FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Stetson University, Inc.
Years Ended June 30, 2012 and 2011
With Report of Independent Certified Public Accountants

Ernst & Young LLP

ERNST & YOUNG

Stetson University, Inc.

Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

Contents

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Report of Independent Certified Public Accountants

The Board of Trustees
Stetson University, Inc.

We have audited the accompanying statements of financial position of Stetson University, Inc. (the University) as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 September 28, 2012, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst + Young LLP

September 28, 2012

Stetson University, Inc.

Statements of Financial Position

	June 30 2012	June 30 2011
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 25,449**	$ 21,005
Short-term investments	**7,863**	9,206
Notes and accounts receivable – net *(Note 2)*	**11,049**	10,057
Pledges receivable – net *(Note 3)*	**8,456**	10,556
Inventories	**333**	392
Investments *(Note 4)*	**136,613**	132,181
Funds held in trust by others *(Note 6)*	**8,892**	9,448
Property, plant, and equipment – net *(Note 7)*	**133,874**	130,661
Other assets	**3,355**	1,636
Investment in affiliated entity *(Note 14)*	**3,176**	3,196
Total assets	**$ 339,060**	$ 328,338
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 4,460**	$ 3,091
Accrued liabilities	**6,316**	5,899
Student deposits and other current liabilities	**3,221**	3,270
Postretirement benefits *(Note 11)*	**10,558**	9,897
Refundable government loan funds	**4,844**	4,744
Annuities payable	**3,248**	3,439
Capital leases *(Note 9)*	**274**	400
Long-term debt *(Note 8)*	**55,804**	50,837
Total liabilities	**88,725**	81,577
Net assets:		
Unrestricted	**118,775**	118,154
Temporarily restricted	**30,182**	27,441
Permanently restricted	**101,378**	101,166
Total net assets	**250,335**	246,761
Total liabilities and net assets	**$ 339,060**	$ 328,338

See accompanying notes.

Stetson University, Inc.

Statement of Activities

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Operating revenues				
Revenues, gains, and other support:				
Tuition and fees (net of scholarships and fellowships of $47,116)	$ 77,465	$ –	$ –	$ 77,465
Contributions	440	2,737	–	3,177
Income and realized gains on investments – net of fees	489	–	–	489
Endowment income used in operations	1,770	3,701	–	5,471
Sales of educational services	3,426	–	–	3,426
Sales and services of auxiliary enterprises	16,073	–	–	16,073
Governmental grants	2,908	–	–	2,908
Other	1,118	–	–	1,118
Unrealized loss on investments	(124)	–	–	(124)
Net assets released from restrictions	7,761	(7,761)	–	–
Total operating revenues, gains, and other support	111,326	(1,323)	–	110,003
Operating expenses				
Educational and general:				
Instruction	46,011	–	–	46,011
Research	1,070	–	–	1,070
Public service	820	–	–	820
Academic support	12,615	–	–	12,615
Student services	9,224	–	–	9,224
Institutional support	17,518	–	–	17,518
Total education and general	87,258	–	–	87,258
Auxiliary enterprises	22,545	–	–	22,545
Total operating expenses	109,803	–	–	109,803
Change in net assets from operations	1,523	(1,323)	–	200
Nonoperating activities				
Contributions for non-operating activities	14	5,864	2,064	7,942
Funds held in trust by others	53	119	(166)	6
Income and realized gains on investments – net of fees	1,981	4,682	–	6,663
Endowment income used in operations	(1,770)	(3,701)	–	(5,471)
Net unrealized loss from investments	(1,650)	(2,767)	–	(4,417)
Change in value of split interest agreements	–	139	(412)	(273)
Postretirement changes other than net periodic cost	(662)	–	–	(662)
Other	(940)	1,820	(1,274)	(394)
Net assets released from restrictions	2,072	(2,072)	–	–
Decrease in investment in affiliated entity	–	(20)	–	(20)
Change in net assets from non-operating activities	(902)	4,064	212	3,374
Change in net assets	621	2,741	212	3,574
Net assets				
Beginning of period	118,154	27,441	101,166	246,761
End of period	$ 118,775	$ 30,182	$ 101,378	$ 250,335

