

Ferris State University

Financial Report with Supplemental Information June 30, 2007

Ferris State University

Board of Trustees

Arthur L. Tebo
Chairperson

James K. Haveman Jr.
Vice Chairperson

R. Thomas Cook
Secretary

Gary L. Granger
Trustee

Patrick W. La Pine
Trustee

George J. Menoutes
Trustee

Ronald E. Snead
Trustee

Sueann L. Walz
Trustee

Business and Financial Staff

Richard S. Christner
Associate Vice President for Finance

Sharon L. Richards
Director of Accounting Services

Karen S. Thompson
Investments and Grants Officer

Executive Officers

David L. Eisler
President

Daniel L. Burcham
Vice President for Student Affairs

Sandra Davidson-Wilson
Vice Chancellor for Administration and Finance
KCAD

Richard P. Duffett
Vice President for Administration and Finance
and University Advancement and Marketing

Oliver H. Evans
President/Vice Chancellor KCAD

Donald J. Green
Vice Chancellor/Academic Dean
College of Professional and Technical Studies

Thomas E. Oldfield
Interim Vice President for Academic Affairs

David Pilgrim
Chief Diversity Officer

Miles Postema
General Counsel

Report Letter	1-2
Financial Statements	
Management's Discussion and Analysis	3-12
Balance Sheet	13
Statement of Revenue, Expenses, and Changes in Net Assets	14
Statement of Cash Flows	15-16
Notes to Financial Statements	17-32
Supplemental Information	33
Report Letter	34
Combining Balance Sheet	35-36
Combining Statement of Revenues, Expenses, and Changes in Net Assets	37-38



Plante & Moran, PLLC

Suite 300

750 Trade Centre Way

Portage, MI 49002

Tel: 269.567.4500

Fax: 269.567.4501

plantemoran.com

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, 2007 and 2006 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, 2007 and 2006 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 October 3, 2007 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, 2007. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Ferris State University

The management's discussion and analysis presented on pages 3 through 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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

October 3, 2007

Ferris State University

Management's Discussion and Analysis - Unaudited

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, 2007 with selected comparative information as of and for the years ended June 30, 2006 and 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 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

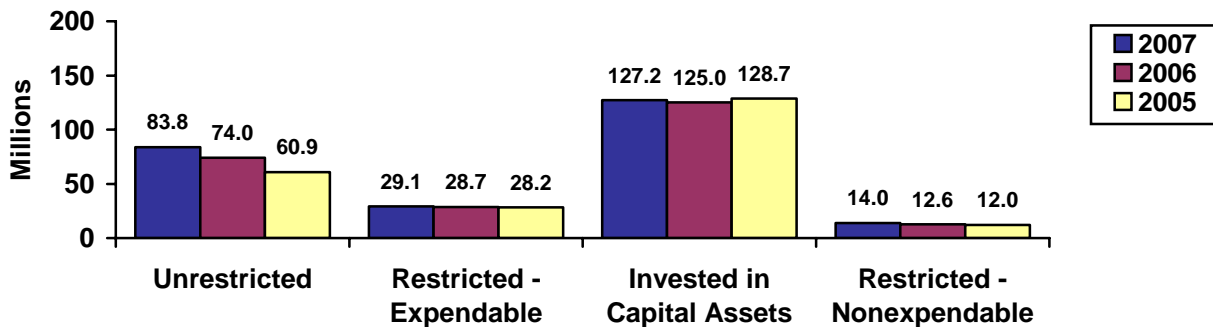
The University's net assets increased \$13.8 million or 5.7 percent for the year ended June 30, 2007. The net asset increase is primarily a result of growth in the Ferris Foundation endowment by \$7.3 million and investment income growth. The tuition increase of 5.7 percent approved by the board of trustees for the fall of 2006 generated additional income of \$5.2 million with essentially level enrollment compared to the fall of 2005. This was key to offsetting the net funding reduction from the State of Michigan for operations in the amount of \$4.4 million from the 2006 funding levels. The University and the Foundation investment plans generated investment returns on the endowment of 19.5 percent and the operating funds of 7.7 percent in 2007.

For the year ended June 30, 2006, the University's net assets increased \$10.6 million or 4.6 percent. The net asset increase continued to be the result of a trend of enrollment growth and the University community managing University resources in the context of uncertain economic times. Funding from the State of Michigan was a net decrease of \$1.1 million from 2005. This was the effect of essentially no change in the base appropriation and a smaller amount restored in 2006 from the fiscal year 2005 reduction than was restored 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 and 13.3 percent in 2005.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2007, 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 - Unaudited (Continued)

Net Assets

Total net assets increased by \$13.8 million to \$254.1 million. Total unrestricted net assets are \$83.8 million. Of this total, \$56.6 million is identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments. The unrestricted and undesignated amount of \$27.2 million is comprised of \$4.3 million of unrealized investment income, \$19.3 million for self-supporting departmental, student loan, and auxiliary activities and \$3.6 million for maintenance and construction projects on campus, including \$0.6 million allocated for classroom renovations in fiscal year 2008.

