Financial Statements and Supplementary Information

Stetson University, Inc.
As of and for the Thirteen Months Ended June 30, 2008 and as of May 31, 2007
With Report of Independent Certified Public Accountants

Stetson University, Inc.

Financial Statements and Supplementary Information

June 30, 2008

Contents

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Report of Independent Certified Public Accountants

The Board of Trustees
Stetson University, Inc.

We have audited the accompanying statements of financial position of Stetson University, Inc. (the University) as of June 30, 2008, and the related statement of activities and cash flows for the thirteen months ended June 30, 2008. These financial statements are the responsibility of the University's administration. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year comparative Statement of Financial Position has been derived from the University's 2007 financial statements and in our report dated August 22, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the administration, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stetson University as of June 30, 2008, and the changes in its net assets and its cash flows for the thirteen months ended June 30, 2008, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst & Young LLP

September 17, 2008

0808-0971141

Stetson University, Inc.

Statements of Financial Position

	June 30, 2008	May 31, 2007
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 30,389**	$ 35,684
Notes and accounts receivable – net *(Note 2)*	**12,380**	10,737
Pledges receivable – net *(Note 3)*	**6,437**	7,525
Inventories	**840**	804
Investments *(Note 4)*	**118,852**	129,002
Funds held in trust by others *(Note 5)*	**9,925**	10,431
Property, plant, and equipment – net *(Note 6)*	**120,279**	116,765
Other assets	**2,358**	2,419
Investment in affiliated entity *(Note 12)*	**2,923**	3,331
Total assets	**$ 304,383**	$ 316,698
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 3,840**	$ 2,201
Accrued liabilities	**5,374**	7,889
Student deposits and other current liabilities	**4,671**	5,506
Postretirement benefits *(Note 10)*	**7,932**	12,730
Refundable government loan funds	**4,501**	4,449
Annuities payable	**3,180**	2,839
Capital leases *(Note 8)*	**699**	830
Long-term debt *(Note 7)*	**49,723**	49,079
Total liabilities	**79,920**	85,523
Net assets:		
Unrestricted	**110,786**	110,352
Temporarily restricted	**20,645**	29,100
Permanently restricted	**93,032**	91,723
Total net assets	**224,463**	231,175
Total liabilities and net assets	**$ 304,383**	$ 316,698

The accompanying notes are an integral part of these financial statements.

Stetson University, Inc.

Statement of Activities

Thirteen Months Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Revenues, gains and other support				
Tuition and fees (net of scholarships and fellowships of $33,340)	$ 67,504	$ –	$ –	$ 67,504
Contributions	978	6,343	2,245	9,566
Funds held in trust by others	28	313	(530)	(189)
Income and realized gains on investments – net	3,674	5,368	–	9,042
Sales of educational services	4,805	–	–	4,805
Sales and services of auxiliary enterprises	17,239	–	–	17,239
Governmental grants	3,082	–	–	3,082
Other	1,463	(113)	(406)	944
Unrealized loss on investments	(7,366)	(9,788)	–	(17,154)
Net assets released from restrictions	10,171	(10,171)	–	–
Total revenues, gains, and other support	101,578	(8,048)	1,309	94,839
Expenses and losses				
Educational and general:				
Instruction	43,529	–	–	43,529
Research	844	–	–	844
Public service	1,348	–	–	1,348
Academic support	11,852	–	–	11,852
Student services	8,199	–	–	8,199
Institutional support	12,295	–	–	12,295
Total education and general	78,067	–	–	78,067
Auxiliary enterprises	23,077	–	–	23,077
Total expenses	101,144	–	–	101,144
Change in net assets before other gains and losses	434	(8,048)	1,309	(6,305)
Decrease in investment in affiliated entity	–	(407)	–	(407)
Change in net assets	434	(8,455)	1,309	(6,712)
Net assets				
Beginning of period	110,352	29,100	91,723	231,175
End of period	$ 110,786	$ 20,645	$ 93,032	$ 224,463

The accompanying notes are an integral part of these financial statements.

Stetson University, Inc.

Statement of Cash Flows

	13 Months Ended June 30, 2008
	(In Thousands)
Operating activities	
Change in net assets	$ (6,712)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributions restricted for long-term investment	(6,266)
Depreciation and amortization	7,743
Gain on disposal of property, plant, and equipment	(20)
Interest and dividends from long-term investments	(4,311)
Net unrealized and realized (gains) losses on long-term investments	13,425
Amortization of bond discount and issuance costs	37
Change in value of split-interest agreements	965
(Increase) decrease in investment in affiliated entity	407
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Notes and accounts receivable	(1,411)
Pledges receivable	1,088
Inventories	(36)
Funds held in trust by others	506
Other assets	(37)
Increase (decrease) in liabilities:	
Accounts payable	1,639
Accrued liabilities	(2,515)
Student deposits and other current liabilities	(835)
Postretirement benefits	(4,798)
Net cash used in operating activities	(1,131)
Investing activities	
Purchases of property, plant, and equipment	(11,016)
Proceeds from sales of property, plant, and equipment	20
Student loans issued	(1,129)
Proceeds from student loan collections	897
Purchases of investments	(52,435)
Proceeds from maturities and sales of investments	52,813
Net cash used in investing activities	(10,850)

Continued on next page.