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 $40,260)	$ 72,657	$ –	$ –	$ 72,657
Contributions	508	5,588	–	6,096
Income and realized gains on investments – net of fees	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	108,216	1,195	–	109,411
Operating expenses				
Educational and general:				
Instruction	44,675	–	–	44,675
Research	1,360	–	–	1,360
Public service	809	–	–	809
Academic support	11,835	–	–	11,835
Student services	8,822	–	–	8,822
Institutional support	16,899	–	–	16,899
Total education and general	84,400	–	–	84,400
Auxiliary enterprises	23,169	–	–	23,169
Total operating expenses	107,569	–	–	107,569
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 of fees	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
Postretirement changes other than net periodic cost	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.

Statements of Cash Flows

	Year Ended June 30	
	2012	**2011**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 3,574**	$ 27,043
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	**(8,674)**	(4,149)
Depreciation and amortization	**8,141**	7,966
Loss on disposal of property, plant, and equipment	**580**	65
Income and net realized gains from long-term investments	**(6,663)**	(9,111)
Net unrealized (gains) losses from long-term investments	**4,417**	(13,651)
Amortization of bond discount and issuance costs	**(2)**	11
Change in value of split-interest agreements	**150**	(156)
Change in investment in affiliated entity	**20**	(427)
Loss on bond refunding	**–**	607
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Notes and accounts receivable	**(883)**	2,255
Pledges receivable	**2,100**	(4,497)
Inventories	**59**	426
Funds held in trust by others	**556**	(1,038)
Other assets	**(1,674)**	89
Increase (decrease) in liabilities:		
Accounts payable	**1,369**	(73)
Accrued liabilities	**417**	90
Student deposits and other current liabilities	**(49)**	396
Postretirement benefits	**661**	(933)
Net cash provided by operating activities	**4,099**	4,913
Investing activities		
Purchases of property, plant, and equipment	**(11,728)**	(9,497)
Proceeds from sales of property, plant, and equipment	**8**	1
Student loans issued	**(717)**	(639)
Proceeds from student loan collections	**608**	763
Purchases of investments	**(67,818)**	(61,274)
Proceeds from maturities and sales of investments	**66,935**	60,381
Net cash used in investing activities	**(12,712)**	(10,265)

Stetson University, Inc.

Statements of Cash Flows (continued)

	Year Ended June 30 2012	2011
	(In Thousands)	
Financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	**$ 2,758**	$ 923
Investment in plant and other	**5,865**	3,215
Investment in annuity agreements	**135**	35
	8,758	4,173
Other financing activities:		
Increase in federal student loan funds	**100**	86
Proceeds from long-term debt	**6,976**	5,515
Payments on capital leases	**(340)**	(322)
Payments on long-term debt	**(2,052)**	(1,717)
Payments on annuities payable	**(385)**	(421)
	4,299	3,141
Net cash provided by financing activities	**13,057**	7,314
Net change in cash and cash equivalents	**4,444**	1,962
Cash and cash equivalents:		
Beginning of period	**21,005**	19,043
End of period	**$ 25,449**	$ 21,005
Supplemental disclosures of cash flow information		
Interest paid	**$ 2,177**	$ 2,224
Equipment acquired under capital lease	**$ 214**	$ 113

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, 2012, are comprised of approximately $7.9 million due to satisfaction of program restrictions and scholarship awards and approximately $1.9 million 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 scholarship bequests and other restricted 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.

Included in cash and equivalents at June 30, 2012, are $3,318,000 of proceeds from the Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2011. This balance is subject to restrictions imposed by the bond covenants and limited to use on authorized bond projects. The entire balance is invested in short-term commercial paper with the bond trustee and, as such, is not guaranteed by the FDIC.

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

1. Business Organization and Significant Accounting Policies (continued)

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.

Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through the Federal Perkins loan program or institutional resources. At June 30, 2012 and 2011, student loans represented 1.5% of total assets.

At June 30, student loans consisted of the following:

	June 30	
	2012	**2011**
	(In Thousands)	
Federal Perkins loan program	**$ 5,796**	$ 5,583
Institutional programs	**758**	884
	6,554	6,467
Less allowance for doubtful accounts:		
Beginning of year	**(1,415)**	(1,850)
Adjustments	**(108)**	425
Write-offs	**4**	10
End of year	**(1,519)**	(1,415)
Student loans receivable, net	**$ 5,035**	$ 5,052

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of $4.8 million and $4.7 million at June 30, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

1. Business Organization and Significant Accounting Policies (continued)

At June 30, 2012 and 2011, the following amounts were past due under student loan programs:

	1-60 Days Past Due	60-90 Days Past Due	90+ Days Past Due	Total Past Due
	(In Thousands)			
2012	**$ 591**	**$ 347**	**$ 744**	**$ 1,682**
2011	$ 398	$ 239	$ 500	$ 1,137

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

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, which approximates fair value at date of the pledges. Unconditional promises to give in future periods are initially recorded at estimated fair value (net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges. The discount rates are determined at the time the unconditional promise to give is initially received, and are determined using a risk adjusted rate applied to most likely cash flows. The allowance for uncollectible pledges is based on pledge activity. Large pledges are reviewed on a case-by-case basis. The write-off history as a percentage of outstanding contributions receivables is considered in establishing an appropriate allowance.

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.

1. Business Organization and Significant Accounting Policies (continued)

Investments

Investments in marketable equity securities and debt securities, including mutual funds, are recorded at their estimated fair values, which are based on quoted market prices or recognized pricing services. Alternative investments (nontraditional, not readily-marketable assets) are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuation of these investments may be determined by the investment manager. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. 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, 2012, the state of Florida has adopted its own version of UPMIFA effective July 1, 2012. 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.

1. Business Organization and Significant Accounting Policies (continued)

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.

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 $136.6 million recorded as investments in the accompanying statement of financial position at June 30, 2012, $3.2 million represents split-interest agreements, and the associated liabilities total $3.2 million. 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.

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.

1. Business Organization and Significant Accounting Policies (continued)

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. 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 and are not depreciated.

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 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 through 2019. The prepaid rents are amortized over the life of the lease and, as of June 30, 2012 and 2011, the University had $423,000 and $488,000, 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.

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.

1. Business Organization and Significant Accounting Policies (continued)

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.

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, 2012, 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 $723,000 and $554,000 for the years ended June 30, 2012 and 2011, respectively.

1. Business Organization and Significant Accounting Policies (continued)

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	
	2012	**2011**
	(In Thousands)	
Student accounts receivable (net of allowance of $284 in 2012 and $245 in 2011)	**$ 1,226**	$ 894
Student loans receivable (net of allowance of $1,519 in 2012 and $1,415 in 2011)	**5,035**	5,052
Grants receivable	**2,565**	2,385
Accrued interest receivable	**559**	412
Other receivables	**1,664**	1,314
	$ 11,049	$ 10,057

3. Pledges Receivable

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

	June 30 2012	June 30 2011
	(In Thousands)	
One year or less	**$ 4,414**	$ 3,736
Between one year and five years	**3,288**	6,114
More than five years	**1,777**	1,987
	9,479	11,837
Less, discount of $833 in 2012 and $1,044 in 2011 and allowance of $190 in 2012 and $237 in 2011	**(1,023)**	(1,281)
	$ 8,456	$ 10,556

Pledges receivable are classified as follows:

	June 30 2012	June 30 2011
	(In Thousands)	
Permanently restricted	**$ 2,719**	$ 3,451
Temporarily restricted	**5,737**	7,105
	$ 8,456	$ 10,556