Following is a comparison of the major components of the net assets of the University and operating results for years ended June 30, 2007, 2006, and 2005:

Net Assets as of June 30 (in millions)

	2007	2006	2005
Assets			
Current assets	\$ 83.4	\$ 80.3	\$ 63.9
Noncurrent assets:			
Capital assets - Net of depreciation	200.2	199.3	204.5
Other	75.5	67.6	64.7
Total assets	<u>\$ 359.1</u>	<u>\$ 347.2</u>	<u>\$ 333.1</u>
Liabilities			
Current liabilities	\$ 23.5	\$ 23.2	\$ 19.2
Long-term liabilities	81.5	83.7	84.2
Total liabilities	105.0	106.9	103.4
Net Assets			
Invested in capital assets	127.2	125.0	128.7
Restricted - Expendable	29.1	28.7	28.1
Restricted - Nonexpendable	14.0	12.6	12.0
Unrestricted	83.8	74.0	60.9
Total net assets	<u>254.1</u>	<u>240.3</u>	<u>229.7</u>
Total liabilities and net assets	<u>\$ 359.1</u>	<u>\$ 347.2</u>	<u>\$ 333.1</u>

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

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

	2007	2006	2005
Operating Revenues			
Tuition and fees - Net	\$ 84.9	\$ 80.6	\$ 71.1
Grants and contracts	12.7	14.3	16.4
Departmental activities	9.8	9.6	8.7
Auxiliary activities - Net	31.2	31.0	29.1
Other	0.5	0.7	0.4
Total operating revenues	139.1	136.2	125.7
Operating Expenses			
Instruction	68.2	64.9	62.6
Research	0.3	0.4	0.4
Public service	3.9	3.3	1.4
Academic support	19.4	20.2	18.5
Student services	11.5	10.9	11.0
Institutional support	24.9	21.8	18.4
Operation and maintenance of plant	16.1	19.4	20.2
Depreciation	7.6	7.7	8.0
Student aid	10.1	10.4	10.4
Auxiliary enterprises	24.9	24.1	22.9
Other expenses	0.4	0.4	0.4
Total operating expenses	187.3	183.5	174.2
Net Operating Loss	(48.2)	(47.3)	(48.5)
Nonoperating Revenues			
State appropriations	43.9	49.0	50.0
Gifts	4.0	4.9	3.2
Investment income	12.6	6.7	6.8
Interest on capital related debt	(3.5)	(3.3)	(3.8)
Total nonoperating revenues	57.0	57.3	56.2
Income - Before other revenues	8.8	10.0	7.7
Other Revenues			
Capital appropriations	4.0	0.1	0.6
Capital grants and contracts	1.0	0.5	0.3
Total other revenues	5.0	0.6	0.9
Increase in Net Assets	13.8	10.6	8.6
Net Assets - Beginning of year	240.3	229.7	221.1
Net Assets - End of year	<u>\$ 254.1</u>	<u>\$ 240.3</u>	<u>\$ 229.7</u>

Ferris State University

Management's Discussion and Analysis - Unaudited (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 \$4.3 million due to the board-approved tuition increase of 5.7 percent with level enrollment from the prior year.
- State and local grant revenue decreased by \$1.7 million primarily due to the Freedom to Learn grant being completed.

For the year ended June 30, 2006, the significant operating revenue factors were:

- 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.

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 \$43.9 million reflects a total decrease of \$5.1 million from the 2006 level. This reduction is the net effect of a number of factors beginning with an operating appropriation increase of \$1.4 million at the start of the year. This was offset late in the year by an operating appropriation reduction of \$0.8 million followed by the deferral of the total August appropriation payment of \$4.6 million to the State's 2008 fiscal year and out of the University's current fiscal year. The Michigan Public School Employees' Retirement Plan was revalued and the result was a reduced contribution required of the University which was also reflected in reduced funding by the State of \$0.7 million. There was a funding restoration in 2006 over the base appropriation totaling \$0.4 million which was not received in 2007.
- Gift revenue of \$4.0 million decreased by \$0.9 million due in part to the recognition of pledges received in 2006 of \$1.4 million. Fiscal year 2006 was the first year pledge revenue was recognized which generated a one-time increase for the pledges.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

- Investment income increased by \$5.9 million to \$12.6 million. This reflects Foundation investment performance that exceeded our overall portfolio benchmarks for the year by 0.4 percent to achieve a return of 19.5 percent. The University investment performance exceeded the annual portfolio benchmark by 0.3 percent at 7.7 percent.

For the year ended June 30, 2006, significant nonoperating revenue factors were:

- The 2006 state appropriation of \$49.0 million reflected 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 increased to \$4.9 million due in part to the recognition of gift pledges of \$1.4 million.
- Investment income decreased \$0.1 million to \$6.7 million. The Foundation investment performance exceeded the benchmark by 0.4 percent at 13.7 percent and the University benchmark was exceeded by 0.1 percent at 4.1 percent.

Other Revenues

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

For 2007:

- State capital appropriations increased to \$4.0 million for the Interdisciplinary Resource Center renovation.

