

Ferris State University

Financial Report with Supplemental Information June 30, 2009

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, 2009 and 2008 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ferris State University as of June 30, 2009 and 2008 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 14, 2009 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, 2009. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Ferris State University

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

Plante & Moran, PLLC

September 14, 2009

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, 2009 with selected comparative information as of and for the years ended June 30, 2008 and 2007. 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 decreased overall by \$11.5 million or 4.6 percent for the year ended June 30, 2009. The net asset decrease is due primarily to the reduction in the market value of the University and Ferris Foundation investments. This decline reflects the overall market performance of diversified investments during the past year.

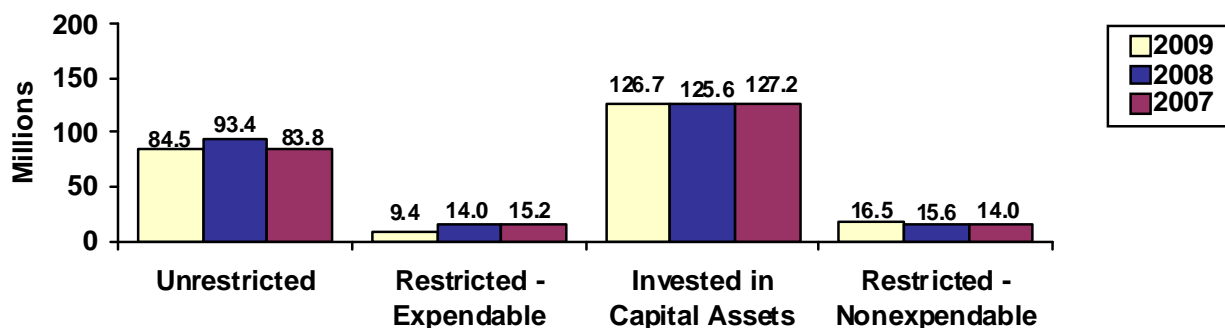
The University and the Foundation experienced net investment income reductions of \$2.6 million and \$8.3 million, respectively. This reflects negative returns of 4.2 percent on the University's operating funds and 22.8 percent on the Foundation's portfolio. The board of trustees approved a tuition increase of 6.3 percent which generated \$5.9 million combined with a modest enrollment increase for a total tuition and fees revenue increase of \$6.7 million.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

For the year ended June 30, 2008, the University's net assets increased \$8.4 million or 3.5 percent. The net asset increase is due to restoration of the August 2007 state aid payment received in October 2007 of \$4.6 million. The increase was offset by a reduction in the net assets of the Foundation by \$2.4 million. The tuition increase of 6.7 percent approved by the board of trustees for the fall of 2007 generated additional income of \$9.9 million with modest enrollment growth compared to the fall of 2006. The Foundation investments recorded a 7.9 percent reduction on the endowment return. The University's operating funds earned 2.9 percent in 2008.

The following chart provides a graphical breakdown of net assets by category for the fiscal years ended June 30, 2009, 2008, and 2007:



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 decreased overall by \$11.5 million to \$237.1 million. Total unrestricted net assets are \$84.5 million. Of this total, \$63.0 million is identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments. This includes \$7.5 million for future construction on campus. The unrestricted and undesignated amount of \$21.5 million is comprised of \$17.8 million for self-supporting departmental, student loan, and auxiliary activities and \$3.7 million for maintenance and construction projects on campus.

Following is a comparison of the major components of the net assets of the University and operating results for the years ended June 30, 2009, 2008, and 2007:

Net Assets as of June 30 (in millions)

	2009	2008	2007
Assets			
Current assets	\$ 86.0	\$ 83.2	\$ 83.4
Noncurrent assets:			
Capital assets - Net of depreciation	197.9	195.5	200.2
Other	112.9	89.3	75.5
Total assets	<u>\$ 396.8</u>	<u>\$ 368.0</u>	<u>\$ 359.1</u>
Liabilities			
Current liabilities	\$ 30.5	\$ 26.4	\$ 23.5
Long-term liabilities	129.2	93.0	95.4
Total liabilities	159.7	119.4	118.9
Net Assets			
Invested in capital assets	126.7	125.6	127.2
Restricted - Expendable	9.4	14.0	15.2
Restricted - Nonexpendable	16.5	15.6	14.0
Unrestricted	84.5	93.4	83.8
Total net assets	<u>237.1</u>	<u>248.6</u>	<u>240.2</u>
Total liabilities and net assets	<u>\$ 396.8</u>	<u>\$ 368.0</u>	<u>\$ 359.1</u>

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

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

	2009	2008	2007
Operating Revenues			
Tuition and fees - Net	\$ 101.5	\$ 94.8	\$ 84.9
Grants and contracts	3.9	4.7	4.0
Departmental activities	9.5	10.1	9.8
Auxiliary activities - Net	33.2	32.3	31.2
Other	0.6	0.5	0.5
Total operating revenues	148.7	142.4	130.4
Operating Expenses			
Instruction	77.5	73.9	68.2
Research	0.1	0.2	0.3
Public service	1.8	2.5	3.9
Academic support	23.8	20.5	19.4
Student services	13.0	13.2	11.5
Institutional support	25.2	23.6	24.9
Operation and maintenance of plant	22.9	21.3	16.1
Depreciation	7.6	7.9	7.6
Student aid	14.2	12.7	10.1
Auxiliary enterprises	25.9	25.0	24.9
Other expenses	0.4	0.2	0.4
Total operating expenses	212.4	201.0	187.3
Net Operating Loss	(63.7)	(58.6)	(56.9)
Nonoperating Revenues			
State appropriations	50.2	54.3	43.9
Federal Pell grant	12.7	10.2	8.7
Gifts	3.1	3.3	4.0
Investment (loss) income	(10.9)	(0.2)	12.6
Interest on capital related debt	(3.4)	(3.3)	(3.5)
Total nonoperating revenues	51.7	64.3	65.7
(Loss) Income - Before other revenues	(12.0)	5.7	8.8
Other Revenues			
Capital appropriations	0.1	1.4	4.0
Capital grants and contracts	0.4	1.3	1.0
Total other revenues	0.5	2.7	5.0
(Decrease) Increase in Net Assets	(11.5)	8.4	13.8
Net Assets - Beginning of year	248.6	240.2	226.4
Net Assets - End of year	<u>\$ 237.1</u>	<u>\$ 248.6</u>	<u>\$ 240.2</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 major factors significantly impacted operating revenue for the current year:

- Student tuition and fee revenue increased \$6.7 million due to the board-approved tuition increase of 6.3 percent with modest enrollment growth from the prior year.

