

Ferris State University

**Financial Report
with Supplemental Information
June 30, 2006**

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, 2006 and 2005 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, 2006 and 2005 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 7, 2006 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, 2006. 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 Univeristy

The management's discussion and analysis presented on pages 3 through 12 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 7, 2006

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, 2006 with selected comparative information as of and for the years ended June 30, 2005 and 2004. 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

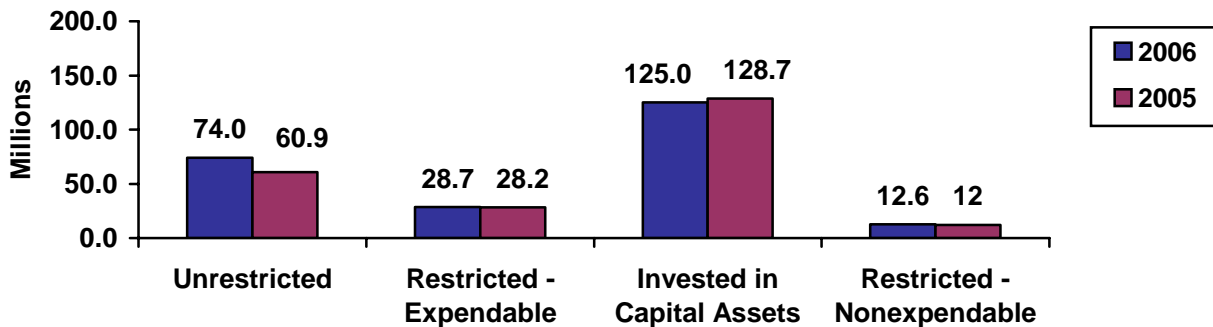
The University's net assets increased \$10.6 million or 4.6 percent for the year ended June 30, 2006. The net asset increase continues to be the result of a trend of enrollment growth and conservative resource management. Funding from the State of Michigan was a net decrease of \$1.1 million from 2005. This was the net effect of essentially no change in the base appropriation and a smaller amount restored from the fiscal year 2005 reduction than in the prior year. The Ferris Foundation endowment market value increased by \$3.7 million. The long-term investment plan generated investment returns on the endowment of 13.7 percent in 2006.

For the prior year ended June 30, 2005, the University's net assets increased \$8.6 million or 3.9 percent. The net asset increase continued 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 one-time reductions 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.

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, 2006 and 2005:



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.

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 \$10.6 million to \$240.3 million. Total unrestricted net assets are \$74.0 million. Of this total, \$48.5 million is identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments. The unrestricted and undesignated amount of \$25.5 million is comprised of \$19.6 million for self-supporting departmental, student loan, and auxiliary activities and \$5.9 million for completion of the enterprise system conversion and other construction projects on campus, including \$2.5 million allocated for the University's share of the Instructional Resource Center renovation and addition.

Following is a comparison of the major components of the net assets of the University and operating results for years ended June 30, 2006, 2005, and 2004:

Net Assets as of June 30 (in millions)

	2006	2005	2004
Assets			
Current assets	\$ 80.3	\$ 63.9	\$ 51.6
Noncurrent assets:			
Capital assets - Net of depreciation	199.3	204.5	212.0
Other	67.6	64.7	62.3
Total assets	<u>\$ 347.2</u>	<u>\$ 333.1</u>	<u>\$ 325.9</u>
Liabilities			
Current liabilities	\$ 23.2	\$ 19.2	\$ 18.6
Long-term liabilities	83.7	84.2	86.2
Total liabilities	106.9	103.4	104.8
Net Assets			
Invested in capital assets	125.0	128.7	136.9
Restricted - Expendable	28.7	28.1	23.9
Restricted - Nonexpendable	12.6	12.0	11.7
Unrestricted	74.0	60.9	48.6
Total net assets	<u>240.3</u>	<u>229.7</u>	<u>221.1</u>
Total liabilities and net assets	<u>\$ 347.2</u>	<u>\$ 333.1</u>	<u>\$ 325.9</u>

Ferris State University

Management's Discussion and Analysis (Continued)

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

	2006	2005	2004
Operating Revenues			
Tuition and fees - Net	\$ 80.6	\$ 71.1	\$ 67.1
Grants and contracts	14.3	16.4	13.9
Departmental activities	9.6	8.7	8.8
Auxiliary activities - Net	31.0	29.1	29.5
Other	0.7	0.4	0.4
Total operating revenues	136.2	125.7	119.7
Operating Expenses			
Instruction	64.9	62.6	62.6
Research	0.4	0.4	0.4
Public service	3.3	1.4	0.3
Academic support	20.2	18.5	18.6
Student services	10.9	11.0	10.6
Institutional support	21.8	18.4	18.8
Operation and maintenance of plant	19.4	20.2	14.8
Depreciation	7.7	8.0	9.7
Student aid	10.4	10.4	11.0
Auxiliary enterprises	24.1	22.9	21.6
Other expenses	0.4	0.4	0.3
Total operating expenses	183.5	174.2	168.7
Net Operating Loss	(47.3)	(48.5)	(49.0)
Nonoperating Revenues			
State appropriations	49.0	50.0	47.8
Gifts	4.9	3.2	6.9
Investment income	6.7	6.8	7.3
Interest on capital related debt	(3.3)	(3.8)	(3.9)
Total nonoperating revenues	57.3	56.2	58.1
Income - Before other revenues	10.0	7.7	9.1
Other Revenues			
Capital appropriations	0.1	0.6	4.6
Capital grants and contracts	0.5	0.3	0.2
Total other revenues	0.6	0.9	4.8
Increase in Net Assets	10.6	8.6	13.9
Net Assets - Beginning of year	229.7	221.1	207.2
Net Assets - End of year	<u>\$ 240.3</u>	<u>\$ 229.7</u>	<u>\$ 221.1</u>