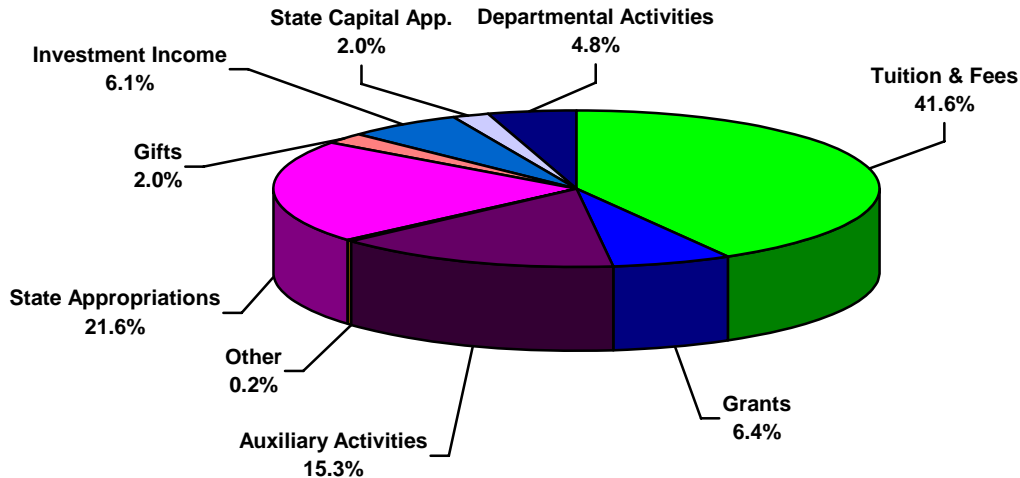
For 2006:

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

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

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

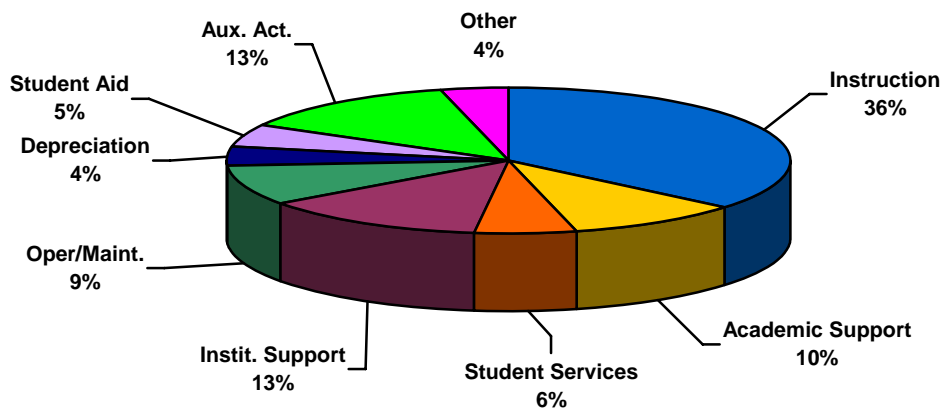


Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses increased by \$3.9 million from 2006 levels to \$187.3 million. Instruction, student support, and student aid total \$89.9 million or 48 percent of the total. Operations, maintenance, and depreciation total \$23.7 million or 12.6 percent and auxiliary operations total \$24.9 or 13.3 percent. Academic and institutional support and small other categories comprise the remainder of the operating expenses.

During the 2006 fiscal year, operating expenses increased by \$9.3 million to \$183.5 million. Instruction, student support, and student aid total \$86.1 or 47 percent. Operations, maintenance, and depreciation total \$27.1 million or 14.7 percent and auxiliary operation total \$24.1 million or 13.1 percent. Academic and institutional support and other small categories make up the remainder of the operating expenses.

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



Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

A nonoperating expense of interest on capital related debt increased by \$0.2 million to \$3.5 million in 2007.

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)

	2007	2006	2005
Cash Provided by (Used in)			
Operating activities	\$ (40.2)	\$ (35.9)	\$ (37.4)
Noncapital financing activities	54.1	53.4	54.8
Capital and related financing activities	(14.2)	(6.6)	(9.0)
Investing activities	<u>0.9</u>	<u>(1.0)</u>	<u>-</u>
Net Increase in Cash	0.6	9.9	8.4
Cash - Beginning of year	<u>33.0</u>	<u>23.1</u>	<u>14.7</u>
Cash - End of year	<u><u>\$ 33.6</u></u>	<u><u>\$ 33.0</u></u>	<u><u>\$ 23.1</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 increased by \$4.3 million from \$35.9 million in 2006 to \$40.2 million in 2007.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by \$0.7 million from \$53.4 million 2006 to \$54.1 million in 2007.

Cash used in capital and related financing activities totaled \$14.2 million, used primarily for the capital assets acquired during the year of \$8.4 million and debt and interest payments of \$6.4 million. This was partially offset by proceeds from gifts and grants for capital received of \$0.6 million. Capital related usage increased \$5.6 million from 2006 due to an increased level of capital asset acquisitions primarily for the Instructional Resource Center renovation.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Cash provided by investing activities totaled \$0.9 million, which is the net impact of sales and investments of short- and long-term securities and investment income.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2007, the University had \$200.2 million invested in capital assets, net of accumulated depreciation of \$146.7 million.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land, land improvements, and infrastructure	\$ 20.6	\$ 20.0	\$ 20.0
Buildings and improvements	242.8	242.7	243.0
Furniture, fixtures, and equipment	76.6	76.0	74.5
Construction in progress	<u>6.9</u>	<u>1.0</u>	<u>-</u>
Total	<u><u>\$ 346.9</u></u>	<u><u>\$ 339.7</u></u>	<u><u>\$ 337.5</u></u>

There were no major construction projects completed during the fiscal year. The Instructional Resource Center renovation will be completed and the building renamed for the fall semester of 2007.

Debt

At year end, the University had \$75.6 million in debt outstanding. The table below summarizes this amount by type of debt instrument.

(in millions)	<u>2007</u>	<u>2006</u>	<u>2005</u>
General Revenue Bonds	<u><u>\$ 75.6</u></u>	<u><u>\$ 78.4</u></u>	<u><u>\$ 79.4</u></u>

In December 2005, the board of trustees entered into a land contract agreement to purchase property adjacent to the Big Rapids campus for \$0.5 million. There is a balance of \$0.2 million remaining on this contract.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

In July 2005, the board of trustees issued \$21,230,000 of General Revenue and Refunding Bonds, Series 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.