For the year ended June 30, 2008, the significant operating revenue factor was:

- Student tuition and fee revenue increased \$9.9 million due to the board-approved tuition increase of 6.7 percent with modest enrollment growth from the prior year.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

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 \$50.2 million reflects a total decrease of \$4.1 million from the 2008 level. This decrease represents the 2008 receipt of the delayed August 2007 appropriation payment of \$4.6 million offset by an increase in base funding of \$0.5 million.
- Investment income decreased by \$10.7 million due to a loss of \$10.9 million. The University investment performance on operating funds declined 4.2 percent in 2009. The Foundation investment performance recorded a 22.8 percent reduction in 2009. The decrease reflects the broad decline in the investment markets during the year.
- Pell grants increased \$2.5 million as a result of the federal government increase of the allowance per student.

For the year ended June 30, 2008, significant nonoperating revenue factors were:

- The state appropriation of \$54.3 million reflects a total increase of \$10.4 million from the 2007 level. This increase represents the receipt of the total August appropriation payment of \$4.6 million previously deferred by the State in 2007 to coincide with their 2008 fiscal year budget.
- Gift revenue of \$3.3 million decreased by \$0.7 million due primarily to a large pledge for the optometry building campaign that was changed to conditional pending commitment from the State of Michigan for a change in status of a capital outlay appropriation for the building.
- Investment income decreased by \$12.8 million to a loss of \$0.2 million. The University investments earned 2.9 percent in 2008. The Foundation investment performance recorded a 7.9 percent reduction from 2007. The decrease reflects the activity in the market during the year.
- Federal Pell Grant revenue increased by \$1.5 million to \$10.2 million due to the increase in enrollment of students with a financial need.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

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:

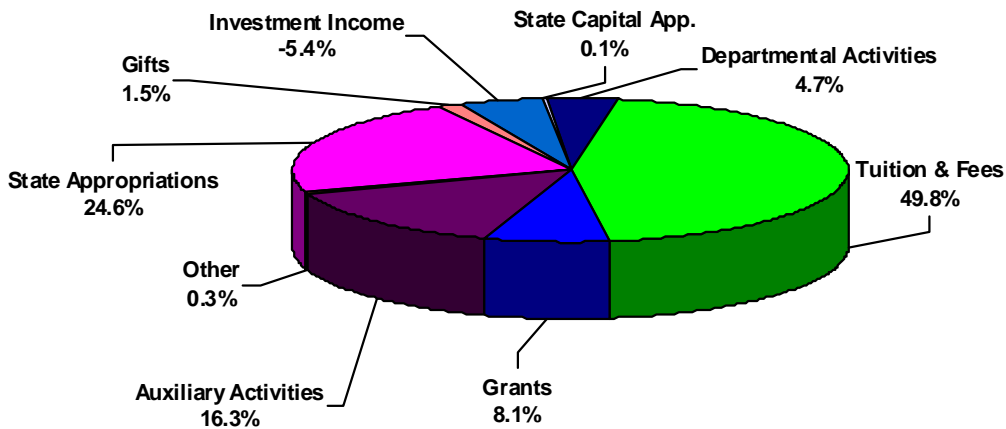
For 2009:

- State capital appropriations decreased to \$0.1 million for the Interdisciplinary Resource Center renovation. No additional state funded projects were under construction.
- The capital grants and contracts portion of other revenues includes increases to permanent endowments of the Ferris Foundation. These revenues decreased by \$0.9 million from the prior year.

For 2008:

- State capital appropriations decreased to \$1.4 million for the Interdisciplinary Resource Center. The renovation was considered complete in July 2008.

The following is a graphic illustration of total revenues by source for June 30, 2009:



Ferris State University

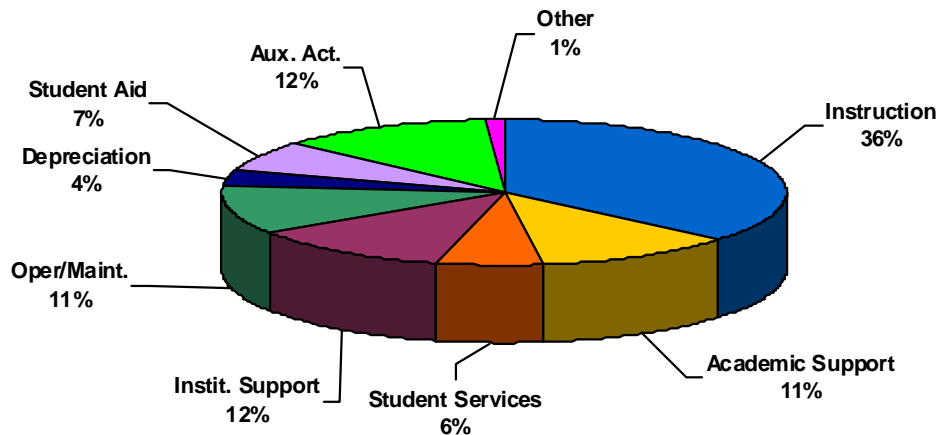
Management's Discussion and Analysis - Unaudited (Continued)

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 \$11.4 million from 2008 levels to \$212.4 million. Instruction, student services, and student aid represent \$104.7 million or 49.3 percent of the total. Operations, maintenance, and depreciation total \$30.5 million or 14.4 percent and auxiliary operations total \$25.9 or 12.2 percent. Academic and institutional support and other small categories comprise the remainder of the operating expenses.

