

# **Ferris Foundation**

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**Financial Report**

**June 30, 2007**

# Ferris Foundation

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## Contents

<b>Report Letter</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-9

## Independent Auditor's Report

To the Board of Directors  
Ferris Foundation

We have audited the accompanying statement of financial position of the Ferris Foundation (a component unit of Ferris State University) as of June 30, 2007 and 2006 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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. 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 the Ferris Foundation at June 30, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

September 28, 2007

# Ferris Foundation

## Statement of Financial Position

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
Cash and cash equivalents - Note 3	\$ 707,707	\$ 565,256
Investments - Note 3	35,905,161	28,943,560
Prepaid expenses	22,500	-
Other receivables	5,500	-
Pledges receivable - Note 6	<u>359,034</u>	<u>152,198</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 36,999,902</u></b>	<b><u>\$ 29,661,014</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,150	\$ 819
Other liabilities	-	1,950
Annuity liability - Note 2	<u>19,652</u>	<u>25,722</u>
<b>TOTAL LIABILITIES</b>	20,802	28,491
 <b>NET ASSETS - Note 1</b>		
Unrestricted	15,247,413	11,639,097
Temporarily restricted	7,674,427	5,416,503
Permanently restricted	<u>14,057,260</u>	<u>12,576,923</u>
<b>TOTAL NET ASSETS</b>	<u>36,979,100</u>	<u>29,632,523</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 36,999,902</u></b>	<b><u>\$ 29,661,014</u></b>

# Ferris Foundation

## Statement of Activities

For the Years Ended June 30

	2007			2006			Total
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Permanently	
		Restricted	Restricted		Restricted	Restricted	
<b>SUPPORT, REVENUE, AND GAINS</b>							
Gifts and contributions	\$ 37,299	\$ 128,672	\$ 1,047,421	\$ 140,769	\$ 10,808	\$ 529,507	\$ 681,084
Income from investments	896,314	796,453	-	638,188	531,152	-	1,169,340
Change in split interest agreement - Note 2	-	-	-	-	(15,222)	-	(15,222)
Net realized/unrealized gains on investments	2,242,922	1,952,393	-	1,331,259	1,109,773	-	2,441,032
Net assets released from restrictions	619,594	(619,594)	-	492,955	(492,955)	-	-
<b>TOTAL SUPPORT, REVENUE, AND GAINS</b>	<b>3,796,129</b>	<b>2,257,924</b>	<b>1,047,421</b>	<b>2,603,171</b>	<b>1,143,556</b>	<b>529,507</b>	<b>4,276,234</b>
<b>EXPENSES - Note 5</b>							
Meals, travel and entertainment	51,516	-	-	43,177	-	-	43,177
Board expenses	8,472	-	-	31,262	-	-	31,262
Professional fees and other services	234,682	-	-	155,555	-	-	155,555
Supplies	13,118	-	-	7,477	-	-	7,477
Disbursements to Ferris State University - Note 4	992,525	-	-	659,541	-	-	659,541
<b>TOTAL EXPENSES</b>	<b>1,300,313</b>	<b>-</b>	<b>-</b>	<b>897,012</b>	<b>-</b>	<b>-</b>	<b>897,012</b>
<b>SUPPORT, REVENUE, AND GAINS, OVER EXPENSES</b>	<b>2,495,816</b>	<b>2,257,924</b>	<b>1,047,421</b>	<b>1,706,159</b>	<b>1,143,556</b>	<b>529,507</b>	<b>3,379,222</b>
<b>OTHER CHANGES IN NET ASSETS</b>							
Net transfers from Ferris State University - Note 4	1,112,500	-	432,916	35,500	5,669	41,326	82,495
<b>INCREASE IN NET ASSETS</b>	<b>3,608,316</b>	<b>2,257,924</b>	<b>1,480,337</b>	<b>1,741,659</b>	<b>1,149,225</b>	<b>570,833</b>	<b>3,461,717</b>
NET ASSETS - Beginning of year	11,639,097	5,416,503	12,576,923	9,897,438	4,267,278	12,006,090	26,170,806
<b>NET ASSETS - End of year</b>	<b>\$ 15,247,413</b>	<b>\$ 7,674,427</b>	<b>\$ 14,057,260</b>	<b>\$ 11,639,097</b>	<b>\$ 5,416,503</b>	<b>\$ 12,576,923</b>	<b>\$ 29,632,523</b>