Economic Factors that Will Affect the Future

The economy of the State of Michigan continues to languish, resulting in continued decline in support for public higher education. Over the last several years, this lack of support for the state's public universities has resulted in Ferris State University becoming more tuition dependent. This shift has made public higher education less affordable and may begin to limit access for citizens of the state of Michigan.

Ferris State University is committed to preserving the quality of its academic programs and keeping the cost of a Ferris education affordable. This is exhibited by consecutive years of record enrollments, modest tuition increases offset by more funding for student financial aid and scholarships, and improved efficiency in University operations. Rising costs for employee health benefits, utilities, salary and wages, and deferred maintenance of facilities are ongoing challenges that also must be addressed.

The University continues to recruit and retain better-prepared students and will continue to emphasize this trend in the future. Ferris State University had a record system-wide enrollment of 13,087 for fall 2007, an increase of 4 percent from last fall.

Ferris State University

Balance Sheet

		June 30	
		2007	2006
Assets			
Current Assets			
Cash and cash equivalents (Note 2)	\$	33,622,612	\$ 33,019,303
Short-term investments (Note 2)		35,258,204	31,210,224
Accounts receivable (Note 3)		12,078,755	14,273,725
Inventories		1,266,210	1,356,542
Prepaid expenses and other assets		1,126,710	390,717
Total current assets		<u>83,352,491</u>	<u>80,250,511</u>
Noncurrent Assets			
Endowment investments (Note 2)		35,905,161	28,943,560
Other long-term investments (Note 2)		19,566,133	18,868,712
Student loan receivable (Note 3)		18,646,008	18,343,623
Bond issuance costs		1,475,341	1,568,370
Capital assets - Net (Note 4)		<u>200,198,401</u>	<u>199,256,219</u>
Total noncurrent assets		<u>275,791,044</u>	<u>266,980,484</u>
Total assets		<u>\$ 359,143,535</u>	<u>\$ 347,230,995</u>
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$	13,680,007	\$ 13,815,056
Deferred revenue		5,989,935	5,726,807
Long-term liabilities - Current portion (Note 5)		<u>3,863,660</u>	<u>3,695,555</u>
Total current liabilities		23,533,602	23,237,418
Noncurrent liabilities:			
Deposits		941,614	891,999
Long-term liabilities (Note 5)		<u>80,539,621</u>	<u>82,769,165</u>
Total noncurrent liabilities		<u>81,481,235</u>	<u>83,661,164</u>
Total liabilities		105,014,837	106,898,582
Net Assets			
Invested in capital assets - Net of related debt		127,169,755	125,001,589
Restricted for:			
Nonexpendable - Scholarships (Note 1)		14,057,260	12,576,923
Expendable:			
Scholarships		7,279,781	5,346,906
Research		62,778	68,147
Instructional department uses		367,724	728,024
Loans		19,893,588	19,652,578
Capital projects		200	200
Other		1,527,177	2,888,224
Unrestricted (Note 1)		<u>83,770,435</u>	<u>74,069,822</u>
Total net assets		<u>254,128,698</u>	<u>240,332,413</u>
Total liabilities and net assets		<u>\$ 359,143,535</u>	<u>\$ 347,230,995</u>

Ferris State University

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2007	2006
Operating Revenue		
Tuition and fees - Net of scholarship allowances of \$12,357,114 for 2007 and \$11,497,314 for 2006	\$ 84,931,921	\$ 80,594,702
Federal grants and contracts	13,017,552	12,886,687
State and local grants and contracts	(486,100)	1,167,539
Nongovernmental grants	175,493	203,285
Departmental activities	9,776,099	9,614,920
Auxiliary enterprises - Net of scholarship allowances of \$3,746,997 for 2007 and \$3,611,914 for 2006	31,247,777	30,994,148
Other operating revenues	488,454	717,738
Total operating revenue	139,151,196	136,179,019
Operating Expenses		
Instruction	68,186,887	64,910,920
Research	327,093	383,149
Public service	3,866,439	3,305,331
Academic support	19,396,563	20,229,433
Student services	11,539,671	10,861,606
Institutional support	24,865,519	21,849,501
Operation and maintenance of plant	16,078,045	19,399,605
Depreciation	7,599,606	7,734,579
Student aid	10,148,068	10,361,261
Auxiliary enterprises	24,944,246	24,077,865
Other expenses	434,534	435,940
Total operating expenses	187,386,671	183,549,190
Operating Loss	(48,235,475)	(47,370,171)
Nonoperating Revenues (Expenses)		
State appropriations	43,947,937	49,020,809
Gifts	4,000,986	4,937,211
Investment income	12,559,900	6,727,427
Interest on capital asset - Related debt	(3,541,534)	(3,381,818)
Net nonoperating revenues	56,967,289	57,303,629
Income - Before other revenues and expenses	8,731,814	9,933,458
State Capital Appropriations	4,017,050	127,395
Additions to Permanent Endowments	1,047,421	529,507
Increase in Net Assets	13,796,285	10,590,360
Net Assets		
Beginning of year	240,332,413	229,742,053
End of year	\$ 254,128,698	\$ 240,332,413

