

Ferris State University

**Financial Report
with Supplemental Information
June 30, 2005**

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, 2005 and 2004 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 and *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. 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, 2005 and 2004, 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 August 19, 2005 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, 2005. 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.

The management's discussion and analysis presented on pages 2 through 11 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

August 19, 2005

Ferris State University

Management's Discussion and Analysis

The following discussion and analysis of Ferris State University's financial statements provides an overview of the University's financial activities for the year ended June 30, 2005. 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 University 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 revenues, 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

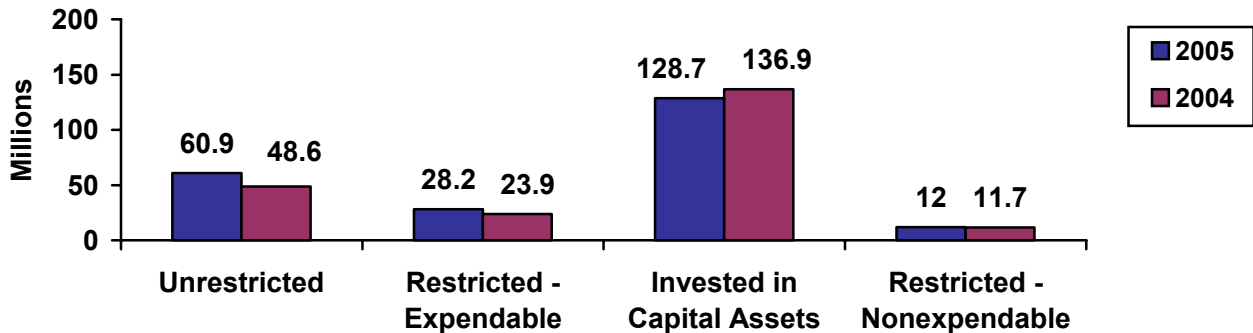
The University's net assets increased \$8.6 million or 3.9 percent for the year ended June 30, 2005. The net asset increase continues to be the result of a trend of enrollment growth and members of the University community managing University resources in the context of uncertain economic times. Funding from the State of Michigan was a net increase of \$2.3 million over 2004. This was the net effect of restoration of a one-time reduction made in fiscal year 2004 and a base funding reduction of 2.8 percent. The Ferris Foundation endowment market value increased by \$2.7 million. The long-term investment plan generated investment returns on the endowment of 13.3 percent in 2005 and 23.7 percent in 2004.

For the prior year ended June 30, 2004, the University's net assets increased \$13.9 million or 6.7 percent. The Ferris Foundation endowment market value increase contributed \$5 million of the overall increase. The reduction of \$5.8 million or 10.8 percent of the University's base appropriation by the State of Michigan required cost reduction and improved efficiencies by the University community to maintain academic programs and the financial position of the University.

Ferris State University

Management's Discussion and Analysis (Continued)

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2005 and 2004.



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 revenues 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 revenues 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.

These 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 revenues and expenses are taken into account regardless of when cash is received or paid.

Ferris State University

Management's Discussion and Analysis (Continued)

Net Assets

Total net assets increased by \$8.6 million to \$229.7 million. Total unrestricted net assets are \$60.9 million. Of this total, \$44.1 million is identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments. The unrestricted and undesignated amount of \$16.8 million is comprised of \$12.7 million for self-supporting departmental, student loan, and auxiliary activities, and \$4.1 million for completion of the enterprise system conversion and other minor construction projects on campus.

Following is a comparison of the major components of the net assets of the University and operating results for years ended June 30, 2005 and 2004:

Net Assets as of June 30 (in millions)

	2005	2004	Increase (Decrease)	Percent Change
Assets				
Current assets	\$ 63.9	\$ 51.6	\$ 12.3	
Noncurrent assets:				
Capital assets - Net of depreciation	204.5	212.0	(7.5)	
Other	64.7	62.3	2.4	
Total assets	<u>\$ 333.1</u>	<u>\$ 325.9</u>	<u>\$ 7.2</u>	<u>2.2%</u>
Liabilities				
Current liabilities	\$ 19.2	\$ 18.6	\$ 0.6	
Long-term liabilities	84.2	86.2	(2.0)	
Total liabilities	103.4	104.8	(1.4)	(1.7%)
Net Assets				
Invested in capital assets	128.7	136.9	(8.2)	
Restricted - Expendable	28.1	23.9	4.2	
Restricted - Nonexpendable	12.0	11.7	0.3	
Unrestricted	60.9	48.6	12.3	
Total net assets	<u>229.7</u>	<u>221.1</u>	<u>8.6</u>	<u>3.9%</u>
Total liabilities and net assets	<u>\$ 333.1</u>	<u>\$ 325.9</u>	<u>\$ 7.2</u>	<u>2.2%</u>

Ferris State University

Management's Discussion and Analysis (Continued)

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

	2005	2004	Increase (Decrease)	Percent Change
Operating Revenues				
Tuition and fees - Net	\$ 71.1	\$ 67.1	\$ 4.0	
Grants and contracts	16.4	13.9	2.5	
Departmental activities	8.7	8.8	(0.1)	
Auxiliary activities - Net	29.1	29.5	(0.4)	
Other	0.4	0.4	-	
Total operating revenues	125.7	119.7	6.0	5.0%
Operating Expenses	174.2	168.7	5.5	3.3%
Net Operating Loss	(48.5)	(49.0)	0.5	1.0%
Nonoperating Revenues				
State appropriations	50.0	47.8	2.2	
Gifts	3.2	6.9	(3.7)	
Investment income	6.8	7.3	(0.5)	
Interest on capital related debt	(3.8)	(3.9)	0.1	
Total nonoperating revenues	56.2	58.1	(1.9)	(3.3%)
Income (Loss) - Before other revenues	7.7	9.1	(1.4)	15.4%
Other Revenues				
Capital appropriations	0.6	4.6	(4.0)	
Capital grants and contracts	0.3	0.2	0.1	
Total other revenues	0.9	4.8	(3.9)	(81.3%)
Increase in Net Assets	8.6	13.9	\$ (5.3)	(38.1%)
Net Assets - Beginning of year	221.1	207.2		
Net Assets - End of year	\$ 229.7	\$ 221.1		

Ferris State University

Management's Discussion and Analysis (Continued)

Operating Revenues

Operating revenues include 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 two major factors significantly impacted operating revenue for the current year:

- Student tuition and fee revenue increased \$4.0 million due to the board-approved tuition increase of 2.4 percent and some enrollment growth.
- State and local grant revenue increased by \$3.5 million from receipt of the state portion of the Freedom to Learn grant.