Stetson University, Inc.

Statement of Cash Flows (continued)

		13 Months Ended June 30, 2008
		(In Thousands)
Financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	$	2,009
Investment in plant		3,582
Investment in annuity agreements		1,189
		6,780
Other financing activities:		
Increase in federal student loan funds		52
Proceeds from long-term debt		3,287
Payments on capital leases		(372)
Payments on long-term debt		(2,581)
Payments on annuities payable		(480)
		(94)
Net cash provided by financing activities		6,686
Net change in cash and cash equivalents		(5,295)
Cash and cash equivalents		
Beginning of period		35,684
End of period	$	30,389
Supplemental data		
Interest paid	$	3,564
Equipment acquired under capital lease	$	241

The accompanying notes are an integral part of these financial statements.

Stetson University, Inc.

Notes to Financial Statements

June 30, 2008

1. Business Organization and Significant Accounting Policies

Stetson University, Inc. (the University) is a nonprofit institution subject to the rules and regulations of IRS Section 501(c)(3). Accordingly, no provision for income taxes is made in the accompanying financial statements. The University consists of four separate campuses at the following locations:

Stetson University (main campus) 421 North Woodland Boulevard DeLand, Florida 32723	Stetson University Center at Celebration 800 Celebration Avenue, Suite 104 Celebration, Florida 34747
Stetson University College of Law 1401 61st Street South Gulfport, Florida 33707	Tampa Law Center and Campus 1700 North Tampa Street Tampa, Florida 33602

The accompanying financial statements are prepared on the accrual basis of accounting. Revenues and support are reported when earned or unconditionally received. Expenses are recorded when purchases of materials or services are made. Revenues earned and expenses incurred applicable to the current period are accrued while those applicable to future periods are deferred. During fiscal year 2008, the Board of Trustees approved a resolution to change the fiscal year end of the University from May 31 to June 30. This change aligns the fiscal year with the academic year as well as the Federal Financial Aid year. As a result, the Statement of Activities and the Statement of Cash Flows for fiscal year 2008 reflect thirteen months of activity from June 1, 2007, to June 30, 2008. Due to the additional month, complete comparative statements are not presented in this report. The financial statements include a prior year comparative Statement of Financial Position. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended May 31, 2007, from which the Statement of Financial Position was derived.

Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- <u>Permanently Restricted</u> – Net assets that, by donor stipulation, may never be spent by the University, including gifts of endowment and for student loan principal, as well as the earnings on those assets when permanently restricted by the donor.

1. Business Organization and Significant Accounting Policies (continued)

- Temporarily Restricted – Net assets that carry restrictions that expire upon the passage of a prescribed period of time or upon the occurrence of a stated event as specified by the donor. Included in this category are gifts held by the University pending their use in accordance with donor stipulations, unexpended gifts for capital projects, and pledges.

- Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. The University had no designations of unrestricted net assets for the current fiscal year.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets as net assets released from restrictions in the accompanying statement of activities. Net assets released from restrictions in the thirteen months ended June 30, 2008, is comprised of $5.16 million due to satisfaction of program restrictions and scholarship awards and $5.01 million due to acquisition of capital assets.

Classification of Gifts

The University reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The University reports gifts of land, buildings, and equipment as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how those long-lived assets must be maintained, the University reports expirations of donor restrictions as unrestricted when the donated or acquired long-lived assets are placed in service.

In the event a donor makes changes to the nature of a restricted gift that affect its classification among the net asset categories, such amounts are reflected as reclassifications in the revenues section of the statement of activities.

1. Business Organization and Significant Accounting Policies (continued)

Cash and Cash Equivalents

The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, except for those short-term financial instruments included in the University's investment accounts.

Student Accounts Receivable

Student accounts receivable are reported net of any anticipated losses due to uncollectible accounts and are included in notes and accounts receivable in the statement of financial position. The University considers an account to be past due when a student still has an account balance after the final payment due date of the semester. Past due accounts are subject to past due letter collection efforts. If an account balance still exists at the conclusion of the four- to six-month collection period, the account is written off and placed with a third-party collection agency. Historical write-off history as a percentage of outstanding receivable balances is used to help establish an appropriate allowance for uncollectible accounts. The University does not assess finance charges against student receivables that are past due.

