

Ferris State University

Financial Report with Supplemental Information June 30, 2011

Ferris State University

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Independent Auditor's Report

To the Board of Trustees
Ferris State University

We have audited the accompanying balance sheet of Ferris State University (the "University") as of June 30, 2011 and 2010 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ferris State University as of June 30, 2011 and 2010 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 23, 2011 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 for the year ended June 30, 2011. 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 opinions on the internal control 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.

To the Board of Trustees
Ferris State University

The management's discussion and analysis presented on pages 3 through 13 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 23, 2011

Ferris State University

Management's Discussion and Analysis - Unaudited

The following discussion and analysis of Ferris State University's (the "University") financial statements provides an overview of the University's financial activities as of and for the year ended June 30, 2011 with selected comparative information as of and for the years ended June 30, 2010 and 2009. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University's administration.

Using this Report

This annual financial report includes the report of independent auditors, the management's discussion and analysis, the financial statements, notes to financial statements, and supplemental information. The financial statements included in this report are the balance sheet, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) accounting principles, which establish standards for public colleges and universities.

Financial Highlights

The University experienced solid revenue growth for the fiscal year ended June 30, 2011. Operating revenues increased by \$5.8 million primarily due to increased enrollment of 3.7 percent and an in-state undergraduate tuition increase of 4.75 percent. The resulting total tuition and fee increase of \$10.0 million was partially offset by an increase in tuition discounting of \$4.7 million from increased financial aid. The net resulting increase in tuition and fees revenue was \$5.3 million. Nonoperating revenue increased \$7.7 million primarily due to investment income and increased Pell grant awards. Previously approved State of Michigan support for capital projects resulted in an increase of \$13.2 million in state capital appropriations for the Michigan College of Optometry building and the Grand Rapids Pharmacy project.

Investment income for the University and the Foundation increased to \$8.4 million and \$7.8 million, respectively. This reflects returns of 8.0 percent on the University's operating funds and 27.5 percent on the Foundation's portfolio. Last year, the University received \$1.3 million in state appropriated federal stimulus funds for last fiscal year only which were used for student financial aid.

Operating expenses decreased by \$4.0 million driven by reduced staffing in a number of areas resulting from the University's early resignation/retirement incentive plan and the State of Michigan's early retirement incentive. These actions became part of the budget reduction plans implemented during the year.

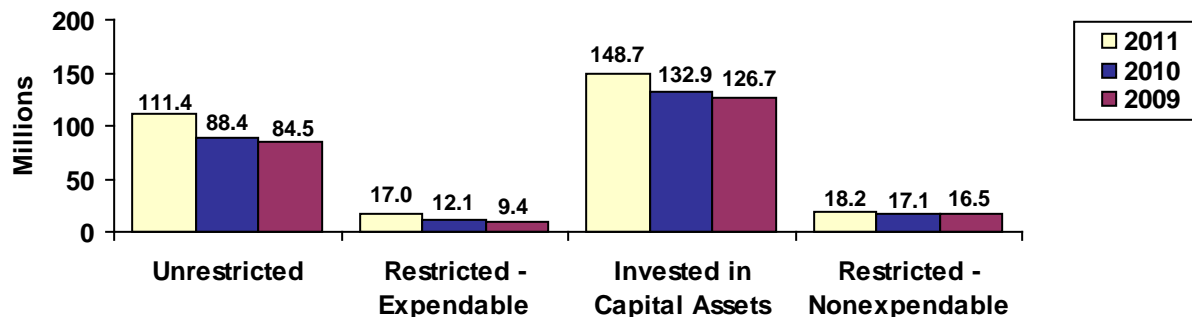
Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

For the year ended June 30, 2010, operating revenue decreased by \$1.3 million primarily in room and board revenue. Nonoperating revenue increased by \$30.9 million primarily as a result of investment income and Pell grant increases. The University and the Foundation experienced net investment income increases of \$7.9 million and \$4.5 million, respectively. This reflects returns of 8.0 percent on the University's operating funds and 17.4 percent on the Foundation's portfolio.

The board of trustees approved a tuition increase of 5.33 percent which generated \$6.2 million combined with a modest enrollment increase for a total tuition and fees revenue increase of \$7.8 million which was offset by tuition discounting of \$7.4 million resulting from increased financial aid. The net resulting increase in tuition and fees revenue was \$0.4 million. Operating expenses increased by \$8.6 million.

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2011, 2010, and 2009:



The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets

The balance sheet and the statement of revenue, expenses, and changes in net assets report information on the University as a whole. When revenue and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenue and expenses may be thought of as Ferris State University's operating results.

These two statements report the University's net assets and net asset changes. One can think of net assets - the difference between assets and liabilities - as one way to measure the University's financial health or financial position. Many other nonfinancial factors, such as the trend in student applications, student retention, condition of the buildings, and strength of the faculty, also need to be considered to assess the overall health of the University.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

These financial statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Net Assets

Total net assets increased overall by \$44.8 million to \$295.3 million. Total unrestricted net assets are \$111.4 million. Of this total, \$76.2 million is identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments. This includes \$14.2 million for major projects including renovation of the Rankin Student Center and relocation of telecommunications infrastructure. The unrestricted and undesignated amount of \$35.2 million is comprised of \$27.3 million for self-supporting departmental, student loan, and auxiliary activities and \$7.9 million for maintenance and construction projects on campus.

For year ended June 30, 2010, the total net assets increased \$13.4 million to \$250.5 million. Unrestricted net assets were \$88.4 million.

The following is a comparison of the major components of the net assets of the University and operating results for the years ended June 30, 2011, 2010, and 2009:

Net Assets as of June 30 (in millions)

	2011	2010	2009
Assets			
Current assets	\$ 110.7	\$ 96.6	\$ 86.0
Noncurrent assets:			
Capital assets - Net of depreciation	258.4	227.5	197.9
Other	92.9	88.8	112.9
Total assets	<u>\$ 462.0</u>	<u>\$ 412.9</u>	<u>\$ 396.8</u>
Liabilities			
Current liabilities	\$ 33.7	\$ 37.4	\$ 30.5
Long-term liabilities	133.0	125.0	129.2
Total liabilities	166.7	162.4	159.7
Net Assets			
Invested in capital assets	148.7	132.9	126.7
Restricted - Expendable	17.0	12.1	9.4
Restricted - Nonexpendable	18.2	17.1	16.5
Unrestricted	111.4	88.4	84.5
Total net assets	<u>295.3</u>	<u>250.5</u>	<u>237.1</u>
Total liabilities and net assets	<u>\$ 462.0</u>	<u>\$ 412.9</u>	<u>\$ 396.8</u>

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Operating Results for the Year Ended June 30 (in millions)

	2011	2010	2009
Operating Revenue			
Tuition and fees - Net	\$ 107.2	\$ 101.9	\$ 101.5
Grants and contracts	4.5	3.9	3.9
Departmental activities	10.7	9.8	9.5
Auxiliary activities - Net	30.3	31.2	33.2
Other	0.5	0.6	0.6
Total operating revenue	153.2	147.4	148.7
Operating Expenses			
Instruction	84.9	80.9	77.5
Research	0.2	0.2	0.1
Public service	2.0	2.0	1.8
Academic support	22.9	24.5	23.8
Student services	13.7	14.2	13.0
Institutional support	22.7	24.4	25.2
Operation and maintenance of plant	17.2	19.2	22.9
Depreciation	8.7	10.9	7.6
Student aid	24.8	19.9	14.2
Auxiliary enterprises	19.5	24.1	25.9
Other expenses	0.4	0.7	0.4
Total operating expenses	217.0	221.0	212.4
Net Operating Loss	(63.8)	(73.6)	(63.7)
Nonoperating Revenue			
State appropriations	48.6	48.6	50.2
Federal Pell grant	25.8	21.5	12.7
Education Stabilization Funds - ARRA	-	1.4	-
Gifts	4.7	3.4	3.1
Investment income (loss)	16.2	12.4	(10.9)
Interest on capital related debt	(5.0)	(4.7)	(3.4)
Total nonoperating revenue	90.3	82.6	51.7
Income (Loss) - Before other revenue	26.5	9.0	(12.0)
Other Revenue			
Capital appropriations	17.2	4.0	0.1
Capital grants and contracts	1.1	0.4	0.4
Total other revenue	18.3	4.4	0.5
Increase (Decrease) in Net Assets	44.8	13.4	(11.5)
Net Assets - Beginning of year	250.5	237.1	248.6
Net Assets - End of year	<u>\$ 295.3</u>	<u>\$ 250.5</u>	<u>\$ 237.1</u>

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Operating Revenue

Operating revenue includes all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, residence halls, and dining. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

The following major factors significantly impacted operating revenue for the current year:

- Student tuition and fees revenue increased \$5.3 million due to the net effect of the following factors: board-approved tuition increase of 4.75 percent, enrollment growth from prior year, and an increase in tuition discounting.
- Auxiliary enterprises operating revenue decreased by \$0.9 million resulting primarily from an increase in scholarship allowances related to housing and dining charges and small decreases in other auxiliary activities.
- Departmental activities increased by \$0.9 million primarily in the designated fund with the largest increase of \$0.5 million in optometry development gifts and federal building gifts of \$0.4 million.

