000

Total interest costs incurred related to bonds payable are $1,586,857 and $1,012,206 for the years ended May 31, 2011 and 2010, respectively, and of these amounts $721,866 and $124,676, respectively, are capitalized as a cost of construction.

NOTE N: 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.

The obligation under interest rate swap agreements at May 31, 2011 and 2010, is as follows:

	2011	2010
Series 2001A	$ 191,705	$ 281,004
Series 2006	2,110,416	1,998,119
Series 2010	1,157,175	945,634
Total	$ 3,459,296	$ 3,224,757

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2011 and 2010

NOTE O: Temporarily and Permanently Restricted Net Assets:

Temporarily restricted net assets at May 31, 2011 and 2010, are as follows:

	2011	2010
Contributions to buildings and equipment	$ 2,229,003	$ 4,143,231
Endowment related funds	24,959,521	18,534,253
Split-interest agreements and term endowments	619,481	434,731
Non-endowed contributions for scholarships and operations	4,276,631	5,406,048
Temporarily restricted net assets	$ 32,084,636	$ 28,518,263

Permanently restricted net assets at May 31, 2011 and 2010, are as follows:

	2011	2010
Permanent endowment funds	$ 77,242,507	$ 69,571,801
Contributions receivable, net	6,128,952	6,406,070
Split-interest agreements and term endowments	645,921	469,974
Student loan funds	633,677	633,677
Permanently restricted net assets	$ 84,651,057	$ 77,081,522

NOTE P: Financial Aid (Tuition Discount):

The university awards financial aid based on academic merit, need and leadership. Gross tuition discounts are 19.7% and 18.5% for the years ended May 31, 2011 and 2010, respectively. The unfunded discount rate is 16.5% and 15.1% for the years ended May 31, 2011 and 2010, 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).

	2011		2010	
	Dollars	Percentage	Dollars	Percentage
Total Tuition and Fees:				
Unfunded discount - general	$ 24,532,777	16.1%	$ 21,225,190	14.9%
Unfunded discount - quasi	540,690	0.4%	255,215	0.2%
Total unfunded discount	25,073,467	16.5%	21,480,405	15.1%
Funded discount	4,882,901	3.2%	4,848,145	3.4%
Total	$ 29,956,368	19.7%	$ 26,328,550	18.5%
Gross tuition and fees	$ 152,729,077		$ 142,082,245	

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2011 and 2010

NOTE P: Financial Aid (Tuition Discount): (continued)

	2011		2010	
	Dollars	Percentage	Dollars	Percentage
Undergraduate Tuition and Fees:				
Unfunded discount - general	$ 21,099,592	15.6%	$ 18,673,068	14.8%
Unfunded discount - quasi	540,690	0.4%	255,215	0.2%
Total unfunded discount	21,640,282	16.0%	18,928,283	15.0%
Funded discount	4,788,424	3.5%	4,723,487	3.7%
Total	$ 26,428,706	19.5%	$ 23,651,770	18.7%
Gross tuition and fees	$ 135,587,653		$ 126,067,994	

NOTE Q: Gift Revenue:

Major categories of gift revenue for the years ending May 31, 2011 and 2010, are as follows:

	2011	2010
Annual funds	$ 1,758,174	$ 1,521,287
Endowment and similar funds	3,950,890	3,440,904
Capital projects	3,068,238	2,404,873
Restricted to programs	1,182,238	1,488,662
Restricted to scholarships	511,065	830,628
Total	$ 10,470,605	$ 9,686,354

NOTE R: 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 are $27,495,135 and $25,169,086 for the years ended May 31, 2011 and 2010, respectively. Allocations of specific program expenses are as follows:

	2011			
Program	Physical Plant	Depreciation	Debt Service/Other	Total
Instruction	$ 4,323,370	$ 3,200,796	$ 2,156,332	$ 9,680,498
Student services	1,928,615	1,230,073	645,153	3,803,841
Auxiliary enterprises	5,134,028	3,274,489	2,612,707	11,021,224
Academic support	644,217	410,882	313,754	1,368,853
Institutional support	303,386	223,192	1,094,141	1,620,719
Total	$ 12,333,616	$ 8,339,432	$ 6,822,087	$ 27,495,135

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2011 and 2010

NOTE R: Allocation of Expenses: (continued)

	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
Institutional support	298,160	227,511	1,114,509	1,640,180
Total	$ 11,840,340	$ 8,315,059	$ 5,013,687	$ 25,169,086

NOTE S: 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 are $4,758,365 and $4,624,343 for the years ended May 31, 2011 and 2010, respectively.

