Financial Statements and Supplementary Information

Stetson University, Inc.
Years Ended June 30, 2011 and 2010
With Report of Independent Certified Public Accountants

Ernst & Young LLP

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Stetson University, Inc.

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Years Ended June 30, 2011 and 2010

Contents

Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
www.ey.com

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, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 7, 2010, 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 7, 2011

Stetson University, Inc.

Statements of Financial Position

	June 30 2011	June 30 2010
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 21,005**	$ 19,043
Short-term investments	**9,206**	6,007
Notes and accounts receivable – net *(Note 2)*	**10,057**	12,436
Pledges receivable – net *(Note 3)*	**10,556**	6,059
Inventories	**392**	818
Investments *(Note 4)*	**132,181**	111,187
Funds held in trust by others *(Note 6)*	**9,448**	8,410
Property, plant, and equipment – net *(Note 7)*	**130,661**	129,084
Other assets	**1,636**	1,971
Investment in affiliated entity *(Note 14)*	**3,196**	2,769
Total assets	**$ 328,338**	$ 297,784
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 3,091**	$ 3,164
Accrued liabilities	**5,899**	5,809
Student deposits and other current liabilities	**3,270**	2,874
Postretirement benefits *(Note 11)*	**9,897**	10,830
Refundable government loan funds	**4,744**	4,658
Annuities payable	**3,439**	3,454
Capital leases *(Note 9)*	**400**	609
Long-term debt *(Note 8)*	**50,837**	46,668
Total liabilities	**81,577**	78,066
Net assets:		
Unrestricted	**118,154**	105,975
Temporarily restricted	**27,441**	16,791
Permanently restricted	**101,166**	96,952
Total net assets	**246,761**	219,718
Total liabilities and net assets	**$ 328,338**	$ 297,784

See accompanying notes.

Stetson University, Inc.

Statement of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Operating revenues				
Revenues, gains, and other support:				
Tuition and fees (net of scholarships and fellowships of $40,681)	$ 72,236	$ –	$ –	$ 72,236
Contributions	508	5,588	–	6,096
Income and realized gains on investments – net	375	–	–	375
Endowment income used in operations	1,761	3,818	–	5,579
Sales of educational services	3,726	–	–	3,726
Sales and services of auxiliary enterprises	16,646	–	–	16,646
Governmental grants	2,870	–	–	2,870
Other	1,238	30	–	1,268
Unrealized gains on investments	194	–	–	194
Net assets released from restrictions	8,241	(8,241)	–	–
Total operating revenues, gains, and other support	107,795	1,195	–	108,990
Operating expenses				
Educational and general:				
Instruction	43,413	–	–	43,413
Research	1,351	–	–	1,351
Public service	797	–	–	797
Academic support	11,635	–	–	11,635
Student services	8,601	–	–	8,601
Institutional support	18,432	–	–	18,432
Total education and general	84,229	–	–	84,229
Auxiliary enterprises	22,919			22,919
Total operating expenses	107,148	–	–	107,148
Change in net assets from operations	647	1,195	–	1,842
Nonoperating activities				
Contributions for non-operating activities	314	2,912	2,823	6,049
Funds held in trust by others	28	227	1,020	1,275
Income and realized gains on investments – net	3,241	5,870	–	9,111
Endowment used in operations	(1,761)	(3,818)	–	(5,579)
Net unrealized gains from investments	5,309	8,342	–	13,651
Change in value of split interest agreements	–	81	239	320
Actuarial adjustment to postretirement liability	933	–	–	933
Other	(686)	175	132	(379)
Net assets released from restrictions	4,761	(4,761)	–	–
Increase in investment in affiliated entity	–	427	–	427
Loss on bond refunding	(607)	–	–	(607)
Change in net assets from non-operating activities	11,532	9,455	4,214	25,201
Change in net assets	12,179	10,650	4,214	27,043
Net assets				
Beginning of period	105,975	16,791	96,952	219,718
End of period	$ 118,154	$ 27,441	$ 101,166	$ 246,761

See accompanying notes.

Stetson University, Inc.