For the year ended June 30, 2010, the significant operating revenue factor was as follows:

- Auxiliary enterprises operating revenue decreased by \$2.0 million resulting primarily from an increase in scholarship allowances related to housing and dining charges and small decreases in other auxiliary activities.
- Student tuition and fees revenue increases \$0.4 million due to the board-approved tuition increase of 5.33 percent, modest enrollment growth from prior year, and an increase in tuition discounting.

Nonoperating Revenue

Nonoperating revenue is all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, gifts, and investment income (including realized and unrealized gains and losses).

Nonoperating revenue was significantly impacted by the following factors:

- The state appropriation of \$48.6 million is consistent with 2010 levels received. This amount reflects a decrease of \$1.6 million from the 2009 level.
- Investment income increased by \$3.8 million from 2010 to \$16.2 million. The \$16.2 million investment income is comprised of \$5.9 million of realized gains and \$10.3 of unrealized gains.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

- Pell grants increased \$4.3 million as a result of the federal government increase of the allowance per student and an increase in need-based students.

For the year ended June 30, 2010, significant nonoperating revenue factors were as follows:

- The state appropriation of \$48.6 million reflects a total decrease of \$1.6 million from the 2009 level. This represents a decrease in state funding that was offset by education fiscal stabilization funds (ARRA) appropriated by the State of \$1.4 million.
- Investment income increased by \$23.3 million from a loss in 2009 to income of \$12.4 million. The \$12.4 million investment income is comprised of \$3.8 million of realized gains and \$8.6 of unrealized gains. The University investment performance on operating funds earned 8.0 percent in 2010. The Foundation investment performance recorded a 17.4 percent rate of return in 2010. The increase reflects a significant recovery in the investment markets when compared to prior year.
- Pell grants increased \$8.8 million as a result of the federal government increase of the allowance per student and an increase in need-based students.

Other Revenue

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the University. Examples include state capital appropriations, additions to permanent endowments, and transfers from related entities. Other revenue changes were the result of the following factors:

For 2011:

- State capital appropriations increased to \$17.2 million from \$4.0 million in prior year. The Michigan College of Optometry building received \$13.6 million in state support and the Grand Rapids Pharmacy building received \$3.6 million.
- Other revenue also includes increases to permanent endowments of the Ferris Foundation. This revenue increased to \$1.1 million from \$0.4 million in prior year.

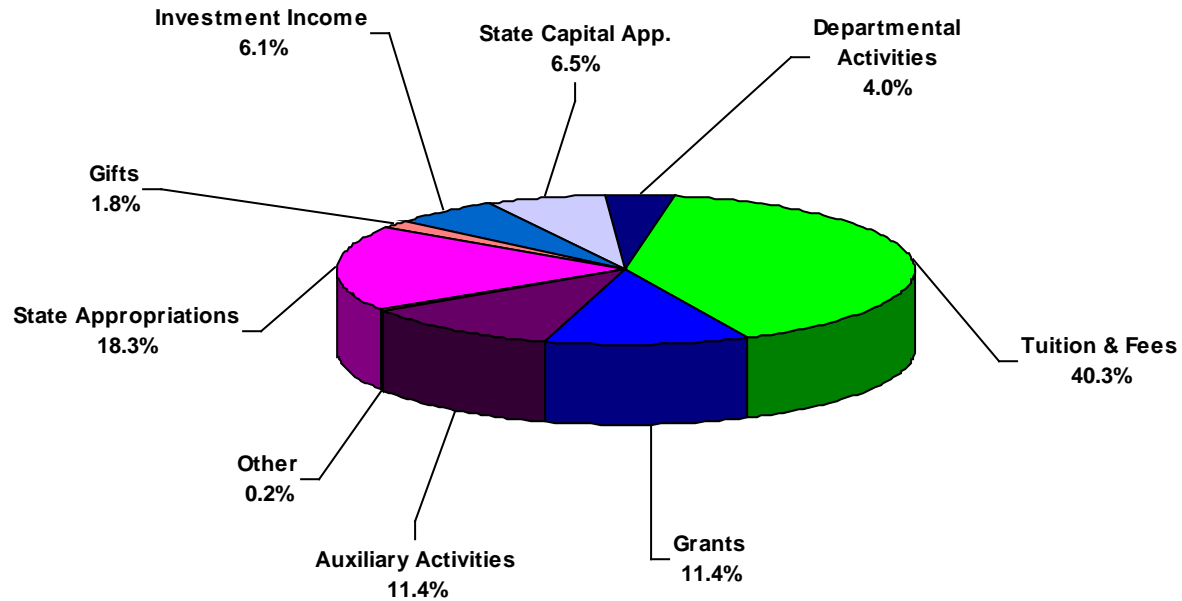
For 2010:

- State capital appropriations increased to \$4.0 million for the Michigan College of Optometry building. No additional state-funded projects were under construction.
- The capital grants and contracts portion of other revenues includes increases to permanent endowments of the Ferris Foundation. This revenue was consistent from the prior year.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

The following is a graphic illustration of total revenues by source for June 30, 2011:



Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses decreased by \$4.0 million from 2010 levels to \$217.0 million. Instruction, student services, and student aid represent \$123.4 million, or 56.8 percent, of the total. Operations, maintenance, and depreciation total \$25.9 million, or 12.0 percent, and auxiliary operations total \$19.5 million, or 9.0 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

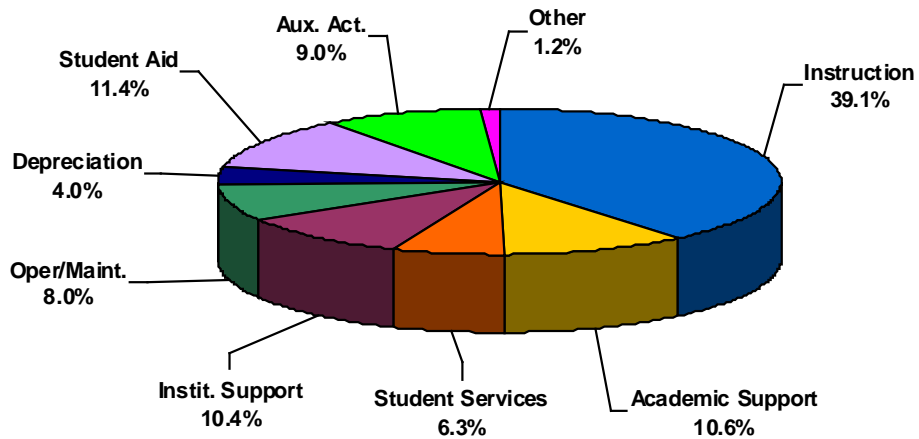
Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

The University offered an early resignation/retirement incentive program for individuals with 10 or more years of service. A total of 59 individuals were approved for the program with the majority retiring or resigning on June 30, 2010. Most of these positions were left vacant for the fiscal year. Additionally, the State offered an early retirement incentive through August 31, 2010. The University had numerous individuals retire through this program as well.