For the year ended June 30, 2004, the significant operating revenue factors were:

- Student tuition and fee revenue increased \$10.4 million due to the board-approved tuition increase of 9.2 percent and moderate enrollment growth.
- Auxiliary activities revenue increased by \$2.7 million primarily due to Residential Life and dining rate increase of 6 percent and increased residence hall occupancy.

Nonoperating Revenues

Nonoperating revenues are all revenue sources that are primarily non-exchange 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 \$50 million reflects an increase of \$2.3 million from the 2004 level. This is the net effect of receiving a \$1.5 million restoration of fiscal year 2004 reductions and not having the one-time reduction of \$2.5 million taken in 2004. The offset is a base reduction for 2005 of \$1.4 million or 2.8 percent and a reduction in the Michigan Merit Award funding of \$0.3 million.
- Gift revenue of \$3.2 million
- Investment income decreased by \$0.5 million to \$6.8 million. Investment income and realized gains totaled \$4.1 million plus the unrealized gain on investments of \$2.7 million. This reflects Foundation investment performance that exceeded our overall portfolio benchmarks for the year by 0.6 percent to achieve a return of 13.3 percent. The University investment performance exceeded the annual portfolio benchmark by 2.0 percent.

The 2004 state appropriation of \$47.8 million reflects a 10.8 percent reduction from the 2003 level. This reduction from the State of Michigan is in addition to the 2003 reduction of 3.5 percent.

Ferris State University

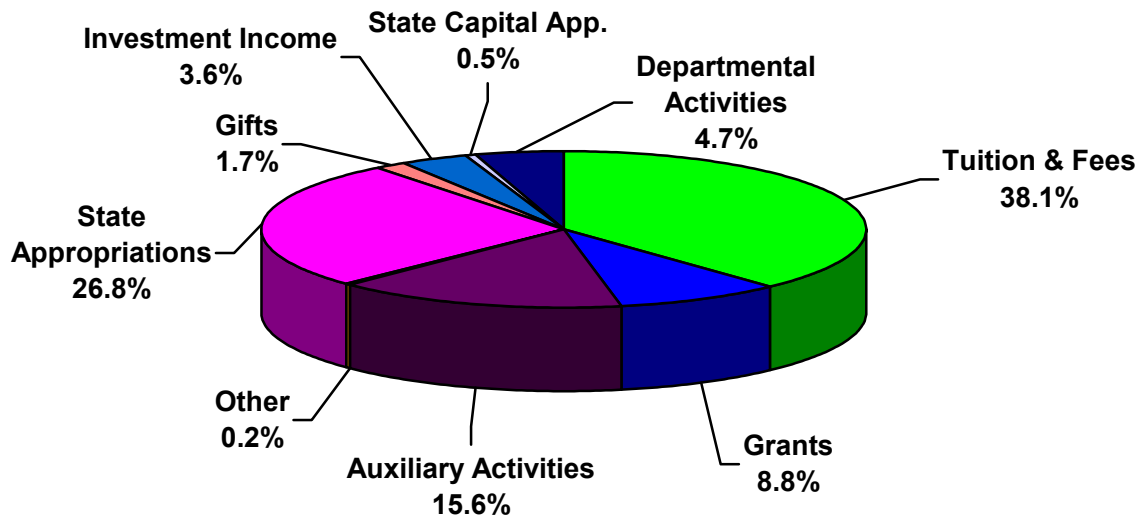
Management's Discussion and Analysis (Continued)

Other Revenues

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

- State capital appropriations decreased by \$4.0 million to \$0.6 million for final expenditures on the Granger Center of Construction and HVACR.
- An upgrade to the Instructional Resource Center is in the planning stages for work to begin in FY 2006. Funding will be from the State with a University share.

The following is a graphic illustration of total revenues by source:



Ferris State University

Management's Discussion and Analysis (Continued)

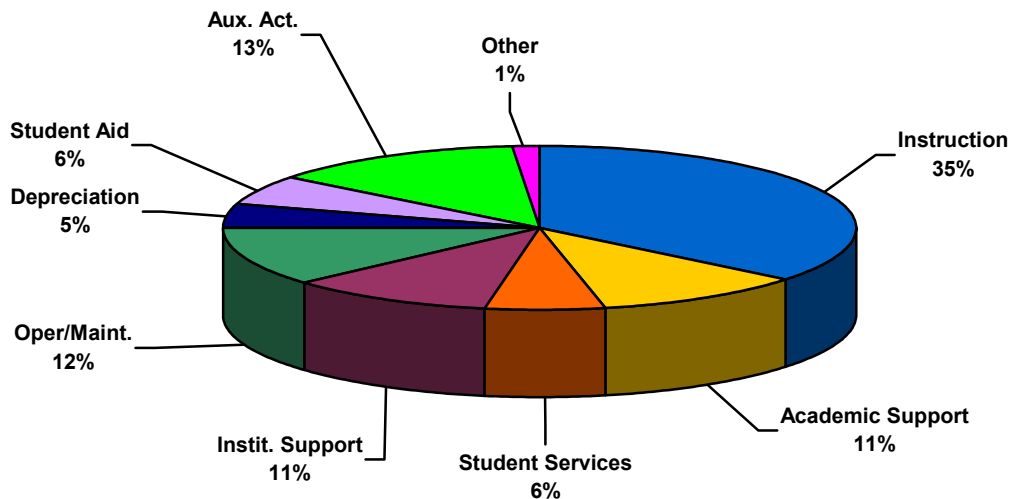
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses increased by \$5.5 million from 2004 levels. Major increases in addition to labor and benefit economics are:

- The new Freedom to Learn grant expenses of \$1.1 million
- Reduction in book value of equipment assets to reflect the capitalization minimum of \$5,000 per asset of \$2.7 million
- Utilities increase primarily for natural gas of \$0.5 million

During the 2004 fiscal year, operating expenses were reduced by \$2.5 million from 2003 levels. Included in this reduction are the results of budget reduction plans implemented by the University in personnel and departmental expense areas partially offset by increases in labor and benefit economics. Utility costs decreased by 5 percent due to electric and gas favorable usage experiences for the year.