Statement of Activities

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Operating revenues				
Revenues, gains, and other support:				
Tuition and fees (net of scholarships and fellowships of $35,814)	$ 71,206	$ –	$ –	$ 71,206
Contributions	543	4,765	–	5,308
Income and realized gains on investments – net	273	–	–	273
Endowment income used in operations	1,723	3,628	–	5,351
Sales of educational services	3,762	–	–	3,762
Sales and services of auxiliary enterprises	17,691	–	–	17,691
Governmental grants	3,087	–	–	3,087
Other	832	–	–	832
Unrealized gains on investments	54	–	–	54
Net assets released from restrictions	5,388	(5,388)	–	–
Total operating revenues, gains, and other support	104,559	3,005	–	107,564
Operating expenses				
Educational and general:				
Instruction	43,293	–	–	43,293
Research	1,411	–	–	1,411
Public service	720	–	–	720
Academic support	12,314	–	–	12,314
Student services	8,195	–	–	8,195
Institutional support	19,060	–	–	19,060
Total education and general	84,993	–	–	84,993
Auxiliary enterprises	22,685	–	–	22,685
Total operating expenses	107,678	–	–	107,678
Change in net assets from operations	(3,119)	3,005	–	(114)
Nonoperating activities				
Contributions for non-operating activities	239	1,001	3,806	5,046
Funds held in trust by others	28	225	480	733
Income and realized gains on investments – net	4,326	866	–	5,192
Endowment income used in operations	(1,723)	(3,628)	–	(5,351)
Net unrealized gains from investments	5,685	1,100	–	6,785
Change in value of split interest agreements	–	8	140	148
Actuarial adjustment to postretirement liability	(1,694)	–	–	(1,694)
Other	(3)	(1)	4	–
Net assets released from restrictions	1,515	(1,515)	–	–
Increase in investment in affiliated entity	–	207	–	207
Change in net assets from non-operating activities	8,373	(1,737)	4,430	11,066
Change in net assets	5,254	1,268	4,430	10,952
Net assets				
Beginning of period	100,721	15,523	92,522	208,766
End of period	$ 105,975	$ 16,791	$ 96,952	$ 219,718

See accompanying notes.

Stetson University, Inc.

Statements of Cash Flows

	Year Ended June 30	
	2011	**2010**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 27,043**	$ 10,952
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	**(1,872)**	(3,498)
Depreciation and amortization	**7,966**	7,758
(Gain) loss on disposal of property, plant, and equipment	**65**	(8)
Income and net realized gains from long-term investments	**(9,111)**	(5,192)
Net unrealized gains from long-term investments	**(13,651)**	(6,785)
Amortization of bond discount and issuance costs	**11**	25
Change in value of split-interest agreements	**(156)**	(115)
Increase in investment in affiliated entity	**(427)**	(207)
Loss on bond refunding	**607**	–
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Notes and accounts receivable	**2,255**	(1,703)
Pledges receivable	**(4,497)**	319
Inventories	**426**	53
Funds held in trust by others	**(1,038)**	(452)
Other assets	**89**	155
Increase (decrease) in liabilities:		
Accounts payable	**(73)**	783
Accrued liabilities	**90**	213
Student deposits and other current liabilities	**396**	(248)
Postretirement benefits	**(933)**	1,694
Net cash provided by operating activities	**7,190**	3,744
Investing activities		
Purchases of property, plant, and equipment	**(9,497)**	(3,394)
Proceeds from sales of property, plant, and equipment	**1**	8
Student loans issued	**(639)**	(579)
Proceeds from student loan collections	**763**	780
Purchases of investments	**(61,274)**	(34,940)
Proceeds from maturities and sales of investments	**60,381**	32,177
Net cash used in investing activities	**(10,265)**	(5,948)

Continued on next page.

Stetson University, Inc.

Statements of Cash Flows (continued)

	Year Ended June 30	
	2011	**2010**
	(In Thousands)	
Financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	**$ 923**	$ 3,441
Investment in plant	**938**	24
Investment in annuity agreements	**35**	100
	1,896	3,565
Other financing activities:		
Increase in federal student loan funds	**86**	84
Proceeds from long-term debt	**5,515**	–
Payments on capital leases	**(322)**	(369)
Payments on long-term debt	**(1,717)**	(1,537)
Payments on annuities payable	**(421)**	(411)
	3,141	(2,233)
Net cash provided by financing activities	**5,037**	1,332
Net change in cash and cash equivalents	**1,962**	(872)
Cash and cash equivalents:		
Beginning of period	**19,043**	19,915
End of period	**$ 21,005**	$ 19,043
Supplemental disclosures of cash flow information		
Interest paid	**$ 2,224**	$ 2,467
Equipment acquired under capital lease	**$ 113**	$ 176

See accompanying notes.

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 were 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.

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:

- Permanently Restricted – 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.

- 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.

1. Business Organization and Significant Accounting Policies (continued)

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 statements of activities. Net assets released from restrictions in the year ended June 30, 2011, is comprised of approximately $8.2 million due to satisfaction of program restrictions and scholarship awards, $4.0 million due to recovery of prior year losses on endowment, and approximately $700,000 due to acquisition of capital assets.