During the 2008 fiscal year, operating expenses increased by \$13.7 million to \$201.0 million. Instruction, student services, and student aid total \$89.9 or 49.7 percent. Operations, maintenance, and depreciation total \$29.2 million or 14.5 percent and auxiliary operations total \$25.0 million or 12.4 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 for June 30, 2009:



Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Statement of Cash Flows

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

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

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

	2009	2008	2007
Cash Provided by (Used in)			
Operating activities	\$ (50.6)	\$ (47.1)	\$ (48.9)
Noncapital financing activities	66.3	63.3	62.8
Capital and related financing activities	21.0	(5.1)	(14.2)
Investing activities	1.0	(5.9)	0.9
Net Increase in Cash	37.7	5.2	0.6
Cash - Beginning of year	38.8	33.6	33.0
Cash - End of year	<u>\$ 76.5</u>	<u>\$ 38.8</u>	<u>\$ 33.6</u>

Major sources of funds from operations came from student tuition and fees, grants, and contracts, along with residential life and other auxiliary activities. These sources were offset by expenditures for operations such as payments to employees and suppliers and loans issued to students. The net total of cash used in operations increased by \$3.5 million from \$47.1 million in 2008 to \$50.6 million in 2009.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by \$3.0 million from \$63.3 million in 2008 to \$66.3 million in 2009.

Cash used in capital and related financing activities totaled \$21.0 million, used primarily for the capital assets acquired during the year of \$10.6 million and debt and interest payments of \$7.7 million which was offset by proceeds from the 2009 bond series issuance of \$38.9 million and other proceeds totaling \$0.4 million.

Cash generated from investing activities totaled \$1.0 million, which is the net impact of sales and investments of short-term and long-term securities and investment income.

Ferris State University

Management's Discussion and Analysis - Unaudited (Continued)

Capital Assets and Debt Administration

Capital Assets

At June 30, 2009, the University had \$197.9 million invested in capital assets, net of accumulated depreciation of \$155.3 million.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land, land improvements, and infrastructure	\$ 20.8	\$ 20.4	\$ 20.6
Buildings and improvements	253.2	243.6	242.8
Furniture, fixtures, and equipment	73.4	80.5	80.4
Construction in progress	<u>5.8</u>	<u>8.3</u>	<u>6.9</u>
Total	<u><u>\$ 353.2</u></u>	<u><u>\$ 352.8</u></u>	<u><u>\$ 350.7</u></u>

The Instructional Resource Center building was placed in service and capitalized this fiscal year. The Ice Arena Mechanical Systems project was also placed in service and capitalized this fiscal year.

Electronic volumes previously included in the library value were removed from the library collection this fiscal year, resulting in an \$8.0 million reduction in furnitures, fixtures, and equipment, which was offset by a \$7.6 million reduction to the library collection's associated accumulated depreciation.

Debt

At year end, the University had \$108.7 million in debt outstanding. The table below summarizes this amount by type of debt instrument:

(in millions)	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Revenue Bonds	<u><u>\$ 108.7</u></u>	<u><u>\$ 72.8</u></u>	<u><u>\$ 75.6</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 \$0.1 million remaining on this contract.

In April 2009, the board of trustees issued \$38,935,000 of General Revenue Bonds, Series 2009 for a number of construction projects including the University's match for the new home for the Michigan College of Optometry and new student apartments on campus. The issue is insured and has been rated "AAA" by Standard & Poor's. The University's underlying rating is "A" by Standard & Poor's. 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 - Unaudited (Continued)

Economic Factors that Will Affect the Future

While the historic 125th anniversary year for the University promises to be an exciting and energetic one, it is also the case that we face real financial uncertainty as well. The projected budget deficit for our state has grown to a reported \$2.8 billion. Currently there are a number of proposals to increase state revenues, but further cuts in state services seem inevitable. A downsized domestic auto industry combined with a state unemployment rate of 15 percent makes balancing the state budget a monumental problem for elected officials in Lansing.

Michigan families are struggling. The state's continued high unemployment rate has caused significant strain on families whose lives have been affected through job loss to be able to afford to send their son/daughter to college. The University has made additional need-based aid monies available to assist these struggling families at this time of severe financial distress in our state. The continued uncertainty of the State eliminating several state-funded scholarship programs only adds to this struggle, causing ongoing concerns for the University.

The current outlook suggests that fiscal years 2010 and 2011 will see continued fiscal instability. Federal stimulus monies will be part of the solution to balance the fiscal year 2010 budget cut leaving none of these one-time resources to balance the fiscal year 2011 State budget. Very difficult decisions face Michigan's political leaders for the next several years; undoubtedly these will have an impact on higher education. The University has responded and has reduced operating costs by \$2.5 million for fiscal year 2010 (equivalent to a 5 percent state funding reduction), with an additional \$2.5 million of reductions identified to respond to mid-year or fiscal year 2011 fiscal change. More may be needed.

Ferris State University

Balance Sheet

	June 30	
	2009	2008
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 43,026,787	\$ 38,800,671
Short-term investments (Note 2)	27,564,032	28,332,838
Accounts receivable (Note 3)	14,123,923	14,824,635
Inventories	969,669	940,216
Prepaid expenses and other assets	283,640	258,112
Total current assets	85,968,051	83,156,472
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	33,510,143	-
Endowment investments (Note 2)	24,950,729	33,521,914
Other long-term investments (Note 2)	31,968,463	34,561,359
Student loan receivable (Note 3)	19,663,849	19,971,812
Bond issuance costs	2,822,364	1,294,310
Capital assets - Net (Note 4)	197,899,119	195,510,269
Total noncurrent assets	310,814,667	284,859,664
Total assets	\$ 396,782,718	\$ 368,016,136
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,466,422	\$ 16,280,579
Deferred revenue	6,521,885	6,288,209
Long-term liabilities - Current portion (Note 5)	4,531,716	3,823,458
Total current liabilities	30,520,023	26,392,246
Noncurrent liabilities:		
Deposits	925,229	951,304
Federal student loan payable	13,968,945	13,984,108
Long-term liabilities (Note 5)	114,225,169	78,074,240
Total noncurrent liabilities	129,119,343	93,009,652
Total liabilities	159,639,366	119,401,898
Net Assets		
Invested in capital assets - Net of related debt	126,731,419	125,637,264
Restricted for:		
Nonexpendable - Scholarships (Note 1)	16,488,377	15,614,031
Expendable:		
Scholarships	2,506,212	5,606,785
Research	64,484	59,914
Instructional department uses	266,237	392,741
Loans	5,932,245	6,640,901
Capital projects	200	200
Other	602,421	1,297,329
Unrestricted (Note 1)	84,551,757	93,365,073
Total net assets	237,143,352	248,614,238
Total liabilities and net assets	\$ 396,782,718	\$ 368,016,136