Approximately 70% of the University's pledges receivable at June 30, 2012 and 2011, were provided by seven and six contributors, respectively. Included in net pledges receivable as of June 30, 2012 and 2011, are approximately $3.8 million and $5.4 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							
	2012				2011			
	Cost		Fair Value		Cost		Fair Value	
	(In Thousands)							
Cash and equivalents	**$**	**2,810**	**$**	**2,810**	$	983	$	983
Equity securities		**62,513**		**75,958**		51,904		80,832
Debt securities		**43,841**		**45,685**		58,606		49,192
Alternative		**10,209**		**10,553**		–		–
Other investments		**2,215**		**1,607**		1,174		1,174
	$	**121,588**	**$**	**136,613**	$	112,667	$	132,181

Income and net realized gains on investments for the year ended June 30, 2012, are as follows:

	Unrestricted		Temporarily Restricted		Total	
	(In Thousands)					
Income on endowment funds	**$**	**890**	**$**	**2,578**	**$**	**3,468**
Other investment income		**489**		**–**		**489**
Net realized gains on endowment funds		**1,091**		**2,104**		**3,195**
Net realized gains on other investments		**–**		**–**		**–**
	$	**2,470**	**$**	**4,682**	**$**	**7,152**
Income and realized gains on investments – net from operating activity	**$**	**489**	**$**	**–**	**$**	**489**
Income and realized gains on investments – net from non-operating activities		**1,981**		**4,682**		**6,663**
	$	**2,470**	**$**	**4,682**	**$**	**7,152**

4. Investments (continued)

Income and net realized gains 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

Investment income is net of management fees and expenses of approximately $509,000 and $290,000 for the years ended June 30, 2012 and 2011, respectively.

4. Investments (continued)

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, 2012			
	Cost	**Market Value**	**Net Gain**	**Market Value Per Share**
	(In Thousands)			
End of period	**$ 114,978**	**$ 129,896**	**$ 14,918**	**$ 10.72**
Beginning of period	**105,281**	**123,772**	**18,491**	**10.90**
Net change in unrealized appreciation for the period			**(3,573)**	
Net realized gain for the period			**3,129**	
Net loss			**$ (444)**	

	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, 2012 and 2011, the earnings were $3.8 million and $3.3 million, respectively, or $0.31 per share, as computed on ending shares.

5. Endowment

The University's endowment consists of approximately 500 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, 2012, the Florida 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.

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.

5. Endowment (continued)

Endowment net assets were composed of the following as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
True endowment funds				
Accumulated earnings and original contribution	**$ –**	**$ 5,373**	**$ 97,442**	**$ 102,815**
Unspent endowment distributions	**4,214**	**1,498**	**–**	**5,712**
Unrestricted support of underwater endowments	**(5,699)**	**–**	**–**	**(5,699)**
Board-designated funds				
Accumulated earnings and original contribution	**37,294**	**9,447**	**–**	**46,741**
Unspent endowment distributions	**1,188**	**–**	**–**	**1,188**
	$ 36,997	**$ 16,318**	**$ 97,442**	**$ 150,757**

Endowment net assets were composed of the following as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
True endowment funds				
Accumulated earnings and original contribution	$ –	$ 6,444	$ 96,155	$ 102,599
Unspent endowment distributions	4,187	1,464	–	5,651
Unrestricted support of underwater endowments	(4,177)	–	–	(4,177)
Board-designated funds				
Accumulated earnings and original contribution	37,334	5,376	–	42,710
Unspent endowment distributions	952	–	–	952
	$ 38,296	$ 13,284	$ 96,155	$ 147,735

5. Endowment (continued)

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, 2012 and 2011, the amount of these deficiencies totaled approximately $5.7 million and $4.2 million, respectively.