Operating and Nonoperating Activities

The statements of activities reports the change in net assets from operating and nonoperating activities. Operating revenues consist of substantially all the activity of the University except for certain items specifically considered to be of a nonoperating nature. Contributions included in nonoperating activities consist of bequests and other unrestricted gifts not solicited as part of the annual fundraising campaigns, gifts restricted for the acquisition of capital assets, and gifts restricted to endowment funds. Nonoperating activities also include realized and unrealized gains/losses on endowment income not used in operations, change in net present value of split interest agreements, change in actuarial value of postretirement liability, and significant items of an unusual or nonrecurring nature.

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 accompanying statements 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.

1. Business Organization and Significant Accounting Policies (continued)

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 accompanying statements of activities.

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.

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.

Short-Term Investments

Short-term investments include assets invested in a managed fund that holds highly liquid fixed-income securities, short-term U.S. Treasury securities, and other short-term investments with varying maturities for an overall fund average of less than one year. All short-term investments are recorded at fair value.

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 accompanying statements 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 assesses a finance charge against past due student receivables that are deferred under a monthly payment plan.

1. Business Organization and Significant Accounting Policies (continued)

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 accompanying statements 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.

Pledges Receivable

Pledges receivable represent unconditional promises to give with collection periods through 2025. 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 print shop 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 accompanying statement of activities. Real estate and mortgage notes receivable are stated at fair values established by an independent appraisal.

1. Business Organization and Significant Accounting Policies (continued)

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.

Endowment

ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, states that not-for-profit organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (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, 2011, the State of Florida had not adopted UPMIFA; therefore, the University is not subject to its provisions. ASC 958-205 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 beneficiary, 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 then these values are 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 $132.2 million recorded as investments in the accompanying statement of financial position at June 30, 2011, $4.6 million represents split-interest agreements, and the associated liabilities total $3.4 million. Of the $111.2 million recorded as investments in the accompanying statement of financial position at June 30, 2010, $4.3 million represents split-interest agreements, and the associated liabilities total $3.5 million.

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.

1. Business Organization and Significant Accounting Policies (continued)

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 through 2019. The prepaid rents are amortized over the life of the lease and, as of June 30, 2011 and 2010, the University had $488,000 and $553,000, respectively, included in other assets in the statements of financial position pertaining to this lease.

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 primarily 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.

1. Business Organization and Significant Accounting Policies (continued)

Postretirement Benefits

The University accounts for its postretirement benefits on an accrual basis as discussed in Note 11.

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, 2011, is treated as deferred revenue and is included with student deposits and other current liabilities on the accompanying statements of financial position. The University presents amounts expended for scholarships and fellowships as a reduction of tuition and fees revenue on the accompanying statement of activities.

Advertising Costs

The costs of advertising are charged to operations in the year incurred. Advertising costs amounted to approximately $554,000 and $511,000 for the years ended June 30, 2011 and 2010, respectively.

Fair Value of Financial Instruments

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends the Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification to add new requirements for disclosures regarding transfers of financial assets and financial liabilities into and out of Levels 1 and 2 in the fair value hierarchy and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value. See Note 16 for additional disclosures required by ASU 2010-06.

Reclassification

Certain amounts have been reclassified from prior year financial statements to conform with current year presentation.

2. Notes and Accounts Receivable

	June 30 2011	June 30 2010
	(In Thousands)	
Student accounts receivable (net of allowance of $245 in 2011 and $357 in 2010)	**$ 894**	$ 1,900
Student loans receivable (net of allowance of $1,415 in 2011 and $1,850 in 2010)	**5,052**	4,780
Grants receivable	**1,971**	3,010
Accrued interest receivable	**412**	374
Other receivables	**1,728**	2,372
	$ 10,057	$ 12,436

3. Pledges Receivable

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

	June 30 2011	June 30 2010
	(In Thousands)	
One year or less	**$ 3,736**	$ 2,697
Between one year and five years	**6,114**	3,602
More than five years	**1,987**	580
	11,837	6,879
Less, discount of $1,044 in 2011 and $682 in 2010 and allowance of $237 in 2011 and $138 in 2010	**(1,281)**	(820)
	$ 10,556	$ 6,059

3. Pledges Receivable (continued)

Pledges receivable are classified as follows:

	June 30	
	2011	**2010**
	(In Thousands)	
Permanently restricted	**$ 3,451**	$ 1,551
Temporarily restricted	**7,105**	4,508
	$ 10,556	$ 6,059