During the 2010 fiscal year, operating expenses increased by \$8.6 million to \$221.0 million. Instruction, student services, and student aid represent \$115.0 million or 52.1 percent of the total. Operations, maintenance, and depreciation total \$30.0 million or 13.6 percent and auxiliary operations total \$24.1 million or 10.9 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

The following is a graphic illustration of operating expenses by function for June 30, 2011:



Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Statement of Cash Flows

Another way to assess the financial health of the University is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess an entity's:

- Ability to generate future net cash flows
- Ability to meet its obligations as they come due
- Needs for external financing

Cash Flows for the Year Ended June 30 (in millions)

	2011	2010	2009
Net Cash (Used in) Provided by			
Operating activities	\$ (57.5)	\$ (54.3)	\$ (50.6)
Noncapital financing activities	80.1	75.2	66.3
Capital and related financing activities	(20.3)	(49.0)	21.0
Investing activities	(5.2)	5.8	1.0
Net (Decrease) Increase in Cash	(2.9)	(22.3)	37.7
Cash - Beginning of year	54.2	76.5	38.8
Cash - End of year	<u>\$ 51.3</u>	<u>\$ 54.2</u>	<u>\$ 76.5</u>

Major sources of funds from operations came from student tuition and fees, grants, and contracts, along with residential life and other auxiliary activities. These sources were offset by expenditures for operations such as payments to employees and suppliers and loans issued to students. The net total of cash used in operations increased by \$3.2 million from \$54.3 million in 2010 to \$57.5 million in 2011.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by \$4.9 million from \$75.2 million in 2010 to \$80.1 million in 2011.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Cash used in capital and related financing activities totaled \$20.3 million, used primarily for capital assets acquired during the year and construction projects of \$28.0 million and debt and interest payments of \$9.2 million which was offset by capital appropriations of \$16.3 million and other proceeds totaling \$0.6 million.

Cash used for investing activities totaled \$5.2 million. This is the amount of cash used for purchases in excess of proceeds received from the sale of investments.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2011, the University had \$258.4 million invested in capital assets, net of accumulated depreciation of \$168.4 million.

Details of these assets are shown below (in millions):

	2011	2010	2009
Land, land improvements, and infrastructure	\$ 21.5	\$ 21.5	\$ 20.8
Buildings and improvements	307.3	257.9	253.2
Furniture, fixtures, and equipment	77.8	77.6	73.4
Construction in progress	20.2	34.2	5.8
Total	<u>\$ 426.8</u>	<u>\$ 391.2</u>	<u>\$ 353.2</u>

The Michigan College of Optometry building, East Campus Suites, and the Arts & Sciences mechanical systems were placed into service from construction in progress to the buildings and improvements category.

The residential halls renovation project, Grand Rapids Pharmacy project, Federal Building located in Grand Rapids, and Student Recreation Center mechanical systems project remain in construction in progress.

Due to the nature of the lease of the federal building, the transaction is treated as a capital lease for accounting purposes. A long-term liability for the capital lease and an offsetting asset for the building are recorded on the financial statements. The building is currently under renovation and is recorded as an asset in the construction in progress category.

The annual library collection adjustment resulted in a decrease of \$0.8 million to the furniture, fixtures, and equipment category which was offset by a decrease in accumulated depreciation for the library collection of \$0.8 million.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Debt

At year end, the University had \$101.1 million in debt outstanding. The table below summarizes this amount by type of debt instrument:

(in millions)	2011	2010	2009
General Revenue Bonds	<u>\$ 101.1</u>	<u>\$ 105.4</u>	<u>\$ 108.7</u>

In addition to General Revenue Bonds debt, the University is a guarantor on \$12.6 million of Limited Obligation Recovery Zone Facility Revenue Bonds Series 2010A for the Federal Building. This building is being leased and is included in the long-term liabilities.

Economic Factors That Will Affect the Future

The fiscal year 2012 State budget includes the largest budget reduction in history for public universities. Beyond the 15.0 percent funding reduction, the approved State budget shifts funding for higher education from the General Fund/general purpose budget to the School Aid Fund. This shift leaves the School Aid Fund underfunded, requiring funding support from the General Fund/general purpose budget. The state budget also introduced the idea of tuition restraint, requiring institutions to hold tuition increases to 7.0 percent for fall 2011 to avoid the full 21.9 percent reduction.

The approved State budget indicates that fiscal year 2013 funding for higher education will be held at the fiscal year 2012 level but will be distributed through a formula developed by the State budget director. The governor and legislature have asked for public university input into the funding formula, which is currently being developed. The uncertainty of university funding created by these factors could create ongoing financial challenges for the University.

Other concerns exist in considering future financial support. Continued interest by the legislature in reducing tax levels will further diminish State revenue if enacted. In Washington, efforts continue to sharply reduce federal spending. In many areas of the State budget, State funds have been replaced by federal funds. Reductions in federal funding will have a direct, negative impact on Michigan.

Beyond this, uncertainty in the national economy will have a negative impact on Michigan, perhaps dampening what appears to be an improvement in Michigan's economy.

Ferris State University

Balance Sheet

		June 30	
		2011	2010
Assets			
Current Assets			
Cash and cash equivalents (Note 2)		\$ 50,888,408	\$ 44,915,114
Short-term investments (Note 2)		40,216,074	32,670,103
Accounts receivable (Note 3)		18,306,250	17,704,396
Inventories		921,151	906,340
Prepaid expenses and other assets		395,358	424,608
	Total current assets	<u>110,727,241</u>	<u>96,620,561</u>
Noncurrent Assets			
Restricted cash and cash equivalents (Note 2)		452,832	9,342,570
Endowment investments (Note 2)		35,915,100	28,981,246
Other long-term investments (Note 2)		36,372,777	29,397,660
Student loan receivable (Note 3)		17,638,365	18,447,523
Bond issuance costs		2,578,456	2,700,410
Capital assets - Net (Note 4)		258,378,710	227,454,177
	Total noncurrent assets	<u>351,336,240</u>	<u>316,323,586</u>
	Total assets	<u>\$ 462,063,481</u>	<u>\$ 412,944,147</u>
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 20,713,003	\$ 24,282,476
Deferred revenue		7,240,935	7,663,694
Long-term liabilities - Current portion (Note 5)		5,754,934	5,482,992
	Total current liabilities	<u>33,708,872</u>	<u>37,429,162</u>
Noncurrent liabilities:			
Deposits		935,419	964,039
Federal student loan payable		13,860,599	13,894,612
Long-term liabilities (Note 5)		118,203,266	110,124,663
	Total noncurrent liabilities	<u>132,999,284</u>	<u>124,983,314</u>
	Total liabilities	<u>166,708,156</u>	<u>162,412,476</u>
Net Assets			
Invested in capital assets - Net of related debt		148,677,192	132,921,342
Restricted for:			
Nonexpendable - Scholarships (Note 1)		18,229,687	17,074,146
Expendable:			
Scholarships		6,799,468	3,691,607
Research		61,346	73,546
Instructional department uses		145,306	128,462
Loans		5,955,549	5,629,449
Capital projects		200	200
Other		4,085,636	2,591,306
Unrestricted (Note 1)		<u>111,400,941</u>	<u>88,421,613</u>
	Total net assets	<u>295,355,325</u>	<u>250,531,671</u>
	Total liabilities and net assets	<u>\$ 462,063,481</u>	<u>\$ 412,944,147</u>

Ferris State University

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2011	2010
Operating Revenue		
Tuition and fees - Net of scholarship allowances of \$27,501,564 for 2011 and \$22,819,140 for 2010	\$ 107,155,850	\$ 101,889,302
Federal grants and contracts	4,159,202	3,527,850
State and local grants and contracts - Net of refunds	209,767	224,620
Nongovernmental grants	128,443	184,335
Departmental activities	10,658,838	9,827,594
Auxiliary enterprises - Net of scholarship allowances of \$6,621,132 for 2011 and \$5,851,759 for 2010	30,276,592	31,177,292
Other operating revenues	506,480	612,919
Total operating revenue	153,095,172	147,443,912
Operating Expenses		
Instruction	84,873,207	80,944,533
Research	181,687	166,711
Public service	2,099,680	2,066,088
Academic support	22,942,729	24,493,973
Student services	13,708,526	14,236,298
Institutional support	22,674,852	24,379,648
Operation and maintenance of plant	17,191,652	19,188,624
Depreciation	8,660,441	10,864,479
Student aid	24,827,279	19,870,109
Auxiliary enterprises	19,503,738	24,111,777
Other expenses	366,864	705,128
Total operating expenses	217,030,655	221,027,368
Operating Loss	(63,935,483)	(73,583,456)
Nonoperating Revenue (Expenses)		
State appropriations	48,619,200	48,621,800
Federal Pell grants	25,846,650	21,519,271
Education Stabilization Funds - ARRA	-	1,395,300
Gifts	4,733,583	3,374,670
Investment gain	16,213,780	12,375,004
Interest on capital asset - Related debt	(4,994,689)	(4,725,692)
Net nonoperating revenue	90,418,524	82,560,353
Income - Before other revenue	26,483,041	8,976,897
State Capital Appropriations	17,230,072	4,021,652
Additions to Permanent Endowments	1,110,541	389,770
Increase in Net Assets	44,823,654	13,388,319
Net Assets		
Beginning of year	250,531,671	237,143,352
End of year	\$ 295,355,325	\$ 250,531,671

