FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Stetson University, Inc.
As of and for the Year Ended June 30, 2009,
and as of June 30, 2008
With Report of Independent Certified Public Accountants

Ernst & Young LLP

ERNST & YOUNG

Stetson University, Inc.

Financial Statements and Supplementary Information

As of and for the Year Ended June 30, 2009, and as of 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 statement of financial position of Stetson University, Inc. (the University) as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. 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 audit. The prior year comparative statement of financial position has been derived from the University's 2008 financial statements and in our report dated September 17, 2008, 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, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 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

October 8, 2009

Stetson University, Inc.

Statements of Financial Position

	June 30 2009	June 30 2008
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 19,915**	$ 30,389
Notes and accounts receivable – net *(Note 2)*	**10,934**	12,380
Pledges receivable – net *(Note 3)*	**6,378**	6,437
Inventories	**871**	840
Investments *(Note 4)*	**102,074**	118,852
Funds held in trust by others *(Note 6)*	**7,958**	9,925
Property, plant, and equipment – net *(Note 7)*	**133,272**	120,279
Other assets	**2,207**	2,358
Investment in affiliated entity *(Note 14)*	**2,561**	2,923
Total assets	**$ 286,170**	$ 304,383
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 2,381**	$ 3,840
Accrued liabilities	**5,596**	5,374
Student deposits and other current liabilities	**3,122**	4,671
Postretirement benefits *(Note 11)*	**9,136**	7,932
Refundable government loan funds	**4,574**	4,501
Annuities payable	**3,532**	3,180
Capital leases *(Note 9)*	**802**	699
Long-term debt *(Note 8)*	**48,261**	49,723
Total liabilities	**77,404**	79,920
Net assets:		
Unrestricted	**100,721**	110,786
Temporarily restricted	**15,523**	20,645
Permanently restricted	**92,522**	93,032
Total net assets	**208,766**	224,463
Total liabilities and net assets	**$ 286,170**	$ 304,383

See accompanying notes.

Stetson University, Inc.

Statement of Activities

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Revenues, gains, and other support				
Tuition and fees (net of scholarships and fellowships of $32,823)	$ 69,845	$ –	$ –	$ 69,845
Contributions	715	6,218	3,067	10,000
Funds held in trust by others	29	248	(1,694)	(1,417)
Income and realized gains (losses) on investments – net	(10,624)	(2,613)	–	(13,237)
Sales of educational services	4,303	–	–	4,303
Sales and services of auxiliary enterprises	17,778	–	–	17,778
Governmental grants	4,540	–	–	4,540
Other	891	(367)	(958)	(434)
Unrealized gains on investments	593	1,344	–	1,937
Net assets released from restrictions	9,714	(9,714)	–	–
Total revenues, gains, and other support	97,784	(4,884)	415	93,315
Expenses and losses				
Educational and general:				
Instruction	42,922	–	–	42,922
Research	1,518	–	–	1,518
Public service	698	–	–	698
Academic support	12,102	–	–	12,102
Student services	7,892	–	–	7,892
Institutional support	20,032	–	–	20,032
Total education and general	85,164	–	–	85,164
Auxiliary enterprises	22,685	–	–	22,685
Total expenses	107,849	–	–	107,849
Change in net assets before other gains and losses	(10,065)	(4,884)	415	(14,534)
Decrease in investment in affiliated entity	–	(362)	–	(362)
Refund of prior year contribution	–	124	(925)	(801)
Change in net assets	(10,065)	(5,122)	(510)	(15,697)
Net assets				
Beginning of period	110,786	20,645	93,032	224,463
End of period	$ 100,721	$ 15,523	$ 92,522	$ 208,766

See accompanying notes.

Stetson University, Inc.