The following is a graphic illustration of operating expenses by function:



A nonoperating expense of interest on capital related debt remained at \$3.9 million in 2005.

Ferris State University

Management's Discussion and Analysis (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)

	2005	2004	Increase (Decrease)
Cash Provided by (Used In)			
Operating activities	\$ (37.4)	\$ (37.9)	\$ 0.5
Noncapital financing activities	54.8	54.6	0.2
Capital and related financing activities	(9.0)	(10.0)	1.0
Investing activities	<u>(0.0)</u>	<u>(6.9)</u>	<u>6.9</u>
Net Increase (Decrease) in Cash	8.4	(0.2)	8.6
Cash - Beginning of year	<u>14.7</u>	<u>14.9</u>	<u>(0.2)</u>
Cash - End of year	<u><u>\$ 23.1</u></u>	<u><u>\$ 14.7</u></u>	<u><u>\$ 8.4</u></u>

The University's liquidity increased primarily due to a smaller amount of cash used in the purchase of investments.

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 decreased by \$0.5 million from 2004.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by \$0.2 million.

Cash used by capital and related financing activities totaled \$9.0 million, primarily from the capital assets acquired during the year of \$3.4 million and debt and interest payments of \$6.3 million. This was partially offset by proceeds from state capital appropriations of \$0.6 million. Capital related usage decreased \$1.0 million from 2004 due to a reduced level of capital asset acquisitions.

Cash provided by investing activities totaled \$54,000, which is the net of impact of sales and investments of short- and long-term securities and investment income.

Ferris State University

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, the University had \$204 million invested in capital assets, net of accumulated depreciation of \$133 million. Depreciation charges were lower than 2004 by \$1.7 million due to the reduction in assets with acquisition cost of less than \$5,000 to reflect the capitalization minimum increase to \$5,000. Details of these assets are shown below:

	2005	2004	Increase (Decrease)	Percent Change
Land, land improvements, and infrastructure	\$ 20.0	\$ 18.5	\$ 1.5	7.8%
Buildings and improvements	243.0	240.8	2.2	0.9%
Furniture, fixtures, and equipment	74.5	83.7	(9.2)	(11.0%)
Construction in progress	-	1.7	(1.7)	(100.0%)
Total	<u>\$ 337.5</u>	<u>\$ 344.7</u>	<u>\$ (7.2)</u>	<u>(2.1%)</u>

The major capital addition completed this year and the source of the funding (in millions):

- Grounds Storage Building funded by the University \$1.7 million
- Granger Center for Construction and HVACR funded by the State of Michigan, the University, and private donations \$0.5 million

Debt

At year end, the University had \$79.4 million in debt outstanding. The table below summarizes this amount by type of debt instrument.

	2005	2004	Increase (Decrease)	Percent Change
General Revenue Bonds	<u>\$ 79.4</u>	<u>\$ 81.8</u>	<u>\$ (2.4)</u>	<u>(2.9%)</u>

There were no additional bonds issued in 2005. The University's revenue bond rating is A2. More detailed information about the long-term liabilities is presented in the notes to the financial statements.

Ferris State University

Management's Discussion and Analysis (Continued)

Economic Factors that Will Affect the Future

The State of Michigan continues to have major budget challenges. During fiscal year 2005, the governor issued another executive order for higher education of \$30 million. This was the third consecutive year of in-year appropriation reductions. In May, 55 percent of the reduction was reinstated based on updated projections for state revenues. It is possible that the remaining 45 percent will be reinstated depending on revenues for the remainder of the State fiscal year, which ends September 30. The governor's budget recommendation for fiscal year 2006 reflects a conservative forecast of the State's economy with a recommendation for a 1.96 percent reduction for higher education operations.

There is much uncertainty as to what the higher education budget will look like when it is completed. The University has addressed funding reductions for the past three years through position reductions and restraints on all other expense areas and will continue to do so. With no additional state funding, tuition is left to support University cost increases.

The state budget trend for higher education over the last two years has increased the need to emphasize the importance of private giving. Ferris State University has been fortunate to have corporate partners involved with programs and participation from alumni and friends. The leadership of the University is focused on strengthening the individual and corporate giving programs.

The University continues its efforts to recruit and retain an increased number of high caliber students. We have seen a continued trend of increased enrollment for the fall of 2005. The total enrollment of the University, including Kendall College of Art and Design, is expected to approach 12,500 students. Expanding University resources and enrollment growth while increasing the admission standards of our student applicants continue to be priorities for the institution in the year ahead.

Ferris State University

Balance Sheet

	June 30	
	2005	2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 23,121,514	\$ 14,689,382
Short-term investments (Note 2)	25,969,904	22,756,133
Accounts receivable (Note 3)	13,220,405	12,233,599
Inventories	1,217,573	969,626
Prepaid expenses and other assets	<u>327,072</u>	<u>912,516</u>
Total current assets	63,856,468	51,561,256
Noncurrent Assets		
Endowment investments (Note 2)	25,222,525	22,980,549
Other long-term investments (Note 2)	18,884,972	18,944,144
Student loan receivable (Note 3)	18,729,077	18,406,636
Bond issuance costs	1,975,449	2,055,807
Capital assets - Net (Note 4)	<u>204,459,004</u>	<u>211,987,204</u>
Total noncurrent assets	<u>269,271,027</u>	<u>274,374,340</u>
Total assets	<u>\$ 333,127,495</u>	<u>\$ 325,935,596</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 10,215,842	\$ 10,094,971
Deferred revenue	5,419,868	5,066,290
Long-term liabilities - Current portion (Note 5)	<u>3,513,300</u>	<u>3,433,093</u>
Total current liabilities	19,149,010	18,594,354
Noncurrent Liabilities		
Deposits	898,950	918,465
Long-term liabilities (Note 5)	<u>83,337,482</u>	<u>85,295,695</u>
Total noncurrent liabilities	<u>84,236,432</u>	<u>86,214,160</u>
Total liabilities	103,385,442	104,808,514
Net Assets		
Invested in capital assets - Net of related debt	128,676,120	136,931,884
Restricted for:		
Nonexpendable - Scholarships (Note 1)	12,006,090	11,660,373
Expendable:		
Scholarships	4,413,722	4,434,029
Research	62,061	84,173
Instructional department uses	443,421	329,745
Loans	19,370,900	18,801,662
Capital projects	200	200
Other	3,836,905	240,091
Unrestricted (Note 1)	<u>60,932,634</u>	<u>48,644,925</u>
Total net assets	<u>229,742,053</u>	<u>221,127,082</u>
Total liabilities and net assets	<u>\$ 333,127,495</u>	<u>\$ 325,935,596</u>