Ferris State University

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2009	2008
Operating Revenue		
Tuition and fees - Net of scholarship allowances of \$15,408,328 for 2009 and \$13,352,607 for 2008	\$ 101,527,330	\$ 94,825,825
Federal grants and contracts	3,170,030	3,627,153
State and local grants and contracts, net of refunds	557,686	540,318
Nongovernmental grants	170,960	515,259
Departmental activities	9,492,063	10,068,658
Auxiliary enterprises - Net of scholarship allowances of \$4,103,227 for 2009 and \$3,745,470 for 2008	33,209,479	32,312,815
Other operating revenues	576,489	541,052
Total operating revenue	148,704,037	142,431,080
Operating Expenses		
Instruction	77,433,132	73,964,504
Research	93,680	152,781
Public service	1,840,550	2,493,700
Academic support	23,825,592	20,525,394
Student services	12,955,417	13,165,731
Institutional support	25,235,538	23,581,291
Operation and maintenance of plant	22,872,153	21,263,375
Depreciation	7,648,178	7,918,691
Student aid	14,179,139	12,690,861
Auxiliary enterprises	25,943,301	25,008,493
Other expenses	396,556	199,631
Total operating expenses	212,423,236	200,964,452
Operating Loss	(63,719,199)	(58,533,372)
Nonoperating Revenues (Expenses)		
State appropriations	50,228,100	54,280,354
Federal Pell grants	12,721,852	10,254,120
Gifts	3,122,647	3,322,073
Investment loss	(10,931,761)	(244,522)
Interest on capital asset - Related debt	(3,429,420)	(3,313,957)
Net nonoperating revenues	51,711,418	64,298,068
(Loss) Income - Before other revenues	(12,007,781)	5,764,696
State Capital Appropriations	111,771	1,404,880
Additions to Permanent Endowments	425,124	1,300,072
(Decrease) Increase in Net Assets	(11,470,886)	8,469,648
Net Assets		
Beginning of year	248,614,238	240,144,590
End of year	\$ 237,143,352	\$ 248,614,238

Ferris State University

Statement of Cash Flows

	Year Ended June 30	
	2009	2008
Cash Flows from Operating Activities		
Tuition and fees	\$ 101,667,383	\$ 94,597,753
Grants and contracts	3,964,027	4,926,361
Payments to suppliers	(108,268,027)	(101,372,058)
Payments to employees	(92,736,512)	(86,505,902)
Interest collected on student loans	469,125	400,773
Loans issued to students	(2,389,676)	(4,139,040)
Collection of loans from students	2,185,857	2,490,174
Auxiliary enterprise charges	33,209,479	32,312,815
Other receipts	11,365,505	10,159,518
Net cash used in operating activities	(50,532,839)	(47,129,606)
Cash Flows from Noncapital Financing Activities		
State appropriations	50,137,681	48,591,846
Pell grant receipts	12,721,852	10,254,120
Gifts and grants for other than capital purposes	2,937,084	3,254,438
Private gifts for endowment purposes	425,124	1,300,072
Federal direct loan lending receipts	80,039,656	61,211,426
Federal direct loan lending disbursements	(79,996,999)	(61,289,137)
Net cash provided by noncapital financing activities	66,264,398	63,322,765
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	137,400	5,284,529
Capital grants and gifts received	185,563	67,636
Purchase of capital assets and construction	(10,613,232)	(3,660,966)
Proceeds from sale of buildings and equipment	31,787	235,983
Proceeds from issuance of capital debt	38,935,000	32,915,000
Principal paid on capital debt	(3,090,000)	(35,810,000)
Bond issue costs paid	(1,596,782)	(656,988)
Interest paid on capital debt	(2,986,162)	(3,459,159)
Net cash provided by (used in) capital and related financing activities	21,003,574	(5,083,965)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	11,713,334	16,596,399
Investment income	3,865,768	(10,344,909)
Purchase of investments	(14,577,976)	(12,182,625)
Net cash provided by (used in) investing activities	1,001,126	(5,931,135)
Net Increase in Cash and Cash Equivalents	37,736,259	5,178,059
Cash and Cash Equivalents - Beginning of year	38,800,671	33,622,612
Cash and Cash Equivalents - End of year	\$ 76,536,930	\$ 38,800,671

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	
	2009	2008
Operating loss	\$ (63,719,199)	\$ (58,533,372)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	7,648,178	7,918,691
Amortization of bond issuance costs	68,728	838,019
Loss on disposal of fixed assets	544,417	194,423
Decrease (increase) in assets:		
Accounts receivable	765,502	(937,021)
Student loan receivable	250,143	(1,248,093)
Inventories, prepaids, and other assets	(54,981)	1,194,592
Increase in liabilities:		
Accounts payable and accrued liabilities	3,185,843	2,600,572
Deposits and unearned revenue	207,601	307,964
Accrued sick leave and employee buyouts	570,929	534,619
Net cash used in operating activities	<u>\$ (50,532,839)</u>	<u>\$ (47,129,606)</u>

Note 1 - Basis of Presentation and Significant Accounting Policies

Ferris State University (the "University") is an institution of higher education created on September 1, 1884 as Big Rapids Industrial School. In 1885 the school name was changed to Ferris Industrial School, in 1898 to Ferris Institute, in 1950 became a component unit of the State of Michigan (the "State"), in 1963 Ferris State College, and in 1987 to its current structure of Ferris State University. 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 Statements No. 34 and No. 35, which provide a comprehensive one-line look at the University's financial activities.