Changes to endowment net assets for the fiscal year ended June 30, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment net assets, at beginning of year	**$ 38,296**	**$ 13,284**	**$ 96,155**	**$ 147,735**
Investment return:				
Investment income	**1,347**	**2,648**	**–**	**3,995**
Realized gain	**1,099**	**2,104**	**–**	**3,203**
Unrealized loss	**(1,649)**	**(2,767)**	**(166)**	**(4,582)**
Total investment return	**797**	**1,985**	**(166)**	**2,616**
Contributions	**–**	**–**	**2,025**	**2,025**
Expenditures	**(2,126)**	**(3,272)**	**–**	**(5,398)**
Other changes:				
Transfers to create board-designated endowment funds	**–**	**4,321**	**–**	**4,321**
Other endowment activity	**30**	**–**	**(572)**	**(542)**
Endowment net assets, at end of year	**$ 36,997**	**$ 16,318**	**$ 97,442**	**$ 150,757**

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)

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. In 2006, the Board resolved to maintain the endowment payout rate in a range of 3% to 6% of the University's 12-quarter moving average market value. In 2008, a target rate of 4.5% was identified.

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, 2012 and 2011, amounted to approximately $8.9 million and $9.4 million, respectively. Included in these balances are various Charitable Remainder Unitrusts and Annuity Trusts that amount to $2.3 million and $2.7 million, respectively.

7. Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30	
	2012	**2011**
	(In Thousands)	
Land	**$ 6,554**	$ 6,118
Land improvements, building, and facilities	**166,112**	163,364
Furniture and equipment	**22,349**	21,621
Library books and collections	**29,964**	29,344
Construction-in-progress	**6,378**	1,597
Equipment under capital lease	**2,184**	2,057
	233,541	224,101
Less accumulated depreciation and amortization	**(99,667)**	(93,440)
	$ 133,874	$ 130,661

Amortization expense relating to the capitalized leases was approximately $320,000 and $338,000 for the years ended June 30, 2012 and 2011, respectively. Depreciation expense relating to constructed and purchased property and equipment was approximately $7.8 million and $7.6 million for the years ended June 30, 2012 and 2011, respectively.

Interest capitalized during the years ended June 30, 2012 and 2011, was approximately $75,000 and $18,000, respectively.

Construction-in-progress at June 30, 2012, relates primarily to the construction of the Athletic Fieldhouse and to renovations of existing facilities and residence halls. Estimated costs to complete these projects amount to approximately $4.4 million.

The University recognized approximately $967,000 and $879,000 for rental income on various facilities during the years ended June 30, 2012 and 2011, respectively.

8. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2012	**2011**
	(In Thousands)	
Bonds payable		
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2005 – payable in annual installments of $875,000 to $1,615,000 through 2026, plus semiannual interest payments at rates from 3.0% to 5.0%, collateralized by the University's tuition revenues	**$ 16,840**	$ 17,690
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2010 – payable in annual installments of $960,000 to $3,660,000 through 2030, plus semiannual interest payments at a fixed rate of 3.57%, collateralized by the University's tuition revenues	**28,340**	29,265
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2011 – payable in monthly installments of $31,000 to $56,000 through 2031, plus monthly interest payments at a fixed rate of 3.11%, collateralized by the University's tuition revenues	**9,803**	–
	54,983	46,955
Other notes payable		
Note payable – refunded by 2011 Bond in December, 2011	**–**	2,978
Other notes payable	**280**	292
	55,263	50,225
Unamortized premium on bonds payable	**541**	612
	$ 55,804	$ 50,837

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, 2012 and 2011. 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 2012 are as follows:

	Principal				
	Bonds	**Other**	**Total**	**Interest**	**Total Debt Service**
			(In Thousands)		
Year ended June 30:					
2013	$ 2,208	$ 155	$ 2,363	$ 2,143	$ 4,506
2014	2,289	18	2,307	2,061	4,368
2015	2,372	18	2,390	1,976	4,366
2016	2,474	4	2,478	1,881	4,359
2017	2,567	4	2,571	1,780	4,351
Thereafter	43,073	81	43,154	11,823	54,977
	$ 54,983	$ 280	$ 55,263	$ 21,664	$ 76,927

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. 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.

8. Long-Term Debt (continued)

During fiscal year 2012, the University issued $10 million of Series 2011 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 notes payable issued in June 2008, and July 2011. $3.3 million of the proceeds were used to refund the notes payable. The remaining $6.7 million of the proceeds were used to pay for bond issuance costs of $114,000 and for the acquisition and renovation of the Stetson Cove Apartments, a portion of the Athletic Fieldhouse construction, and various improvements and renovations to existing academic buildings and residence halls.