Ferris State University

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2005	2004
Operating Revenue		
Tuition and fees (Net of scholarship allowances of \$10,833,472 for 2005 and \$10,519,513 for 2004)	\$ 71,067,951	\$ 67,053,103
Federal grants and contracts	12,070,156	13,040,448
State and local grants and contracts	4,080,528	609,641
Nongovernmental grants	215,148	284,578
Departmental activities	8,713,122	8,801,577
Auxiliary enterprises (Net of scholarship allowances of \$3,573,539 for 2005 and \$3,680,192 for 2004)	29,117,000	29,483,733
Other operating revenues	413,485	448,898
Total operating revenue	125,677,390	119,721,978
Operating Expenses		
Instruction	62,646,859	62,655,556
Research	375,262	386,674
Public service	1,435,805	333,363
Academic support	18,451,755	18,584,927
Student services	10,994,901	10,629,925
Institutional support	18,401,452	18,788,428
Operation and maintenance of plant	20,188,116	14,838,617
Depreciation	7,981,541	9,691,318
Student aid	10,425,473	10,961,456
Auxiliary enterprises	22,938,406	21,583,836
Other expenses	398,930	285,585
Total operating expenses	174,238,500	168,739,685
Operating Loss	(48,561,110)	(49,017,707)
Nonoperating Revenues (Expenses)		
State appropriations	50,080,910	47,829,980
Gifts	3,273,396	6,923,735
Investment income	6,757,974	7,309,403
Interest on capital asset - Related debt	(3,837,998)	(3,939,955)
Net nonoperating revenues	56,274,282	58,123,163
Income - Before other revenues and expenses	7,713,172	9,105,456
State Capital Appropriations	566,107	4,596,370
Additions to Permanent Endowments	335,692	254,435
Increase in Net Assets	8,614,971	13,956,261
Net Assets		
Beginning of year	221,127,082	207,170,821
End of year	\$ 229,742,053	\$ 221,127,082

Statement of Cash Flows

	Year Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Tuition and fees	\$ 70,812,033	\$ 68,712,607
Grants and contracts	16,217,609	15,569,634
Payments to suppliers	(91,009,181)	(90,915,212)
Payments to employees	(74,321,367)	(72,831,378)
Interest collected on student loans	413,485	448,898
Loans issued to students	(4,997,210)	(4,882,287)
Collection of loans from students	4,674,769	4,458,325
Auxiliary enterprise charges	29,117,000	29,483,733
Other receipts	11,680,993	12,038,888
Net cash used in operating activities	(37,411,869)	(37,916,792)
Cash Flows from Noncapital Financing Activities		
State appropriations	50,024,910	48,908,849
Gifts and grants for other than capital purposes	3,123,070	6,563,042
Private gifts for endowment purposes	346,692	254,435
Federal direct loan lending receipts	46,200,874	42,901,000
Federal direct loan lending disbursements	(44,872,000)	(44,037,272)
Net cash provided by noncapital financing activities	54,823,546	54,590,054
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	566,107	4,596,370
Capital grants and gifts received	139,325	360,693
Purchase of capital assets and construction	(3,421,212)	(8,299,804)
Principal paid on capital debt	(2,455,000)	(2,510,000)
Interest paid on capital debt	(3,862,791)	(4,111,257)
Net cash used in capital and related financing activities	(9,033,571)	(9,963,998)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	809,783	6,881,309
Investment income	3,438,868	918,689
Purchase of investments	(4,194,625)	(14,721,650)
Net cash provided by (used in) investing activities	54,026	(6,921,652)
Net Increase (Decrease) in Cash and Cash Equivalents	8,432,132	(212,388)
Cash and Cash Equivalents - Beginning of year	14,689,382	14,901,770
Cash and Cash Equivalents - End of year	\$ 23,121,514	\$ 14,689,382

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	
	2005	2004
Operating loss	\$ (48,561,110)	\$ (49,017,707)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	7,981,541	9,691,318
Amortization of bond issuance costs	114,858	114,858
Loss on disposal of fixed assets	2,967,871	247,848
Decrease (increase) in assets:		
Accounts receivable	(986,806)	5,623,654
Student loan receivable	(322,441)	(423,962)
Inventories, prepaids, and other assets	337,497	(572,500)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	120,871	(4,028,221)
Deposits and unearned revenue	334,063	660,280
Accrued sick leave and employee buyouts	601,787	(212,360)
Net cash used in operating activities	<u>\$ (37,411,869)</u>	<u>\$ (37,916,792)</u>

Note I - Basis of Presentation and Significant Accounting Policies

Ferris State University (the "University") is an institution of higher education created by the Michigan Constitution of 1963 and is considered to be a component unit of the State of Michigan (the "State"). Its 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) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999 and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis - of Public Colleges and Universities*, issued in November 1999. The University now follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the University's financial activities.

The financial statements have been prepared incorporating totals from the University and the Ferris Foundation (the "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 Board of Directors' membership includes members of the University's Board, certain officers of the University as set forth in the Foundation bylaws, and other community representatives elected by the Foundation 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.

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 \$12,006,090 and \$11,660,373 at June 30, 2005 and 2004, respectively. The remaining restricted balance consists primarily of funds restricted for student loans, scholarships, and other purposes.

Ferris State University

Notes to Financial Statements June 30, 2005 and 2004

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

Unrestricted Net Assets

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

	<u>2005</u>	<u>2004</u>
Designated for General Fund division use	\$ 6,640,000	\$ 5,316,000
Designated for encumbrances	-	2,423,782
Designated for maintenance and replacement	26,176,698	14,703,285
Designated for debt service reserve	1,440,573	1,440,573
Designated for foundation endowments	9,897,438	8,624,453
Unrestricted and undesignated	<u>16,777,925</u>	<u>16,136,832</u>
Total unrestricted net assets	<u>\$ 60,932,634</u>	<u>\$ 48,644,925</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.