Ferris State University

Statement of Cash Flows

	Year Ended June 30	
	2011	2010
Cash Flows from Operating Activities		
Tuition and fees	\$ 105,598,753	\$ 102,809,541
Grants and contracts	4,800,142	3,569,365
Payments to suppliers	(115,699,994)	(107,460,751)
Payments to employees	(96,184,698)	(97,642,275)
Interest collected on student loans	454,344	453,141
Loans issued to students	(2,488,139)	(1,403,369)
Collection of loans from students	2,535,434	2,487,769
Auxiliary enterprise charges	30,276,592	31,177,292
Other receipts	13,216,311	11,728,703
Net cash used in operating activities	(57,491,255)	(54,280,584)
Cash Flows from Noncapital Financing Activities		
State appropriations	48,619,677	48,913,848
Pell grant receipts	25,846,650	21,519,271
Education Stabilization Funds - ARRA	-	1,395,300
Gifts and grants for other than capital purposes	4,233,638	3,254,100
Private gifts for endowment purposes	1,110,541	389,770
Federal direct loan lending receipts	99,824,699	94,515,899
Federal direct loan lending disbursements	(99,517,180)	(94,837,114)
Net cash provided by noncapital financing activities	80,118,025	75,151,074
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	16,301,026	113,862
Capital grants and gifts received	499,945	120,570
Purchase of capital assets and construction	(27,955,276)	(41,124,990)
Proceeds from sale of buildings and equipment	30,000	6,019
Principal paid on capital debt	(4,300,000)	(3,355,000)
Interest paid on capital debt	(4,877,747)	(4,719,416)
Net cash used in capital and related financing activities	(20,302,052)	(48,958,955)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	12,181,527	6,303,206
Investment income	3,721,834	3,854,250
Purchase of investments	(21,144,523)	(4,348,237)
Net cash (used in) provided by investing activities	(5,241,162)	5,809,219
Net Decrease in Cash and Cash Equivalents	(2,916,444)	(22,279,246)
Cash and Cash Equivalents - Beginning of year	54,257,684	76,536,930
Cash and Cash Equivalents - End of year	\$ 51,341,240	\$ 54,257,684

Ferris State University

Statement of Cash Flows (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended June 30	
	2011	2010
Operating loss	\$ (63,935,483)	\$ (73,583,456)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	8,660,441	10,864,479
Amortization of bond issuance costs	121,954	121,954
Loss on disposal of fixed assets	955,303	699,434
Decrease (increase) in assets:		
Accounts receivable	326,715	35,269
Student loan receivable	467,626	1,463,208
Inventories, prepaids, and other assets	14,439	(77,639)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(3,569,473)	4,816,054
Deposits and unearned revenue	(451,379)	1,180,619
Accrued sick leave and employee buyouts	(81,398)	199,494
Net cash used in operating activities	<u>\$ (57,491,255)</u>	<u>\$ (54,280,584)</u>

Note 1 - Basis of Presentation and Significant Accounting Policies

Ferris State University (the "University") is an institution of higher education created on September 1, 1884 as Big Rapids Industrial School. In 1885, the school name was changed to Ferris Industrial School, in 1898 to Ferris Institute, in 1950 became a component unit of the State of Michigan (the "State"), in 1963 Ferris State College, and in 1987 to its current structure of Ferris State University. On December 31, 2000, Kendall College of Art and Design (Kendall) located in Grand Rapids officially merged with the University.

The University's board of trustees is appointed by the governor of the state. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University follows the business-type activities reporting requirements of GASB Statements No. 34 and No. 35, which provide a comprehensive one-line look at the University's financial activities.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the College should apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

The financial statements have been prepared incorporating totals from the University and the Ferris Foundation. The Foundation was established as a separate nonprofit corporation which exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of the University. The Foundation's board of directors' membership includes a member of the University's board, certain officers of the University as set forth in the Foundation bylaws, and other representatives elected by the Foundation's board. The University has a significant fiduciary relationship with the Foundation. Therefore, the Foundation is treated as a blended component unit of the University and the financial statements of the Foundation have been combined with those of the University.

Ferris State University

Notes to Financial Statements June 30, 2011 and 2010

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Restricted Net Assets

Restricted net assets represent amounts over which third parties have imposed restrictions that cannot be changed by the board, including amounts that the board has agreed to set aside under contractual agreements with third parties. Funds held by the Foundation for endowments or donor-designated purposes were \$18,229,687 and \$17,074,146 at June 30, 2011 and 2010, respectively. The remaining restricted balance consists primarily of funds restricted for student loans, scholarships, and other purposes.

Unrestricted Net Assets

The University has designated the use of unrestricted net assets as follows:

	<u>2011</u>	<u>2010</u>
Designated for General Fund division use	\$ 9,878,663	\$ 11,500,382
Designated for encumbrances	845,083	2,078,016
Designated for maintenance and replacement	54,984,173	43,591,461
Designated for debt service reserve	417,012	565,671
Designated for Foundation endowments	10,107,334	7,826,815
Unrestricted and undesignated	<u>35,168,676</u>	<u>22,859,268</u>
Total unrestricted net assets	<u>\$ 111,400,941</u>	<u>\$ 88,421,613</u>

Accrual Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

The unspent bond proceeds and related interest of the Capital Project Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Investments

Investments, including those of the Foundation, are recorded at fair value, based on quoted market prices or most recent valuation adjusted for capital calls and distributions.

Inventories

Inventories, consisting primarily of supplies, are stated at the lower of cost or market using the first-in, first-out method.

Bond Issuance Costs

The bond issuance costs are being amortized over the life of the bonds using the straight-line method.

Capital Assets

Capital assets are recorded at cost or, if acquired by gift, at the fair market value as of the date of acquisition. Library books are recorded using a historically based estimated value. Depreciation is provided for physical properties on a straight-line basis over the estimated useful lives of the assets.

Deferred Tuition and Fee Revenues

Tuition and fee revenues received and related to the period after June 30 have been deferred.

Operating and Nonoperating Revenue

All revenue from programmatic sources is considered to be operating revenue. Included in nonoperating revenue is state appropriations, Pell grants, investment income, and gifts. State appropriations are recognized when received or required by the State of Michigan.

Ferris State University

Notes to Financial Statements June 30, 2011 and 2010

Note 2 - Cash and Investments

The operating portfolio is invested in accordance with University policy.

Cash and Short-term Investments

Policies for cash management and investments are set forth by the University's board of trustees, who authorize University administrators to invest in a variety of interest-bearing deposit and investment accounts. The primary objective of cash and short-term investments is to provide for the preservation of capital.

Intermediate and Long-term Investments

Intermediate and long-term investment policies have been established by the University's board of trustees for investments with maturities over one year. The primary objective is to provide more emphasis on maximizing income without undue exposure to risk.