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, 2012:

	(In Thousands)
Year ending June 30:	
2013	$ 139
2014	85
2015	66
Total minimum lease payments	290
Less amount representing interest	(16)
Present value of net minimum lease payments	$ 274

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:	
2013	$ 225
2014	162
2015	71
2016	10
2017	1
	$ 469

Rent expense incurred under operating leases amounted to approximately $988,000 and $967,000 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, amounted to approximately $4.3 million for both years.

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 elected to receive postretirement health care benefits, are responsible to pay 40% of the premium. Employees who retired between July 1, 2008 and June 30, 2011, who elected to receive postretirement health care benefits, are responsible to pay 50% of the premium. Employees retiring after June 30, 2011, who elect to receive postretirement health care benefits, are 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)

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.

	June 30	
	2012	**2011**
	(In Thousands)	
Change in accumulated postretirement benefit obligation:		
Benefit obligation at beginning of year	**$ 9,897**	$ 10,830
Service cost	**109**	112
Interest cost	**507**	516
Plan participants' contributions	**467**	518
Amendments	**–**	(1,492)
Actuarial loss	**603**	679
Benefit payments	**(1,071)**	(1,313)
Medicare subsidy	**46**	47
Benefit obligation at end of year	**$ 10,558**	$ 9,897
Change in Plan assets:		
Fair value of plan assets at beginning of year	**$ –**	$ –
University contributions	**558**	749
Plan participants' contributions	**467**	517
Benefits paid	**(1,071)**	(1,313)
Medicare subsidy received	**46**	47
Fair value of plan assets at end of year	**$ –**	$ –

11. Retirement and Postretirement Benefits (continued)

	June 30	
	2012	**2011**
	(In Thousands)	
Funded status of the Plan:		
Funded status at end of year	**$ (10,558)**	$ (9,897)
Unrecognized actuarial loss	**–**	–
Unrecognized prior service cost	**–**	–
Net accrued benefit liability	**$ (10,558)**	$ (9,897)
Amounts recognized in the statement of financial position:		
Postretirement benefit liability	**$ 10,558**	$ 9,897
Net amount recognized	**$ 10,558**	$ 9,897
Amounts recognized in the statement of activities:		
Net loss	**$ 8,736**	$ 8,753
Prior service credit	**(823)**	(2,443)
	$ 7,913	$ 6,310
Assumptions as of the end of the year:		
Discount rate	**3.65%**	5.25%
Expected return on assets	**n/a**	n/a
Rate of compensation increases	**n/a**	n/a
Accumulated Postretirement Benefit Obligation (APBO):		
Active employees	**$ 1,536**	$ 2,194
Retirees	**9,022**	7,703
Total APBO	**10,558**	9,897
Unrecognized gain (loss)	**–**	–
Accrued postretirement benefit liability	**$ 10,558**	$ 9,897

11. Retirement and Postretirement Benefits (continued)

	June 30	
	2012	**2011**
	(In Thousands)	
Net periodic postretirement benefit cost:		
Service costs (benefits earned during the period)	**$ 109**	$ 112
Interest cost (on accumulated postretirement benefit obligation)	**507**	516
Amortization of net actuarial loss	**621**	669
Amortization of prior service credit	**(1,620)**	(2,897)
Net periodic postretirement benefit costs	**$ (383)**	$ (1,600)

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, 2012. The rate was assumed to decrease by 0.5% per year until 2019 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, 2012:

	One Percentage Point Increase	**One Percentage Point Decrease**
	(In Thousands)	
Effect on total service and interest cost	$ 68	$ (62)
Effect on end of year postretirement benefit obligation	1,640	(1,376)

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:		
2013	$	629
2014		623
2015		649
2016		643
2017		661
2018-2021		3,430

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. 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, 2012 and 2011, amounted to approximately $270,000 and $477,000, respectively. Amounts due from CHF-DeLand for operating expense reimbursements were approximately $6,000 and $102,000 at June 30, 2012 and 2011, respectively. As of June 30, 2012, an amount due from CHF-DeLand for reimbursement of costs related to repair and replacement of the University Village Apartment HVAC system amounted to $747,000.