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 \$9.5 million due to the board-approved tuition increase of 7.5 percent and some enrollment growth.
- State and local grant revenue decreased by \$2.9 million due to the state portion of the Freedom to Learn grant being received in 2005.

For the year ended June 30, 2005, the significant operating revenue factors were:

- 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.

Nonoperating Revenues

Nonoperating revenues are 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 \$49 million reflects a decrease of \$1.0 million from the 2005 level. This reduction is the net effect of receiving \$0.4 million of prior year budget reduction restoration versus \$1.5 million of restorations received in fiscal year 2005. The base appropriation remained essentially the same as 2005 at \$48.6 million.
- Gift revenue of \$4.9 million increased by \$1.7 million due in part to recognition of pledges received of \$1.4 million this year.
- Investment income decreased by \$0.1 million to \$6.7 million. This reflects Foundation investment performance that exceeded our overall portfolio benchmarks for the year by 0.4 percent to achieve a return of 13.7 percent. The University investment performance exceeded the annual portfolio benchmark by 0.1 percent at 4.1 percent.

Ferris State University

Management's Discussion and Analysis (Continued)

The 2005 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 was 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.

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:

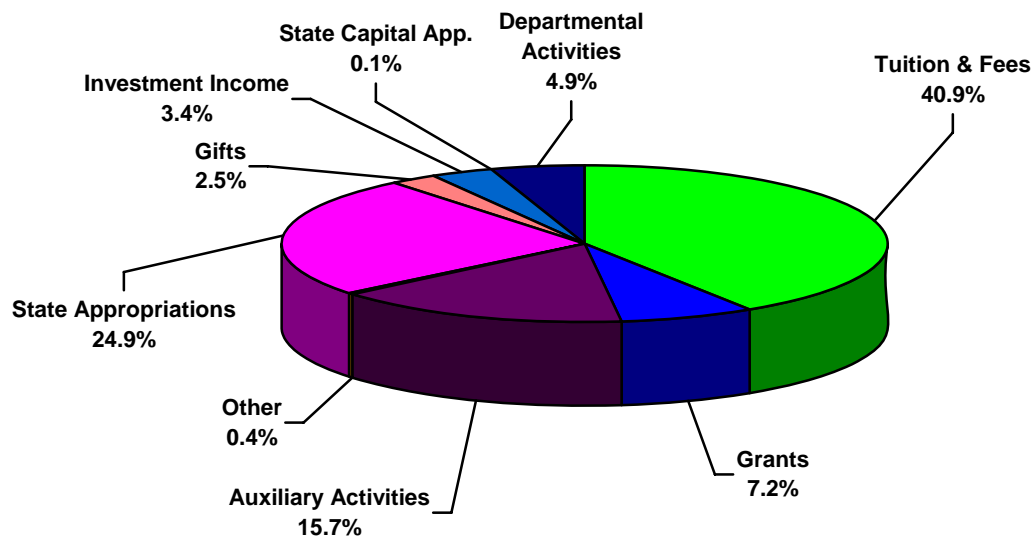
For 2006:

- State capital appropriations decreased to \$0.1 million for final expenditures for the Granger Center for Construction and HVACR.

For 2005:

- State capital appropriations decreased by \$4.0 million to \$0.6 million for 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 fiscal year 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)

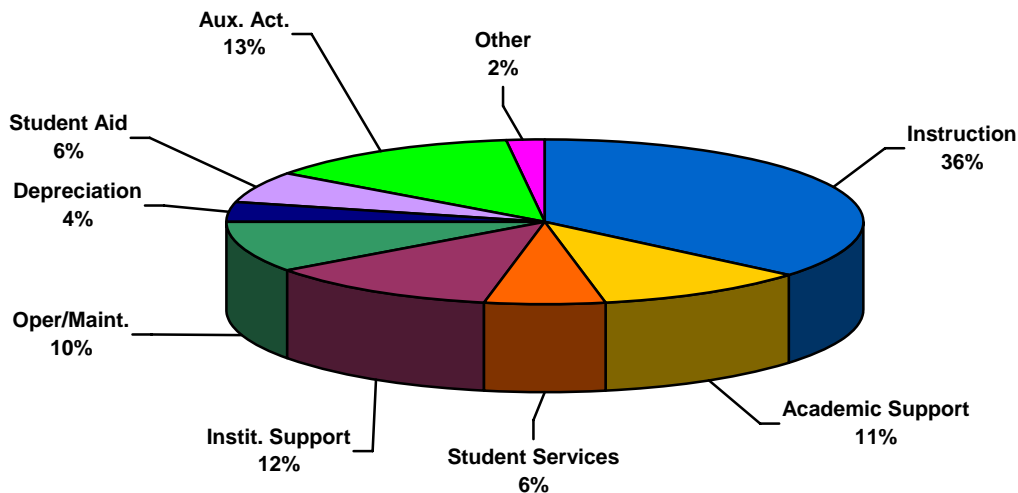
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses increased by \$9.3 million from 2005 levels. Major increases in addition to labor and benefit economics are:

- The new Freedom to Learn grant expenses of \$1.2 million
- Utilities increase primarily for natural gas of \$0.9 million

During the 2005 fiscal year, operating expenses increased by \$5.5 million from 2004 levels. Included in the increase are the results of the new Freedom to Learn grant which expended \$1.1 million. Also included in the increase was a reduction in the book value of equipment to reflect the capitalization minimum of \$5,000 per asset of \$2.7 million. Lastly, utilities increased primarily for natural gas by \$0.5 million.

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



A nonoperating expense of interest on capital related debt declined to \$3.4 million in 2006.

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)

	2006	2005	2004
Cash Provided by (Used in)			
Operating activities	\$ (35.9)	\$ (37.4)	\$ (37.9)
Noncapital financing activities	53.5	54.8	54.6
Capital and related financing activities	(6.7)	(9.0)	(10.0)
Investing activities	<u>(1.0)</u>	<u>-</u>	<u>(6.9)</u>
Net Increase (Decrease) in Cash	9.9	8.4	(0.2)
Cash - Beginning of year	<u>23.1</u>	<u>14.7</u>	<u>14.9</u>
Cash - End of year	<u><u>\$ 33.0</u></u>	<u><u>\$ 23.1</u></u>	<u><u>\$ 14.7</u></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 decreased by \$1.5 million from \$37.4 million in 2005 to \$35.9 million in 2006.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area decreased by \$1.3 million from \$54.8 million 2005 to \$53.5 million in 2006.

Cash used in capital and related financing activities totaled \$6.7 million, used primarily for the capital assets acquired during the year of \$2.6 million and debt and interest payments of \$5.9 million. This was partially offset by proceeds from state capital appropriations of \$0.1 million and net proceeds from the series 2005 bond issue of \$1.5 million. Capital related usage decreased \$2.8 million from 2005 due to a reduced level of capital asset acquisitions.

Cash used in investing activities totaled \$1.0 million, which is the net 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, 2006, the University had \$199.3 million invested in capital assets, net of accumulated depreciation of \$140.5 million. Depreciation charges were lower than 2005 by \$0.2 million due to the one time 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:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land, land improvements, and infrastructure	\$ 20.0	\$ 20.0	\$ 18.5
Buildings and improvements	242.7	243.0	240.8
Furniture, fixtures, and equipment	76.0	74.5	83.7
Construction in progress	<u>1.0</u>	<u>-</u>	<u>1.7</u>
Total	<u><u>\$ 339.7</u></u>	<u><u>\$ 337.5</u></u>	<u><u>\$ 344.7</u></u>

There were no capital projects completed in 2006.

Debt

At year end, the University had \$78.4 million in debt outstanding. The table below summarizes this amount by type of debt instrument.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Revenue Bonds	<u><u>\$ 78.4</u></u>	<u><u>\$ 79.4</u></u>	<u><u>\$ 81.8</u></u>

The board of trustees issued \$21,230,000 of General Revenue and Refunding Bonds, Series 2005 in July of 2005 for three purposes. The bond proceeds were used to refund and defease all of the outstanding and callable bonds of the General Revenue Bonds, Series 1995 with the principal amount of \$11,355,000 and a portion of the General Revenue Bonds, Series 1998 of \$8,405,000. The last part of the issue is \$1,470,000 to fund a portion of the University share of the Instructional Resource Center renovation. The total project is \$8,500,000, of which the State of Michigan will fund \$5,625,000 and the University will fund \$2,875,000. This renovation will repurpose the facility to focus on programs associated with the adjacent College of Business. 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 University is encouraged by the increase in funding for higher education in the State of Michigan for fiscal year 2007. However, the increase is offset by mandatory increases for contributions to the Michigan Public Schools Employees' Retirement System. For Ferris State University, the retirement contribution increase almost entirely offsets the base appropriation increase. The economy of the State determines how the University will be funded in the future. This continues to be a concern as the State continues to face budget challenges. Increasing costs in the areas of health benefits, utilities, and contributions to the state retirement system place increasing demands on the resources of the University. We are faced with keeping the cost of attending Ferris State University affordable for our students and preserving the strength of our academic programs.

To address the uncertainty in state funding and to help current and future students fulfill their educational goals, Ferris has placed a greater emphasis on private philanthropic support from alumni and friends who want to invest in the future of the University.

The University continues to recruit and retain a better prepared student and will continue to place emphasis on this trend in the future. Ferris State University had a record system-wide enrollment of 12,578 for fall 2006.