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

The financial statements have been prepared incorporating totals from the University and the Ferris Foundation (the "Foundation"). 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.

Ferris State University

Notes to Financial Statements June 30, 2009 and 2008

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

Restricted Net Assets

Restricted net assets represent amounts over which third parties have imposed restrictions that cannot be changed by the board, including amounts that the board has agreed to set aside under contractual agreements with third parties. Funds held by the Foundation for endowments or donor-designated purposes were \$16,488,377 and \$15,614,031 at June 30, 2009 and 2008, respectively. The remaining restricted balance consists primarily of funds restricted for student loans, scholarships, and other purposes.

Unrestricted Net Assets

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

	<u>2009</u>	<u>2008</u>
Designated for General Fund division use	\$ 11,223,778	\$ 12,136,786
Designated for encumbrances	1,030,148	451,194
Designated for maintenance and replacement	42,349,642	31,895,892
Designated for debt service reserve	932,353	594,616
Designated for foundation endowments	7,525,930	13,235,907
Unrestricted and undesignated	<u>21,489,906</u>	<u>35,050,678</u>
Total unrestricted net assets	<u>\$ 84,551,757</u>	<u>\$ 93,365,073</u>

Accrual Accounting

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

Cash and Cash Equivalents

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

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

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

Investments

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

Inventories

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

Bond Issuance Costs

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

Capital Assets

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

Ferris State University

Notes to Financial Statements June 30, 2009 and 2008

Note 2 - Cash and Investments

The operating portfolio is invested in accordance with University policy.

Cash and Short-term Investments

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

Intermediate and Long-term Investments

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

As of June 30, 2009, the University had the following cash and investments and maturities:

	<u>Fair Market Value</u>	<u>Less Than One Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>
Cash and cash equivalents	\$ 1,873,091	\$ 1,873,091	\$ -	\$ -	\$ -
Money markets	74,663,840	74,663,840	-	-	-
Mutual bond funds	48,111,370	4,822,030	17,283,193	26,006,147	-
Mutual equity funds	22,986,807	-	-	-	22,986,807
Real estate funds	915,882	-	-	-	915,882
Marketable securities	1,549	-	-	-	1,549
International equity funds	8,309,881	-	-	-	8,309,881
Alternative investments	3,235,584	-	-	-	3,235,584
Cash surrender value of life insurance	922,150	922,150	-	-	-
Total	<u>\$ 161,020,154</u>	<u>\$ 82,281,111</u>	<u>\$ 17,283,193</u>	<u>\$ 26,006,147</u>	<u>\$ 35,449,703</u>

Note 2 - Cash and Investments (Continued)

As of June 30, 2008, the University had the following cash and investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Cash and cash equivalents	\$ 613,902	\$ 613,902	\$ -	\$ -	\$ -
Money markets	38,186,769	38,186,769	-	-	-
Mutual bond funds	52,416,264	-	18,612,450	33,803,814	-
Mutual equity funds	27,224,255	-	-	-	27,224,255
Real estate funds	1,343,936	-	-	-	1,343,936
Marketable securities	59,828	-	-	-	59,828
International equity funds	10,843,987	-	-	-	10,843,987
Alternative investments	3,544,497	-	-	-	3,544,497
Cash surrender value of life insurance	983,344	983,344	-	-	-
Total	\$ 135,216,782	\$ 39,784,015	\$ 18,612,450	\$ 33,803,814	\$ 43,016,503

Endowment Investments

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

Concentration of Credit Risk

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

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

Note 2 - Cash and Investments (Continued)

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, 2009 and 2008, the carrying amount of the University's deposits was \$1,818,738 and \$910,240, respectively. Of that amount, \$689,243 and \$396,323, respectively, was insured. Of the remaining \$1,129,495, \$1,019,255 at June 30, 2009 was collateralized. The FDIC increased its insurance limits to \$250,000 per depositor; in addition, the University utilized collateralized banking products.

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, 2009 and 2008, the University’s debt instruments (subject to fluctuations in interest rates) and related ratings consisted of the following:

	2009		2008	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
PIMCO Low Duration	\$ 8,043,532	AA	\$ 9,785,572	AA
Western Asset	9,239,661	AA	9,930,805	AA
PIMCO Total Return	8,431,154	AA	8,826,878	AA
PIMCO Real Return	8,165,188	AAA	10,396,420	AAA
PIMCO Investment Grade Bond	1,057,706	A	-	
Seix High Yield	817,956	BB-	859,159	BB-
Commonfund Multi Strategy Bond Fund	7,534,143	AA	12,617,430	AA
Commonfund Short Term Fund	4,822,030	N/A	-	
Total	<u>\$48,111,370</u>		<u>\$52,416,264</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 \$11,564,226 and \$15,036,201 for the years ended June 30, 2009 and 2008, respectively.

Ferris State University

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Accounts Receivable and Student Loans Receivable

Accounts receivable consist of the following:

	2009	2008
Student	\$ 4,579,619	\$ 4,512,071
Grants and contracts	212,783	293,297
State appropriations	9,132,381	9,041,962
State capital appropriations	111,772	137,401
Other	2,812,389	2,834,194
Total accounts receivable	16,848,944	16,818,925
Less allowance for doubtful accounts	2,725,021	1,994,290
Total accounts receivable - Net	<u>\$ 14,123,923</u>	<u>\$ 14,824,635</u>