NOTE T: Fund Raising:

Fundraising costs are $4,105,299 and $3,881,360 for the years ended May 31, 2011 and 2010, respectively. These costs are included with other costs and are shown as institutional support on the Consolidated Statement of Activities.

NOTE U: 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 $625,901 and $67,840 during the years ended May 31, 2011 and 2010, 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 $106,464 and $163,134 at May 31, 2011 and 2010, respectively. These balances are classified as accounts receivable in the Consolidated Statements of Financial Position.

NOTE V: 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.

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 (September 16, 2011), the university's federal Exempt Organization Business Income Tax Returns (Form 990T) for 2009, 2008 and 2007 remain subject to said examination.

NOTE W: Supplemental Disclosures of Cash Flow Information:

During the years ended May 31, 2011 and 2010, cash payments for interest on bonds and capital leases amounted to $876,576 and $887,530, respectively. These numbers are net of amounts capitalized as cost of construction.

The university received noncash contributions totaling $291,583 and $1,092,820 during the years ended May 31, 2011 and 2010, respectively.

Certain computer equipment costing $659,039 was acquired under the terms of capital leases during the year ended May 31, 2011. The property acquired as well as the initial lease obligations have been excluded from the consolidated statements of cash flows.

NOTE X: 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, 2011 the university had outstanding contractual commitments and equipment purchase orders totaling $10,715,478.

(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, 2011, Elon had future commitments of $61,700.

ELON UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended May 31, 2011 and 2010

NOTE X: Commitments and Contingencies: (continued)

(4) Operating Leases:

The university leases buildings, equipment and vehicles under operating leases that will expire in various years through 2026. Rent expense is $999,381 and $1,089,604 for the years ended May 31, 2011 and 2010, respectively. Commitments for minimum future rental payments are as follows:

Year Ending	Amount
2012	$ 1,015,609
2013	881,335
2014	750,672
2015	673,316
2016	494,587
Thereafter	4,036,626
Total minimum future rental payments	$ 7,852,145

The university also leases apartments and houses for student living under operating leases that will expire in 2012. Rent expense is $413,400 and $174,325 for the years ended May 31, 2011 and 2010, respectively. Rent expense is more than offset by housing revenue received from students living in these units. The university has commitments of $973,668 for minimum future rental payments at May 31, 2011.

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, 2011, those maximum potential future payments under these agreements are $4,734,521.

(6) 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 Y: Subsequent Events:

The university has reviewed the events and transactions through September 16, 2011, the date the financial statements were issued.

Investments: Recently, the global financial markets experienced a significant decline in value. Presumably, the university's investments have also experienced a decline in value; however, given the nature of those investments, this decline is not practicable to quantify. The reader must take into consideration current market conditions when basing any decisions on the fiscal year end financial statements.

NOTE Y: Subsequent Events: (continued)

Obligation under interest rate swap agreements: In relation to the aforementioned global market decline as well as the swap agreement associated with the 2011 bond issue, the university's interest rate swap liability has increased by approximately $5.1 million. Previously, when the liability exceeded $7.5 million (maximum threshold), a deposit was required to secure the excess. On August 12, 2011, the university was required to post such a deposit with Bank of America in the amount of $610,000. On August 16, 2011, the maximum threshold was increased as a result of an amendment and the deposit was subsequently refunded.

Bond issuance: On July 20, 2011, the university issued bonds totaling $40,340,000. The proceeds of this bond issue, which is subject to an interest rate swap agreement, will be used for those specific projects enumerated in Note H as 2011 bond issue.

Realized loss on disposition of property: A student dining project to be constructed with the above referenced bond issue, requires the razing of antiquated facilities. Specifically, three dorms comprising the Story Center are to be replaced with a new dining facility currently known as the Global Neighborhood dining hall. Whenever a building is destroyed before being fully depreciated, the remaining book value of that building becomes an expense in the period it is removed. The university realized a loss of $1,337,435 on the demolition of the Story Center in August 2011.