Ferris State University

Balance Sheet

	June 30	
	2006	2005
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 33,019,303	\$ 23,121,514
Short-term investments (Note 2)	31,210,224	25,969,904
Accounts receivable (Note 3)	14,273,725	13,220,405
Inventories	1,356,542	1,217,573
Prepaid expenses and other assets	390,717	327,072
Total current assets	<u>80,250,511</u>	<u>63,856,468</u>
Noncurrent Assets		
Endowment investments (Note 2)	28,943,560	25,222,525
Other long-term investments (Note 2)	18,868,712	18,884,972
Student loan receivable (Note 3)	18,343,623	18,729,077
Bond issuance costs	1,568,370	1,975,449
Capital assets - Net (Note 4)	199,256,219	204,459,004
Total noncurrent assets	<u>266,980,484</u>	<u>269,271,027</u>
Total assets	<u>\$ 347,230,995</u>	<u>\$ 333,127,495</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,815,056	\$ 10,215,842
Deferred revenue	5,726,807	5,419,868
Long-term liabilities - Current portion (Note 5)	3,695,555	3,513,300
Total current liabilities	<u>23,237,418</u>	<u>19,149,010</u>
Noncurrent liabilities:		
Deposits	891,999	898,950
Long-term liabilities (Note 5)	82,769,165	83,337,482
Total noncurrent liabilities	<u>83,661,164</u>	<u>84,236,432</u>
Total liabilities	<u>106,898,582</u>	<u>103,385,442</u>
Net Assets		
Invested in capital assets - Net of related debt	125,001,589	128,676,120
Restricted for:		
Nonexpendable - Scholarships (Note 1)	12,576,923	12,006,090
Expendable:		
Scholarships	5,346,906	4,413,722
Research	68,147	62,061
Instructional department uses	728,024	443,421
Loans	19,652,578	19,370,900
Capital projects	200	200
Other	2,888,224	3,836,905
Unrestricted (Note 1)	74,069,822	60,932,634
Total net assets	<u>240,332,413</u>	<u>229,742,053</u>
Total liabilities and net assets	<u>\$ 347,230,995</u>	<u>\$ 333,127,495</u>

Ferris State University

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2006	2005
Operating Revenue		
Tuition and fees - Net of scholarship allowances of \$11,497,314 for 2006 and \$10,833,472 for 2005	\$ 80,594,702	\$ 71,067,951
Federal grants and contracts	12,886,687	12,070,156
State and local grants and contracts	1,167,539	4,080,528
Nongovernmental grants	203,285	215,148
Departmental activities	9,614,920	8,713,122
Auxiliary enterprises - Net of scholarship allowances of \$3,611,914 for 2006 and \$3,573,539 for 2005	30,994,148	29,117,000
Other operating revenues	717,738	413,485
Total operating revenue	136,179,019	125,677,390
Operating Expenses		
Instruction	64,910,920	62,646,859
Research	383,149	375,262
Public service	3,305,331	1,435,805
Academic support	20,229,433	18,451,755
Student services	10,861,606	10,994,901
Institutional support	21,849,501	18,401,452
Operation and maintenance of plant	19,399,605	20,188,116
Depreciation	7,734,579	7,981,541
Student aid	10,361,261	10,425,473
Auxiliary enterprises	24,077,865	22,938,406
Other expenses	435,940	398,930
Total operating expenses	183,549,190	174,238,500
Operating Loss	(47,370,171)	(48,561,110)
Nonoperating Revenues (Expenses)		
State appropriations	49,020,809	50,080,910
Gifts	4,937,211	3,273,396
Investment income	6,727,427	6,757,974
Interest on capital asset - Related debt	(3,381,818)	(3,837,998)
Net nonoperating revenues	57,303,629	56,274,282
Income - Before other revenues and expenses	9,933,458	7,713,172
State Capital Appropriations	127,395	566,107
Additions to Permanent Endowments	529,507	335,692
Increase in Net Assets	10,590,360	8,614,971
Net Assets		
Beginning of year	229,742,053	221,127,082
End of year	\$ 240,332,413	\$ 229,742,053

Statement of Cash Flows

	Year Ended June 30	
	2006	2005
Cash Flows from Operating Activities		
Tuition and fees	\$ 79,693,880	\$ 70,812,033
Grants and contracts	14,721,650	16,217,609
Payments to suppliers	(92,480,423)	(91,009,181)
Payments to employees	(78,888,826)	(74,321,367)
Interest collected on student loans	381,663	413,485
Loans issued to students	(5,361,963)	(4,997,210)
Collection of loans from students	5,365,754	4,674,769
Auxiliary enterprise charges	30,994,148	29,117,000
Other receipts	9,707,116	11,680,993
Net cash used in operating activities	(35,867,001)	(37,411,869)
Cash Flows from Noncapital Financing Activities		
State appropriations	48,368,789	50,024,910
Gifts and grants for other than capital purposes	4,538,739	3,123,070
Private gifts for endowment purposes	529,507	346,692
Federal direct loan lending receipts	50,424,643	46,200,874
Federal direct loan lending disbursements	(50,424,996)	(44,872,000)
Net cash provided by noncapital financing activities	53,436,682	54,823,546
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	127,395	566,107
Capital grants and gifts received	398,472	139,325
Purchase of capital assets and construction	(2,845,917)	(3,421,212)
Proceeds from sale of buildings and equipment	319,280	-
Proceeds from issuance of capital debt	21,230,000	-
Principal paid on capital debt	(22,210,000)	(2,455,000)
Bond issue costs paid	(257,514)	-
Interest paid on capital debt	(3,429,563)	(3,862,791)
Net cash used in capital and related financing activities	(6,667,847)	(9,033,571)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	3,731,848	809,783
Investment income	1,880,429	3,438,868
Purchase of investments	(6,616,322)	(4,194,625)
Net cash (used in) provided by investing activities	(1,004,045)	54,026
Net Increase in Cash and Cash Equivalents	9,897,789	8,432,132
Cash and Cash Equivalents - Beginning of year	23,121,514	14,689,382
Cash and Cash Equivalents - End of year	\$ 33,019,303	\$ 23,121,514