Student Loans Receivable

Student loans receivable are reported net of any anticipated losses due to uncollectible loans and are included in notes and accounts receivable in the statement of financial position. The University considers a loan to be in default when it has been past due for a period of four months. Past due loans are subject to internal collection efforts for a period of six months and are subsequently placed with third-party collection agencies. The allowance for uncollectible loans is calculated using the unpaid balances of all defaulted loans and applying an allowance factor based on the length of time since the most recent payment. This calculation is performed for both the Federal Perkins and institutional loans. The Federal Perkins Loan program has provisions for deferment, forbearance, and cancellation of individual loans. The deferment and forbearance provisions of the Federal Perkins Loan program are generally applied to institutional loans as well. Interest continues to accrue while the loan is placed with a collection agency.

1. Business Organization and Significant Accounting Policies (continued)

Pledges Receivable

Pledges receivable represent unconditional promises to give with collection periods through 2023. Pledges receivable, less an appropriate reserve, are recorded at their estimated fair value. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at risk free rates applicable to the months in which the pledges were received, which range from 1% to 6%. Amortization of the discount is credited to contribution revenue.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of bookstore inventory and maintenance supplies.

Investments

Investments are carried at fair value based on quoted year-end market rates and net unrealized and realized gains or losses are reflected in the statement of activities. Real estate and mortgage notes receivable are stated at fair values established by outside parties or at cost if no fair value has been established.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at date of gift. Purchases and sales of investments are recorded on the trade date. Except for investments that are not readily marketable or are held separately for specific reasons, investments are maintained in a pool. Gifts that are invested in the pool are assigned units of participation in the pool based upon their market value on the date of gift and the most recently determined unit market value for the existing units of participation. Subsequent allocations of annual income of the independent pool are based upon the number of units of participation. Withdrawals are based upon the spending policy approved by the Board of Trustees and follow the total return concept of utilizing both income and realized gain. The market value of the units of participation is calculated quarterly.

1. Business Organization and Significant Accounting Policies (continued)

Endowment

The University endowments include true endowment and funds functioning as endowment. These resources are recorded as permanently restricted, temporarily restricted, and unrestricted net assets, as described below.

True endowment funds are subject to restrictions of the gift instruments requiring that the principal be invested in perpetuity, and the income and an appropriate portion of gains only be spent as provided for under the Florida Uniform Management of Institutional Funds Act (UMIFA). In the absence of further donor restrictions, the amount of gains that are to be expended in a given year is determined through the endowment spending policy as directed by the Board of Trustees. The University classifies the original endowment gift and any gains with donor-imposed permanent restrictions as permanently restricted net assets. The Financial Accounting Standards Board (FASB) has determined that the legal limitations imposed by UMIFA on realized and unrealized gains on endowments are not permanent restrictions if the gains may be appropriated for expenditure. Accordingly, the University reports the expendable reinvested gains as temporarily restricted net assets.

Funds functioning as endowments are University resources designated as endowment by the Board of Trustees and are invested in the endowment for long-term appreciation and current income. However, these assets remain available and may be spent at the Board’s discretion.

Split-Interest Agreements

The University’s investments include deferred giving vehicles subject to split-interest agreements. Two different types of agreements are currently maintained: Charitable Gift Annuity and Charitable Remainder Unitrust.

Charitable Gift Annuities are irrevocable gifts under which the University agrees in turn to pay a life annuity to the donor or designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the University, subject to the University’s maintaining an actuarial reserve in accordance with Florida law. Charitable Remainder Unitrust gifts are time-restricted contributions not available to the University until after the death of the donor, who, while living, receives an annual payout from the Trust based on a fixed percentage of the market value of the invested funds.

1. Business Organization and Significant Accounting Policies (continued)

The University initially values deferred gifts of cash at face value and those of equities at market value; these values are then actuarially discounted. Published IRS discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred giving arrangements.

Of the $118,852,000 recorded as Investments in the Statement of Financial Position at June 30, 2008, $5,156,000 represents split-interest agreements, and the associated liabilities total $3,180,000. Of the $129,002,000 recorded as Investments in the Statement of Financial Position at May 31, 2007, $5,334,000 represents split-interest agreements, and the associated liabilities total $2,839,000.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during the period of construction on amounts borrowed for such expenditures. Property, plant, and equipment are removed from the records and any gain or loss is recognized at the time of disposal.

The University collects works of art, historical treasures, and similar assets, which reflect the history of the institution and/or support its educational purpose. The collections are maintained for public exhibition, education, and research in furtherance of public service rather than for financial gain and are therefore not reflected in the financial statements. Collections are protected, kept unencumbered, cared for, and preserved. The University capitalizes collections it receives as gifts. These collections are included in property, plant, and equipment.