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, 2011 and 2010 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 2002 - 2011, student enrollment 2001 - 2010, student selectivity 2001 - 2010, endowment market value 2002 - 2011 and net assets and liabilities 2002 - 2011 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.

Member of PCPS, the AICPA Alliance For CPA Firms

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September 16, 2011

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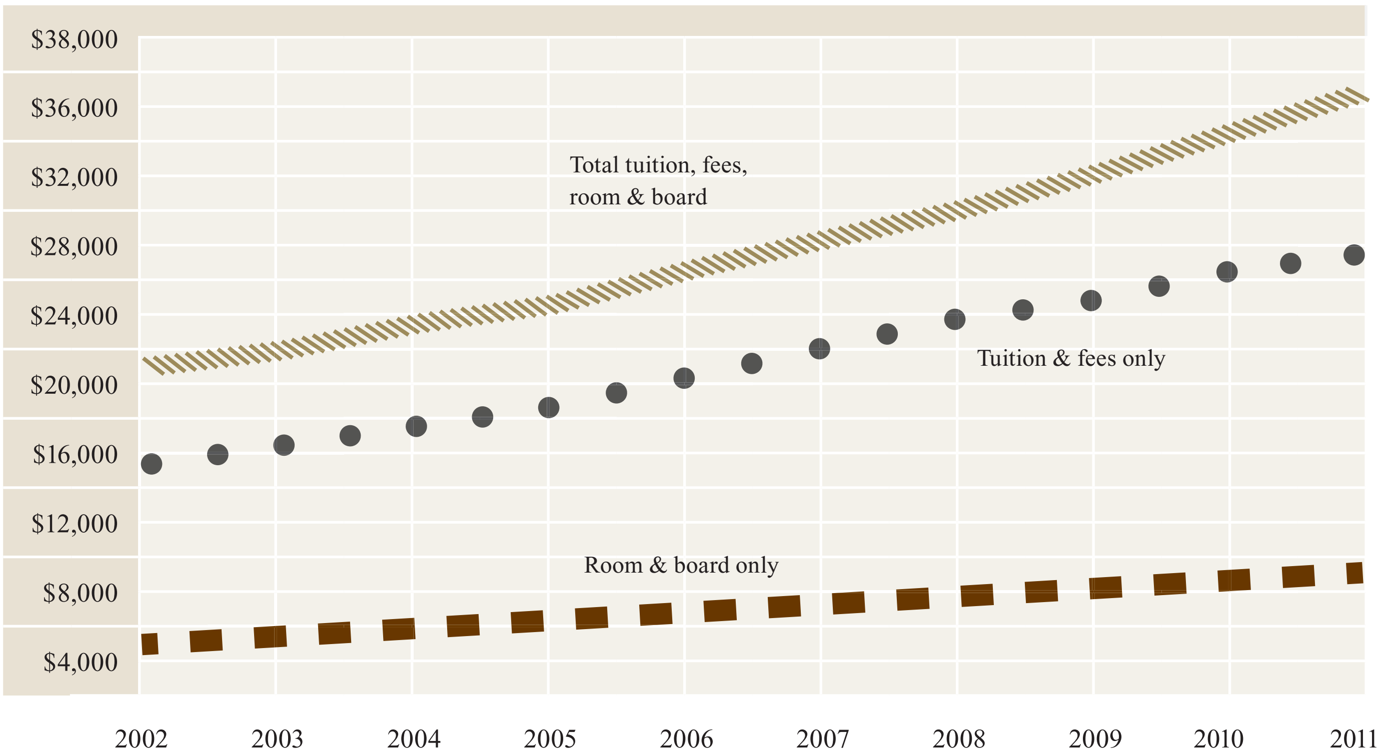
ADDITIONAL INFORMATION PROVIDED BY ELON UNIVERSITY