Investments

Investments, including those of the Foundation, are recorded at fair value, based on quoted market prices.

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.

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

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 life of the assets.

Revenue

State appropriations are recognized when received or required by the State of Michigan.

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 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 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.

Endowment Investments

The University Board of Trustees has delegated investment authority to the Foundation Board of Directors in the management of endowment investments. The Foundation 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.

Ferris State University

Notes to Financial Statements June 30, 2005 and 2004

Note 2 - Cash and Investments (Continued)

As of June 30, 2005, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money markets	\$ 22,081,952	\$ 22,081,952	\$ -	\$ -	-
Time deposits	3,000,000	3,000,000	-	-	-
Mutual bond funds	37,658,419	-	15,213,502	22,444,917	-
Mutual equity funds	23,248,900	-	-	-	23,248,900
Real estate funds	730,554	-	-	-	730,554
Marketable securities	4,275	-	-	-	4,275
International equity funds	7,679,889	-	-	-	7,679,889
Cash surrender value of life insurance	755,364	755,364	-	-	-
Total	<u>\$ 95,159,353</u>	<u>\$ 25,837,316</u>	<u>\$ 15,213,502</u>	<u>\$ 22,444,917</u>	<u>\$ 31,663,618</u>

As of June 30, 2004, the University had the following investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Money markets	\$ 14,341,772	\$ 14,341,772	\$ -	\$ -	-
Mutual bond funds	34,593,387	-	14,573,492	20,019,895	-
Mutual equity funds	21,394,335	-	-	-	21,394,335
Real estate funds	1,181,562	-	-	-	1,181,562
Marketable securities	3,907	-	-	-	3,907
International equity funds	6,806,655	-	-	-	6,806,655
Cash surrender value of life insurance	700,980	700,980	-	-	-
Total	<u>\$ 79,022,598</u>	<u>\$ 15,042,752</u>	<u>\$ 14,573,492</u>	<u>\$ 20,019,895</u>	<u>\$ 29,386,459</u>

Cash (checks issued in excess of available cash balances) was (\$1,960,438) and \$347,610 at June 30, 2005 and 2004, respectively. The University's cash position reflects the liquidation of accounts payable invoices at June 30, 2005. The cash reflected in the accounts of the banks (without recognition of outstanding checks and deposits in transit) as of June 30, 2005 and 2004 was \$868,115 and \$1,233,564, respectively.

The University's and 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 Foundation's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net assets.

Note 2 - Cash and Investments (Continued)

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 a day's notice with no material impact on market value.

Note 2 - Cash and Investments (Continued)

Credit Risk

Short-term investment managers must invest at least 50 percent of the portfolio in U.S. government securities and/or U.S. government agency issues. No more than 10 percent of the portfolio, at cost, can be invested in any single issue, except the investments in U.S. government securities. The weighted average credit quality is to be no less than "AAA" (or its equivalent rating by two national rating agencies) for the short-term investment pool accounts and "AA" for the intermediate-term investment pool accounts. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be "AA" for the short-term pool accounts and "BBB" for the intermediate-term investment pool accounts. At June 30, 2005 and 2004, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2005		2004	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Pimco Low Duration	\$ 7,423,822	AAA	\$ 7,223,811	AAA
Western Asset	7,789,680	AA-	7,349,681	AAA
Pimco Total Return	7,071,901	AAA	6,566,247	AAA
Pimco Real Return	7,694,815	AAA	7,013,783	Not reported
Seix High Yield	777,667	BB-	988,996	BB
Commonfund Multi Strategy Bond Fund	6,900,496	AA+	6,434,752	AA
Total	<u>\$37,658,381</u>		<u>\$ 35,577,270</u>	

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

Custodial Credit Risk

The University's deposits and investments are all in the name of the University. The investments are custodied with the broker from which they were purchased. Therefore, the custodial risk is limited.

Foreign Currency Risk

The University and the Foundation hold investments in some international mutual funds. 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 \$7,679,889 and \$6,806,655 for the years ended June 30, 2005 and 2004, respectively.

Ferris State University

Notes to Financial Statements June 30, 2005 and 2004

Note 3 - Accounts Receivable and Student Loans Receivable

Accounts receivable consist of the following:

	2005	2004
Student	\$ 3,821,318	\$ 3,231,337
Grants and contracts	1,328,874	1,136,272
State appropriations	8,516,516	8,460,516
Other	1,658,854	1,333,738
Total accounts receivable	15,325,562	14,161,863
Less allowance for doubtful accounts	2,105,157	1,928,264
Total accounts receivable - Net	<u>\$ 13,220,405</u>	<u>\$ 12,233,599</u>

Student loans receivable of \$18,729,077 and \$18,406,636 for the years ended June 30, 2005 and 2004, respectively, are recorded net of an allowance for doubtful accounts of \$3,000,000 for 2005 and 2004.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land improvements	\$ 6,769,056	\$ -	\$ -	\$ 286,769	\$ 7,055,825
Infrastructure	7,416,919	-	-	-	7,416,919
Building and building improvements	240,787,996	-	(50,000)	2,275,176	243,013,172
Furniture, fixtures, and equipment	83,698,655	2,695,083	(11,939,532)	-	74,454,206
Subtotal - Depreciable assets	338,672,626	2,695,083	(11,989,532)	2,561,945	331,940,122
Land	4,362,013	1,136,032	-	-	5,498,045
Construction in progress	1,674,523	905,625	-	(2,561,945)	18,203
Subtotal - Nondepreciable assets	6,036,536	2,041,657	-	(2,561,945)	5,516,248
Total	344,709,162	4,736,740	(11,989,532)	-	337,456,370
Less accumulated depreciation:					
Land improvements	3,687,554	185,335	-	-	3,872,889
Infrastructure	2,768,747	324,490	-	-	3,093,237
Building and building improvements	78,297,596	5,184,374	(10,000)	-	83,471,970
Furniture, fixtures, and equipment	47,968,061	3,602,870	(9,011,661)	-	42,559,270
Total accumulated depreciation	132,721,958	<u>\$ 9,297,069</u>	<u>\$ (9,021,661)</u>	<u>\$ -</u>	132,997,366
Capital assets - Net	<u>\$ 211,987,204</u>				<u>\$ 204,459,004</u>