# Ferris Foundation

## Statement of Cash Flows

	For the Years Ended June 30	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 7,346,577	\$ 3,461,717
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Transfer from Ferris State University	(1,545,416)	(82,495)
Net realized and unrealized gains from security transactions	(4,195,315)	(2,441,032)
Contributions restricted for long-term investments	(1,047,421)	(529,507)
Increase in prepaid expenses	(22,500)	-
Increase in other receivables	(5,500)	-
Increase in pledges receivable	(206,836)	(152,198)
(Decrease) increase in other liabilities	(1,950)	1,950
Increase in annuity liability	-	25,449
Increase in accounts payable	331	788
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>321,970</u>	<u>284,672</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of investments	7,151,640	3,146,295
Purchases of investments	<u>(9,917,927)</u>	<u>(4,426,298)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(2,766,287)</u>	<u>(1,280,003)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Transfer from Ferris State University	1,545,416	82,495
Payment on annuity obligation	(6,070)	(5,260)
Contributions restricted for - Investments in endowment	<u>1,047,421</u>	<u>529,507</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>2,586,767</u>	<u>606,742</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	142,451	(388,589)
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<u>565,256</u>	<u>953,845</u>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<u>\$ 707,707</u>	<u>\$ 565,256</u>

# Ferris Foundation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 1 - Summary of Significant Accounting Policies

Nature of Operations - The Ferris Foundation (the Foundation) is a Michigan nonprofit corporation. The Foundation was established to advance the mission and goals of Ferris State University (the University) by generating and managing private support for the University and is considered a governmental nonprofit. The Foundation is considered a component unit of the University and is, therefore, included in the financial statements of the University on an annual basis.

Basis of Presentation - The financial statements of the Foundation have been prepared on the accrual basis of accounting.

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

Types of Restrictions - The Foundation is required to report information regarding its financial position and activities according to three classes of net assets; 1) unrestricted net assets, 2) temporarily restricted net assets, and 3) permanently restricted net assets.

Restricted net assets are gifts of cash and other assets with donor stipulations that limit the use of the donated assets and, in most cases, the investment earnings on those assets. When a stipulated time or donor restriction expires or when funds are used for the donor-specified purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless otherwise restricted by the donor or by applicable state laws.

Unrestricted net assets are those net assets of the Foundation that are not restricted by donor-imposed stipulations. The Foundation further classifies unrestricted net assets as follows:

	2007	2006
Current funds	\$ 357,351	\$ 365,732
Endowment transfer and earnings	9,577,859	7,079,111
Funds functioning as endowments	<u>5,312,203</u>	<u>4,194,254</u>
Total unrestricted net assets	<u>\$ 15,247,413</u>	<u>\$ 11,639,097</u>

# Ferris Foundation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets are restricted by the donor for a specific purpose or are limited by the donor due to time restrictions. The Foundation classifies temporarily restricted assets as follows:

	2007	2006
Scholarships	\$ 6,215,756	\$ 4,413,924
Capital projects	200	200
Student loans	867,357	589,874
Time restricted	19,729	13,936
Other - Departmental	173,002	115,961
Other - Temporarily restricted	398,383	282,608
Total temporarily restricted net assets	\$ 7,674,427	\$ 5,416,503

Permanently restricted net assets are restricted by the donor in perpetuity with the earnings available for the following purposes:

	2007	2006
Scholarships	\$ 7,973,635	\$ 6,600,581
Student loans	1,334,739	1,309,374
Other	4,452,991	4,452,991
Departmental use	295,895	213,977
Total permanently restricted net assets	\$ 14,057,260	\$ 12,576,923

Types of Endowments - Endowment funds are those for which donors or other external agencies have stipulated, under the terms of the gift instrument creating the fund, that the principal of the fund is not expendable. The principal is to be invested for the purpose of producing income, which, in accordance with the Foundation's investment and spending policy, is allocated between being (1) currently expendable and (2) reinvested. The investment and spending policy stipulates that 4 percent of a three-year moving average of the market value of the endowment is available to spend, 1 percent of the three-year moving average of the market value of the endowment is available for support of the Foundation's administrative expenses, and the remaining income is to be reinvested. If an investment loss is incurred, the loss is allocated entirely as currently expendable.

Funds functioning as endowments are unrestricted funds that the University's board of trustees, rather than a donor or other external agency, have designated to be retained and invested.