TUITION AND FEES, ROOM AND BOARD
2002–2011

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

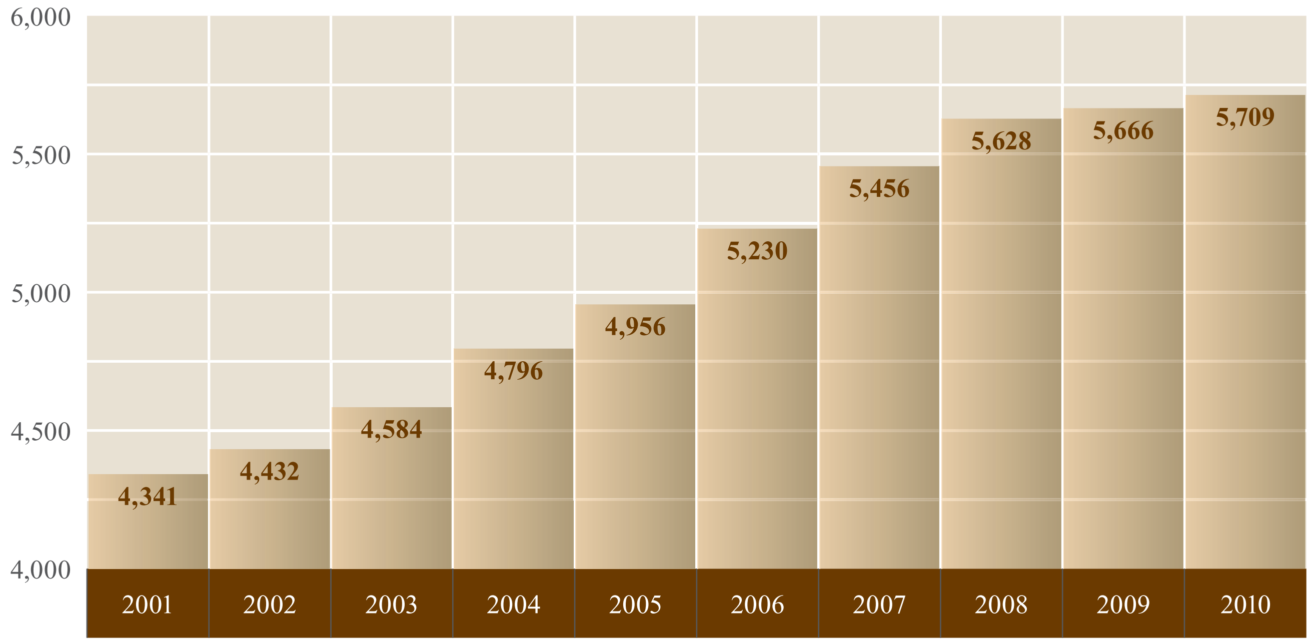


FALL	TUITION	FEES	ROOM	BOARD	TOTAL
2002	$15,280	$225	$2,336	$2,754	$20,595
2003	$16,325	$245	$2,770	$2,900	$22,240
2004	$17,310	$245	$2,936	$3,074	$23,565
2005	$18,699	$250	$3,112	$3,310	$25,371
2006	$20,171	$270	$3,320	$3,530	$27,291
2007	$21,886	$280	$3,536	$3,760	$29,462
2008	$23,746	$330	$3,766	$3,747	$31,589
2009	$25,159	$330	$3,992	$4,244	$33,725
2010	$26,480	$347	$4,192	$4,456	$35,475
2011	$27,534	$347	$4,440	$4,650	$36,971

Refer to independent auditor’s report on additional information.

STUDENT ENROLLMENT
2001–2010

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.



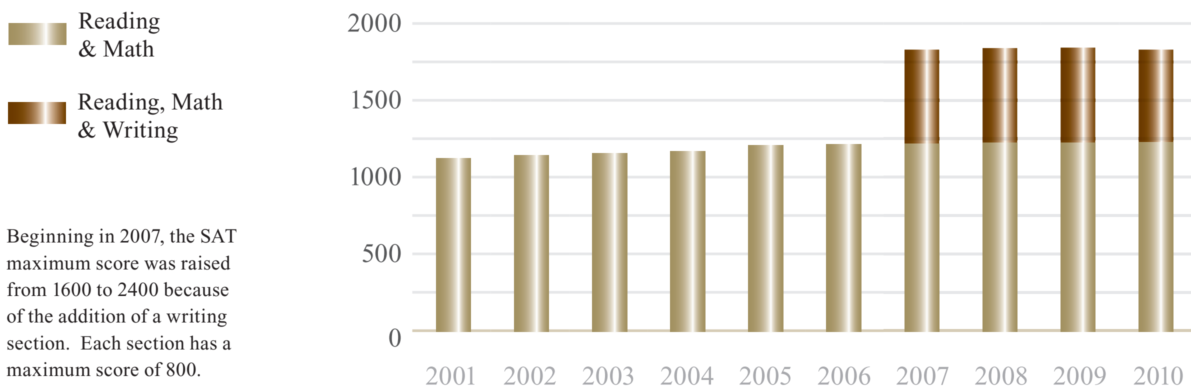
YEAR	UNDERGRADUATE	GRADUATE	TOTAL
2001	4,160	181	4,341
2002	4,270	162	4,432
2003	4,431	153	4,584
2004	4,622	174	4,796
2005	4,702	254	4,956
2006	4,849	381	5,230
2007	4,939	517	5,456
2008	4,992	636	5,628
2009	4,995	671	5,666
2010	5,032	677	5,709