Note 4 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land improvements	\$ 6,347,079	\$ -	\$ -	\$ 421,977	\$ 6,769,056
Infrastructure	6,390,317	-	-	1,026,602	7,416,919
Building and building improvements	223,793,292	-	(66,205)	17,060,909	240,787,996
Furniture, fixtures, and equipment	85,364,065	3,806,578	(5,471,988)	-	83,698,655
Subtotal - Depreciable assets	321,894,753	3,806,578	(5,538,193)	18,509,488	338,672,626
Land	4,362,013	-	-	-	4,362,013
Construction in progress	14,808,561	5,375,450	-	(18,509,488)	1,674,523
Subtotal - Nondepreciable assets	19,170,574	5,375,450	-	(18,509,488)	6,036,536
Total	341,065,327	9,182,028	(5,538,193)	-	344,709,162
Less accumulated depreciation:					
Land improvements	3,516,557	170,997	-	-	3,687,554
Infrastructure	2,444,257	324,490	-	-	2,768,747
Building and building improvements	73,079,379	5,284,422	(66,205)	-	78,297,596
Furniture, fixtures, and equipment	48,398,568	3,911,409	(4,341,916)	-	47,968,061
Total accumulated depreciation	127,438,761	\$ 9,691,318	\$ (4,408,121)	\$ -	132,721,958
Capital assets - Net	<u>\$ 213,626,566</u>				<u>\$ 211,987,204</u>

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	7-15 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.

Ferris State University

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Long-term Obligations

Long-term obligation activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2002	\$ 10,000,000	\$ -	\$ 495,000	\$ 9,505,000	\$ 510,000
General Revenue Bonds, Series 2001	11,000,000	-	195,000	10,805,000	205,000
General Revenue Bonds, Series 1998	46,570,000	-	755,000	45,815,000	785,000
General Revenue Refunding Bonds, Series 1997	1,955,000	-	620,000	1,335,000	650,000
General Revenue Refunding Bonds, Series 1995	12,285,000	-	390,000	11,895,000	410,000
Total bonds and notes payable	81,810,000	-	2,455,000	79,355,000	2,560,000
Other liabilities:					
Accrued sick leave	5,940,695	601,787	-	6,542,482	-
Accrued long-term interest payable	978,093	3,837,985	3,862,778	953,300	953,300
Total	\$ 88,728,788	\$ 4,439,772	\$ 6,317,778	\$ 86,850,782	\$ 3,513,300

Long-term obligation activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2002	\$ 10,340,000	\$ -	\$ 340,000	\$ 10,000,000	\$ 495,000
General Revenue Bonds, Series 2001	11,000,000	-	-	11,000,000	195,000
General Revenue Bonds, Series 1998	47,385,000	-	815,000	46,570,000	755,000
General Revenue Refunding Bonds, Series 1997	2,545,000	-	590,000	1,955,000	620,000
General Revenue Refunding Bonds, Series 1995	12,660,000	-	375,000	12,285,000	390,000
General Revenue Bonds, Series 1993	390,000	-	390,000	-	-
Total bonds and notes payable	84,320,000	-	2,510,000	81,810,000	2,455,000
Other liabilities:					
Accrued sick leave	5,530,785	409,910	-	5,940,695	-
Accrued employment contract buyouts	622,270	-	622,270	-	-
Accrued long-term interest payable	1,149,395	3,939,955	4,111,257	978,093	978,093
Total	\$ 91,622,450	\$ 4,349,865	\$ 7,243,527	\$ 88,728,788	\$ 3,433,093

General Revenue Bonds, Series 2002

The University issued \$10,340,000 of 2.0 percent 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 revenues 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 percent 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 revenues 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, and 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 has 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.

General Revenue and Refunding Bonds, Series 1998

The University issued \$49,935,000 of 3.60 percent to 5.0 percent General Revenue Bonds. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenues of the University, callable at a premium, and mature in varying amounts through 2029. Proceeds from the issuance in the amount of \$38,862,500 were placed in an irrevocable trust for the purpose of refunding certain maturities of the General Revenue Bonds, Series 1993 and Series 1997. The remaining proceeds of approximately \$11,000,000 were used for multiple purposes including the acquisition and renovations of the building adjacent to the Kendall College of Art and Design, construction related to the student recreation center, the sports complex and convocation area, the Katke golf course, and costs incidental to the issuance of the bonds.

General Revenue Bonds, Series 1997

The University issued \$29,085,000 of 4.75 percent to 5.90 percent General Revenue Bonds. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenues of the University, callable at a premium, and mature in varying amounts during the fiscal years 2003 to 2027. Proceeds from this issue continue to be used for the University's 25 percent match of a \$50 million state funded library, and the acquisition, construction, furnishing, and equipping of a student recreation center, a student convocation center, Kendall College of Art and Design, and costs incidental to the issuance of the bonds. The bonds were partially defeased in 1998.

Note 5 - Long-term Obligations (Continued)

General Revenue and Refunding Bonds, Series 1995

The University issued \$14,700,000 of 3.70 percent to 5.25 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 revenues of the University, callable at a premium, and mature in varying amounts through fiscal year 2021. Proceeds from this issuance in the amount of \$11,161,588 were placed in an irrevocable trust for the purpose of paying the future principal and interest of a portion of the General Revenue Refunding Bonds, Series 1988. The remaining proceeds of approximately \$3,500,000 were used for a new replacement boiler in the central heating plant, land acquisition, and to pay for the costs related to the issuance of the bonds.

General Revenue Bonds, Series 1993

The University issued \$14,000,000 of 3.35 percent to 6.25 percent General Revenue Bonds. The bonds are payable from general revenues of the University, callable at a premium, and mature in varying amounts through fiscal year 2020. Proceeds from this issue were used for the acquisition, construction, furnishing, and equipping of student family apartments, and costs incidental to the issuance of the bonds. The bonds were partially defeased during 1998.

Accrued Sick Leave

The University provides termination benefits upon retirement resulting from unused sick days, and 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.

Subsequent to June 30, 2005, the University issued \$21,230,000 of 3.0 percent 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 revenues of the University, callable at a premium, and mature in varying amounts through 2028. Proceeds from the 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 are to be used for renovations of the Instructional Resource Center building and repurposing the facility to focus on programs associated with its adjacent College of Business.