Approximately 70% of the University's pledges receivable at June 30, 2011 and 2010 were provided by six and twelve contributors, respectively. Included in net pledges receivable as of June 30, 2011 and 2010 are approximately $5.4 million and $4.0 million, 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			
	2011		**2010**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
	(In Thousands)			
Cash and equivalents	**$ 983**	**$ 983**	$ 953	$ 953
Equity securities	**51,904**	**80,832**	48,483	62,978
Debt securities	**58,606**	**49,192**	55,402	46,080
Assets held for sale[1]	**1,174**	**1,174**	1,176	1,176
	$ 112,667	**$ 132,181**	$ 106,014	$ 111,187

[1]Assets held for sale is comprised of donated property and other noncash contributions which are recorded at fair value as of the period end. The fair value is based on third-party appraisal or other observable inputs for similar assets.

4. Investments (continued)

Income and net realized gains and losses on investments for the year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Total
		(In Thousands)	
Income on endowment funds	**$ 808**	**$ 2,086**	**$ 2,894**
Other investment income	**373**	**–**	**373**
Net realized gains on endowment funds	**2,420**	**3,784**	**6,204**
Net realized gains on other investments	**15**	**–**	**15**
	$ 3,616	**$ 5,870**	**$ 9,486**
Income and realized gains on investments – net from operating activity	**$ 375**	**$ –**	**$ 375**
Income and realized gains on investments – net from non-operating activities	**3,241**	**5,870**	**9,111**
	$ 3,616	**$ 5,870**	**$ 9,486**

Income and net realized gains and losses on investments for the year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Total
		(In Thousands)	
Income on endowment funds	$ 2,791	$ 550	$ 3,341
Other investment income	285	–	285
Net realized gains on endowment funds	1,523	316	1,839
	$ 4,599	$ 866	$ 5,465
Income and realized gains on investments – net from operating activity	$ 273	$ –	$ 273
Income and realized gains on investments – net from non-operating activities	4,326	866	5,192
	$ 4,599	$ 866	$ 5,465

4. Investments (continued)

Investment income is net of management fees and expenses of approximately $290,000 and $187,000 for the years ended June 30, 2011 and 2010.

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, 2011			
	Cost	**Market Value**	**Net Gain**	**Market Value Per Share**
	(In Thousands)			
End of period	**$ 105,281**	**$ 123,772**	**$ 18,491**	**$ 10.90**
Beginning of period	**97,728**	**102,806**	**5,078**	**9.19**
Net change in unrealized appreciation for the period			**13,413**	
Net realized gain for the period			**6,113**	
Net gain			**$ 19,526**	

Earnings on the Fund include dividends and interest income. For the years ended June 30, 2011 and 2011, the earnings were $3.3 million and $3.5 million, respectively, or $0.29 per share, as computed on ending shares.

4. Investments (continued)

	Year Ended June 30, 2010			
	Cost	Market Value	Net Gain	Market Value Per Share
	(In Thousands)			
End of period	$ 97,728	$ 102,806	$ 5,078	$ 9.19
Beginning of period	95,654	94,139	(1,515)	8.85
Net change in unrealized appreciation for the period			6,593	
Net realized gain for the period			2,241	
Net gain			$ 8,834	

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.

Effective July 1, 2011, the Uniform Prudent Management of Institutional Funds Act in Chapter 617, *Florida Statutes*, will replace FUMIFA. The University does not expect this to significantly impact the administration or reporting of the University's endowment.

5. Endowment (continued)

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, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Donor-restricted endowment funds	**$ 10**	**$ 7,908**	**$ 96,155**	**$ 104,073**
Board-designated endowment funds	**38,286**	**5,376**	**–**	**43,662**
	$ 38,296	**$ 13,284**	**$ 96,155**	**$ 147,735**

Endowment Net Assets were composed of the following as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Donor-restricted endowment funds	$ (5,484)	$ 1,610	$ 92,178	$ 88,304
Board-designated endowment funds	31,549	5,007	–	36,556
	$ 26,065	$ 6,617	$ 92,178	$ 124,860

5. Endowment (continued)

Changes to endowment net assets for the fiscal year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment net assets, at beginning of year	**$ 26,065**	**$ 6,617**	**$ 92,178**	**$ 124,860**
Investment return:				
Investment income	**1,323**	**2,194**	**–**	**3,517**
Realized gain	**2,419**	**3,784**	**–**	**6,203**
Unrealized gain	**9,376**	**4,275**	**1,020**	**14,671**
Total investment return	**13,118**	**10,253**	**1,020**	**24,391**
Contributions	**–**	**–**	**2,823**	**2,823**
Expenditures	**(1,332)**	**(4,237)**	**–**	**(5,569)**
Other changes:				
Transfers to create board-designated endowment funds	**–**	**671**	**–**	**671**
Other endowment activity	**445**	**(20)**	**134**	**559**
Endowment net assets, at end of year	**$ 38,296**	**$ 13,284**	**$ 96,155**	**$ 147,735**