Statement of Cash Flows

	Year Ended June 30	
	2007	2006
Cash Flows from Operating Activities		
Tuition and fees	\$ 85,171,211	\$ 79,693,880
Grants and contracts	13,324,212	14,721,650
Payments to suppliers	(96,911,016)	(92,480,423)
Payments to employees	(82,637,433)	(78,888,826)
Interest collected on student loans	410,371	381,663
Loans issued to students	(5,192,611)	(5,361,963)
Collection of loans from students	4,479,855	5,365,754
Auxiliary enterprise charges	31,247,777	30,994,148
Other receipts	9,902,482	9,707,116
Net cash used in operating activities	(40,205,152)	(35,867,001)
Cash Flows from Noncapital Financing Activities		
State appropriations	49,763,019	48,368,789
Gifts and grants for other than capital purposes	3,366,656	4,538,739
Private gifts for endowment purposes	1,047,421	529,507
Federal direct loan lending receipts	51,398,133	50,424,643
Federal direct loan lending disbursements	(51,468,066)	(50,424,996)
Net cash provided by noncapital financing activities	54,107,163	53,436,682
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	-	127,395
Capital grants and gifts received	634,330	398,472
Purchase of capital assets and construction	(8,427,501)	(2,845,917)
Proceeds from sale of buildings and equipment	-	319,280
Proceeds from issuance of capital debt	-	21,230,000
Principal paid on capital debt	(2,790,000)	(22,210,000)
Bond issue costs paid	-	(257,514)
Interest paid on capital debt	(3,568,429)	(3,429,563)
Net cash used in capital and related financing activities	(14,151,600)	(6,667,847)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	6,979,246	3,731,848
Investment income	3,791,579	1,880,429
Purchase of investments	(9,917,927)	(6,616,322)
Net cash provided by (used in) investing activities	852,898	(1,004,045)
Net Increase in Cash and Cash Equivalents	603,309	9,897,789
Cash and Cash Equivalents - Beginning of year	33,019,303	23,121,514
Cash and Cash Equivalents - End of year	\$ 33,622,612	\$ 33,019,303

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	
	2007	2006
Operating loss	\$ (48,235,475)	\$ (47,370,171)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	7,599,606	7,734,579
Amortization of bond issuance costs	93,029	93,029
Loss on disposal of fixed assets	63,769	5,157
Decrease (increase) in assets:		
Accounts receivable	543,814	(1,053,320)
Student loan receivable	(302,385)	385,454
Inventories, prepaids, and other assets	(645,661)	(202,614)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(135,049)	3,599,214
Deposits and unearned revenue	312,743	299,988
Accrued sick leave and employee buyouts	500,457	641,683
Net cash used in operating activities	<u>\$ (40,205,152)</u>	<u>\$ (35,867,001)</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 and No. 35, 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 \$14,057,260 and \$12,576,923 at June 30, 2007 and 2006, 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, 2007 and 2006

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>2007</u>	<u>2006</u>
Designated for General Fund division use	\$ 12,802,923	\$ 10,861,704
Designated for encumbrances	964,036	711,986
Designated for maintenance and replacement	26,138,517	23,851,763
Designated for debt service reserve	1,440,573	1,440,573
Designated for foundation endowments	15,247,413	11,639,097
Unrestricted and undesignated	<u>27,176,973</u>	<u>25,564,699</u>
Total unrestricted net assets	<u>\$ 83,770,435</u>	<u>\$ 74,069,822</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.

Operating Revenues

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

Reclassification

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

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.

Ferris State University

Notes to Financial Statements June 30, 2007 and 2006

Note 2 - Cash and Investments (Continued)

Endowment Investments

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

As of June 30, 2007, 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	\$ 33,042,681	\$ 33,042,681	\$ -	\$ -	\$ -
Mutual bond funds	44,031,081	-	18,675,441	25,355,640	-
Mutual equity funds	32,194,046	-	-	-	32,194,046
Real estate funds	1,226,823	-	-	-	1,226,823
Marketable securities	50,608	-	-	-	50,608
International equity funds	11,916,436	-	-	-	11,916,436
Alternative investments	400,966	-	-	-	400,966
Cash surrender value of life insurance	909,539	909,539	-	-	-
Total	<u>\$ 123,772,180</u>	<u>\$ 33,952,220</u>	<u>\$ 18,675,441</u>	<u>\$ 25,355,640</u>	<u>\$ 45,788,879</u>

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	<u>\$ 112,517,465</u>	<u>\$ 34,293,399</u>	<u>\$ 31,695,243</u>	<u>\$ 9,536,423</u>	<u>\$ 36,992,400</u>

Concentration of Credit Risk

Checks issued in excess of available cash balances were \$0 and \$475,666 at June 30, 2007 and 2006, respectively. The University's cash position reflects the liquidation of accounts payable invoices at June 30, 2007. The cash reflected in the accounts of the banks (without recognition of outstanding checks and deposits in transit) as of June 30, 2007 and 2006 was \$903,967 and \$734,817, respectively.

Note 2 - Cash and Investments (Continued)

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

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

Interest Rate Risk

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

Liquidity Risk

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

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, 2007 and 2006, the carrying amount of the University's deposits was \$903,967 and \$734,817, respectively. Of that amount, \$390,590 and \$359,080, respectively, was insured. The remaining \$513,377 and \$375,737 at June 30, 2007 and 2006, 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, 2007 and 2006, the University's debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2007		2006	
	<u>Market Value</u>	<u>NRSRO Rating</u>	<u>Market Value</u>	<u>NRSRO Rating</u>
PIMCO Low Duration	\$ 9,089,949	AA+	\$ 8,693,821	AAA
Western Asset	9,585,494	AA-	8,995,058	AA-
PIMCO Total Return	7,379,507	AA+	7,013,822	AAA
PIMCO Real Return	9,003,020	AA+	8,744,241	AAA
Seix High Yield	867,034	B+	792,182	BB-
Commonfund Multi Strategy Bond Fund	<u>8,106,077</u>	AA	<u>6,995,113</u>	AA
Total	<u>\$44,031,081</u>		<u>\$ 41,234,237</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 \$13,800,090 and \$9,987,890 for the years ended June 30, 2007 and 2006, respectively.