Ferris State University

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Long-term Obligations (Continued)

Principal and Interest Maturities and Interest Expense

Total principal and interest maturities on all debt obligations, including the General Revenue and Refunding Bonds, Series 2005 issued subsequent to June 30, 2005, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,710,000	\$ 3,879,508
2007	2,805,000	3,560,030
2008	2,910,000	3,450,533
2009	3,370,000	3,335,489
2010	3,165,000	3,210,289
2011-2015	18,010,000	13,917,415
2016-2020	24,520,000	9,199,342
2021-2025	13,290,000	4,206,059
2026-2030	8,340,000	1,131,679
2031-2035	1,405,000	74,681
Total	<u>\$ 80,525,000</u>	<u>\$ 45,965,025</u>

Interest expense was approximately \$3,840,000 and \$3,900,000 for the years ended June 30, 2005 and 2004, respectively.

Defeased Debt

Since the General Revenue Bonds, Series 1988 and a portion of the General Revenue Bonds, Series 1993 and Series 1997 were in-substance defeased (extinguished), neither the assets of the irrevocable trust nor the bonds are reflected in the University's statement of financial condition. Future principal and interest due on these bonds will be paid from the funds placed in the irrevocable trust, and the interest earned on these funds. Of the various bonds in-substance defeased, \$40,616,130 remains outstanding at June 30, 2005.

Note 6 - Retirement Plans

The University provides non-contributory retirement plans for all qualified employees. In December 1995, the State enacted H.B. 4047 that 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 multi-employer defined benefit public employee retirement system governed by the State of Michigan. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

Under this plan, the University is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totaled 8.76 percent for the period July 1, 2003 through June 30, 2004 of the covered payroll to the plan. The University's contributions to the MPSERS plan for the years ended June 30, 2005, 2004, and 2003 were approximately \$1,807,000, \$1,581,000, and \$1,709,000, respectively.

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. The University's required contributions for postemployment health care benefits were approximately \$3,614,000 and \$3,460,000 for the years ended June 30, 2005 and 2004, respectively.

Note 6 - Retirement Plans (Continued)

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 where the University generally contributes 12 percent of employees' pay for administration, faculty, or head resident employee groups and 10 percent for all other eligible employee groups to the plan and has 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 College staff also participate in a defined contribution plan through TIAA-CREF with contribution rates ranging from 5 percent 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, 2005 and 2004, the University contributed approximately \$5,125,000 and \$4,782,000 to the TIAA-CREF plan and approximately \$623,000 and \$580,000 to the Fidelity Investments plan, respectively.

Note 7 - Insurance

Risk Sharing Facility

The University participates in the Michigan Universities Self-Insurance Corporation (MUSIC). This organization provides insurance coverage for errors and omissions liability, comprehensive general liability, and all risk property insurance. In fiscal year 2005, there are 11 universities that participate 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.

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.

Ferris State University

Notes to Financial Statements June 30, 2005 and 2004

Note 8 - Leases

The University leases 30 percent of the Applied Technology Center located on the campus of the Grand Rapids Community College in Grand Rapids, Michigan. The lease term, which began in fiscal 1990, is for a period of 20 years and calls for an annual payment of approximately \$378,000.

The University leases additional building and parking spaces and building operating expenses in Grand Rapids from the Grand Rapids Medical Education and Research Center for Health Professions. The lease is for a period of eight years and eight months and expires on February 28, 2011. Annual lease payments of approximately \$200,000 increase at 103 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.

Future minimum payments at June 30, 2005 under noncancelable operating leases with initial or remaining terms of one year or more are approximately as follows:

Year	Amount
2006	\$ 824,000
2007	745,000
2008	648,000
2009	600,000
2010	585,000
Thereafter	<u>200,000</u>
Total	<u>\$ 3,602,000</u>

Rental expense for the years ended June 30, 2005 and 2004 was approximately \$1,508,000 and \$1,800,000, respectively.

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.

Additional Information



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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, 2005 and 2004. 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

August 19, 2005

Ferris State University

	Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
Assets					
Current Assets					
Cash and cash equivalents	\$ 23,121,514	\$ 7,752,885	\$ 4,990,936	\$ 827,004	\$ 1,245,606
Short-term investments	25,969,904	6,867,008	13,296,963	1,704,748	3,312,182
Accounts receivable	13,220,405	12,141,485	228,189	319,106	358,265
Inventories	1,217,573	93,818	181,380	942,375	-
Prepaid expenses and other assets	327,072	115,204	76,868	35,000	-
Total current assets	63,856,468	26,970,400	18,774,336	3,828,233	4,916,053
Noncurrent Assets					
Endowment investments	25,222,525	-	-	-	-
Other long-term investments	18,884,972	755,364	-	-	-
Student loan receivable	18,729,077	-	-	-	-
Bond issuance costs	1,975,449	-	-	-	-
Capital assets - Net	204,459,004	-	-	-	-
Total noncurrent assets	269,271,027	755,364	-	-	-
Total assets	\$ 333,127,495	\$ 27,725,764	\$ 18,774,336	\$ 3,828,233	\$ 4,916,053
Liabilities and Net Assets					
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 10,215,842	\$ 8,800,854	\$ 70,640	\$ 1,036,839	\$ -
Deferred revenue	5,419,868	4,660,916	272,917	486,035	-
Long-term liabilities - Current portion	3,513,300	-	-	-	-
Total current liabilities	19,149,010	13,461,770	343,557	1,522,874	-
Noncurrent liabilities:					
Deposits	898,950	-	-	898,950	-
Long-term liabilities	83,337,482	6,194,392	95,927	252,163	-
Total noncurrent liabilities	84,236,432	6,194,392	95,927	1,151,113	-
Total liabilities	103,385,442	19,656,162	439,484	2,673,987	-
Net Assets					
Invested in capital assets - Net of related debt	128,676,120	-	-	-	-
Restricted for:					
Nonexpendable - Scholarships	12,006,090	-	-	-	-
Expendable:					
Scholarships	4,413,722	-	-	-	949,698
Research	62,061	-	-	-	62,061
Instructional department uses	443,421	-	-	-	355,056
Loans	19,370,900	-	-	-	-
Capital projects	200	-	-	-	-
Other	3,836,905	-	-	-	3,549,238
Unrestricted	60,932,634	8,069,602	18,334,852	1,154,246	-
Total net assets	229,742,053	8,069,602	18,334,852	1,154,246	4,916,053
Total liabilities and net assets	\$ 333,127,495	\$ 27,725,764	\$ 18,774,336	\$ 3,828,233	\$ 4,916,053