Statement of Cash Flows

Year Ended June 30, 2009
(In Thousands)

Operating activities		
Change in net assets	$	(15,697)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment		(5,352)
Depreciation and amortization		7,444
Gain on disposal of property, plant, and equipment		(246)
Interest and dividends from long-term investments		(3,508)
Net unrealized and realized losses on long-term investments		15,317
Amortization of bond discount and issuance costs		30
Change in value of split-interest agreements		1,440
Decrease in investment in affiliated entity		362
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Notes and accounts receivable		1,172
Pledges receivable		59
Inventories		(31)
Funds held in trust by others		1,967
Other assets		63
Increase (decrease) in liabilities:		
Accounts payable		(1,459)
Accrued liabilities		222
Student deposits and other current liabilities		(1,549)
Postretirement benefits		1,204
Net cash provided by operating activities		1,438
Investing activities		
Purchases of property, plant, and equipment		(20,186)
Proceeds from sales of property, plant, and equipment		416
Student loans issued		(449)
Proceeds from student loan collections		723
Purchases of investments		(90,015)
Proceeds from maturities and sales of investments		94,311
Net cash used in investing activities		(15,200)

Continued on next page.

Stetson University, Inc.

Statement of Cash Flows (continued)

Year Ended June 30, 2009
(In Thousands)

Financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	$	3,258
Investment in plant		2,089
Investment in annuity agreements		10
		5,357
Other financing activities:		
Increase in federal student loan funds		73
Proceeds from long-term debt		100
Payments on capital leases		(318)
Payments on long-term debt		(1,504)
Payments on annuities payable		(420)
		(2,069)
Net cash provided by financing activities		3,288
Net change in cash and cash equivalents		(10,474)
Cash and cash equivalents:		
Beginning of period		30,389
End of period	$	19,915
Supplemental disclosures of cash flow information		
Interest paid	$	2,565
Equipment acquired under capital lease	$	421

See accompanying notes.

Stetson University, Inc.

Notes to Financial Statements

June 30, 2009

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, FL 32723	Stetson University Center at Celebration 800 Celebration Avenue, Suite 104 Celebration, FL 34747
Stetson University College of Law 1401 61st Street South Gulfport, FL 33707	Tampa Law Center and Campus 1700 North Tampa Street Tampa, FL 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 2008 reflect 13 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 complete presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2008, 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 year ended June 30, 2009, is comprised of approximately $4.46 million due to satisfaction of program restrictions and scholarship awards and approximately $5.26 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 2024. 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 included as part of 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

On August 6, 2008, the Financial Accounting Standards Board (FASB) 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, 2009, 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). This information is reported in Note 5.

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 $102,074,000 recorded as investments in the statement of financial position at June 30, 2009, $4,130,000 represents split-interest agreements, and the associated liabilities total $3,532,000. 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.

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 library books and collections 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, 2009 and 2008, the University had $618,000 and $683,000, 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 discussed in Note 11.

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 year ended June 30, 2009, 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 $734,000 for the year ended June 30, 2009.

Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of each class of financial instruments is discussed in Note 16.

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 $250,000 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.

2. Notes and Accounts Receivable

	June 30 2009	June 30 2008
	(In Thousands)	
Student accounts receivable (net of allowance of $293 in 2009 and $339 in 2008)	**$ 2,824**	$ 3,683
Student loans receivable (net of allowance of $1,503 in 2009 and $1,362 in 2008)	**5,344**	5,804
Grants receivable	**1,701**	628
Accrued interest receivable	**370**	383
Other receivables	**695**	1,882
	$ 10,934	$ 12,380

3. Pledges Receivable

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

	June 30 2009	June 30 2008
	(In Thousands)	
One year or less	**$ 2,735**	$ 3,038
Between one year and five years	**3,441**	2,872
More than five years	**1,167**	1,485
	7,343	7,395
Less: discount of $818 in 2009 and $810 in 2008 and allowance of $147 in 2009 and $148 in 2008	**(965)**	(958)
	$ 6,378	$ 6,437

Pledges receivable are classified as follows:

	June 30 2009	June 30 2008
	(In Thousands)	
Permanently restricted	**$ 1,219**	$ 1,370
Temporarily restricted	**5,159**	5,067
	$ 6,378	$ 6,437

3. Pledges Receivable (continued)

Approximately 70% of the University's pledges receivable at June 30, 2009 and 2008, were provided by 11 and 9 contributors, respectively. Included in net pledges receivable as of June 30, 2009 and 2008, are approximately $4,064,000 and $3,895,000, respectively, in written promises to give from members of the Board of Trustees and Officers of the University.