5. Endowment (continued)

Changes to Endowment Net Assets for the Fiscal Year Ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment net assets, at beginning of year	$ 19,271	$ 4,243	$ 87,922	$ 111,436
Investment return:				
Investment income	2,970	550	–	3,520
Realized gain	1,939	316	–	2,255
Unrealized gain	5,687	1,201	480	7,368
Total investment return	10,596	2,067	480	13,143
Contributions	–	–	3,773	3,773
Expenditures	(3,704)	(1,920)	–	(5,624)
Other changes:				
Transfers to create board-designated endowment funds	–	2,225	–	2,225
Other endowment activity	(98)	2	3	(93)
Endowment net assets, at end of year	$ 26,065	$ 6,617	$ 92,178	$ 124,860

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, 2011 and 2010, the amount of these deficiencies totaled approximately $4.2 million and $9.7 million, 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, 2011 and 2010 amounted to approximately $9.4 million and $8.4 million, respectively. Included in these balances are various Charitable Remainder Unitrusts and Annuity Trusts that amount to $855,000 and $837,000, respectively.

7. Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30	
	2011	**2010**
	(In Thousands)	
Land	**$ 6,118**	$ 6,087
Land improvements, building, and facilities	**163,364**	158,445
Furniture and equipment	**21,621**	21,716
Library books and collections	**29,344**	28,270
Construction-in-progress	**1,597**	449
Equipment under capital lease	**2,057**	1,997
	224,101	216,964
Less accumulated depreciation and amortization	**(93,440)**	(87,880)
	$ 130,661	$ 129,084

Amortization expense relating to the capitalized leases was approximately $338,000 and $377,000 for the years ended June 30, 2011 and 2010, respectively. Depreciation expense relating to constructed and purchased property and equipment was approximately $7.6 million and $7.4 million for the years ended June 30, 2011 and 2010, respectively.

Interest capitalized during the years ended June 30, 2011 and 2010 was approximately $18,000 and $5,000, respectively.

Construction-in-progress at June 30, 2011 relates primarily to renovations of existing facilities and to residence halls. Estimated costs to complete these projects amount to approximately $6.6 million.

The University recognized approximately $879,000 and $962,000 for rental income on various facilities during the years ended June 30, 2011 and 2010, respectively.

8. Long-Term Debt

Long-term debt consists of the following:

	June 30 2011	June 30 2010
	(In Thousands)	
Bonds payable		
Stetson University Volusia County Educational Facilities Authority (VCEFA) Educational Facilities Revenue Bonds of 1996 – defeased with proceeds from Stetson University VCEFA Educational Facilities Revenue and Refunding Bonds of 2010	**$ –**	$ 6,575
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue Bonds of 1999 – defeased with proceeds from Stetson University VCEFA Educational Facilities Revenue and Refunding Bonds of 2010	**–**	17,765
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2005 – payable in annual installments of $850,000 to $1,615,000 through 2026, plus semiannual interest payments at rates from 3.0% to 5.0%, collateralized by the University's tuition revenues	**17,690**	18,505
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2010 – payable in annual installments of $925,000 to $3,660,000 through 2030, plus semiannual interest payments at a fixed rate of 3.57%, collateralized by the University's tuition revenues	**29,265**	–
	46,955	42,845
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	**2,978**	3,134
Other notes payable	**292**	303
	50,225	46,282
Unamortized discounts on bonds payable	**–**	(303)
Unamortized premium on bonds payable	**612**	689
	$ 50,837	$ 46,668

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 the London Interbank Offer Rate 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, 2011 and 2010. 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 2011 are as follows:

	Principal				
	Bonds	**Other**	**Total**	**Interest**	**Total Debt Service**
			(In Thousands)		
Year ended June 30:					
2012	$ 1,775	$ 319	$ 2,094	$ 2,076	$ 4,170
2013	1,835	193	2,028	2,006	4,034
2014	1,905	205	2,110	1,925	4,035
2015	1,975	210	2,185	1,840	4,025
2016	2,065	213	2,278	1,746	4,024
Thereafter	37,400	2,130	39,530	11,923	51,453
	$ 46,955	$ 3,270	$ 50,225	$ 21,516	$ 71,741