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	
	2006	2005
Operating loss	\$ (47,370,171)	\$ (48,561,110)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	7,734,579	7,981,541
Amortization of bond issuance costs	93,029	114,858
Loss on disposal of fixed assets	5,157	2,967,871
Decrease (increase) in assets:		
Accounts receivable	(1,053,320)	(986,806)
Student loan receivable	385,454	(322,441)
Inventories, prepaids, and other assets	(202,614)	337,497
Increase in liabilities:		
Accounts payable and accrued liabilities	3,599,214	120,871
Deposits and unearned revenue	299,988	334,063
Accrued sick leave and employee buyouts	641,683	601,787
Net cash used in operating activities	<u>\$ (35,867,001)</u>	<u>\$ (37,411,869)</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). The University follows the "business-type activities" reporting requirements of GASB Statement No. 34, which 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's 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'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.

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 \$12,576,923 and \$12,006,090 at June 30, 2006 and 2005, 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, 2006 and 2005

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

Unrestricted Net Assets

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

	<u>2006</u>	<u>2005</u>
Designated for General Fund division use	\$ 10,861,704	\$ 6,640,000
Designated for encumbrances	711,986	-
Designated for maintenance and replacement	23,851,763	26,176,698
Designated for debt service reserve	1,440,573	1,440,573
Designated for foundation endowments	11,639,097	9,897,438
Unrestricted and undesignated	<u>25,564,699</u>	<u>16,777,925</u>
Total unrestricted net assets	<u>\$ 74,069,822</u>	<u>\$ 60,932,634</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.

Deferred Tuition and Fee Revenues

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

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'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.

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.

Ferris State University

Notes to Financial Statements June 30, 2006 and 2005

Note 2 - Cash and Investments (Continued)

As of June 30, 2006, 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	\$ 33,494,971	\$ 33,494,971	\$ -	\$ -	\$ -
Mutual bond funds	41,231,666	-	31,695,243	9,536,423	-
Mutual equity funds	25,965,531	-	-	-	25,965,531
Real estate funds	931,716	-	-	-	931,716
Marketable securities	3,747	-	-	-	3,747
International equity funds	9,987,890	-	-	-	9,987,890
Alternative investments	103,516	-	-	-	103,516
Cash surrender value of life insurance	798,428	798,428	-	-	-
Total	\$ 112,517,465	\$ 34,293,399	\$ 31,695,243	\$ 9,536,423	\$ 36,992,400

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	\$ 95,159,353	\$ 25,837,316	\$ 15,213,502	\$ 22,444,917	\$ 31,663,618

Checks issued in excess of available cash balances were \$475,666 and \$1,960,438 at June 30, 2006 and 2005, respectively. The University's cash position reflects the liquidation of accounts payable invoices at June 30, 2006. The cash reflected in the accounts of the banks (without recognition of outstanding checks and deposits in transit) as of June 30, 2006 and 2005 was \$734,817 and \$868,115, respectively.

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.

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

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, 2006 and 2005, the carrying amount of the University's deposits was \$734,817 and \$868,316, respectively. Of that amount \$359,080 and \$375,572, respectively, was insured. The remaining \$375,737 and \$492,744 at June 30, 2006 and 2005, respectively, was uninsured and uncollateralized. The University does not require deposits to be insured or collateralized. It is precluded by state law from collateralizing its deposits.

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, 2006 and 2005, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2006		2005	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Pimco Low Duration	\$ 8,693,821	AAA	\$ 7,423,822	AAA
Western Asset	8,995,058	AA-	7,789,680	AA-
Pimco Total Return	7,013,822	AAA	7,071,901	AAA
Pimco Real Return	8,744,241	AAA	7,694,815	AAA
Seix High Yield	792,182	BB-	777,667	BB-
Commonfund Multi Strategy Bond Fund	6,995,113	AA	6,900,496	AA+
Total	<u>\$ 41,234,237</u>		<u>\$ 37,658,381</u>	

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

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 \$9,987,890 and \$7,679,889 for the years ended June 30, 2006 and 2005, respectively.