4. Investments

A summary of investments by type is as follows:

	June 30			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
	(In Thousands)			
Stocks	**$ 23,090**	**$ 23,830**	$ 53,782	$ 49,594
Bonds	**665**	**642**	760	725
Municipal and U.S. government obligations	**184**	**170**	188	203
Mutual funds	**78,724**	**75,976**	64,833	65,747
Money market and certificates of deposit	**279**	**279**	1,393	1,392
	102,942	**100,897**	120,956	117,661
Mortgage notes receivable	**10**	**10**	12	12
Real estate and other	**1,167**	**1,167**	1,179	1,179
	$ 104,119	**$ 102,074**	$ 122,147	$ 118,852

Income and net realized gains and losses on investments for the year ended June 30, 2009, are as follows:

	Unrestricted	Temporarily Restricted	Total
	(In Thousands)		
Income on endowment funds	$ 1,242	$ 2,564	$ 3,806
Other investment income	210	–	210
Net realized losses on endowment funds	(12,074)	(5,177)	(17,251)
Net realized losses on other investments	(2)	–	(2)
	$ (10,624)	$ (2,613)	$ (13,237)

4. Investments (continued)

Investment income is net of management fees and expenses of approximately $230,000 for the year ended June 30, 2009.

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):

	Year Ended June 30, 2009			
	Cost	**Market Value**	**Net Loss**	**Market Value Per Share**
		(In Thousands)		
End of period	$ 95,654	$ 94,139	$ (1,515)	$ 8.85
Beginning of period	113,577	109,944	(3,633)	10.75
Net change in unrealized appreciation for the period			2,118	
Net realized loss for the period			(17,030)	
Net loss			$ (14,912)	

Earnings on the Fund include dividends and interest income. For the year ended June 30, 2009, the earnings were $3,750,000, or $0.35 per share, as computed on ending shares.

5. Endowment

The University's endowment consists of approximately 370 individual funds established for a variety of purposes. These resources are recorded as permanently restricted, temporarily restricted, and unrestricted net assets, as described below.

The Board of Trustees has interpreted the Florida Uniform Management of Institutional Funds Act (FUMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified 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 unless donor-imposed restrictions exist on their use. Certain contributions with donor-imposed restrictions have been designated as endowment by the Board of Trustees and are included in temporarily restricted net assets.

Endowment net assets were composed of the following as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Donor-restricted endowment funds	$ (9,643)	$ 691	$ 89,562	$ 80,610
Board-designated endowment funds	28,914	3,552	–	32,466
	$ 19,271	$ 4,243	$ 89,562	$ 113,076

5. Endowment (continued)

Changes to endowment net assets for the fiscal year ended June 30, 2009, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment net assets, beginning of year	$ 34,567	$ 5,397	$ 88,721	$ 128,685
Investment return:				
Investment income	1,245	2,665	–	3,910
Realized loss	(12,074)	(5,177)	–	(17,251)
Unrealized gain (loss)	636	1,344	(1,634)	346
Total investment return	(10,193)	(1,168)	(1,634)	(12,995)
Contributions	–	–	3,067	3,067
Expenditures	(5,063)	(1,008)	–	(6,071)
Other changes:				
Transfers to create board-designated endowment funds	–	898	–	898
Other endowment activity	(40)	–	333	293
Refund of prior year contribution	–	124	(925)	(801)
Endowment net assets, end of year	$ 19,271	$ 4,243	$ 89,562	$ 113,076

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or FUMIFA requires the University to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. As of June 30, 2009 and 2008, the amount of these deficiencies totaled approximately $12,830,000 and $5,674,000, respectively.

5. Endowment (continued)

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 and other benchmark indices while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The purpose of establishing a target spending rate for the University's endowment assets is to achieve the spending stability necessary for the planning and budgeting activities funded from the University's earnings. The target spending rate was established using 2006 as the base year for the University's 10-year strategic plan. The first three years of the strategic plan are based on a payout range of 3.0% to 6.0% of the University's 12-quarter moving average market value with a target spending rate of 4.5%. After the initial three years, the payout range will be reduced to 3.0% to 5.0% of the University's 12-quarter moving average market value with a target spending rate of 4.0%.