During fiscal year 2011, the University issued $30 million of Series 2010 VCEFA Educational Facilities Revenue and Refunding Bonds. The net proceeds from the sale of the Bonds were used to pay the costs associated with the issuance of the Bonds and were used to refund all remaining maturities of the University's 1996B and 1999 Bonds (VCEFA Series 1996B and 1999). $24.3 million of the proceeds were used to refund the 1996B and 1999 Bonds. The remaining $5.7 million of the proceeds were used to pay for bond issuance costs of $145,000 and for landscape enhancements, classroom improvements, and lighting retrofits on the DeLand campus. The University has irrevocably placed on deposit with a trustee amounts that are sufficient to provide for payment of the interest and principal on the VCEFA Educational Facilities Revenue Bonds of 1996 and 1999. This transaction resulted in the legal defeasance of the 1996B and 1999 Bonds and a Net Present Value savings to the University of approximately $3.8 million.

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, 2011:

	(In Thousands)
Year ending June 30:	
2012	$ 292
2013	91
2014	39
2015	2
Total minimum lease payments	424
Less amount representing interest	(24)
Present value of net minimum lease payments	$ 400

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:	
2012	$ 235
2013	187
2014	130
2015	46
2016	1
	$ 599

Rent expense incurred under operating leases amounted to approximately $967,000 and $873,000 for the years ended June 30, 2011 and 2010, respectively.

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 years ended June 30, 2011 and 2010 amounted to approximately $4.3 million and $4.2 million, respectively.

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

ASC 958-715, *Not-for-Profit Entities: Compensation-Retirement Benefits*, requires recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the accompanying 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 ASC 958-715 in fiscal year 2008 and recognized the funded status of the Postretirement Plan in its 2008 statement of financial position.

	June 30	
	2011	**2010**
	(In Thousands)	
Change in accumulated postretirement benefit obligation:		
Benefit obligation at beginning of year	**$ 10,830**	$ 9,136
Service cost	**112**	96
Interest cost	**516**	564
Plan participants' contributions	**518**	568
Amendments	**(1,492)**	–
Actuarial loss	**679**	1,954
Benefit payments	**(1,313)**	(1,488)
Medicare subsidy	**47**	–
Benefit obligation at end of year	**$ 9,897**	$ 10,830
Change in Plan assets:		
Fair value of plan assets at beginning of year	**$ –**	$ –
University contributions	**749**	920
Plan participants' contributions	**517**	568
Benefits paid	**(1,313)**	(1,488)
Medicare subsidy received	**47**	–
Fair value of plan assets at end of year	**$ –**	$ –

11. Retirement and Postretirement Benefits (continued)

	June 30 2011	June 30 2010
	(In Thousands)	
Funded status of the Plan:		
Funded status at end of year	**$ (9,897)**	$ (10,830)
Unrecognized actuarial loss	**–**	–
Unrecognized prior service cost	**–**	–
Net accrued benefit liability	**$ (9,897)**	$ (10,830)
Amounts recognized in the statement of financial position:		
Postretirement benefit liability	**$ 9,897**	$ 10,830
Net amount recognized	**$ 9,897**	$ 10,830
Amounts recognized in the statement of activities:		
Net loss	**$ 8,753**	$ 8,742
Prior service credit	**(2,443)**	(3,580)
Net postretirement expense	**$ 6,310**	$ 5,162
Assumptions as of the end of the year:		
Discount rate	**5.25%**	5.00%
Expected return on assets	**n/a**	n/a
Rate of compensation increases	**n/a**	n/a
Accumulated Postretirement Benefit Obligation (APBO):		
Active employees	**$ 2,194**	$ 2,419
Retirees	**7,703**	8,411
Total APBO	**9,897**	10,830
Unrecognized gain (loss)	**–**	–
Accrued postretirement benefit liability	**$ 9,897**	$ 10,830

11. Retirement and Postretirement Benefits (continued)

	June 30 2011	June 30 2010
	(In Thousands)	
Net periodic postretirement benefit cost:		
Service costs (benefits earned during the period)	**$ 112**	$ 96
Interest cost (on accumulated postretirement benefit obligation)	**516**	564
Amortization of net actuarial loss	**669**	523
Amortization of prior service credit	**(2,897)**	(2,746)
Net periodic postretirement benefit costs	**$ (1,600)**	$ (1,563)

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended June 30, 2011. 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, 2011:

	One Percentage Point Increase	One Percentage Point Decrease
	(In Thousands)	
Effect on total service and interest cost	$ 71	$ (61)
Effect on end of year postretirement benefit obligation	1,103	(937)

11. Retirement and Postretirement Benefits (continued)

The University's postretirement benefits are unfunded; therefore, cash contributions for postretirement benefits are equal to the benefit payments.