As of June 30, 2011, the University had the following cash and investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Cash and cash equivalents	\$ 2,804,666	\$ 2,804,666	\$ -	\$ -	\$ -
Money markets	48,536,574	48,536,574	-	-	-
Mutual bond funds	56,622,401	-	15,201,781	40,610,455	810,165
Mutual equity funds	30,845,632	-	-	-	30,845,632
Real estate funds	1,610,057	-	-	-	1,610,057
Marketable securities	142,345	-	-	-	142,345
International equity funds	13,418,921	-	-	-	13,418,921
Alternative investments	8,901,638	-	-	-	8,901,638
Cash surrender value of life insurance	962,957	962,957	-	-	-
Total	<u>\$ 163,845,191</u>	<u>\$ 52,304,197</u>	<u>\$ 15,201,781</u>	<u>\$ 40,610,455</u>	<u>\$ 55,728,758</u>

As of June 30, 2010, the University had the following cash and investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Cash and cash equivalents	\$ 1,710,507	\$ 1,710,507	\$ -	\$ -	\$ -
Money markets	52,547,177	52,547,177	-	-	-
Mutual bond funds	48,994,750	-	19,273,710	29,721,040	-
Mutual equity funds	26,624,981	-	-	-	26,624,981
Real estate funds	1,083,307	-	-	-	1,083,307
Marketable securities	2,277	-	-	-	2,277
International equity funds	8,913,540	-	-	-	8,913,540
Alternative investments	4,486,829	-	-	-	4,486,829
Cash surrender value of life insurance	943,325	943,325	-	-	-
Total	<u>\$ 145,306,693</u>	<u>\$ 55,201,009</u>	<u>\$ 19,273,710</u>	<u>\$ 29,721,040</u>	<u>\$ 41,110,934</u>

Note 2 - Cash and Investments (Continued)

Endowment Investments

The University's board of trustees has delegated investment authority to the Foundation's board of directors in the management of endowment investments. The Foundation's board of directors has authorized the investment in a variety of asset classes that will achieve growth of principal over time and allow for adequate returns to support the programs of the University.

Concentration of Credit Risk

The University's and the Foundation's investment strategy, like that of most other institutions, incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk. Market risk is the potential for changes in the value of financial instruments due to market changes. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's and the Foundation's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of revenue, expenses, and changes in net assets.

Both funds are presented above based on the fund's segmented time distribution maturity as provided by investment advisors, Fund Evaluation Group. Equity funds are considered to be long-term funds and therefore are presented as investments with maturities over 10 years. Market risks (including interest rate risk and liquidity risk) and credit risks are managed by board policies as described below.

Interest Rate Risk

In accordance with board policy, University administrators manage interest rate risk by identifying funds that are needed immediately, those funds that may not be needed for over one year, and funds that may not be needed for over five years. These pools of funds are managed so average maturities for each fund do not exceed one year on the short-term pool and five years on the intermediate pool. This practice limits the overall interest rate risk exposure on the entire pool of funds.

Liquidity Risk

In accordance with board policy, portfolio holdings will be sufficiently liquid to ensure that 10 percent of the portfolio can be sold on one day's notice with no material impact on market value.

Note 2 - Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial risk. At June 30, 2011 and 2010, the carrying amount of the University's deposits was \$2,608,148 and \$1,834,933, respectively. Of that amount, \$1,106,209 and \$839,842, respectively, was insured. Of the remaining \$1,501,939 \$1,387,449 at June 30, 2011 was collateralized. The FDIC increased its insurance limits to \$250,000 per depositor; in addition, the University utilized collateralized banking products.

Credit Risk

The primary investment objective for the short-term investment pool accounts shall be to provide for the preservation of capital, with a secondary emphasis upon the maximization of investment income without undue exposure to risk. Funds needed for expenditures in less than one year shall be considered short-term. The average weighted maturity for each short-term investment manager shall be between one day and one year. The University identifies credit quality features for the short term pool such as utilizing banks with well capitalized bank ratios, commercial paper with the highest rating category, and minimum purchase ratings of AA or better for the short-term portfolio.

The primary investment objectives for the intermediate-term investment pool accounts shall be the preservation of capital and the maximization of income without undue exposure to risk within the parameters specified in this subpart. Funds needed for expenditures within one to five years shall be considered intermediate-term and may be placed through direct investments, the use of mutual funds, money managers, or a combination. Credit quality features identified include a weighted average credit quality of AA for the intermediate pool of funds. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be AA for the short-term pool and BBB for the intermediate-term pool.

Ferris State University

Notes to Financial Statements June 30, 2011 and 2010

Note 2 - Cash and Investments (Continued)

At June 30, 2011 and 2010, the University's debt instruments and related ratings consisted of the following:

	2011		2010	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
PIMCO Low Duration	\$ 9,154,742	A	\$ 8,766,679	AA-
Western Asset	11,189,355	AA-	10,507,031	AA-
PIMCO Total Return	10,120,092	A+	9,553,156	AA-
PIMCO Real Return	9,984,284	AA	9,254,290	AA+
PIMCO Investment Grade Bond	-	-	1,252,421	A
Vanguard Short Term Investment Grade	6,047,039	AA-	-	-
Ridgeworth Seix High Yield	-	-	971,529	BB-
Loomis Sayles Institutional High Yield	810,165	B	-	-
Commonfund Multi Strategy Bond Fund	9,316,724	AAA	8,689,644	AA
Total	<u>\$ 56,622,401</u>		<u>\$ 48,994,750</u>	

The nationally recognized securities rating organization (NRSRO) primarily utilized was Moody's Investors Services.

Foreign Currency Risk

The University and the Foundation hold investments in some international mutual funds and alternative investments. These funds are invested in various countries throughout the world and therefore expose the University and the Foundation to foreign credit risk. Investments in these funds were \$21,780,428 and \$12,811,998 for the years ended June 30, 2011 and 2010, respectively.

Ferris State University

Notes to Financial Statements June 30, 2011 and 2010

Note 3 - Accounts Receivable and Student Loans Receivable

Accounts receivable consist of the following:

	2011	2010
Student	\$ 5,945,717	\$ 4,839,999
Grants and contracts	169,147	505,890
State appropriations	8,839,856	8,840,333
State capital appropriations	4,948,608	4,019,562
Other	2,294,402	2,628,034
Total accounts receivable	22,197,730	20,833,818
Less allowance for doubtful accounts	3,891,480	3,129,422
Total accounts receivable - Net	\$ 18,306,250	\$ 17,704,396

Student loans receivable of \$17,638,365 and \$18,447,523 for the years ended June 30, 2011 and 2010, respectively, are recorded net of an allowance for doubtful accounts of \$3,400,000 for 2011 and 2010.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land improvements	\$ 7,768,112	\$ -	\$ -		\$ 7,768,112
Infrastructure	7,416,919	-	-	-	7,416,919
Building and building improvements	257,853,787	32,356	(2,216,719)	51,644,414	307,313,838
Furniture, fixtures, and equipment	77,635,010	2,813,739	(2,689,689)	-	77,759,060
Subtotal - Depreciable assets	350,673,828	2,846,095	(4,906,408)	51,644,414	400,257,929
Land	6,329,947	-	-	-	6,329,947
Construction in progress	34,159,845	37,724,182	-	(51,644,414)	20,239,613
Subtotal - Nondepreciable assets	40,489,792	37,724,182	-	(51,644,414)	26,569,560
Total	391,163,620	\$ 40,570,277	\$ (4,906,408)	\$ -	426,827,489
Less accumulated depreciation:					
Land improvements	4,835,178	\$ 220,950	\$ -	\$ -	5,056,128
Infrastructure	5,504,089	1,124,866	-	-	6,628,955
Building and building improvements	105,701,415	5,699,773	(1,499,092)	-	109,902,096
Furniture, fixtures, and equipment	47,668,761	1,614,852	(2,422,013)	-	46,861,600
Total accumulated depreciation	163,709,443	\$ 8,660,441	\$ (3,921,105)	\$ -	168,448,779
Capital assets - Net	\$ 227,454,177				\$ 258,378,710

Note 4 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land improvements	\$ 7,055,825	\$ -	\$ -	\$ 712,287	\$ 7,768,112
Infrastructure	7,416,919	-	-	-	7,416,919
Building and building improvements	253,273,057	-	(2,646,681)	7,227,411	257,853,787
Furniture, fixtures, and equipment	73,371,037	4,642,108	(539,561)	161,426	77,635,010
Subtotal - Depreciable assets	341,116,838	4,642,108	(3,186,242)	8,101,124	350,673,828
Land	6,329,947	-	-	-	6,329,947
Construction in progress	5,778,087	36,482,882	-	(8,101,124)	34,159,845
Subtotal - Nondepreciable assets	12,108,034	36,482,882	-	(8,101,124)	40,489,792
Total	353,224,872	\$ 41,124,990	\$ (3,186,242)	\$ -	391,163,620
Less accumulated depreciation:					
Land improvements	4,614,229	220,949	-	-	4,835,178
Infrastructure	4,379,225	1,124,864	-	-	5,504,089
Building and building improvements	102,859,255	4,839,702	(1,997,542)	-	105,701,415
Furniture, fixtures, and equipment	43,473,044	4,678,964	(483,247)	-	47,668,761
Total accumulated depreciation	155,325,753	\$ 10,864,479	\$ (2,480,789)	\$ -	163,709,443
Capital assets - Net	\$ 197,899,119				\$ 227,454,177

The following estimated useful lives are used to compute depreciation:

Buildings	50 years
Library books (included in furniture, fixtures, and equipment)	5 years
Land improvements and infrastructure	20 years
Equipment	7 to 15 years

Several of the buildings on campus were financed through the issuance of bonds by the State of Michigan Building Authority (SBA). The SBA bonds are secured by a pledge of rentals to be received from the State of Michigan pursuant to a lease agreement entered into among the SBA, the State of Michigan, and the University. During the lease term, the SBA will hold title to the buildings, the State of Michigan will make all lease payments to the SBA, and the University will be responsible for all operating and maintenance costs. At the expiration of the lease, the SBA will transfer the title of the buildings to the University. The renovations are being recorded as plant and equipment as expenditures are incurred by the SBA, and revenue from the State of Michigan is being recorded for the same amount.