Ferris State University

Notes to Financial Statements June 30, 2007 and 2006

Note 3 - Accounts Receivable and Student Loans Receivable

Accounts receivable consist of the following:

	2007	2006
Student	\$ 3,976,035	\$ 3,902,582
Grants and contracts	536,928	1,036,511
State appropriations	3,353,454	9,168,536
State capital appropriations	4,017,050	127,395
Other	2,259,925	2,113,049
	<u>14,143,392</u>	<u>16,348,073</u>
Total accounts receivable		
Less allowance for doubtful accounts	<u>2,064,637</u>	<u>2,074,348</u>
Total accounts receivable - Net	<u>\$ 12,078,755</u>	<u>\$ 14,273,725</u>

Student loans receivable of \$18,646,008 and \$18,343,623 for the years ended June 30, 2007 and 2006, respectively, are recorded net of an allowance for doubtful accounts of \$3,000,000 for 2007 and 2006.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2007 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	242,727,841	73,500	-	-	242,801,341
Furniture, fixtures, and equipment	76,033,006	2,034,062	(1,490,081)	-	76,576,987
Subtotal - Depreciable assets	333,233,591	2,107,562	(1,490,081)	-	333,851,072
Land	5,498,045	619,500	-	-	6,117,545
Construction in progress	1,042,747	5,880,405	-	-	6,923,152
Subtotal - Nondepreciable assets	6,540,792	6,499,905	-	-	13,040,697
Total	339,774,383	8,607,467	(1,490,081)	-	346,891,769
Less accumulated depreciation:					
Land improvements	4,058,224	185,335	-	-	4,243,559
Infrastructure	3,414,733	321,496	-	-	3,736,229
Building and building improvements	88,584,316	5,119,521	-	-	93,703,837
Furniture, fixtures, and equipment	44,460,891	1,973,253	(1,424,402)	-	45,009,742
Total accumulated depreciation	140,518,164	\$ 7,599,606	\$ (1,424,402)	\$ -	146,693,368
Capital assets - Net	<u>\$ 199,256,219</u>				<u>\$ 200,198,401</u>

Note 4 - Capital Assets (Continued)

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	74,454,206	1,821,373	(242,573)	-	76,033,006
Subtotal - Depreciable assets	331,940,122	1,821,373	(527,904)	-	333,233,591
Land	5,498,045	-	-	-	5,498,045
Construction in progress	18,203	1,024,544	-	-	1,042,747
Subtotal - Nondepreciable assets	5,516,248	1,024,544	-	-	6,540,792
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	2,189,833	1,224,900	-	-	3,414,733
Building and building improvements	84,375,374	4,214,647	(5,705)	-	88,584,316
Furniture, fixtures, and equipment	42,559,270	2,109,697	(208,076)	-	44,460,891
Total accumulated depreciation	132,997,366	\$ 7,734,579	\$ (213,781)	\$ -	140,518,164
Capital assets - Net	\$ 204,459,004				\$ 199,256,219

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, 2007 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2005	\$ 21,230,000	\$ -	\$ 560,000	\$ 20,670,000	\$ 575,000
General Revenue Bonds, Series 2002	8,995,000	-	520,000	8,475,000	530,000
General Revenue Bonds, Series 2001	10,600,000	-	210,000	10,390,000	220,000
General Revenue Bonds, Series 1998	36,865,000	-	815,000	36,050,000	1,575,000
General Revenue Refunding Bonds, Series 1997	685,000	-	685,000	-	-
Total bonds and notes payable	78,375,000	-	2,790,000	75,585,000	2,900,000
Other liabilities:					
Accrued land contract	340,000	-	85,000	255,000	85,000
Accrued sick leave	7,184,165	500,456	-	7,684,621	-
Accrued long-term interest payable	905,555	3,541,534	3,568,429	878,660	878,660
Total	\$ 86,804,720	\$ 4,041,990	\$ 6,443,429	\$ 84,403,281	\$ 3,863,660

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

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 were used for renovations of the Instructional Resource Center building and repurposing the facility to focus on programs associated with its adjacent College of Business.

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, additions and remodeling of the Heating, Ventilation, Air Conditioning and Refrigeration Technology Center (HVACR) of \$3,500,000, and costs incidental to the issuance of the bonds. The HVACR project had a total estimated cost of \$18,000,000 with sources of \$1,000,000 from gifts, \$13,500,000 from the State Building Authority, and the remainder from these bond proceeds.

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 fiscal years 2003 to 2027. Proceeds from this issue were 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 and paid off as of June 30, 2007.

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, 2007 and 2006

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, 2007 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
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	3,410,000	2,960,191
2013-2017	19,450,000	12,354,339
2018-2022	21,820,000	7,129,491
2023-2027	14,345,000	2,912,625
2028-2032	4,260,000	494,595
Total	<u>\$ 75,585,000</u>	<u>\$ 38,976,871</u>

Interest expense was approximately \$3,542,000 and \$3,400,000 for the years ended June 30, 2007 and 2006, 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, \$57,652,554 remains outstanding at June 30, 2007.