6. 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, 2009 and 2008, amounted to approximately $7,958,000 and $9,925,000, respectively. Included in these balances are various Charitable Remainder Unitrusts and Annuity Trusts that amount to $865,000 and $1,199,000, respectively.

7. Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30	
	2009	**2008**
	(In Thousands)	
Land	**$ 6,087**	$ 6,117
Land improvements, building, and facilities	**157,692**	139,052
Furniture and equipment	**22,572**	21,290
Library books and collections	**27,075**	25,647
Construction-in-progress	**343**	5,272
Equipment under capital lease	**1,866**	1,087
	215,635	198,465
Less accumulated depreciation and amortization	**(82,363)**	(78,186)
	$ 133,272	$ 120,279

Amortization expense relating to the capitalized leases was approximately $351,000 for the year ended June 30, 2009. Depreciation expense relating to constructed and purchased property and equipment was approximately $7,093,000 for the year ended June 30, 2009.

Interest capitalized during the year ended June 30, 2009, was approximately $170,000.

Construction-in-progress at June 30, 2009, relates primarily to renovations of existing facilities and to residence halls. Estimated costs to complete these projects amount to approximately $245,000.

The University recognized approximately $989,000 for rental income on various facilities during the year ended June 30, 2009.

8. Long-Term Debt

Long-term debt consists of the following:

	June 30 2009	June 30 2008
	(In Thousands)	
Bonds payable		
Stetson University Volusia County Educational Facilities Authority (VCEFA) Educational Facilities Revenue Bonds of 1996 – payable in annual installments of \$380,000 to \$725,000 through 2022 plus semiannual interest payments at rates from 5.3% to 5.5%, collateralized by the University's tuition revenues	**\$ 6,955**	\$ 7,315
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 semiannual interest payments at rates from 4.75% to 5.25%, collateralized by the University's tuition revenues	**17,945**	18,125
Stetson University Volusia County Educational Facilities Authority (VCEFA) Educational Facilities Revenue Bonds of 2005 – payable in annual installments of \$790,000 to \$1,615,000 through 2026 plus semiannual interest payments at rates from 3.5% to 5.0%, collateralized by the University's tuition revenues	**19,295**	20,055
	44,195	45,495
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	**3,280**	3,250
Mortgage note payable – monthly installments of \$9,754 through September 2009 at an interest rate of 6.5%; collateralized by eight properties	**24**	137
Other notes payable	**320**	341
	47,819	49,223
Unamortized discounts on bonds payable	**(326)**	(350)
Unamortized premium on bonds payable	**768**	850
	\$ 48,261	\$ 49,723

8. Long-Term Debt (continued)

The University has a line of credit that 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 on this line of credit at June 30, 2009 and 2008. 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 2009 are as follows:

	Principal				
	Bonds	**Other**	**Total**	**Interest**	**Total Debt Service**
			(In Thousands)		
Year ended June 30:					
2010	$ 1,350	$ 330	$ 1,680	$ 2,434	$ 4,114
2011	1,410	171	1,581	2,366	3,947
2012	1,475	181	1,656	2,292	3,948
2013	1,530	188	1,718	2,221	3,939
2014	1,600	200	1,800	2,140	3,940
Thereafter	36,830	2,554	39,384	17,939	57,323
	$ 44,195	$ 3,624	$ 47,819	$ 29,392	$ 77,211

9. 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, 2009:

	(In Thousands)
Year ending June 30:	
2010	$ 365
2011	264
2012	203
2013	33
2014	20
Total minimum lease payments	885
Less amount representing interest	(83)
Present value of net minimum lease payments	$ 802

10. 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 2015. Following is a schedule of minimum future rental payments under noncancelable operating leases:

	(In Thousands)
Year ending June 30:	
2010	$ 114
2011	93
2012	58
2013	30
2014	26
2015	11
	$ 332

Rent expense incurred under operating leases amounted to approximately $451,000 for the year ended June 30, 2009.

11. 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 year ended June 30, 2009, amounted to approximately $4,103,000.

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.

11. Retirement and Postretirement Benefits (continued)

In September of 2006 the FASB adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 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 No. 158 in fiscal year 2008 and recognized the funded status of the Postretirement Plan in its 2008 statement of financial position.