Note 5 - Long-term Obligations

Long-term obligation activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2009	\$ 38,935,000	\$ -	\$ 930,000	\$ 38,005,000	\$ 950,000
General Revenue Refunding Bonds, Series 2008	31,400,000	-	1,570,000	29,830,000	1,620,000
General Revenue Refunding Bonds, Series 2005	18,560,000	-	975,000	17,585,000	1,025,000
General Revenue Bonds, Series 2002	6,840,000	-	575,000	6,265,000	600,000
General Revenue Bonds, Series 2001	9,700,000	-	250,000	9,450,000	260,000
Total bonds and notes payable	105,435,000	-	4,300,000	101,135,000	4,455,000
Other liabilities:					
Accrued sick leave	8,989,663	-	81,397	8,908,266	-
Accrued long-term interest payable (bonds)	1,182,992	1,147,442	1,182,992	1,147,442	1,147,442
Accrued long-term interest payable (capital lease)	-	369,370	216,878	152,492	152,492
Capital lease payable	-	12,615,000	-	12,615,000	-
Total	\$ 115,607,655	\$ 14,131,812	\$ 5,781,267	\$ 123,958,200	\$ 5,754,934

Long-term obligation activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2009	\$ 38,935,000	\$ -	\$ -	\$ 38,935,000	\$ 930,000
General Revenue Refunding Bonds, Series 2008	32,915,000	-	1,515,000	31,400,000	1,570,000
General Revenue Refunding Bonds, Series 2005	19,510,000	-	950,000	18,560,000	975,000
General Revenue Bonds, Series 2002	7,405,000	-	565,000	6,840,000	575,000
General Revenue Bonds, Series 2001	9,940,000	-	240,000	9,700,000	250,000
Total bonds and notes payable	108,705,000	-	3,270,000	105,435,000	4,300,000
Other liabilities:					
Accrued land contract	85,000	-	85,000	-	-
Accrued sick leave	8,790,169	199,494	-	8,989,663	-
Accrued long-term interest payable	1,176,716	4,725,692	4,719,416	1,182,992	1,182,992
Total	\$ 118,756,885	\$ 4,925,186	\$ 8,074,416	\$ 115,607,655	\$ 5,482,992

General Revenue Bonds, Series 2009

The University issued \$38,935,000 of 3.0 to 5.25 percent General Revenue Bonds. A rating of "AAA" was assigned to these bonds by Standards & Poor's. The bonds are insured, payable from general revenues of the University, callable at a premium, and mature in varying amounts through 2039. Proceeds from this issuance were used for renovation of the Rock Café, a dining unit within the University's auxiliary services area which was converted from a traditional cafeteria style to a marketplace concept and construction of an exterior green and multipurpose space located near the Rock Café. Another major project funded was construction of new east campus suites student housing which was completed and was opened for August 2010 occupancy. Proceeds from this issuance were currently being used for construction of a new building for the Michigan College of Optometry, a project to be 75 percent funded by the State of Michigan, with the remainder to be financed from private donations and bond proceeds.

Note 5 - Long-term Obligations (Continued)

The remainder of the bond funds will be used for miscellaneous building and site improvements.

General Revenue and Refunding Bonds, Series 2008

The University issued \$32,915,000 of 3.25 to 5.0 percent General Revenue and Refunding Bonds. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenue of the University, callable at a premium, and mature in varying amounts through 2028. Proceeds from this issuance were placed in an irrevocable trust for the purpose of refunding certain maturities of the General Revenue and Refunding Bonds, Series 1998 in the amount of \$32,825,000 which represents the callable portion of the bonds. The remaining \$1,650,000 portion of the 1998 bonds was not refunded and was payable in October 2009.

General Revenue and Refunding Bonds, Series 2005

The University issued \$21,230,000 of 3.0 to 5.0 percent General Revenue and Refunding Bonds. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenue of the University, callable at a premium, and mature in varying amounts through 2028. Proceeds from this issuance in the amount of \$20,359,350 were placed in an irrevocable trust for the purpose of refunding certain maturities of the General Revenue and Refunding Bonds, Series 1995 and a portion of the General Revenue Bonds, Series 1998. The remaining proceeds of approximately \$1,486,000 were used for renovations of the Instructional Resource Center building and repurposing the facility to focus on programs associated with its adjacent College of Business.

General Revenue Bonds, Series 2002

The University issued \$10,340,000 of 2.0 to 4.3 percent General Revenue Bonds. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenue of the University, callable at a premium, and mature in varying amounts through 2019. Proceeds from this issuance were used to refund the outstanding balance of the General Revenue Bonds, Series 1988 and related accrued interest, \$1,000,000 in funds for the energy retrofitting and modifications for the College of Business, Pharmacy, and Allied Health buildings, \$900,000 for the ice arena mechanical system, \$100,000 for the State Street modifications, and costs incidental to the issuance of the bonds.

Note 5 - Long-term Obligations (Continued)

General Revenue Bonds, Series 2001

The University issued \$11,000,000 of 4.0 to 5.25 percent General Revenue Bonds. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenue of the University, callable at a premium, and mature in varying amounts through 2032. Proceeds from this issuance were used for the construction and equipping of a new grounds storage building for \$1,000,000, \$6,500,000 for various building and site acquisitions, improvements, renovations, remodeling projects at the Big Rapids and Grand Rapids campuses, additions and remodeling of the Heating, Ventilation, Air Conditioning and Refrigeration Technology Center (HVACR) of \$3,500,000, and costs incidental to the issuance of the bonds. The HVACR project had a total estimated cost of \$18,000,000 with sources of \$1,000,000 from gifts, \$13,500,000 from the State Building Authority, and the remainder from these bond proceeds.

Federal Building Capital Lease, Series 2010A

In September 2010, a sublease was made between Federal Building Partners LLC and the University to lease the Federal Building in downtown Grand Rapids. The agreement involved issuance of bonds by the Economic Development Corporation of the City of Grand Rapids for the renovation of the building to be done by Federal Building Partners. A bond rating of "A" was assigned to these bonds by Standard & Poor's with maturity dates varying in amounts through 2035. The University is a guarantor for the Series 2010A bond issuance for \$12,615,000. Ownership of the building could eventually pass from the City of Grand Rapids to the University after construction is complete and the tax credit recapture expiration date passes. The capital lease is listed as a long-term obligation and the related asset included in construction in progress at June 30, 2011.

Ferris State University

Notes to Financial Statements June 30, 2011 and 2010

Note 5 - Long-term Obligations (Continued)

Principal and Interest Maturities and Interest Expense

Total principal and interest maturities on all bond and capital lease obligations as of June 30, 2011 are as follows:

Year	Bond		Capital Lease
	Principal	Interest	Minimum Payments
2012	\$ 4,455,000	\$ 4,515,636	\$ 609,969
2013	4,605,000	4,364,399	910,394
2014	4,765,000	4,188,947	911,094
2015	4,970,000	3,992,933	913,119
2016	5,180,000	3,783,030	913,169
2017-2021	29,800,000	15,038,196	4,572,775
2022-2026	20,775,000	9,177,397	4,563,875
2027-2031	13,445,000	4,825,509	4,560,934
2032-2036	7,865,000	2,372,694	4,568,237
2037-2039	5,275,000	425,119	-
Total	<u>\$ 101,135,000</u>	<u>\$ 52,683,860</u>	\$ 22,523,566
		Less amount representing interest	<u>9,908,566</u>
		Present value of minimum lease payments	<u>\$ 12,615,000</u>

Bond interest expense was approximately \$4,995,000 and \$4,726,000 for the years ended June 30, 2011 and 2010, respectively. This includes construction period interest which is capitalized as part of the cost of the assets constructed of \$820,583 for the year ended June 30, 2011.