Depreciation is recorded on the straight-line basis. The estimated useful life of land improvements, buildings, and building improvements is five to 40 years. The estimated useful life of furniture and equipment and volumes is three to ten years.

Prepaid Rents

The University contributed to the construction of the Conrad Park baseball stadium in DeLand, Florida. In consideration for the $1.3 million contribution, the University was given a lease to use the stadium for 20 years. The prepaid rents are amortized over the life of the lease and, as of June 30, 2008 and May 31, 2007, the University had $683,000 and $748,000, respectively, included in other assets in the statements of financial position pertaining to this lease.

1. Business Organization and Significant Accounting Policies (continued)

Student Deposits

Student deposits represent monies collected in advance for deposits and summer tuition. Revenue for summer tuition is recognized in the period in which the summer session is conducted.

Original Issue Discounts

The original issue discounts on bonds are being amortized using the effective interest method over the life of the bonds.

Deferred Financing Costs

Deferred financing costs consist of bond issuance costs. These costs are being amortized using the effective interest method over the life of the related bonds and are included in other assets in the accompanying statements of financial position.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the 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.

Postretirement Benefits

The University accounts for its postretirement benefits on an accrual basis as set forth in SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans,* as discussed in Note 10.

1. Business Organization and Significant Accounting Policies (continued)

Tuition Revenue and Discounts

Tuition is recognized when earned and is not refundable except as noted in the provisions of the University's catalog. The portion of tuition revenue for the summer term that is earned subsequent to the thirteen month period ended June 30, 2008 is treated as deferred revenue and is included with student deposits and other current liabilities on the statement of financial position. The University presents amounts expended for scholarships and fellowships as a reduction of tuition and fees revenue on the statement of activities.

Advertising Costs

The costs of advertising are charged to operations in the year incurred. Advertising costs amounted to approximately $663,000 for the thirteen months ended June 30, 2008.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value.

Cash and cash equivalents, accounts receivable, account payable, accrued liabilities, and student deposits and other current liabilities have a carrying amount that is a reasonable estimate of the fair value because of the short maturity of these instruments.

Pledges receivable that are expected to be collected within one year are presented at net realizable value, which approximates the fair value. Pledges receivable with due dates greater than one year are discounted at an approximate rate commensurate with the risks involved. The discounted pledges receivable value approximates the fair value of these instruments.

Determination of the fair value of loans receivable, which are primarily federally sponsored student loans with U.S. government-mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

The fair value of the University's bond obligations payable is estimated based on quoted market prices for the same or similar issues.

1. Business Organization and Significant Accounting Policies (continued)

The obligation for annuities is based on an actuarial calculation that considers the life expectancy of the annuitant and the expected rate of return to be earned on the annuitant's gift. The rate of return assumed in this calculation for each of the annuities is 5.6%, which is representative of its fair value.

Concentration of Credit Risk

The University maintains cash accounts with several large financial institutions. All accounts at each financial institution are guaranteed by the Federal Deposit Insurance Corporation up to $100,000 per bank. The University has cash deposited that exceeds the federally insured deposit amount. Management does not anticipate nonperformance by the financial institutions. The University also places its cash equivalents and short-term investments with high-quality institutions.

Recent Accounting Pronouncement

On August 6, 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds.* This FSP states that not-for-profit organizations that are subject to an enacted version of UPMIFA may need to reclassify certain amounts of donor-restricted endowment funds between temporarily restricted net assets and permanently restricted net assets. As of June 30, 2008, the State of Florida had not adopted UPMIFA, therefore the University is not subject to its provisions. This FSP also states that a not-for-profit organization, whether or not it is subject to an enacted version of UPMIFA, shall disclose information to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy of its endowment funds (both donor-restricted and board-designated). The provisions of this FSP shall be effective for fiscal years ending after December 15, 2008. Consequently, the University will comply with these provisions in its financial statements for fiscal year ending June 30, 2009.

2. Notes and Accounts Receivable

	June 30, 2008	May 31, 2007
	(In Thousands)	
Student accounts receivable (net of allowance of $339 in 2008 and $323 in 2007)	**$ 3,683**	$ 2,805
Student loans receivable (net of allowance of $1,362 in 2008 and $1,380 in 2007)	**5,804**	5,590
Grants receivable	**628**	400
Accrued interest receivable	**383**	365
Other receivables	**1,882**	1,577
	$ 12,380	$ 10,737

3. Pledges Receivable

Unconditional promises are expected to be realized in the following periods:

	June 30, 2008	May 31, 2007
	(In Thousands)	
One year or less	**$ 3,038**	$ 3,806
Between one year and five years	**2,872**	3,524
More than five years	**1,485**	1,233
	7,395	8,563
Less: discount of $810 in 2008 and $867 in 2007 and allowance of $148 in 2008 and $171 in 2007	**(958)**	(1,038)
	$ 6,437	$ 7,525

Pledges receivable are classified as follows:

	June 30, 2008	May 31, 2007
	(In Thousands)	
Permanently restricted	**$ 1,370**	$ 1,410
Temporarily restricted	**5,067**	6,115
	$ 6,437	$ 7,525

3. Pledges Receivable (continued)

Approximately 70% of the University's pledges receivable at June 30, 2008 and May 31, 2007, were provided by 9 and 10 contributors, respectively, some of whom are members of the Board of Trustees.