Note 6 - Retirement Plans

The University provides noncontributory retirement plans for all qualified employees. In December 1995, the State enacted H.B. 4047, which precludes University employees hired after March 28, 1996 from participating in the Michigan Public School Employees' Retirement System (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 (Continued)

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 healthcare 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, 2007, 2006, and 2005:

Year	Pension Benefit Rate	Retirement Contributions	Nonmember Rate	Nonmember Contributions	Retiree Health Contributions
2007	6.38%	\$ 2,288,000	6.85%	\$ 579,000	\$ 3,718,000
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

Note 6 - Retirement Plans (Continued)

A MPSER credit of \$704,600 was issued to the University on June 6, 2007 due to a change in assumptions. This credit is being used to reduce contributions to the plan in June, July, and August 2007.

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 whereby 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, 2007 and 2006, the University contributed approximately \$5,659,000 and \$5,462,000, respectively, to the TIAA-CREF plan and approximately \$860,000 and \$733,000, respectively, to the Fidelity Investments plan.

Note 7 - Insurance

Risk-sharing Facility

The University participates in the Michigan Universities Self-Insurance Corporation (MUSIC). This organization provides insurance coverage for losses commonly covered in the areas of general liability, errors and omissions, all risk property insurance, automobile liability, and automobile physical damage. In fiscal year 2007, 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.

Ferris State University

Notes to Financial Statements June 30, 2007 and 2006

Note 7 - Insurance (Continued)

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.

Note 8 - Leases

The University leases 30 percent of the Applied Technology Center located on the campus of Grand Rapids Community College in Grand Rapids, Michigan. The lease 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 \$185,000 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, 2007 under noncancelable operating leases with initial or remaining terms of one year or more are approximately as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 682,000
2009	597,000
2010	595,000
2011	<u>214,000</u>
Total	<u>\$ 2,088,000</u>

Rental expense for the years ended June 30, 2007 and 2006 was approximately \$1,782,000 and \$1,458,000, respectively.

Ferris State University

Notes to Financial Statements June 30, 2007 and 2006

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



Plante & Moran, PLLC

Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

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, 2007 and 2006. 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

October 3, 2007

Ferris State University

	Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
Assets					
Current Assets					
Cash and cash equivalents	\$ 33,622,612	\$ 11,659,136	\$ 6,943,957	\$ 1,755,654	\$ 674,884
Short-term investments	35,258,204	20,120,153	11,757,455	910,147	1,535,185
Accounts receivable	12,078,755	5,337,807	1,586,629	323,756	291,075
Inventories	1,266,210	126,683	152,734	986,793	-
Prepaid expenses and other assets	1,126,710	892,571	111,639	-	-
Total current assets	83,352,491	38,136,350	20,552,414	3,976,350	2,501,144
Noncurrent Assets					
Endowment investments	35,905,161	-	-	-	-
Other long-term investments	19,566,133	909,539	-	-	-
Student loan receivable	18,646,008	-	-	-	-
Bond issuance costs	1,475,341	-	-	-	-
Capital assets - Net	200,198,401	-	-	-	-
Total noncurrent assets	275,791,044	909,539	-	-	-
Total assets	\$ 359,143,535	\$ 39,045,889	\$ 20,552,414	\$ 3,976,350	\$ 2,501,144
Liabilities and Net Assets					
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 13,680,007	\$ 10,860,268	\$ 108,253	\$ 1,131,864	\$ 70,554
Deferred revenue	5,989,935	4,986,741	584,665	418,529	-
Long-term liabilities - Current portion	3,863,660	-	-	-	-
Total current liabilities	23,533,602	15,847,009	692,918	1,550,393	70,554
Noncurrent liabilities:					
Deposits	941,614	-	-	941,614	-
Long-term liabilities	80,539,621	7,290,379	80,813	313,429	-
Total noncurrent liabilities	81,481,235	7,290,379	80,813	1,255,043	-
Total liabilities	105,014,837	23,137,388	773,731	2,805,436	70,554
Net Assets					
Invested in capital assets - Net of related debt	127,169,755	-	-	-	-
Restricted for:					
Nonexpendable - Scholarships	14,057,260	-	-	-	-
Expendable:					
Scholarships	7,279,781	-	-	-	1,064,025
Research	62,778	-	-	-	62,778
Instructional department uses	367,724	-	-	-	194,722
Loans	19,893,588	-	-	-	-
Capital projects	200	-	-	-	-
Other	1,527,177	-	-	-	1,109,065
Unrestricted	83,770,435	15,908,501	19,778,683	1,170,914	-
Total net assets	254,128,698	15,908,501	19,778,683	1,170,914	2,430,590
Total liabilities and net assets	\$ 359,143,535	\$ 39,045,889	\$ 20,552,414	\$ 3,976,350	\$ 2,501,144