Accrued Sick Leave

The University provides termination benefits upon retirement resulting from unused sick days which are defined by each respective labor contract and administrative policy. The liability, which is calculated based on eligible service requirements and earned sick leave hours, is recorded using the vesting method and based on those employees currently eligible. Effective July 1, 2001, all nonunion employees hired after July 1, 2001 are no longer eligible for the sick leave payout upon retirement.

Note 6 - Retirement Plans

The University provides noncontributory retirement plans for all qualified employees. In December 1995, the State enacted H.B. 4047, which precludes University employees hired after March 28, 1996 from participating in the Michigan Public School Employees' Retirement System (MPSERS). Employees currently covered under the MPSERS plan will continue to remain in that plan. The University will contribute to MPSERS the amount of their eligible wages mandated by state statute.

MPSERS is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers approximately 25 percent of the University's employees. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the Web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Under this plan, the University is required to contribute the full actuarial funding contribution amount to fund pension benefits. The pension benefit rate, which is the rate for the covered payroll of the employees participating in MPSERS, is adjusted annually beginning October 1 and ending September 30 of each year. In addition, in order to fund the unfunded liability that existed at March 28, 1996, the University is required under state statute to contribute a percentage of the covered payroll of members and non-members to the plan. The non-member rate is also adjusted annually beginning October 1. Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. The University funds retiree healthcare benefit amounts on a cash disbursement basis.

Note 6 - Retirement Plans (Continued)

The following is a table summarizing the pension benefit rate and retirement contributions, the non-member rate and non-member contributions to the unfunded liability, and the postemployment healthcare contributions for the years ended June 30, 2011, 2010, and 2009:

Year	Member Contributions			Non-member Contributions		
	Pension Benefit Rate	Unfunded Liability Rate	Retirement Contributions	Non-member Rate	Non-member Contributions	Retiree Health Contributions
2011	4.11%	9.73%	\$ 2,204,000	9.73%	\$ 1,179,000	\$ 4,122,000
2010	4.58%	7.72%	2,430,000	7.72%	903,000	3,731,000
2009	5.66%	6.98%	2,509,000	6.98%	830,000	3,904,000

Prior to March 28, 1996, faculty and non-bargaining unit job groups were eligible to participate in the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) plan. TIAA-CREF is a defined contribution plan whereby the University generally contributes 12 percent of employees' pay for administration and faculty, and 10 percent for all other eligible employee groups to the plan with no liability beyond that contribution. All eligible employees hired after March 28, 1996 have the option to participate in either TIAA-CREF or a second defined contribution plan with Fidelity Investments Tax Exempt Service Company (Fidelity Investments). The Fidelity Investments plan calls for the same contribution rates. Kendall staff also participate in a defined contribution plan through TIAA-CREF with contribution rates ranging from 5 to 15 percent of base salary. Plan participants maintain individual annuity contracts with TIAA-CREF or Fidelity Investments, which are fully vested.

For the years ended June 30, 2011 and 2010, the University contributed approximately \$6,675,000 and \$6,555,000, respectively, to the TIAA-CREF plan and approximately \$1,423,000 and \$1,360,000, respectively, to the Fidelity Investments plan.

Note 7 - Insurance

Risk-sharing Facility

The University participates in the Michigan Universities Self-insurance Corporation (MUSIC). This organization provides insurance coverage for losses commonly covered in the areas of general liability, errors and omissions, all risk property insurance, automobile liability, and automobile physical damage. In fiscal year 2011, there were 11 universities that participated in MUSIC. Each participating university is responsible for a first tier of losses up to a level that has been actuarially determined. MUSIC is financially responsible for a second tier of losses. For comprehensive general liability, errors and omissions, and all risk property insurance, MUSIC has purchased excess insurance coverage with commercial insurance carriers to cover a third tier of losses. However, in the event the insurance reserves established by MUSIC are insufficient to meet its second tier obligations, each of the participating universities share this obligation by agreements with MUSIC.

All of the participating universities are subject to additional assessments if the obligations and expenses (claims) of MUSIC exceed the combined periodic payments and accumulated operational reserves for any given year, after exhaustion of available net equity of MUSIC. The University has not been subjected to additional assessments since the formation of MUSIC in 1987. Historically, the obligations and expenses (claims) have been less than the combined periodic payments and accumulated operational reserves for any given year.

Self-insurance

The University is self-insured for workers' compensation, unemployment compensation, and substantially all non-bargaining units and AFSCME union employees' health benefits. Liabilities for estimates of losses retained by the University under self-insurance programs have been established.

Note 8 - Leases

Operating Leases - The University leases 30 percent of the Applied Technology Center located on the campus of Grand Rapids Community College in Grand Rapids, Michigan. The lease was signed in fiscal year 1990 for a 20-year term beginning upon completion of the center. The center was completed in fiscal year 1992, marking the start of the 20-year lease. The lease was extended in fiscal year 2010 for an additional five years expiring in July 2016 with an annual payment of approximately \$587,000.

Ferris State University

Notes to Financial Statements June 30, 2011 and 2010

Note 8 - Leases (Continued)

The University leases building and parking spaces in Grand Rapids from the Grand Rapids Medical Education and Research Center for Health Professions. The original lease was for a period of eight years and eight months expiring on February 28, 2011. This lease was amended to terminate on December 31, 2012. Annual lease payments of approximately \$185,000 increase by 3 percent for the building and the parking spaces, and operating expenses increase at various times during the lease term.

Also, the University leases certain equipment under various agreements, which generally require an annual rental payment and operating expenses, expiring in 2015.

Future minimum payments at June 30, 2011 under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 908,479
2013	845,925
2014	972,619
2015	643,231
2016	<u>595,081</u>
Total	<u>\$ 3,965,335</u>

Rental expense for the years ended June 30, 2011 and 2010 was approximately \$1,387,000 and \$1,292,000, respectively.

Ferris State University

Notes to Financial Statements June 30, 2011 and 2010

Note 9 - Commitments and Contingencies

In the normal course of its activities, the University is a party to various legal actions. The University is of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements. The University has several active construction projects as of June 30, 2011 resulting in the following commitments to vendors:

	Spent to Date	Construction Commitments at Year End
Student Recreation Center Mechanical Systems	\$ 221,883	\$ 772,550
Grand Rapids Pharmacy Project	5,868,135	2,323,823
Residential Halls Renovation	8,125,574	293,837
Total	<u>\$ 14,215,591</u>	<u>\$ 3,390,210</u>

A large portion of the Grand Rapids Pharmacy project will be funded through the State of Michigan Building Authority.

Note 10 - New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Statement No. 62 incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the University's 2013 fiscal year.

Statement No. 63 introduces those elements of net assets by the University that are applicable to a future reporting period. The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as a net position, rather than net assets. The University is currently evaluation the impact this standard will have on the financial statements when adopted during the University's 2013 fiscal year.

Supplemental Information

To the Board of Trustees
Ferris State University

We have audited the basic financial statements of Ferris State University for the years ended June 30, 2011 and 2010. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Ferris State University. This information has been subjected to the procedures applied in the audits 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.