	June 30	
	2009	**2008**
	(In Thousands)	
Change in accumulated postretirement benefit obligation:		
Benefit obligation at beginning of year	**$ 7,932**	$ 9,458
Service cost	**114**	136
Interest cost	**505**	540
Plan participants' contributions	**535**	526
Amendments	**–**	–
Actuarial loss (gain)	**1,326**	(1,522)
Benefit payments	**(1,325)**	(1,354)
Medicare subsidy	**49**	148
Benefit obligation at end of year	**$ 9,136**	$ 7,932
Change in Plan assets:		
Fair value of plan assets at beginning of year	**$ –**	$ –
University contributions	**741**	680
Plan participants' contributions	**535**	526
Benefits paid	**(1,325)**	(1,354)
Medicare subsidy received	**49**	148
Fair value of plan assets at end of year	**$ –**	$ –

11. Retirement and Postretirement Benefits (continued)

	June 30 2009	June 30 2008
	(In Thousands)	
Funded status of the Plan:		
Funded status at end of year	**$ (9,136)**	$ (7,932)
Unrecognized actuarial loss	**–**	–
Unrecognized prior service cost	**–**	–
Net accrued benefit liability	**$ (9,136)**	$ (7,932)
Amounts recognized in the statement of financial position:		
Postretirement benefit liability	**$ 9,136**	$ 7,932
Net amount recognized	**$ 9,136**	$ 7,932
Amounts recognized in the statement of activities:		
Net loss	**$ 7,312**	$ 6,383
Prior service credit	**(6,326)**	(8,891)
Net postretirement expense (benefit)	**$ 986**	$ (2,508)
Assumptions as of the end of the year:		
Discount rate	**6.00%**	6.75%
Expected return on assets	**n/a**	n/a
Rate of compensation increases	**n/a**	n/a
Accumulated Postretirement Benefit Obligation (APBO):		
Active employees	**$ 3,063**	$ 2,816
Retirees	**6,073**	5,116
Total APBO	**9,136**	7,932
Unrecognized gain (loss)	**–**	–
Accrued postretirement benefit liability	**$ 9,136**	$ 7,932

11. Retirement and Postretirement Benefits (continued)

	June 30 2009	June 30 2008
	(In Thousands)	
Net periodic postretirement benefit cost:		
Service costs (benefits earned during the period)	**$ 114**	$ 136
Interest cost (on accumulated postretirement benefit obligation)	**505**	540
Amortization of net actuarial loss	**398**	493
Amortization of prior service credit	**(2,565)**	(2,779)
Net periodic postretirement benefit costs	**$ (1,548)**	$ (1,610)

For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended June 30, 2009. The rate was assumed to decrease by 0.5% per year until 2017 and remain at 5.0% 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, 2009:

	One Percentage Point Increase	One Percentage Point Decrease
	(In Thousands)	
Effect on total service and interest cost	$ 52	$ (46)
Effect on end of year postretirement benefit obligation	825	(719)

11. 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:	
2010	$ 642
2011	717
2012	733
2013	767
2014	768
2015-2019	3,823

12. 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, 2009 and 2008, amounted to approximately $109,000 and $251,000, respectively. Amounts due from CHF-DeLand for operating expense reimbursements were approximately $0 and $728,000 at June 30, 2009 and 2008, respectively.

13. Related-Party Transactions

During the 2009 fiscal year, the University paid $1,408,000 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, 2009. Also during 2009 the University received certain promises to give from members of the Board of Trustees as discussed in Note 3.

14. 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 decrease in net assets of the Foundation for the year ended June 30, 2009, was $362,000. The University's interest in the net assets for the Foundation as of June 30, 2009 and 2008, amounted to $2,561,000 and $2,923,000, respectively.

15. Detail of Restricted Net Assets

	Temporarily Restricted	Permanently Restricted
	(In Thousands)	
June 30, 2009		
Scholarships	**$ 3,901**	**$ 37,595**
Programs	**4,176**	**50,748**
Capital	**1,223**	**–**
Annuities	**1,064**	**405**
Loans	**–**	**2,555**
Pledges	**5,159**	**1,219**
	$ 15,523	**$ 92,522**
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

16. Fair Value of Financial Instruments and Fair Value Disclosures

The University has established and documented processes and methodologies for determining the fair values of portfolio company investments on a recurring basis in accordance with SFAS No. 157, *Fair Value Measurements*. Under SFAS No. 157, a financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy established by SFAS No. 157 are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments in accordance with the provisions of SFAS No. 157:

Cash and cash equivalents – The carrying amounts reported in the consolidated balance sheet approximate their fair value, due to the short-term maturity of these instruments.