13. Related-Party Transactions

During the 2012 and 2011 fiscal years, the University paid $2.9 million and $1.3 million, respectively, for insurance brokerage services provided by a firm for which a Trustee of the University is also the chairman. Of the $2.9 million paid during 2012, $1.3 million is included in Prepaid Insurance as of June 30. There were no outstanding payments owed to this firm as of June 30, 2012 and 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, 2012 and 2011, was ($20,000) and $427,000, respectively. The University's interest in the net assets for the Foundation as of June 30, 2012 and 2011, amounted to $3.2 million for both years.

15. Detail of Restricted Net Assets

	Temporarily Restricted	Permanently Restricted
	(In Thousands)	
June 30, 2012		
Scholarships	**$ 12,319**	**$ 42,899**
Programs	**8,635**	**53,464**
Capital	**999**	**–**
Trusts and Annuities	**2,486**	**(259)**
Loans	**–**	**2,555**
Pledges	**5,743**	**2,719**
	$ 30,182	**$ 101,378**
June 30, 2011		
Scholarships	$ 8,906	$ 41,572
Programs	9,487	52,772
Capital	780	–
Trusts and Annuities	1,163	816
Loans	–	2,555
Pledges	7,105	3,451
	$ 27,441	$ 101,166

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.

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

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 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 2012 and 2011, there were no transfers between Levels 1 and 2.

Classification within the fair value hierarchy for alternative investments that are measured at net asset value (NAV) per share (or its equivalent) requires judgment, considering the following:

- If the University has the ability to redeem its investment with the investee at NAV per share (or its equivalent) at the balance sheet (measurement) date, the fair value measurement of the investment is categorized as a Level 2 fair value measurement.

- If the University will never have the ability to redeem its investment with the investee at NAV per share (or its equivalent), the fair value measurement of the investment is categorized as a Level 3 fair value measurement.

- If the University cannot redeem its investment with the investee at NAV per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date, the University considers the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment will be categorized as a Level 2 or Level 3 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 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.

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

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 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, 2012, are as follows:

Description	**Carrying Amount 2012**	**Fair Value 2012**	**Carrying Amount 2011**	**Fair Value 2011**
		(In Thousands)		
Financial assets (liabilities)				
Cash and cash equivalents	**$ 25,449**	**$ 25,449**	$ 21,005	$ 21,005
Bonds payable	**(54,983)**	**(55,950)**	(46,955)	(47,662)

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, 2012:

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				
Cash and equivalents	$ 79	$ 79	$ –	$ –
Debt securities:				
U.S. government agencies	1,651	–	1,651	–
Mortgages	1,101	–	1,101	–
Domestic corporate bonds	3,460	–	3,460	–
Foreign bonds	314	–	314	–
Other investments	1,258	–	1,258	–
Short-term investments total	7,863	79	7,784	–
Funds held in trust by others	8,892	–	7,777	1,115
Investments:				
Cash and equivalents	2,810	2,810	–	–
Equity securities:				
Domestic	65,175	65,175	–	–
International	10,783	10,783	–	–
Debt securities:				
U.S. treasury securities	7,809	–	7,809	–
U.S. government agencies	776	–	776	–
Mortgages	12,935	–	12,935	–
Domestic corporate bonds	12,692	–	12,692	–
Foreign bonds	11,473	–	11,473	–
Alternative investments:				
Multi-strategy	4,802	–	4,802	–
Distressed debt	5,751	–	–	5,751
Other investments	1,607	–	1,607	–
Investments total	$ 136,613	$ 78,768	$ 52,094	$ 5,751

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, 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				
Cash and equivalents	$ 184	$ 184	$	$ –
Debt securities:				
U.S. government agencies	1,381	–	1,381	–
Mortgages	1,289	–	1,289	–
Domestic corporate bonds	5,063	–	5,063	–
Foreign bonds	368	–	368	–
Other investments	921	–	921	–
Short-term investments total	9,206	184	9,022	–
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	7,766	–	7,766	–
Domestic corporate bonds	19,864	–	19,864	–
Foreign bonds	19,127	–	19,127	–
Other investments	1,174	–	1,174	–
Investments total	$ 132,181	$ 81,815	$ 50,366	$ –

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, 2012.