4. Investments

A summary of investments by type is as follows:

	June 30, 2008		May 31, 2007	
	Cost	**Fair Value**	**Cost**	**Fair Value**
	(In Thousands)			
Stocks	**$ 53,782**	**$ 49,594**	$ 50,616	$ 62,184
Bonds	**760**	**725**	944	914
Municipal and U.S. government obligations	**188**	**203**	188	186
Mutual funds	**64,833**	**65,747**	60,381	63,372
Money market and certificates of deposit	**1,393**	**1,392**	949	949
	120,956	**117,661**	113,078	127,605
Mortgage notes receivable	**12**	**12**	15	15
Real estate and other	**1,179**	**1,179**	1,382	1,382
	$ 122,147	**$ 118,852**	$ 114,475	$ 129,002

Income and net realized gains and losses on investments for the thirteen months ended June 30, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Total
		(In thousands)	
Income on endowment funds	$ 1,416	$ 2,894	$ 4,310
Other investment income	1,003	–	1,003
Net realized gains on endowment funds	1,244	2,474	3,718
Net realized gains on other investments	11	–	11
	$ 3,674	$ 5,368	$ 9,042

4. Investments (continued)

Investment income is net of management fees and expenses of approximately $307,000 for the thirteen months ended June 30, 2008.

For management control, the University maintains a Consolidated Investment Fund (the Fund) that is available for use by all accounts (except those that must be segregated due to bond or other legal restriction). The following schedule summarizes changes in relationships between market value and cost of the University's pooled investments (in thousands, except for market value per share):

	Thirteen months ended June 30, 2008			
	Cost	**Market Value**	**Net Gain (Loss)**	**Market Value Per Share**
		(In Thousands)		
End of period	$ 113,577	$ 109,944	$ (3,633)	$ 10.75
Beginning of period	105,575	118,695	13,120	11.89
Net change in unrealized appreciation for the period			(16,753)	
Net realized gain for the period			3,692	
Net loss			$ (13,061)	

Earnings on the Fund include dividends and interest income. For the thirteen months ended June 30, 2008 the earnings were $4,207,000, or $0.41 per share, as computed on ending shares.

As of June 30, 2008 and May 31, 2007, the amount of permanently restricted endowments whose fair value of assets was less than the level required by donor stipulation totaled approximately $5,674,000 and $2,294,000, respectively.

5. Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession nor under the control of the institution, but held and administered by outside trustees, with the University deriving income from such funds. The fair value of the University's share of the assets is reflected in the statements of financial position and the income (including changes in the fair value of the assets) is recorded on the accrual basis. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. The funds held in trust by others at June 30, 2008 and May 31, 2007, amounted to approximately $9,925,000 and $10,431,000, respectively. Included in these balances are various Charitable Remainder Unitrusts and Annuity Trusts that amount to $1,199,000 and $1,224,000, respectively.

6. Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30, 2008	**May 31, 2007**
	(In Thousands)	
Land	**$ 6,117**	$ 6,050
Land improvements, building, and facilities	**139,052**	135,203
Furniture and equipment	**21,290**	19,873
Library books and collections	**25,647**	24,199
Construction in progress	**5,272**	2,321
Equipment under capital lease	**1,087**	1,021
	198,465	188,667
Less accumulated depreciation and amortization	**(78,186)**	(71,902)
	$ 120,279	$ 116,765

Amortization expense relating to the capitalized leases was approximately $337,000 for the thirteen months ended June 30, 2008.

Capitalized interest during thirteen months ended June 30, 2008 was approximately $30,000.

Construction in progress at June 30, 2008, relates primarily to renovations of existing facilities and to residence halls. Estimated costs to complete these projects amount to approximately $16,939,000.

6. Property, Plant, and Equipment (continued)

The University recognized approximately $1,086,000 for rental income on various facilities during the thirteen months ended June 30, 2008.

7. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2008	May 31, 2007
	(In Thousands)	
Bonds payable		
Stetson University Volusia County Educational Facilities Authority (VCEFA) Educational Facilities Revenue Bonds of 1996 – payable in annual installments of $360,000 to $725,000 through 2022 plus semi-annual interest payments at rates from 5.2% to 5.5%, collateralized by the University's tuition revenues	**$ 7,315**	$ 7,985
Stetson University Volusia County Educational Facilities Authority (VCEFA) Educational Facilities Revenue Bonds of 1999 – payable in annual installments of $180,000 to $3,465,000 through 2029 plus semi-annual interest payments at rates from 4.625% to 5.25%, collateralized by the University's tuition revenues	**18,125**	18,455
Stetson University Volusia County Educational Facilities Authority (VCEFA) Educational Facilities Revenue Bonds of 2005 – payable in annual installments of $760,000 to $1,615,000 through 2026 plus semi-annual interest payments at rates from 3.5% to 5.0%, collateralized by the University's tuition revenues	**20,055**	21,510
	45,495	47,950

7. Long-Term Debt (continued)

	June 30, 2008	May 31, 2007
	(In Thousands)	
Other notes payable		
Note payable – monthly installments of $28,242 through December 2023 at an interest rate of 5.9% collateralized by long-term investments	**$ 3,250**	$ –
Mortgage note payable – monthly installments of $9,754 through December 2009 at an interest rate of 6.5%; collateralized by eight properties	**137**	249
Other notes payable	**341**	318
	49,223	48,517
Unamortized discounts on bonds payable	**(350)**	(374)
Unamortized premium on bonds payable	**850**	936
	$ 49,723	$ 49,079

The University has a line of credit which provides up to $1 million for the operations and maintenance of the University. Borrowings under this line of credit bear interest at London Interbank Offer Rate (LIBOR) plus 1.75%, which automatically renews annually unless the University is otherwise notified by the bank. The University had no outstanding balance at June 30, 2008 or May 31, 2007. There are no commitment fees on the unused line of credit. The line is collateralized by a portion of the University's cash reserves.

Required reductions of long-term debt for the fiscal years following 2008 are as follows:

	Principal				
	Bonds	**Other**	**Total**	**Interest**	**Total Debt Service**
			(In Thousands)		
Year ended June 30:					
2009	$ 1,300	$ 343	$ 1,643	$ 2,504	$ 4,147
2010	1,350	195	1,545	2,434	3,979
2011	1,410	171	1,581	2,366	3,947
2012	1,475	176	1,651	2,292	3,943
2013	1,530	188	1,718	2,221	3,939
Thereafter	38,430	2,655	41,085	20,079	61,164
	$ 45,495	$ 3,728	$ 49,223	$ 31,896	$ 81,119

7. Long-Term Debt (continued)

At June 30, 2008 and May 31, 2007, the estimated fair value of the VCEFA 1996, 1999, and 2005 bonds was approximately $46,436,000 and $50,077,000, respectively.

8. Capital Leases

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2008:

	(In Thousands)
Year ending June 30:	
2009	$ 294
2010	222
2011	145
2012	145
Total minimum lease payments	806
Less amount representing interest	(107)
Present value of net minimum lease payments	$ 699

9. Operating Leases

The University has entered into various leases for automobiles and office equipment. The leases are noncancelable operating leases which expire at various dates through 2012. Following is a schedule of minimum future rental payments under noncancelable operating leases:

	(In Thousands)
Year ending June 30:	
2009	$ 79
2010	65
2011	43
2012	22
2013	2
	$ 211

Rent expense incurred under operating leases amounted to approximately $354,000 for the thirteen months ended June 30, 2008.

10. Retirement and Postretirement Benefits

Retirement benefits are provided through defined contribution plans with the Teachers Insurance and Annuity Association – College Retirement Equities Fund, a national organization used to fund pension benefits for educational institutions. All full-time employees with two years of service are eligible under the plan. The University's cost is calculated at 10% of qualifying participants' compensation. The pension expense for the thirteen months ended June 30, 2008 amounted to approximately $3,663,000.

In addition, the University sponsors a defined benefit postretirement plan that provides medical and term-life insurance benefits to eligible retirees. During its May 2007 meeting, the Board of Trustees approved a resolution to reduce and eventually eliminate the postretirement defined benefit plan over a four year period. Employees retiring through June 30, 2008, who elect to receive postretirement health care benefits, will be responsible to pay 40% of the premium. Employees retiring between July 1, 2008, and June 30, 2011, who elect to receive postretirement health care benefits, will be responsible to pay 50% of the premium. Employees retiring after June 30, 2011, who elect to receive postretirement health care benefits, will be responsible to pay 100% of the premium. The effect of the amendment was a $12.3 million reduction in prior year service costs, which will be amortized over the average service to full eligibility as of the date of the plan amendment.