Combining Balance Sheet June 30, 2007

Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation
\$ 488,082	\$ 11,354,486	\$ 38,706	\$ 707,707
935,264	-	-	-
-	4,017,050	157,904	364,534
-	-	-	-
-	100,000	-	22,500
1,423,346	15,471,536	196,610	1,094,741
-	-	-	35,905,161
-	18,656,594	-	-
18,646,008	-	-	-
-	1,475,341	-	-
-	200,198,401	-	-
18,646,008	220,330,336	-	35,905,161
\$ 20,069,354	\$ 235,801,872	\$ 196,610	\$ 36,999,902
\$ -	\$ 1,291,656	\$ 196,610	\$ 20,802
-	-	-	-
-	3,863,660	-	-
-	5,155,316	196,610	20,802
-	-	-	-
-	72,855,000	-	-
-	72,855,000	-	-
-	78,010,316	196,610	20,802
-	127,169,755	-	-
-	-	-	-
-	-	-	14,057,260
-	-	-	-
-	-	-	6,215,756
-	-	-	-
-	-	-	173,002
19,026,231	-	-	867,357
-	-	-	200
-	-	-	418,112
1,043,123	30,621,801	-	15,247,413
20,069,354	157,791,556	-	36,979,100
\$ 20,069,354	\$ 235,801,872	\$ 196,610	\$ 36,999,902

Ferris State University

	Combined Total	Elimination	General Fund	Designated Fund
Operating Revenue				
Tuition and fees	\$ 84,931,921	\$ (12,357,114)	\$ 97,289,035	\$ -
Federal grants and contracts	13,017,552	-	-	-
State grants and contracts	(486,100)	-	-	-
Nongovernmental grants	175,493	-	-	165,493
Departmental activities	9,776,099	(287,525)	2,336,476	7,385,476
Auxiliary enterprises	31,247,777	(3,746,997)	-	-
Other operating revenues	488,454	(327,228)	317,228	-
Current funds expenditures for equipment and capital improvements	-	(1,540,897)	-	-
Total operating revenue	139,151,196	(18,259,761)	99,942,739	7,550,969
Operating Expenses				
Instruction	68,186,887	(178,669)	65,920,036	1,966,112
Research	327,093	-	10,000	151,752
Public service	3,866,439	-	22,000	1,359,440
Academic support	19,396,563	(71,875)	19,457,411	1,254
Student services	11,539,671	(37,505)	10,493,245	751,988
Institutional support	24,865,519	(1,093,679)	16,434,602	7,589,364
Operations and maintenance of plant	16,078,045	(115,524)	13,205,815	1,152
Depreciation	7,599,606	-	-	-
Student aid	10,148,068	(13,676,867)	8,544,502	162,576
Auxiliary enterprises	24,944,246	(4,078,167)	-	-
Other expenses	434,534	-	-	-
Total operating expenses	187,386,671	(19,252,286)	134,087,611	11,983,638
Operating Income (Loss)	(48,235,475)	992,525	(34,144,872)	(4,432,669)
Nonoperating Revenue (Expenses)				
State appropriations	43,947,937	-	43,947,937	-
Gifts	4,000,986	(992,525)	239,848	1,840,562
Investment income	12,559,900	-	2,236,132	2,983,868
Interest on capital asset - Related debt	(3,541,534)	-	-	-
Net nonoperating revenue (expenses)	56,967,289	(992,525)	46,423,917	4,824,430
Income (Loss) - Before other revenue and expenses	8,731,814	-	12,279,045	391,761
State Capital Appropriations	4,017,050	-	-	-
Additions to Permanent Endowments	1,047,421	-	-	-
Increase (Decrease) in Net Assets - Before transfers	13,796,285	-	12,279,045	391,761
Transfers In (Out)	-	-	(9,248,361)	(2,298,403)
Net Increase (Decrease) in Net Assets	13,796,285	-	3,030,684	(1,906,642)
Net Assets - Beginning of year	240,332,413	-	12,877,817	21,685,325
Net Assets - End of year	<u>\$ 254,128,698</u>	<u>\$ -</u>	<u>\$ 15,908,501</u>	<u>\$ 19,778,683</u>

**Combining Statement of Revenue,
Expenses, and Changes in Net Assets
Year Ended June 30, 2007**

Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation
\$ -	\$ -	\$ -	\$ -	\$ -
13,358	13,004,194	-	-	-
-	(486,100)	-	-	-
-	10,000	-	-	-
-	341,672	-	-	-
34,994,774	-	-	-	-
-	-	410,371	88,083	-
-	-	-	1,540,897	-
35,008,132	12,869,766	410,371	1,628,980	-
-	479,408	-	-	-
-	165,341	-	-	-
-	2,484,999	-	-	-
-	9,773	-	-	-
-	331,943	-	-	-
-	634,917	-	-	1,300,315
-	720	-	2,985,882	-
-	-	-	7,599,606	-
1,707,742	13,410,115	-	-	-
29,022,413	-	-	-	-
-	-	434,534	-	-
30,730,155	17,517,216	434,534	10,585,488	1,300,315
4,277,977	(4,647,450)	(24,163)	(8,956,508)	(1,300,315)
-	-	-	-	-
4,174	2,283,282	69,746	389,926	165,973
306,523	60,390	61,415	1,023,490	5,888,082
-	-	-	(3,541,534)	-
310,697	2,343,672	131,161	(2,128,118)	6,054,055
4,588,674	(2,303,778)	106,998	(11,084,626)	4,753,740
-	-	-	4,017,050	-
-	-	-	-	1,047,421
4,588,674	(2,303,778)	106,998	(7,067,576)	5,801,161
(4,762,137)	529,496	-	14,233,989	1,545,416
(173,463)	(1,774,282)	106,998	7,166,413	7,346,577
1,344,377	4,204,872	19,962,356	150,625,143	29,632,523
\$ 1,170,914	\$ 2,430,590	\$ 20,069,354	\$ 157,791,556	\$ 36,979,100