	Funds Held in Trust by Others	Investments
	(In Thousands)	
Balance, at beginning of year	**$ 855**	**$ –**
Purchases	–	**5,317**
Issuances	–	–
Settlements	–	–
Actuarial and present value adjustments	**260**	**434**
Balance, at end of year	**$ 1,115**	**$ 5,751**

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
	(In Thousands)
Balance, at beginning of year	$ 837
Issuances	–
Settlements	–
Actuarial and present value adjustments	18
Balance, at end of year	$ 855

The University's beneficial interest in irrevocable split-interest agreements held or controlled by a third party are classified as Level 3 Funds Held in Trust by Others as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are estimated using the income approach and are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

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

Included in Level 2 and Level 3 are alternative investments, which include holdings in a multi-strategy fund that invests in a range of trading styles, including long-term trendfollowing, short-term systematic, value, discretionary macro and specialist FX strategies with full transparency and daily liquidity. Also included in alternative investments are holdings in a distressed senior credit asset fund. After a lock-up of one full year, quarterly liquidity is subject to a 60-day notice and 33% of net asset value.

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 September 28, 2012 (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.

We have audited the financial statements of Stetson University, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated September 28, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary disaggregated information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

September 28, 2012

Stetson University, Inc.

Supplementary Disaggregated Statement of Financial Position

June 30, 2012
(In Thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Total
Assets					
Cash and cash equivalents	$ 21,945	$ –	$ 186	$ 3,318	$ 25,449
Short-term investments	7,863	–	–	–	7,863
Notes and account receivable – net	5,443	5,477	117	12	11,049
Pledges receivable – net	5,737	–	2,719	–	8,456
Inventories	333	–	–	–	333
Investments	467	–	136,102	44	136,613
Funds held in trust by others	–	–	8,892	–	8,892
Property, plant, and equipment, net	–	–	–	133,874	133,874
Other assets	2,840	–	1	514	3,355
Investment in affiliated entity	–	–	3,176	–	3,176
Total assets	$ 44,628	$ 5,477	$ 151,193	$ 137,762	$ 339,060
Liabilities and net assets					
Liabilities:					
Accounts payable	$ 3,579	$ –	$ 260	$ 621	$ 4,460
Accrued liabilities	6,163	–	–	153	6,316
Student deposits and other current liabilities	3,221	–	–	–	3,221
Postretirement benefits	10,558	–	–	–	10,558
Refundable government loan funds	–	4,844	–	–	4,844
Annuities payable	–	–	3,248	–	3,248
Capital leases	–	–	–	274	274
Long-term debt	–	–	–	55,804	55,804
Due to (from) other funds	8,183	(2,774)	(8,476)	3,067	–
Total liabilities	31,704	2,070	(4,968)	59,919	88,725
Net assets:					
Unrestricted	4,082	852	36,997	76,844	118,775
Temporarily restricted	8,842	–	20,341	999	30,182
Permanently restricted	–	2,555	98,823	–	101,378
Total net assets	12,924	3,407	156,161	77,843	250,335
Total liabilities and net assets	$ 44,628	$ 5,477	$ 151,193	$ 137,762	$ 339,060

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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*

Dr. Wendy B. Libby, Ph. D., President,
Mr. F. Robert Huth, Vice President of Business and CFO, and
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, 2012, and have issued our report thereon dated September 28, 2012. 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

Management of the University is responsible for establishing and maintaining effective 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

September 28, 2012

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