In September of 2006 the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards No. 158 – *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). This statement requires recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets. It also requires measurement of the funded status of a plan as of the date of the year-end statement of financial position. The funded status of a defined benefit plan is measured as the difference between plan assets at fair value and the benefit obligation. The University adopted the recognition provisions of SFAS 158 in fiscal year 2008 and recognized the funded status of the Postretirement Plan in its 2008 statement of financial position.

10. Retirement and Postretirement Benefits (continued)

The following table details the incremental effects of applying the recognition provisions of SFAS 158:

	Before application of SFAS 158	SFAS 158 adjustment	After application of SFAS 158
		(In Thousands)	
Postretirement benefits	**$ 10,440**	**$ (2,508)**	$ 7,932
Unrestricted net assets	**$ 108,278**	**$ 2,508**	$ 110,786

	June 30, 2008	May 31, 2007
	(In Thousands)	
Change in Accumulated Postretirement Benefit Obligation:		
Benefit obligation at beginning of year	**$ 9,458**	$ 24,484
Service cost	**136**	1,178
Interest cost	**540**	1,228
Plan participants' contributions	**526**	501
Amendments	**–**	(12,356)
Actuarial gain	**(1,522)**	(4,313)
Benefit payments	**(1,354)**	(1,264)
Medicare subsidy	**148**	–
Benefit obligation at end of year	**$ 7,932**	$ 9,458
Change in Plan Assets:		
Fair value of plan assets at beginning of year	**$ –**	$ –
University contributions	**680**	763
Plan participants' contributions	**526**	501
Benefits paid	**(1,354)**	(1,264)
Medicare subsidy received	**148**	–
Fair value of plan assets at end of year	**$ –**	$ –

10. Retirement and Postretirement Benefits (continued)

	June 30, 2008	May 31, 2007
	(In Thousands)	
Funded Status of the Plan:		
Funded status at end of year	**$ (7,932)**	$ (9,458)
Unrecognized actuarial loss	**–**	8,398
Unrecognized prior service cost	**–**	(11,670)
Net accrued benefit liability	**$ (7,932)**	$ (12,730)
Amounts Recognized in the Statement of Financial Position:		
Postretirement benefit liability	**$ 7,932**	$ 12,730
Net amount recognized	**$ 7,932**	$ 12,730
Amounts Recognized in the Statement of Activities:		
Net loss	**$ 6,383**	n/a
Prior service credit	**(8,891)**	n/a
Net postretirement expense (benefit)	**$ (2,508)**	n/a
Assumptions as of the end of the year:		
Discount rate	**6.75%**	6.25%
Expected return on assets	**n/a**	n/a
Rate of compensation increases	**n/a**	n/a
Accumulated Postretirement Benefit Obligation (APBO):		
Active employees	**$ 2,816**	$ 3,438
Retirees	**5,116**	6,020
Total APBO	**7,932**	9,458
Unrecognized gain (loss)	**–**	3,272
Accrued postretirement benefit liability	**$ 7,932**	$ 12,730

10. Retirement and Postretirement Benefits (continued)

	June 30, 2008	May 31, 2007
	(In Thousands)	
Net Periodic Postretirement Benefit Cost:		
Service costs (benefits earned during the period)	**$ 136**	$ 1,179
Interest cost (on accumulated postretirement benefit obligation)	**540**	1,228
Amortization of prior service cost	**493**	369
Amortization of net actuarial loss	**(2,779)**	412
Net periodic postretirement benefit costs	**$ (1,610)**	$ 3,188

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the thirteen month period ended June 30, 2008. The rate was assumed to decrease by 0.5% per year until 2013 and remain at 5% thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects as of and for the year ended June 30, 2008:

	One Percentage Point Increase	One Percentage Point Decrease
	(In Thousands)	
Effect on total service and interest cost	$ 95	$ (18)
Effect on end of year postretirement benefit obligation	736	(575)

10. Retirement and Postretirement Benefits (continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Benefit Payments
	(In Thousands)
Year ending June 30:	
2009	$ 624
2010	671
2011	720
2012	702
2013	720
2014-2018	3,445

11. Collegiate Housing Foundation – DeLand, LLC

The University has entered into an arrangement with Collegiate Housing Foundation – DeLand, LLC (CHF-DeLand), a wholly owned subsidiary of Collegiate Housing Foundation, in which the University utilizes a 338-bed housing facility for student housing. The facility is owned by CHF-DeLand, a separate 501(c)(3) entity, and financed through tax exempt bonds issued by the Volusia County Industrial Development Authority and assumed by CHF-Deland. When the financing is paid in full, the ownership interest in the facility will be conveyed to the University. The underlying property on which the facility is located is leased by the University to CHF-DeLand under a ground lease.

Ground lease revenue receivable by the University as of June 30, 2008 and May 31, 2007, amounted to approximately $251,000 and $595,000, respectively. Amounts due from CHF-DeLand for operating expense reimbursements were approximately $728,000 and $96,000 at June 30, 2008, and May 31, 2007, respectively.