Refer to independent auditor’s report on additional information.

STUDENT SELECTIVITY 2001–2010

Measures of student quality have increased consistently over the last ten years. Applications for admission now exceed 9,700 and the average SAT score is currently 1830.*

SAT SCORES

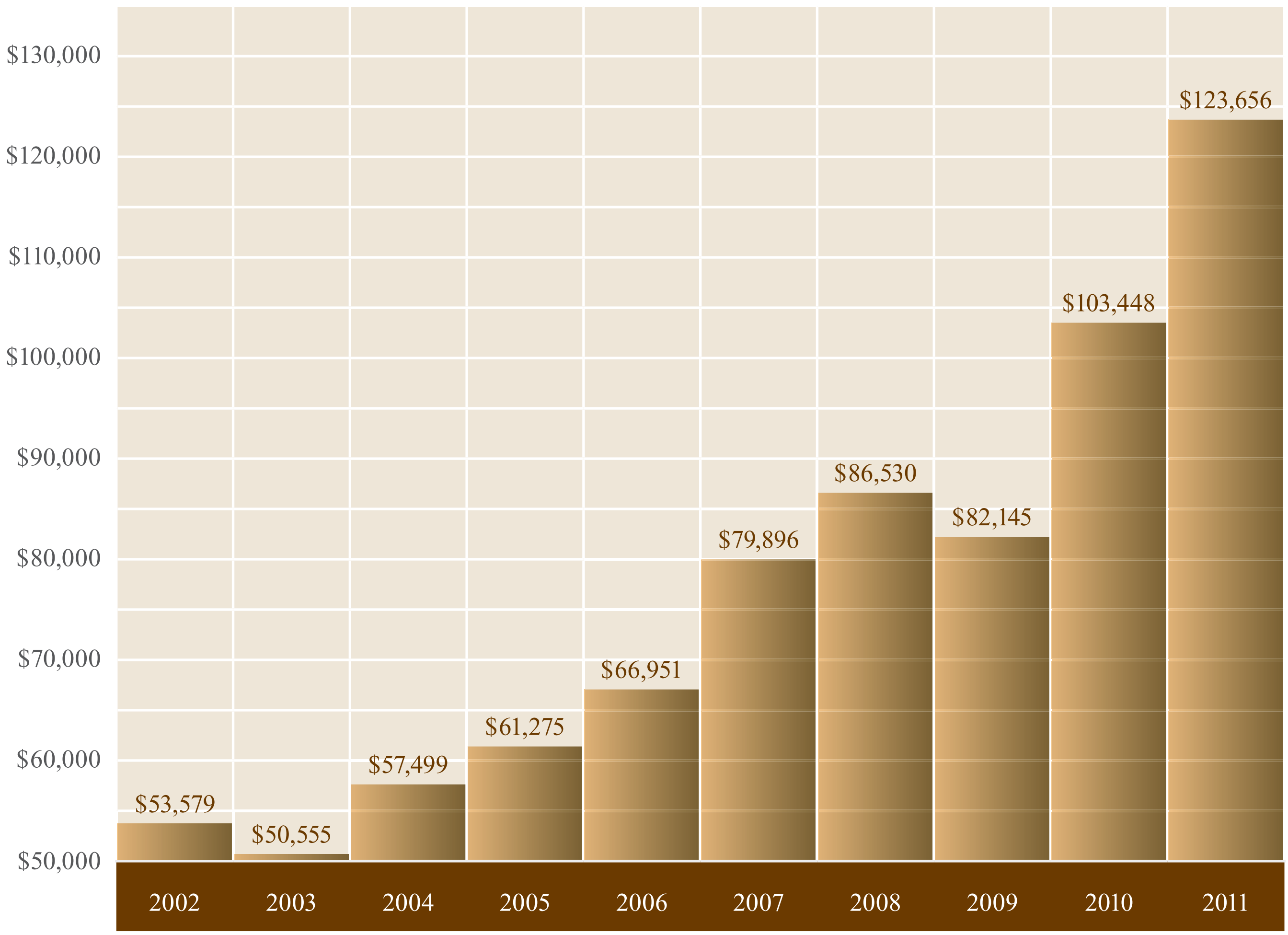


* Beginning in 2007, the SAT maximum score was raised from 1600 to 2400 because of the addition of a writing section. Each section has a maximum score of 800.

YEAR	APPLICATIONS	SAT SCORES	SAT SCORES
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