Student loans receivable of \$19,663,849 and \$19,971,812 for the years ended June 30, 2009 and 2008, respectively, are recorded net of an allowance for doubtful accounts of \$3,200,000 for 2009 and \$3,000,000 for 2008.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2009 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	243,545,921	3,023,818	(1,595,279)	8,298,597	253,273,057
Furniture, fixtures, and equipment	80,500,052	1,441,159	(8,570,174)	-	73,371,037
Subtotal - Depreciable assets	338,518,717	4,464,977	(10,165,453)	8,298,597	341,116,838
Land	5,949,545	370,168	-	10,234	6,329,947
Construction in progress	8,326,333	5,778,087	(17,502)	(8,308,831)	5,778,087
Subtotal - Nondepreciable assets	14,275,878	6,148,255	(17,502)	(8,298,597)	12,108,034
Total	352,794,595	10,613,232	(10,182,955)	-	353,224,872
Less accumulated depreciation:					
Land improvements	4,428,894	185,335	-	-	4,614,229
Infrastructure	4,057,725	321,500	-	-	4,379,225
Building and building improvements	98,826,415	5,484,157	(1,451,317)	-	102,859,255
Furniture, fixtures, and equipment	49,971,292	1,657,186	(8,155,434)	-	43,473,044
Total accumulated depreciation	157,284,326	\$ 7,648,178	\$ (9,606,751)	\$ -	155,325,753
Capital assets - Net	<u>\$ 195,510,269</u>				<u>\$ 197,899,119</u>

Note 4 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2008 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	242,801,341	744,580	-	-	243,545,921
Furniture, fixtures, and equipment	80,425,184	1,513,204	(1,438,336)	-	80,500,052
Subtotal - Depreciable assets	337,699,269	2,257,784	(1,438,336)	-	338,518,717
Land	6,117,545	-	(168,000)	-	5,949,545
Construction in progress	6,923,152	1,404,880	(1,699)	-	8,326,333
Subtotal - Nondepreciable assets	13,040,697	1,404,880	(169,699)	-	14,275,878
Total	350,739,966	3,662,664	(1,608,035)	-	352,794,595
Less accumulated depreciation:					
Land improvements	4,243,559	185,335	-	-	4,428,894
Infrastructure	3,736,229	321,496	-	-	4,057,725
Building and building improvements	93,703,837	5,122,578	-	-	98,826,415
Furniture, fixtures, and equipment	48,857,940	2,289,282	(1,175,930)	-	49,971,292
Total accumulated depreciation	150,541,565	\$ 7,918,691	\$ (1,175,930)	\$ -	157,284,326
Capital assets - Net	\$ 200,198,401				\$ 195,510,269

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, 2009 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2009	\$ -	\$ 38,935,000	\$ -	\$ 38,935,000	\$ -
General Revenue Refunding Bonds, Series 2008	32,915,000	-	-	32,915,000	1,515,000
General Revenue Refunding Bonds, Series 2005	20,095,000	-	585,000	19,510,000	950,000
General Revenue Bonds, Series 2002	7,945,000	-	540,000	7,405,000	565,000
General Revenue Bonds, Series 2001	10,170,000	-	230,000	9,940,000	240,000
General Revenue Bonds, Series 1998	1,650,000	-	1,650,000	-	-
Total bonds and notes payable	72,775,000	38,935,000	3,005,000	108,705,000	3,270,000
Other liabilities:					
Accrued land contract	170,000	-	85,000	85,000	85,000
Accrued sick leave	8,219,240	570,929	-	8,790,169	-
Accrued long-term interest payable	733,458	3,410,239	2,966,981	1,176,716	1,176,716
Total	\$ 81,897,698	\$ 42,916,168	\$ 6,056,981	\$ 118,756,885	\$ 4,531,716

Long-term obligation activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2008	\$ -	\$ 32,915,000	\$ -	\$ 32,915,000	\$ -
General Revenue Refunding Bonds, Series 2005	20,670,000	-	575,000	20,095,000	585,000
General Revenue Bonds, Series 2002	8,475,000	-	530,000	7,945,000	540,000
General Revenue Bonds, Series 2001	10,390,000	-	220,000	10,170,000	230,000
General Revenue Bonds, Series 1998	36,050,000	-	34,400,000	1,650,000	1,650,000
Total bonds and notes payable	75,585,000	32,915,000	35,725,000	72,775,000	3,005,000
Other liabilities:					
Accrued land contract	255,000	-	85,000	170,000	85,000
Accrued sick leave	7,684,621	534,619	-	8,219,240	-
Accrued long-term interest payable	878,660	3,313,955	3,459,157	733,458	733,458
Total	\$ 84,403,281	\$ 36,763,574	\$ 39,269,157	\$ 81,897,698	\$ 3,823,458

General Revenue Bonds, Series 2009

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

Note 5 - Long-term Obligations (Continued)

General Revenue and Refunding Bonds, Series 2008

The University issued \$32,915,000 of 3.25 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 were placed in an irrevocable trust for the purpose of refunding certain maturities of the General Revenue and Refunding Bonds, Series 1998 in the amount of \$32,825,000 which represents the callable portion of the bonds. The remaining \$1,650,000 portion of the 1998 bonds was not refunded and was payable in October 2008. The refunding of the bonds will save the University \$1,727,787 net present value savings over the next 21 years.

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.

General Revenue Bonds, Series 2002

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

Note 5 - Long-term Obligations (Continued)

General Revenue Bonds, Series 2001

The University issued \$11,000,000 of 4.0 percent to 5.25 percent General Revenue Bonds. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenues of the University, callable at a premium, and mature in varying amounts through 2032. Proceeds from this issuance were used for the construction and equipping of a new grounds storage building for \$1,000,000, \$6,500,000 for various building and site acquisitions, improvements, renovations, remodeling projects at the Big Rapids and Grand Rapids campuses, 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, the Katke golf course, and costs incidental to the issuance of the bonds. The bonds were defeased in 2006 and 2008 except for \$1,650,000 paid in October 2008.

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, 2009 and 2008

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, 2009 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 3,270,000	\$ 4,719,416
2011	4,300,000	4,660,869
2012	4,455,000	4,515,636
2013	4,605,000	4,364,399
2014	4,765,000	4,188,948
2015-2019	27,205,000	17,627,988
2020-2024	24,965,000	11,268,297
2025-2029	18,280,000	6,356,326
2030-2034	8,500,000	3,219,341
2035-2039	8,360,000	1,142,925
Total	<u>\$ 108,705,000</u>	<u>\$ 62,064,145</u>

Interest expense was approximately \$3,429,000 and \$3,314,000 for the years ended June 30, 2009 and 2008, respectively. This includes construction period interest which is capitalized as part of the cost of the assets constructed of \$417,000 for the year ended June 30, 2009

Defeased Debt

Since the General Revenue Bonds, Series 1988 and Series 1995 and a portion of the General Revenue Bonds, Series 1993, Series 1997, and Series 1998 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, \$84,529,778 remains outstanding at June 30, 2009.