Plante & Moran, PLLC

September 23, 2011

Ferris State University

	Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
Assets					
Current Assets					
Cash and cash equivalents	\$ 50,888,408	\$ 16,729,752	\$ 8,263,209	\$ 1,848,667	\$ 706,817
Short-term investments	40,216,074	13,981,760	16,491,135	2,362,502	1,487,729
Accounts receivable	18,306,250	10,709,829	1,707,698	254,051	169,147
Inventories	921,151	53,002	170,285	697,864	-
Prepaid expenses and other assets	395,358	219,463	75,895	-	-
Total current assets	110,727,241	41,693,806	26,708,222	5,163,084	2,363,693
Noncurrent Assets					
Restricted cash and cash equivalents	452,832	-	-	-	-
Endowment investments	35,915,100	-	-	-	-
Other long-term investments	36,372,777	962,957	-	-	-
Student loan receivable	17,638,365	-	-	-	-
Bond issuance costs	2,578,456	-	-	-	-
Capital assets - Net	258,378,710	-	-	-	-
Total noncurrent assets	351,336,240	962,957	-	-	-
Total assets	\$ 462,063,481	\$ 42,656,763	\$ 26,708,222	\$ 5,163,084	\$ 2,363,693
Liabilities and Net Assets					
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 20,713,003	\$ 15,312,231	\$ 169,449	\$ 2,233,023	\$ 6,305
Deferred revenue	7,240,935	6,486,636	513,865	240,434	-
Long-term liabilities - Current portion	5,754,934	-	-	-	-
Total current liabilities	33,708,872	21,798,867	683,314	2,473,457	6,305
Noncurrent liabilities:					
Deposits	935,419	-	-	935,419	-
Federal student loan payable	13,860,599	-	-	-	-
Long-term liabilities	118,203,266	8,510,396	7,817	390,053	-
Total noncurrent liabilities	132,999,284	8,510,396	7,817	1,325,472	-
Total liabilities	166,708,156	30,309,263	691,131	3,798,929	6,305
Net Assets					
Invested in capital assets - Net of related debt	148,677,192	-	-	-	-
Restricted for:					
Nonexpendable - Scholarships					
Expendable:	18,229,687	-	-	-	-
Scholarships	6,799,468	-	-	-	1,821,468
Research	61,346	-	-	-	61,346
Instructional department uses	145,306	-	-	-	2,810
Loans	5,955,549	-	-	-	-
Capital projects	200	-	-	-	-
Other	4,085,636	-	-	-	471,764
Unrestricted	111,400,941	12,347,500	26,017,091	1,364,155	-
Total net assets	295,355,325	12,347,500	26,017,091	1,364,155	2,357,388
Total liabilities and net assets	\$ 462,063,481	\$ 42,656,763	\$ 26,708,222	\$ 5,163,084	\$ 2,363,693

Combining Balance Sheet June 30, 2011

Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation
\$ 964,781	\$ 20,780,532	\$ 44,519	\$ 1,550,131
1,805,177	4,087,771	-	-
-	4,948,608	211,167	305,750
-	-	-	-
-	100,000	-	-
<u>2,769,958</u>	<u>29,916,911</u>	<u>255,686</u>	<u>1,855,881</u>
-	452,832	-	-
-	-	-	35,915,100
-	35,409,820	-	-
17,638,365	-	-	-
-	2,578,456	-	-
-	<u>258,378,710</u>	-	-
<u>17,638,365</u>	<u>296,819,818</u>	<u>-</u>	<u>35,915,100</u>
<u>\$ 20,408,323</u>	<u>\$ 326,736,729</u>	<u>\$ 255,686</u>	<u>\$ 37,770,981</u>
\$ -	\$ 2,645,923	\$ 255,686	\$ 90,386
-	-	-	-
-	<u>5,754,934</u>	-	-
-	8,400,857	255,686	90,386
-	-	-	-
13,860,599	-	-	-
-	<u>109,295,000</u>	-	-
<u>13,860,599</u>	<u>109,295,000</u>	<u>-</u>	<u>-</u>
13,860,599	117,695,857	255,686	90,386
-	148,677,192	-	-
-	-	-	18,229,687
-	-	-	4,978,000
-	-	-	-
-	-	-	142,496
5,346,543	-	-	609,006
-	-	-	200
-	-	-	3,613,872
<u>1,201,181</u>	<u>60,363,680</u>	<u>-</u>	<u>10,107,334</u>
<u>6,547,724</u>	<u>209,040,872</u>	<u>-</u>	<u>37,680,595</u>
<u>\$ 20,408,323</u>	<u>\$ 326,736,729</u>	<u>\$ 255,686</u>	<u>\$ 37,770,981</u>

Ferris State University

	Combined Total	Eliminations	General Fund	Designated Fund
Operating Revenue				
Tuition and fees	\$ 107,155,850	\$ (27,501,564)	\$ 134,657,414	\$ -
Federal grants and contracts	4,159,202	-	-	7,925
State grants and contracts	209,767	-	-	-
Nongovernmental grants	128,443	-	-	119,883
Departmental activities	10,658,838	(2,375,554)	3,955,862	9,044,666
Auxiliary enterprises	30,276,592	(10,754,532)	-	-
Other operating revenues	506,480	(495,182)	268,086	62,699
Current funds expenditures for equipment and capital improvements	-	(1,918,109)	-	-
Total operating revenue	153,095,172	(43,044,941)	138,881,362	9,235,173
Operating Expenses				
Instruction	84,873,207	(556,629)	82,814,940	2,593,724
Research	181,687	-	10,467	62,846
Public service	2,099,680	(47,527)	165,041	1,225,246
Academic support	22,942,729	(341,006)	23,190,662	61,421
Student services	13,708,526	(24,549)	12,541,007	981,545
Institutional support	22,674,852	(4,417,394)	21,734,101	3,540,213
Operations and maintenance of plant	17,191,652	(118,608)	13,470,990	5,617
Depreciation	8,660,441	-	-	-
Student aid	24,827,279	(27,502,232)	19,207,987	108,258
Auxiliary enterprises	19,503,738	(11,111,496)	-	-
Other expenses	366,864	-	-	-
Total operating expenses	217,030,655	(44,119,441)	173,135,195	8,578,870
Operating (Loss) Income	(63,935,483)	1,074,500	(34,253,833)	656,303
Nonoperating Revenue (Expenses)				
State appropriations	48,619,200	-	48,619,200	-
Federal Pell grants	25,846,650	-	-	-
Gifts	4,733,583	(1,074,500)	33,631	2,942,293
Investment income	16,213,780	-	1,973,038	3,331,618
Interest on capital asset - Related debt	(4,994,689)	-	-	-
Net nonoperating revenue (expenses)	90,418,524	(1,074,500)	50,625,869	6,273,911
Income (Loss) - Before other revenue	26,483,041	-	16,372,036	6,930,214
State Capital Appropriations	17,230,072	-	-	-
Additions to Permanent Endowments	1,110,541	-	-	-
Increase (Decrease) in Net Assets - Before transfers	44,823,654	-	16,372,036	6,930,214
Transfers In (Out)	-	-	(18,437,103)	(3,573,168)
Net Increase (Decrease) in Net Assets	44,823,654	-	(2,065,067)	3,357,046
Net Assets - Beginning of year	250,531,671	-	14,412,567	22,660,045
Net Assets - End of year	\$ 295,355,325	\$ -	\$ 12,347,500	\$ 26,017,091

**Combining Statement of Revenue,
Expenses, and Changes in Net Assets
Year Ended June 30, 2011**

Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation
\$ -	\$ -	\$ -	\$ -	\$ -
12,205	4,139,072	-	-	-
-	209,767	-	-	-
-	8,560	-	-	-
-	33,864	-	-	-
41,031,124	-	-	-	-
124,483	-	454,344	92,050	-
-	-	-	1,918,109	-
41,167,812	4,391,263	454,344	2,010,159	-
-	21,172	-	-	-
-	108,374	-	-	-
-	756,920	-	-	-
-	31,652	-	-	-
-	210,523	-	-	-
-	433,683	-	-	1,384,249
-	1,963	-	3,831,690	-
-	-	-	8,660,441	-
1,569,619	31,443,647	-	-	-
30,615,234	-	-	-	-
-	-	366,864	-	-
32,184,853	33,007,934	366,864	12,492,131	1,384,249
8,982,959	(28,616,671)	87,480	(10,481,972)	(1,384,249)
-	-	-	-	-
-	25,846,650	-	-	-
2,745	2,482,200	90,105	-	257,109
343,438	80,360	128,087	2,500,962	7,856,277
-	-	-	(4,994,689)	-
346,183	28,409,210	218,192	(2,493,727)	8,113,386
9,329,142	(207,461)	305,672	(12,975,699)	6,729,137
-	-	-	17,230,072	-
-	-	-	-	1,110,541
9,329,142	(207,461)	305,672	4,254,373	7,839,678
(9,386,449)	648,481	(202,258)	30,835,497	115,000
(57,307)	441,020	103,414	35,089,870	7,954,678
1,421,462	1,916,368	6,444,310	173,951,002	29,725,917
\$ 1,364,155	\$ 2,357,388	\$ 6,547,724	\$ 209,040,872	\$ 37,680,595