2010	9,771	1218	1830

ENDOWMENT MARKET VALUE (000) 2002–2011

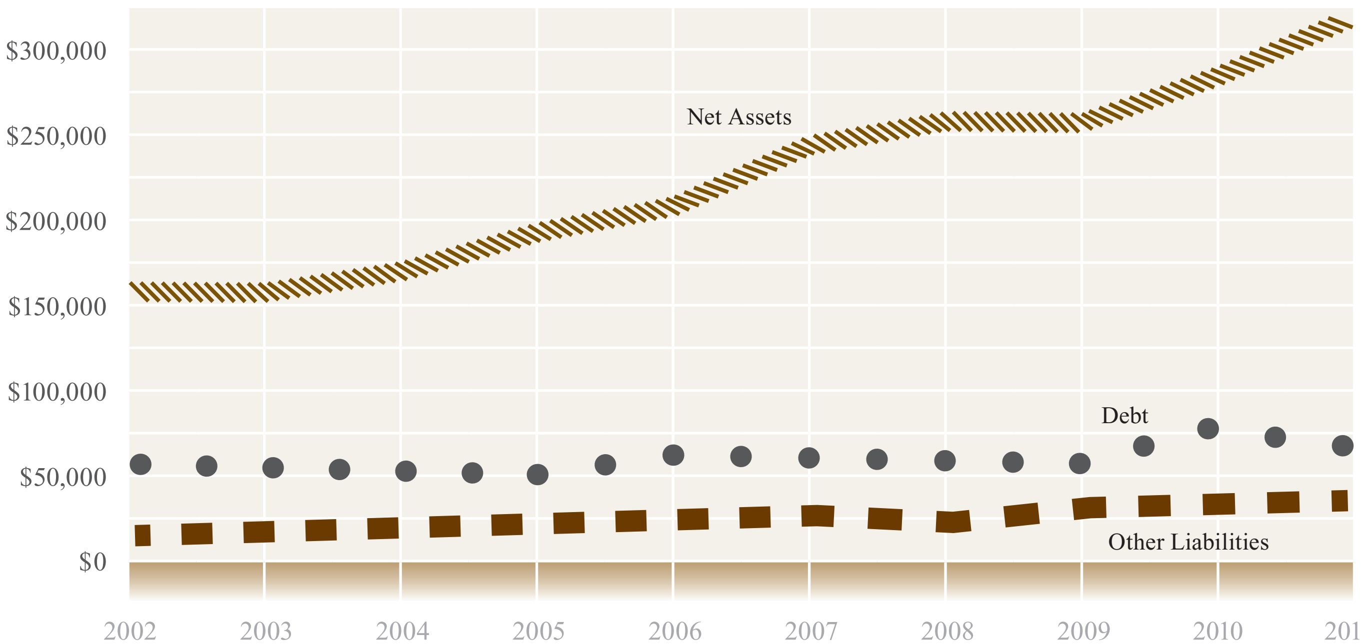
The overall trend of the endowment market value has been positive over the past ten years.



Refer to independent auditor's report on additional information.

NET ASSETS AND LIABILITIES (000)
2002–2011

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
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
2011	$320,022	$72,355	$36,506

Refer to independent auditor’s report on additional information.

ELON UNIVERSITY

FINANCIAL & AUDIT REPORT

May 31, 2011 & 2010