Ferris State University

Notes to Financial Statements June 30, 2006 and 2005

Note 3 - Accounts Receivable and Student Loans Receivable

Accounts receivable consist of the following:

	2006	2005
Student	\$ 3,902,582	\$ 3,821,318
Grants and contracts	1,163,906	1,328,874
State appropriations	9,168,536	8,516,516
Other	<u>2,113,049</u>	<u>1,658,854</u>
Total accounts receivable	16,348,073	15,325,562
Less allowance for doubtful accounts	<u>2,074,348</u>	<u>2,105,157</u>
Total accounts receivable - Net	<u>\$ 14,273,725</u>	<u>\$ 13,220,405</u>

Student loans receivable of \$18,343,623 and \$18,729,077 for the years ended June 30, 2006 and 2005, respectively, are recorded net of an allowance for doubtful accounts of \$3,000,000 for 2006 and 2005.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land improvements	\$ 7,055,825	\$ -	\$ -	\$ -	\$ 7,055,825
Infrastructure	7,416,919	-	-	-	7,416,919
Building and building improvements	243,013,172	-	(285,331)	-	242,727,841
Furniture, fixtures, and equipment	<u>74,454,206</u>	<u>1,821,373</u>	<u>(242,573)</u>	-	<u>76,033,006</u>
Subtotal - Depreciable assets	331,940,122	1,821,373	(527,904)	-	333,233,591
Land	5,498,045	-	-	-	5,498,045
Construction in progress	<u>18,203</u>	<u>1,024,544</u>	-	-	<u>1,042,747</u>
Subtotal - Nondepreciable assets	<u>5,516,248</u>	<u>1,024,544</u>	-	-	<u>6,540,792</u>
Total	337,456,370	2,845,917	(527,904)	-	339,774,383
Less accumulated depreciation:					
Land improvements	3,872,889	185,335	-	-	4,058,224
Infrastructure	3,093,237	1,224,900	-	-	4,318,137
Building and building improvements	83,471,970	4,214,647	(5,705)	-	87,680,912
Furniture, fixtures, and equipment	<u>42,559,270</u>	<u>2,109,697</u>	<u>(208,076)</u>	-	<u>44,460,891</u>
Total accumulated depreciation	<u>132,997,366</u>	<u>\$ 7,734,579</u>	<u>\$ (213,781)</u>	<u>\$ -</u>	<u>140,518,164</u>
Capital assets - Net	<u>\$ 204,459,004</u>				<u>\$ 199,256,219</u>

Note 4 - Capital Assets (Continued)

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	\$ 9,297,069	\$ (9,021,661)	\$ -	132,997,366
Capital assets - Net	\$ 211,987,204				\$ 204,459,004

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.

Note 5 - Long-term Obligations

Long-term obligation activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2005	\$ -	\$ 21,230,000	\$ -	\$ 21,230,000	\$ 560,000
General Revenue Bonds, Series 2002	9,505,000	-	510,000	8,995,000	520,000
General Revenue Bonds, Series 2001	10,805,000	-	205,000	10,600,000	210,000
General Revenue Bonds, Series 1998	45,815,000	-	8,950,000	36,865,000	815,000
General Revenue Refunding Bonds, Series 1997	1,335,000	-	650,000	685,000	685,000
General Revenue Refunding Bonds, Series 1995	11,895,000	-	11,895,000	-	-
Total bonds and notes payable	79,355,000	21,230,000	22,210,000	78,375,000	2,790,000
Other liabilities:					
Accrued sick leave	6,542,482	641,683	-	7,184,165	-
Accrued long-term interest payable	953,300	3,381,818	3,429,563	905,555	905,555
Total	\$ 86,850,782	\$ 25,253,501	\$ 25,639,563	\$ 86,464,720	\$ 3,695,555

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

General Revenue and Refunding Bonds, Series 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 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 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.

Note 5 - Long-term Obligations (Continued)

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.

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, and the Katke golf course, and costs incidental to the issuance of the bonds. The bonds were partially defeased in 2006.

Note 5 - Long-term Obligations (Continued)

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, 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.

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. The bonds were defeased in 2006.

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.

Ferris State University

Notes to Financial Statements June 30, 2006 and 2005

Note 5 - Long-term Obligations (Continued)

Principal and Interest Maturities and Interest Expense

Total principal and interest maturities on all debt obligations as of June 30, 2006 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,790,000	\$ 3,568,430
2008	2,900,000	3,459,158
2009	3,005,000	3,344,264
2010	3,140,000	3,224,539
2011	3,255,000	3,097,669
2012-2016	18,595,000	13,217,876
2017-2021	23,575,000	8,242,346
2022-2026	13,800,000	3,601,300
2027-2031	6,595,000	770,819
2032-2036	720,000	18,900
Total	<u>\$ 78,375,000</u>	<u>\$ 42,545,301</u>

Interest expense was approximately \$3,400,000 and \$3,840,000 for the years ended June 30, 2006 and 2005, respectively.

Defeased Debt

Since the General Revenue Bonds, Series 1988 and Series 1995 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 balance sheet. 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, \$58,973,293 remains outstanding at June 30, 2006.

The University provides noncontributory 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 (MPERS). Employees currently covered under the MPERS plan will continue to remain in that plan. The University will contribute to MPERS the amount of their eligible wages mandated by state statute.

Note 6 - Retirement Plans

MPSERS is a statewide, cost-sharing multiemployer 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. 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 nonmembers to the plan. The nonmember 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 coverages. The University funds retiree health care benefit amounts on a cash disbursement basis.