Combining Balance Sheet June 30, 2005

Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation
\$ 437,851	\$ 6,862,928	\$ 50,459	\$ 953,845
789,003	-	-	-
-	42,672	130,688	-
-	-	-	-
-	<u>100,000</u>	-	-
1,226,854	7,005,600	181,147	953,845
-	-	-	25,222,525
-	18,129,608	-	-
18,729,077	-	-	-
-	1,975,449	-	-
-	<u>204,459,004</u>	-	-
<u>18,729,077</u>	<u>224,564,061</u>	-	<u>25,222,525</u>
<u>\$ 19,955,931</u>	<u>\$ 231,569,661</u>	<u>\$ 181,147</u>	<u>\$ 26,176,370</u>
\$ -	\$ 120,798	\$ 181,147	\$ 5,564
-	-	-	-
-	<u>3,513,300</u>	-	-
-	3,634,098	181,147	5,564
-	-	-	-
-	<u>76,795,000</u>	-	-
-	76,795,000	-	-
-	80,429,098	181,147	5,564
-	128,676,120	-	-
-	-	-	12,006,090
-	-	-	3,464,024
-	-	-	-
-	-	-	88,365
18,943,878	-	-	427,022
-	-	-	200
-	-	-	287,667
<u>1,012,053</u>	<u>22,464,443</u>	-	<u>9,897,438</u>
<u>19,955,931</u>	<u>151,140,563</u>	-	<u>26,170,806</u>
<u>\$ 19,955,931</u>	<u>\$ 231,569,661</u>	<u>\$ 181,147</u>	<u>\$ 26,176,370</u>

Ferris State University

	Combined Total	Elimination	General Fund	Designated Fund
Operating Revenue				
Tuition and fees	\$ 71,067,951	\$ (10,833,472)	\$ 81,901,423	\$ -
Federal grants and contracts	12,070,156	-	2,250	-
State grants and contracts	4,080,528	-	-	-
Nongovernmental grants	215,148	-	2,000	150,186
Departmental activities	8,713,122	(373,323)	2,709,598	6,219,023
Auxiliary enterprises	29,117,000	(3,573,539)	-	-
Other operating revenues	413,485	(307,802)	307,802	-
Current funds expenditures for equipment and capital improvements	-	(831,060)	-	-
Total operating revenue	125,677,390	(15,919,196)	84,923,073	6,369,209
Operating Expenses				
Instruction	62,646,859	(104,264)	59,562,283	2,215,610
Research	375,262	-	185,730	91,646
Public service	1,435,805	(71,452)	45,678	94,097
Academic support	18,451,755	(150,481)	18,540,146	(2,786)
Student services	10,994,901	(5,707)	9,783,530	984,675
Institutional support	18,401,452	(1,558,078)	14,121,896	4,611,377
Operations and maintenance of plant	20,188,116	-	11,126,408	7,013
Depreciation	7,981,541	-	-	-
Student aid	10,425,473	(11,141,274)	6,801,207	129,393
Auxiliary enterprises	22,938,406	(3,598,383)	-	-
Other expenses	398,930	-	-	-
Total operating expenses	174,238,500	(16,629,639)	120,166,878	8,131,025
Operating Income (Loss)	(48,561,110)	710,443	(35,243,805)	(1,761,816)
Nonoperating Revenue (Expenses)				
State appropriations	50,080,910	-	50,080,910	-
Gifts	3,273,396	(710,443)	345,351	1,194,101
Investment income	6,757,974	-	1,869,102	937,664
Interest on capital asset - Related debt	(3,837,998)	-	-	-
Net nonoperating revenue (expenses)	56,274,282	(710,443)	52,295,363	2,131,765
Income (Loss) - Before other revenue and expenses	7,713,172	-	17,051,558	369,949
State Capital Appropriations	566,107	-	-	-
Additions to Permanent Endowments	335,692	-	-	-
Increase in Net Assets	901,799	-	-	-
Increase (Decrease) in Net Assets	8,614,971	-	17,051,558	369,949
Transfers In (Out)	-	-	(16,269,830)	4,928,302
Net Increase (Decrease) in Net Assets	8,614,971	-	781,728	5,298,251
Net Assets - Beginning of year	221,127,082	-	7,287,874	13,036,601
Net Assets - End of year	\$ 229,742,053	\$ -	\$ 8,069,602	\$ 18,334,852

**Combining Statement of Revenue,
Expenses, and Changes in Net Assets
Year Ended June 30, 2005**

Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation
\$ -	\$ -	\$ -	\$ -	\$ -
14,749	11,770,954	274,203	8,000	-
-	4,080,528	-	-	-
-	62,962	-	-	-
-	157,824	-	-	-
32,690,539	-	-	-	-
-	-	413,485	-	-
-	-	-	831,060	-
32,705,288	16,072,268	687,688	839,060	-
-	833,900	-	139,330	-
-	97,886	-	-	-
-	1,367,482	-	-	-
-	64,876	-	-	-
-	232,403	-	-	-
-	349,051	-	-	877,206
-	-	-	9,054,695	-
-	-	-	7,981,541	-
1,815,301	12,820,846	-	-	-
26,536,789	-	-	-	-
-	-	398,930	-	-
28,352,090	15,766,444	398,930	17,175,566	877,206
4,353,198	305,824	288,758	(16,336,506)	(877,206)
-	-	-	-	-
2,483	1,887,386	38,723	391,072	124,723
180,523	85,943	31,844	565,903	3,086,995
-	-	-	(3,837,998)	-
183,006	1,973,329	70,567	(2,881,023)	3,211,718
4,536,204	2,279,153	359,325	(19,217,529)	2,334,512
-	-	-	566,107	-
-	-	-	-	335,692
-	-	-	566,107	335,692
4,536,204	2,279,153	359,325	(18,651,422)	2,670,204
(4,501,337)	501,299	85,052	15,245,995	10,519
34,867	2,780,452	444,377	(3,405,427)	2,680,723
1,119,379	2,135,601	19,511,554	154,545,990	23,490,083
\$ 1,154,246	\$ 4,916,053	\$ 19,955,931	\$ 151,140,563	\$ 26,170,806