Loans Receivable – 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.

Pledges Receivable – The fair values of pledges receivable are discounted at an approximate rate commensurate with the risks involved. The discounted pledges receivable value approximates the fair value of these instruments.

Charitable Gift Annuities – 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 2.8%, which is representative of its fair value.

16. Fair Value of Financial Instruments and Fair Value Disclosures (continued)

Debt – The fair value of the VCEFA 1996, 1999, and 2005 bond obligations payable is estimated based on quoted market prices for the same or similar issues.

Estimated fair values of the University's financial instruments at June 30, 2009, follow:

Description	Carrying Amount 2009	Fair Value 2009	Carrying Amount 2008	Fair Value 2008
		(In Thousands)		
Financial assets (liabilities)				
Cash and cash equivalents	$ 19,915	$ 19,915	$ 30,389	$ 30,389
Bonds payable	(44,195)	(44,208)	(45,495)	(46,436)

The following table presents the fair values for assets and liabilities measured on a recurring basis as of June 30, 2009:

Description	Fair Value	Level 1: Quoted prices in active markets for identical assets or liabilities	Level 2: Significant other observable inputs	Level 3: Significant unobservable inputs
		(In Thousands)		
Funds held in trust by others	$ 7,958	$ –	$ 7,093	$ 865
Investments	102,074	100,897	1,177	–
Annuities payable	(3,532)	–	–	(3,532)

17. Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. SFAS No. 165 defines two types of subsequent events. The effects of events or transactions that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing financial statements, are recognized in the financial statements. The effects of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date are not recognized in the financial statements. The University adopted SFAS No. 165 as of June 30, 2009. Management of the University has reviewed subsequent events through October 8, 2009 (the date of the issuance of the accompanying financial statements).

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, 2009, 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

October 8, 2009

Stetson University, Inc.

Supplementary Disaggregated Statement of Financial Position

June 30, 2009
(In Thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Total
Assets					
Cash and cash equivalents	$ 16,942	$ –	$ 304	$ 2,669	$ 19,915
Notes and account receivable – net	4,295	5,678	36	925	10,934
Pledges receivable – net	5,159	–	1,219	–	6,378
Inventories	871	–	–	–	871
Investments	656	–	101,388	30	102,074
Funds held in trust by others	–	–	7,958	–	7,958
Property, plant, and equipment, net	–	–	–	133,272	133,272
Other assets	1,409	–	2	796	2,207
Investment in affiliated entity	–	–	2,561	–	2,561
Total assets	$ 29,332	$ 5,678	$ 113,468	$ 137,692	$ 286,170
Liabilities and net assets					
Liabilities:					
Accounts payable	$ 2,051	$ –	$ 111	$ 219	$ 2,381
Accrued liabilities	5,413	–	–	183	5,596
Student deposits and other current liabilities	3,122	–	–	–	3,122
Postretirement benefits	9,136	–	–	–	9,136
Refundable government loan funds	–	4,574	–	–	4,574
Annuities payable	–	–	3,532	–	3,532
Capital leases	–	–	–	802	802
Long-term debt	–	–	–	48,261	48,261
Due to (from) other funds	799	(2,165)	(5,640)	7,006	–
Total liabilities	20,521	2,409	(1,997)	56,471	77,404
Net assets:					
Unrestricted	740	714	19,270	79,997	100,721
Temporarily restricted	8,071	–	6,228	1,224	15,523
Permanently restricted	–	2,555	89,967	–	92,522
Total net assets	8,811	3,269	115,465	81,221	208,766
Total liabilities and net assets	$ 29,332	$ 5,678	$ 113,468	$ 137,692	$ 286,170

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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 year ended June 30, 2009, and have issued our report thereon dated October 8, 2009. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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.

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*.

This report is intended solely for the information and use of management, 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

October 8, 2009