Following is a table summarizing the pension benefit rate and retirement contributions, the nonmember rate and nonmember contributions to the unfunded liability and the postemployment health care contributions for the years ended June 30, 2006, 2005, and 2004, respectively.

Year	Pension Benefit Rate	Retirement Contributions	Nonmember Rate	Nonmember Contributions	Retiree Health Contributions
2006	6.30%	\$ 2,029,000	3.65%	\$ 289,000	\$ 3,831,000
2005	6.52%	\$ 1,807,000	2.24%	\$ 157,000	\$ 3,614,000
2004	6.47%	\$ 1,581,000	0.88%	\$ 66,000	\$ 3,460,000

Note 6 - Retirement Plans (Continued)

Prior to March 28, 1996, faculty and nonbargaining 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 participates 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, 2006 and 2005, the University contributed approximately \$5,462,000 and \$5,125,000 to the TIAA-CREF plan, respectively, and approximately \$733,000 and \$623,000 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 2006, 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 nonbargaining 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, 2006 and 2005

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, 2006 under noncancelable operating leases with initial or remaining terms of one year or more are approximately as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 808,000
2008	712,000
2009	636,000
2010	617,000
2011	210,000
Total	<u>\$ 2,983,000</u>

Rental expense for the years ended June 30, 2006 and 2005 was approximately \$1,458,000 and \$1,508,000, 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.

Supplemental 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, 2006 and 2005. 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 7, 2006

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Ferris State University

	Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
Assets					
Current Assets					
Cash and cash equivalents	\$ 33,019,303	\$ 8,430,274	\$ 8,870,306	\$ 1,517,006	\$ 1,247,866
Short-term investments	31,210,224	14,103,573	11,570,846	1,788,483	2,834,312
Accounts receivable	14,273,725	11,778,194	1,664,326	287,769	248,067
Inventories	1,356,542	207,423	193,462	955,657	-
Prepaid expenses and other assets	390,717	107,087	148,630	35,000	-
Total current assets	80,250,511	34,626,551	22,447,570	4,583,915	4,330,245
Noncurrent Assets					
Endowment investments	28,943,560	-	-	-	-
Other long-term investments	18,868,712	798,428	-	-	-
Student loan receivable	18,343,623	-	-	-	-
Bond issuance costs	1,568,370	-	-	-	-
Capital assets - Net	199,256,219	-	-	-	-
Total noncurrent assets	266,980,484	798,428	-	-	-
Total assets	<u>\$ 347,230,995</u>	<u>\$ 35,424,979</u>	<u>\$ 22,447,570</u>	<u>\$ 4,583,915</u>	<u>\$ 4,330,245</u>
Liabilities and Net Assets					
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 13,815,056	\$ 11,175,531	\$ 79,985	\$ 1,490,458	\$ 125,373
Deferred revenue	5,726,807	4,501,206	617,721	607,880	-
Long-term liabilities - Current portion	3,695,555	-	-	-	-
Total current liabilities	23,237,418	15,676,737	697,706	2,098,338	125,373
Noncurrent liabilities:					
Deposits	891,999	-	-	891,999	-
Long-term liabilities	82,769,165	6,870,425	64,539	249,201	-
Total noncurrent liabilities	83,661,164	6,870,425	64,539	1,141,200	-
Total liabilities	106,898,582	22,547,162	762,245	3,239,538	125,373
Net Assets					
Invested in capital assets - Net of related debt	125,001,589	-	-	-	-
Restricted for:					
Nonexpendable - Scholarships	12,576,923	-	-	-	-
Expendable:					
Scholarships	5,346,906	-	-	-	932,982
Research	68,147	-	-	-	68,147
Instructional department uses	728,024	-	-	-	612,063
Loans	19,652,578	-	-	-	-
Capital projects	200	-	-	-	-
Other	2,888,224	-	-	-	2,591,680
Unrestricted	74,069,822	12,877,817	21,685,325	1,344,377	-
Total net assets	240,332,413	12,877,817	21,685,325	1,344,377	4,204,872
Total liabilities and net assets	<u>\$ 347,230,995</u>	<u>\$ 35,424,979</u>	<u>\$ 22,447,570</u>	<u>\$ 4,583,915</u>	<u>\$ 4,330,245</u>

Combining Balance Sheet June 30, 2006

Student Loan			
Fund	Plant Fund	Agency Fund	Ferris Foundation
\$ 705,723	\$ 11,627,088	\$ 55,784	\$ 565,256
913,010	-	-	-
-	-	143,171	152,198
-	-	-	-
-	100,000	-	-
1,618,733	11,727,088	198,955	717,454
-	-	-	28,943,560
-	18,070,284	-	-
18,343,623	-	-	-
-	1,568,370	-	-
-	199,256,219	-	-
18,343,623	218,894,873	-	28,943,560
<u>\$ 19,962,356</u>	<u>\$ 230,621,961</u>	<u>\$ 198,955</u>	<u>\$ 29,661,014</u>
\$ -	\$ 716,263	\$ 198,955	\$ 28,491
-	-	-	-
-	3,695,555	-	-
-	4,411,818	198,955	28,491
-	-	-	-
-	75,585,000	-	-
-	75,585,000	-	-
-	79,996,818	198,955	28,491
-	125,001,589	-	-
-	-	-	12,576,923
-	-	-	4,413,924
-	-	-	-
-	-	-	115,961
19,062,704	-	-	589,874
-	-	-	200
-	-	-	296,544
899,652	25,623,554	-	11,639,097
19,962,356	150,625,143	-	29,632,523
<u>\$ 19,962,356</u>	<u>\$ 230,621,961</u>	<u>\$ 198,955</u>	<u>\$ 29,661,014</u>