Note 6 - Retirement Plans

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

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

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

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

Note 6 - Retirement Plans (Continued)

Following is a table summarizing the pension benefit rate and retirement contributions, the non-member rate and non-member contributions to the unfunded liability, and the postemployment healthcare contributions for the years ended June 30, 2009, 2008, and 2007:

Year	Member Contributions			Nonmember Contributions		
	Pension Benefit Rate	Unfunded Liability Rate	Retirement Contributions	Nonmember Rate	Nonmember Contributions	Retiree Health Contributions
2009	5.66%	6.98%	\$ 2,509,000	6.98%	\$ 830,000	\$ 3,904,000
2008	5.84%	7.29%	2,607,000	7.29%	755,000	3,466,000
2007	6.38%	6.85%	2,288,000	6.85%	579,000	3,718,000

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

For the years ended June 30, 2009 and 2008, the University contributed approximately \$6,187,000 and \$5,893,000, respectively, to the TIAA-CREF plan and approximately \$1,280,000 and \$1,024,000, 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 2009, 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.

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

Self-insurance

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

Ferris State University

Notes to Financial Statements June 30, 2009 and 2008

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 by 3 percent for the building and the parking spaces, and operating expenses increase at various times during the lease term.

Also, the University leases certain equipment under various agreements, which generally require an annual rental payment and operating expenses, expiring in 2014.

Future minimum payments at June 30, 2009 under noncancelable operating leases with initial or remaining terms of one year or more are approximately as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 978,000
2011	749,000
2012	703,000
2013	640,000
2014	<u>600,000</u>
Total	<u>\$ 3,670,000</u>

Rental expense for the years ended June 30, 2009 and 2008 was approximately \$1,290,000 and \$1,165,000, respectively.

Ferris State University

Notes to Financial Statements June 30, 2009 and 2008

Note 9 - Commitments and Contingencies

In the normal course of its activities, the University is a party to various legal actions. The University is of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements.

The University has several active construction projects as of June 30, 2009 resulting in the following commitments to vendors:

	Spent to Date	Construction Commitments at Year End
Michigan College of Optometry Building	\$ 464,391	\$ 2,187,496
East Campus Apartments	1,038,709	2,631,634
Rock Café	3,321,810	3,978,190
South Campus Green Space	536,084	163,916
Total	<u>\$ 5,360,994</u>	<u>\$ 8,961,236</u>

The Michigan College of Optometry Building project will be funded 75 percent by the State of Michigan.

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, 2009 and 2008. 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 14, 2009

Ferris State University

	Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund
Assets					
Current Assets					
Cash and cash equivalents	\$ 43,026,787	\$ 18,510,679	\$ 8,859,146	\$ 513,887	\$ 1,127,764
Short-term investments	27,564,032	9,171,040	10,250,838	2,497,327	400,186
Accounts receivable	14,123,923	11,231,260	1,721,067	250,188	212,783
Inventories	969,669	50,816	174,349	744,504	-
Prepaid expenses and other assets	283,640	109,531	71,252	2,857	-
Total current assets	85,968,051	39,073,326	21,076,652	4,008,763	1,740,733
Noncurrent Assets					
Restricted cash and cash equivalents	33,510,143	-	-	-	-
Endowment investments	24,950,729	-	-	-	-
Other long-term investments	31,968,463	922,150	-	-	-
Student loan receivable	19,663,849	-	-	-	-
Bond issuance costs	2,822,364	-	-	-	-
Capital assets - Net	197,899,119	-	-	-	-
Total noncurrent assets	310,814,667	922,150	-	-	-
Total assets	\$ 396,782,718	\$ 39,995,476	\$ 21,076,652	\$ 4,008,763	\$ 1,740,733
Liabilities and Net Assets					
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 19,466,422	\$ 14,075,912	\$ 119,570	\$ 1,459,465	\$ 51,942
Deferred revenue	6,521,885	5,750,076	514,308	257,501	-
Long-term liabilities - Current portion	4,531,716	-	-	-	-
Total current liabilities	30,520,023	19,825,988	633,878	1,716,966	51,942
Noncurrent liabilities:					
Deposits	925,229	-	-	925,229	-
Federal student loan payable	13,968,945	-	-	-	-
Long-term liabilities	114,225,169	8,368,047	23,771	398,351	-
Total noncurrent liabilities	129,119,343	8,368,047	23,771	1,323,580	-
Total liabilities	159,639,366	28,194,035	657,649	3,040,546	51,942
Net Assets					
Invested in capital assets - Net of related debt	126,731,419	-	-	-	-
Restricted for:					
Nonexpendable - Scholarships	16,488,377	-	-	-	-
Expendable:					
Scholarships	2,506,212	-	-	-	1,125,884
Research	64,484	-	-	-	64,484
Instructional department uses	266,237	-	-	-	235,818
Loans	5,932,245	-	-	-	-
Capital projects	200	-	-	-	-
Other	602,421	-	-	-	262,605
Unrestricted	84,551,757	11,801,441	20,419,003	968,217	-
Total net assets	237,143,352	11,801,441	20,419,003	968,217	1,688,791
Total liabilities and net assets	\$ 396,782,718	\$ 39,995,476	\$ 21,076,652	\$ 4,008,763	\$ 1,740,733