# Ferris Foundation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

Investments - Investments are stated at fair value based upon quoted market prices. Investments in limited partnerships are valued at the most recent valuation adjusted for capital calls and distributions. Investment transactions are accounted for on the trade date (date the order to buy or sell is executed). Gains or losses on investments sold are determined using the specific identification method. At June 30, 2007 and 2006, the Foundation's remaining capital commitment on investments in limited partnerships was \$2,704,277 and \$2,199,577, respectively.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Taxes - The Internal Revenue Service has determined that the Foundation is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

### Note 2 - Liability for Charitable Gift Annuity Program

The Foundation operates a charitable gift annuity program whereby donors receive a life income in exchange for assets conveyed to the Foundation under an annuity contract. The market value of the assets at June 30, 2007 and 2006 was \$40,861 and \$41,138, respectively. The liabilities under the annuity contracts were \$19,652 and \$25,722 at June 30, 2007 and 2006, respectively. The liability is recorded at its present value based on the donors' life expectancy.

During 2007 and 2006, payments in the amount of \$6,070 and \$5,260, respectively, were made to the donors and have been recorded as a reduction in the split-interest agreement payable. The discount rates used to compute the liability ranged from 8.1 percent to 8.9 percent for 2007 and ranged from 6.0 percent to 8.1 percent for 2006. Under the terms of the contract, the assets are restricted until the death of the donors.

### Note 3 - Cash and Investments

Cash and cash equivalents consist of the following:

	2007	2006
Bank balance	\$ 67,282	\$ 48,634
Money market funds	640,425	516,622
Total cash and cash equivalents	<u>\$ 707,707</u>	<u>\$ 565,256</u>

# Ferris Foundation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 3 - Cash and Investments (Continued)

#### Investments

Market values of investments are summarized as follows:

	<u>2007</u>	<u>2006</u>
Mutual funds:		
Equity funds	\$ 28,552,346	\$ 23,161,544
Bond funds	5,684,165	4,705,646
Real estate	1,226,823	893,994
Limited partnerships	400,966	141,238
Charitable trust funds	<u>40,861</u>	<u>41,138</u>
Total investments	<u>\$ 35,905,161</u>	<u>\$ 28,943,560</u>

Income from investments consists of the following:

	<u>2007</u>	<u>2006</u>
Investment income (interest and dividends)	\$ 1,692,767	\$ 1,169,340
Realized gains (losses)	2,862,926	(131,178)
Unrealized gains	<u>1,332,389</u>	<u>2,572,210</u>
Total	<u>\$ 5,888,082</u>	<u>\$ 3,610,372</u>

### Note 4 - Related Party Transactions

Transfers and Support - During the years ended June 30, 2007 and 2006, the University transferred \$1,545,416 and \$82,495, respectively, from the University's designated fund to the Foundation. Both the University and Foundation boards believe that the investment strategy of the Foundation will provide higher investment income yields over time. In addition, the Foundation made distributions to the University in the amount of \$992,525 and \$659,541 for the years ended June 30, 2007 and 2006, respectively.

It is the University's policy to pay substantially all of the Foundation's expenses relating to the soliciting and collecting of donations. Also, as a service to the Foundation, the University maintains the detail accounting records of the Foundation.

# Ferris Foundation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Functional Expenses

The Foundation is required to provide information about expenses by their functional classification. Functional classifications most likely to be used by the Foundation include program services, management, general, and fund-raising. Program services expenses result from goods and services being distributed in support of the mission; management and general expenses result from administrative activities; and fund-raising expenses result from the costs of fund-raising campaigns and other activities involved in soliciting gifts from donors.

Total expenses of the Foundation by their functional classification are summarized as follows:

	<u>2007</u>	<u>2006</u>
Program services	\$ 992,525	\$ 659,541
Management and general	184,673	156,731
Fund-raising	<u>123,115</u>	<u>80,740</u>
Total expenses	<u>\$ 1,300,313</u>	<u>\$ 897,012</u>

### Note 6 - Pledges Receivable

The following shows the balance due of unconditional promises to give to the Foundation at June 30, 2007 and 2006. Pledges are reported at their estimated fair values. The Foundation estimated the present value of future cash flows using a 5.0 percent discount rate.

	<u>2007</u>	<u>2006</u>
Pledges receivable in less than one year	\$ 29,308	\$ 44,066
Pledges receivable in one to five years	287,217	264,401
Pledges receivable in more than five years	<u>172,235</u>	<u>-</u>
Total	488,760	308,467
Less:		
Allowance for uncollectible pledges	(22,216)	(75,000)
Present value discount	<u>(107,510)</u>	<u>(81,269)</u>
Net pledges receivable	<u>\$ 359,034</u>	<u>\$ 152,198</u>