12. Related-Party Transactions

A Trustee of the University is also an executive officer of a financial institution that has entered into two financing agreements with the University. During 2007, the University opened a line of credit with Everbank for $1 million. At June 30, 2008, there was no outstanding balance on this line of credit. The terms of the agreement are disclosed in Note 7. During June of 2008, the University borrowed $3,250,000 from Everbank for renovation of existing fraternity houses. The terms of this loan are disclosed in Note 7.

12. Related-Party Transactions (continued)

During the 2008 fiscal year, the University paid $1,259,000 for insurance brokerage services provided by a firm for which a Trustee of the University is also the chief executive officer and director. There were no outstanding payments owed to this firm as of June 30, 2008.

13. Charles A. Dana Law Center Foundation, Inc.

The University has recorded its interest in the net assets of the Charles A. Dana Law Center Foundation, Inc. (the Foundation) on the accompanying statements of financial position as investment in affiliated entity.

The change in net assets of the Foundation for the thirteen months ended June 30, 2008 was ($407,000) and $291,000, respectively. The University's interest in the net assets for the Foundation as of June 30, 2008 and May 31, 2007, amounted to $2,923,000 and $3,331,000, respectively.

14. Detail of Restricted Net Assets

	Temporarily Restricted	Permanently Restricted
	(In Thousands)	
June 30, 2008		
Scholarships	**$ 4,250**	**$ 36,742**
Programs	**5,341**	**50,609**
Capital	**4,569**	**–**
Annuities	**1,418**	**1,756**
Loans	**–**	**2,555**
Pledges	**5,067**	**1,370**
	$ 20,645	**$ 93,032**
May 31, 2007		
Scholarships	$ 6,369	$ 37,110
Programs	9,054	48,930
Capital	5,963	–
Annuities	1,599	1,718
Loans	–	2,555
Pledges	6,115	1,410
	$ 29,100	$ 91,723

Supplementary Information

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Report of Independent Certified Public Accountants on Supplementary Disaggregated Information

The Board of Trustees
Stetson University, Inc.

The report on our audit of the financial statements of Stetson University, Inc., as of June 30, 2008, and for the year then ended appears on page 1 of this document. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary disaggregated information is presented for purposes of additional analysis of the financial statements rather than to present the financial position of the individual funds and is not a required part of the basic financial statements. Accordingly, we do not express an opinion on the financial position of the individual funds. However, the supplementary disaggregated information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

September 17, 2008

Stetson University, Inc.

Supplementary Disaggregated Statement of Financial Position

June 30, 2008
(In Thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Total
Assets					
Cash and cash equivalents	$ 22,986	$ –	$ 789	$ 6,614	$ 30,389
Notes and account receivable – net	6,189	6,115	76	–	12,380
Pledges receivables – net	5,066	–	1,371	–	6,437
Inventories	840	–	–	–	840
Investments	623	–	118,171	58	118,852
Funds held in trust by others	–	–	9,925	–	9,925
Property, plant, and equipment, net	–	–	–	120,279	120,279
Other assets	1,470	–	4	884	2,358
Investment in affiliated entity	–	–	2,923	–	2,923
Total assets	$ 37,174	$ 6,115	$ 133,259	$ 127,835	$ 304,383
Liabilities and net assets					
Liabilities:					
Accounts payable	$ 2,579	$ –	$ 160	$ 1,101	$ 3,840
Accrued liabilities	5,183	–	–	191	5,374
Student deposits and other current liabilities	4,671	–	–	–	4,671
Postretirement benefits	7,932	–	–	–	7,932
Refundable government loan funds	–	4,501	–	–	4,501
Annuities payable	–	–	3,180	–	3,180
Capital leases	–	–	–	699	699
Long-term debt	–	–	–	49,723	49,723
Due to (from) other funds	(8,254)	(1,731)	(3,225)	13,210	–
Total liabilities	12,111	2,770	115	64,924	79,920
Net assets:					
Unrestricted	17,083	790	34,567	58,346	110,786
Temporarily restricted	7,980	–	8,100	4,565	20,645
Permanently restricted	–	2,555	90,477	–	93,032
Total net assets	25,063	3,345	133,144	62,911	224,463
Total liabilities and net assets	$ 37,174	$ 6,115	$ 133,259	$ 127,835	$ 304,383

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Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Stetson University, Inc.

We have audited the financial statements of Stetson University, Inc. (the University) as of and for the thirteen months ended June 30, 2008, and have issued our report thereon dated September 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the University in a separate letter dated September 17, 2008.

This report is intended solely for the information and use of the Board of Trustees, audit committee, administration, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

September 17, 2008