Ferris State University

	Combined Total	Elimination	General Fund	Designated Fund
Operating Revenue				
Tuition and fees	\$ 80,594,702	\$ (11,497,314)	\$ 92,092,016	\$ -
Federal grants and contracts	12,886,687	-	1,950	-
State grants and contracts	1,167,539	-	26,200	-
Nongovernmental grants	203,285	-	-	154,412
Departmental activities	9,614,920	(262,733)	2,748,588	6,852,195
Auxiliary enterprises	30,994,148	(3,611,914)	-	-
Other operating revenues	717,738	(321,134)	321,134	-
Current funds expenditures for equipment and capital improvements	-	(1,821,373)	-	-
Total operating revenue	136,179,019	(17,514,468)	95,189,888	7,006,607
Operating Expenses				
Instruction	64,910,920	(985,727)	63,186,840	2,007,955
Research	383,149	-	36,387	80,087
Public service	3,305,331	-	22,000	825,119
Academic support	20,229,433	(51,363)	20,262,759	5,200
Student services	10,861,606	(44,442)	10,141,454	478,338
Institutional support	21,849,501	(838,161)	15,332,602	5,606,101
Operations and maintenance of plant	19,399,605	(435,032)	12,553,294	8,989
Depreciation	7,734,579	-	-	-
Student aid	10,361,261	(12,201,207)	7,443,644	198,832
Auxiliary enterprises	24,077,865	(3,618,414)	-	-
Other expenses	435,940	-	-	-
Total operating expenses	183,549,190	(18,174,346)	128,978,980	9,210,621
Operating Income (Loss)	(47,370,171)	659,878	(33,789,092)	(2,204,014)
Nonoperating Revenue (Expenses)				
State appropriations	49,020,809	-	49,020,809	-
Gifts	4,937,211	(659,878)	227,060	2,919,215
Investment income	6,727,427	-	1,116,499	1,751,149
Interest on capital asset - Related debt	(3,381,818)	-	-	-
Net nonoperating revenue (expenses)	57,303,629	(659,878)	50,364,368	4,670,364
Income (Loss) - Before other revenue and expenses	9,933,458	-	16,575,276	2,466,350
State Capital Appropriations	127,395	-	-	-
Additions to Permanent Endowments	529,507	-	-	-
Increase (Decrease) in Net Assets - Before transfers	10,590,360	-	16,575,276	2,466,350
Transfers In (Out)	-	-	(11,767,061)	871,323
Net Increase (Decrease) in Net Assets	10,590,360	-	4,808,215	3,337,673
Net Assets - Beginning of year	229,742,053	-	8,069,602	18,347,652
Net Assets - End of year	<u>\$ 240,332,413</u>	<u>\$ -</u>	<u>\$ 12,877,817</u>	<u>\$ 21,685,325</u>

**Combining Statement of Revenue,
Expenses, and Changes in Net Assets
Year Ended June 30, 2006**

Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation
\$ -	\$ -	\$ -	\$ -	\$ -
13,221	12,871,516	-	-	-
-	1,141,339	-	-	-
-	48,873	-	-	-
-	276,870	-	-	-
34,606,062	-	-	-	-
-	-	381,663	336,075	-
-	-	-	1,821,373	-
34,619,283	14,338,598	381,663	2,157,448	-
-	701,852	-	-	-
-	266,675	-	-	-
-	2,458,212	-	-	-
-	12,837	-	-	-
-	286,256	-	-	-
-	851,948	-	-	897,011
-	700	-	7,271,654	-
-	-	-	7,734,579	-
1,729,261	13,190,731	-	-	-
27,696,279	-	-	-	-
-	-	435,940	-	-
29,425,540	17,769,211	435,940	15,006,233	897,011
5,193,743	(3,430,613)	(54,277)	(12,848,785)	(897,011)
-	-	-	-	-
20,168	2,006,631	52,308	220,130	151,577
187,638	(23,645)	8,394	92,243	3,595,149
-	-	-	(3,381,818)	-
207,806	1,982,986	60,702	(3,069,445)	3,746,726
5,401,549	(1,447,627)	6,425	(15,918,230)	2,849,715
-	-	-	127,395	-
-	-	-	-	529,507
5,401,549	(1,447,627)	6,425	(15,790,835)	3,379,222
(5,211,418)	741,098	-	15,283,563	82,495
190,131	(706,529)	6,425	(507,272)	3,461,717
1,154,246	4,911,401	19,955,931	151,132,415	26,170,806
\$ 1,344,377	\$ 4,204,872	\$ 19,962,356	\$ 150,625,143	\$ 29,632,523