Combining Balance Sheet June 30, 2009

Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation
\$ 751,005	\$ 12,694,274	\$ 67,151	\$ 502,881
422,610	4,754,690	-	67,341
-	111,771	143,339	453,515
-	-	-	-
-	100,000	-	-
<u>1,173,615</u>	<u>17,660,735</u>	<u>210,490</u>	<u>1,023,737</u>
-	33,510,143	-	-
-	-	-	24,950,729
-	31,046,313	-	-
19,663,849	-	-	-
-	2,822,364	-	-
-	197,899,119	-	-
<u>19,663,849</u>	<u>265,277,939</u>	<u>-</u>	<u>24,950,729</u>
<u>\$ 20,837,464</u>	<u>\$ 282,938,674</u>	<u>\$ 210,490</u>	<u>\$ 25,974,466</u>
\$ -	\$ 3,477,947	\$ 210,490	\$ 71,096
-	-	-	-
-	4,531,716	-	-
<u>-</u>	<u>8,009,663</u>	<u>210,490</u>	<u>71,096</u>
-	-	-	-
13,968,945	-	-	-
-	105,435,000	-	-
<u>13,968,945</u>	<u>105,435,000</u>	<u>-</u>	<u>-</u>
13,968,945	113,444,663	210,490	71,096
-	126,731,419	-	-
-	-	-	16,488,377
-	-	-	1,380,328
-	-	-	-
-	-	-	30,419
5,793,945	-	-	138,300
-	-	-	200
-	-	-	339,816
<u>1,074,574</u>	<u>42,762,592</u>	<u>-</u>	<u>7,525,930</u>
<u>6,868,519</u>	<u>169,494,011</u>	<u>-</u>	<u>25,903,370</u>
<u>\$ 20,837,464</u>	<u>\$ 282,938,674</u>	<u>\$ 210,490</u>	<u>\$ 25,974,466</u>

Ferris State University

	Combined Total	Eliminations	General Fund	Designated Fund
Operating Revenue				
Tuition and fees	\$ 101,527,330	\$ (15,408,328)	\$ 116,935,658	\$ -
Federal grants and contracts	3,170,030	-	-	12,950
State grants and contracts	557,686	-	-	-
Nongovernmental grants	170,960	-	-	135,531
Departmental activities	9,492,063	(1,497,361)	3,691,125	7,214,058
Auxiliary enterprises	33,209,479	(4,103,227)	-	-
Other operating revenues	576,489	(22,382)	22,382	-
Current funds expenditures for equipment and capital improvements	-	(1,272,843)	-	-
Total operating revenue	148,704,037	(22,304,141)	120,649,165	7,362,539
Operating Expenses				
Instruction	77,433,132	(511,680)	75,895,961	2,001,493
Research	93,680	(3,650)	4,165	70,456
Public service	1,840,550	-	22,000	935,231
Academic support	23,825,592	(222,599)	23,997,616	34,633
Student services	12,955,417	(23,500)	11,746,838	915,756
Institutional support	25,235,538	(1,744,566)	17,512,398	7,360,844
Operations and maintenance of plant	22,872,153	(6,825)	14,626,618	-
Depreciation	7,648,178	-	-	-
Student aid	14,179,139	(16,623,419)	11,459,859	133,228
Auxiliary enterprises	25,943,301	(4,360,611)	-	-
Other expenses	396,556	-	-	-
Total operating expenses	212,423,236	(23,496,850)	155,265,455	11,451,641
Operating Income (Loss)	(63,719,199)	1,192,709	(34,616,290)	(4,089,102)
Nonoperating Revenue (Expenses)				
State appropriations	50,228,100	-	50,228,100	-
Federal Pell grants	12,721,852	-	-	-
Gifts	3,122,647	(1,192,709)	164,768	1,386,063
Investment loss	(10,931,761)	-	(194,116)	402,876
Interest on capital asset - Related debt	(3,429,420)	-	-	-
Net nonoperating revenue (expenses)	51,711,418	(1,192,709)	50,198,752	1,788,939
Income (Loss) - Before other revenue	(12,007,781)	-	15,582,462	(2,300,163)
State Capital Appropriations	111,771	-	-	-
Additions to Permanent Endowments	425,124	-	-	-
Increase (Decrease) in Net Assets - Before transfers	(11,470,886)	-	15,582,462	(2,300,163)
Transfers In (Out)	-	-	(17,414,635)	226,594
Net Increase (Decrease) in Net Assets	(11,470,886)	-	(1,832,173)	(2,073,569)
Net Assets - Beginning of year	248,614,238	-	13,633,614	22,492,572
Net Assets - End of year	<u>\$ 237,143,352</u>	<u>\$ -</u>	<u>\$ 11,801,441</u>	<u>\$ 20,419,003</u>

**Combining Statement of Revenue,
Expenses, and Changes in Net Assets
Year Ended June 30, 2009**

Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation
\$ -	\$ -	\$ -	\$ -	\$ -
13,561	3,143,519	-	-	-
-	557,686	-	-	-
-	35,429	-	-	-
-	84,241	-	-	-
37,312,706	-	-	-	-
-	-	469,125	107,364	-
-	-	-	1,272,843	-
37,326,267	3,820,875	469,125	1,380,207	-
-	47,358	-	-	-
-	22,709	-	-	-
-	883,319	-	-	-
-	15,942	-	-	-
-	316,323	-	-	-
-	550,950	-	-	1,555,912
-	1,108	-	8,251,252	-
-	-	-	7,648,178	-
1,596,626	17,612,845	-	-	-
30,303,912	-	-	-	-
-	-	396,556	-	-
31,900,538	19,450,554	396,556	15,899,430	1,555,912
5,425,729	(15,629,679)	72,569	(14,519,223)	(1,555,912)
-	-	-	-	-
-	12,721,852	-	-	-
1,264	2,443,639	105,488	-	214,134
(30,705)	(86,094)	(64,633)	(2,633,397)	(8,325,692)
-	-	-	(3,429,420)	-
(29,441)	15,079,397	40,855	(6,062,817)	(8,111,558)
5,396,288	(550,282)	113,424	(20,582,040)	(9,667,470)
-	-	-	111,771	-
-	-	-	-	425,124
5,396,288	(550,282)	113,424	(20,470,269)	(9,242,346)
(6,216,288)	(33,862)	(376,015)	23,216,985	597,221
(820,000)	(584,144)	(262,591)	2,746,716	(8,645,125)
1,788,217	2,272,935	7,131,110	166,747,295	34,548,495
\$ 968,217	\$ 1,688,791	\$ 6,868,519	\$ 169,494,011	\$ 25,903,370