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

	Benefit Payments *(In Thousands)*
Year ending June 30:	
2012	$ 701
2013	741
2014	738
2015	751
2016	738
2017-2020	3,766

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act), which introduces a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit, was enacted. On May 19, 2004, the FASB issued FSP No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* to discuss certain accounting and disclosure issues raised by the Act. FSP 106-2 addresses accounting for the federal subsidy for the sponsors of single employer defined benefit postretirement health care plans.

The University has concluded that the prescription drug benefits provided under the postretirement plan are actuarially equivalent to the Medicare benefit as necessary to qualify for the subsidy. The reported net periodic benefit costs of the postretirement plan in the accompanying statement of activities reflects the effects of the Act.

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 students of the University utilize a 338-bed housing facility. The University collects payments from students and remits these funds to the trustee; however, there is no revenue and expense impact to the University's financials. 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. The University does not pay nor is it responsible for the debt. Additionally, no building lease exists between the University and CHF-DeLand. When the financing is paid in full, the ownership interest in the facility will or may 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, 2011 and 2010 amounted to approximately $477,000 and $594,000, respectively. Amounts due from CHF-DeLand for operating expense reimbursements were approximately $102,000 and $158,000 at June 30, 2011 and 2010, respectively.

13. Related Party Transactions

During the 2011 and 2010 fiscal years, the University paid $1.3 million and $1.5 million, respectively, 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, 2011. Also during 2011, 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 change in net assets of the Foundation for the years ended June 30, 2011 and 2010 was $427,000 and $207,000, respectively. The University's interest in the net assets for the Foundation as of June 30, 2011 and 2010 amounted to $3.2 million and $2.8 million, respectively.

15. Detail of Restricted Net Assets

	Temporarily Restricted	Permanently Restricted
	(In Thousands)	
June 30, 2011		
Scholarships	**$ 8,906**	**$ 41,572**
Programs	**9,487**	**52,772**
Capital	**780**	–
Annuities	**1,163**	**816**
Loans	–	**2,555**
Pledges	**7,105**	**3,451**
	$ 27,441	**$ 101,166**
June 30, 2010		
Scholarships	$ 5,864	$ 40,095
Programs	4,687	52,173
Capital	661	–
Annuities	1,071	578
Loans	–	2,555
Pledges	4,508	1,551
	$ 16,791	$ 96,952

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 ASC 820, *Fair Value Measurements*. Under ASC 820, 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 ASC 820 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.

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

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

The University recognizes any transfers of assets or liabilities between Levels 1 and 2 as occurring on the actual date of the transfer. During fiscal years 2011 and 2010, there were no transfers between Levels 1 and 2.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments in accordance with the provisions of ASC 820:

Cash and Cash Equivalents – The carrying amounts reported in the accompanying statements of financial position 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.

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.

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

Estimated fair values of the University's financial instruments at June 30, 2011 are as follows:

Description	Carrying Amount 2011	Fair Value 2011	Carrying Amount 2010	Fair Value 2010
	(In Thousands)			
Financial assets (liabilities)				
Cash and cash equivalents	**$ 21,005**	**$ 21,005**	$ 19,043	$ 19,043
Bonds payable	**(46,955)**	**(47,662)**	(42,845)	(43,648)

The following table presents the fair values for assets and liabilities measured on a recurring basis as of June 30, 2011:

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)			
Short-term investments	**$ 9,206**	**$ 9,206**	**$ –**	**$ –**
Funds held in trust by others	**9,448**	**–**	**8,593**	**855**
Investments:				
Cash and equivalents	**983**	**983**	**–**	**–**
Equity securities:				
Domestic	**69,233**	**69,233**	**–**	**–**
International	**11,599**	**11,599**	**–**	**–**
Debt securities:				
U.S. treasury securities	**969**	**–**	**969**	**–**
U.S. government agencies	**1,466**	**–**	**1,466**	**–**
Mortgages	**7,760**	**–**	**7,766**	**–**
Domestic corporate bonds	**19,864**	**–**	**19,864**	**–**
Foreign bonds	**19,127**	**–**	**19,127**	**–**
Assets held for sale [1]	**1,174**	**–**	**1,174**	**–**
Investments total	**132,181**	**81,815**	**50,366**	**–**
Annuities payable	**(3,439)**	**–**	**–**	**(3,439)**

[1] Assets held for sale is comprised of donated property and other noncash contributions which are recorded at fair value as of the period end. The fair value is based on third party appraisal or other observable inputs for similar assets.

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

The following table presents the fair values for assets and liabilities measured on a recurring basis as of June 30, 2010:

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)		
Short-term investments	$ 6,007	$ 6,007	$ –	$ –
Funds held in trust by others	8,410	–	7,573	837
Investments:				
Cash and equivalents	953	953	–	–
Equity securities:				
Domestic	53,970	53,970	–	–
International	9,008	9,008	–	–
Debt securities:				
U.S. treasury securities	6,149	–	6,149	–
U.S. government agencies	1,809	–	1,809	–
Mortgages	9,490	–	9,490	–
Domestic corporate bonds	15,584	–	15,584	–
Foreign bonds	13,048	–	13,048	–
Assets held for sale [1]	1,176	–	1,176	–
Investments total	111,187	63,931	47,256	–
Annuities payable	(3,454)	–	–	(3,454)

[1] Assets held for sale is comprised of donated property and other noncash contributions which are recorded at fair value as of the period end. The fair value is based on third party appraisal or other observable inputs for similar assets.

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

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2011.

	Funds Held in Trust by Others	Annuities Payable
	(In Thousands)	
Balance, at beginning of year	**$ 837**	**$ (3,454)**
Purchases, sales, issuances, and settlements (net)	**–**	**427**
Actuarial and present value adjustments	**18**	**(412)**
Balance, at end of year	**$ 855**	**$ (3,439)**

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2010.

	Funds Held in Trust by Others	Annuities Payable
	(In Thousands)	
Balance, at beginning of year	$ 865	$ (3,532)
Purchases, sales, issuances, and settlements (net)	–	344
Actuarial and present value adjustments	(28)	(266)
Balance, at end of year	$ 837	$ (3,454)

17. Subsequent Events

ASC 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. ASC 855 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. Management of the University has reviewed subsequent events through October 7, 2010 (the date of the issuance of the accompanying financial statements).

On July 1, 2011, the University entered into a Revolving Credit Loan with Everbank for $1,000,000 to provide funding for the completion of landscape enhancements, classroom improvements, and campus lighting retrofits. Draws on the loan are initiated by the University when needed. As of the report date, the loan balance amounted to approximately $10,000 which represents closing costs for the loan. Interest only payments are required through December, 2011. Equal installments of principal and interest commence in January, 2012, and continue each month through May, 2026. Interest on the loan is fixed at a rate of 6.15% per annum.

In July, 2011, the University demolished Stetson Hall, a residence hall that was used to house about 150 students. The original structure was built in 1886 and later expanded in 1946. Various renovations and improvements during the life of the structure were capitalized as additions to historical cost, and the net book value at the time of disposal was $543,000.

Supplementary Information

Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
www.ey.com

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, 2011, 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 7, 2011

Stetson University, Inc.

Supplementary Disaggregated Statement of Financial Position

June 30, 2011
(In Thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Total
Assets					
Cash and cash equivalents	$ 19,895	$ –	$ 767	$ 343	$ 21,005
Short-term investments	9,206	–	–	–	9,206
Notes and account receivable – net	4,593	5,428	36	–	10,057
Pledges receivable – net	7,105	–	3,451	–	10,556
Inventories	392	–	–	–	392
Investments	1,065	–	131,076	40	132,181
Funds held in trust by others	–	–	9,448	–	9,448
Property, plant, and equipment, net	–	–	–	130,661	130,661
Other assets	1,167	–	–	469	1,636
Investment in affiliated entity	–	–	3,196	–	3,196
Total assets	$ 43,423	$ 5,428	$ 147,974	$ 131,513	$ 328,338
Liabilities and net assets					
Liabilities:					
Accounts payable	$ 2,716	$ –	$ 123	$ 252	$ 3,091
Accrued liabilities	5,741	–	–	158	5,899
Student deposits and other current liabilities	3,270	–	–	–	3,270
Postretirement benefits	9,897	–	–	–	9,897
Refundable government loan funds	–	4,744	–	–	4,744
Annuities payable	–	–	3,439	–	3,439
Capital leases	–	–	–	400	400
Long-term debt	–	–	–	50,837	50,837
Due to (from) other funds	8,938	(2,773)	(8,498)	2,333	–
Total liabilities	30,562	1,971	(4,936)	53,980	81,577
Net assets:					
Unrestricted	2,203	902	38,297	76,752	118,154
Temporarily restricted	10,658	–	16,002	781	27,441
Permanently restricted	–	2,555	98,611	–	101,166
Total net assets	12,861	3,457	152,910	77,533	246,761
Total liabilities and net assets	$ 43,423	$ 5,428	$ 147,974	$ 131,513	$ 328,338

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Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
www.ey.com

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, 2011, and have issued our report thereon dated October 7, 2011. 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 7, 2011

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