Financial Report

Ferris State University

Years ended June 30, 2020 and 2019
with Report of Independent Auditors

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ANDREWS HOOPER PAVLIK PLC

Ferris State University

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Financial Report
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Report of Independent Auditors

Board of Trustees
Ferris State University
Big Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Ferris State University, a component unit of the State of Michigan, which comprise the statements of net position as of and for the years ended June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 the standards applicable to financial audits contained in *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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16 and the Required Supplementary Information on pages 57 and 58 (related to pension and postemployment benefits, and Notes to Required Supplementary Information) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2020, on our consideration of Ferris State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ferris State University's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
September 18, 2020

Ferris State University
Management's Discussion and Analysis

The following discussion and analysis of Ferris State University's (the "University") financial statements provides an overview of the University's financial activities for the year ended June 30, 2020 with selected comparative information as of and for the years ended June 30, 2019 and 2018. The University includes the Ferris Foundation (audited financial statements can be found at www.ferris.edu/giving/ferris-foundation/policies.htm) as well as all site locations, including the main campus in Big Rapids, Kendall College of Art and Design, Urban Institute of Contemporary Art, and numerous sites across the State. 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, including the notes to the financial statements, required supplementary information, and other supplementary information. The financial statements included in this report are the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements 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.

COVID-19 and CARES Act

The University suspended face-to-face instruction as of March 16, 2020 in response to the COVID-19 pandemic. Instruction was moved to online or remote learning for the remainder of the spring semester 2020 as well as the summer semester. University housing and campus operations remained open to accommodate students that were not able to move off campus. Students that elected to move out between March 17 and April 19, as well as commuter students with a meal plan were given pro-rata refunds of their spring 2020 housing and meal plan balance. The University refunded housing and meal plans in the total amount of $5,246,050 related to the spring semester 2020.

The Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by Congress and signed into law to provide economic relief from COVID-19. The University received $9,595,531 in CARES Act grants from the U.S. Department of Education. These grants carried certain compliance requirements as to how funds were spent and recorded. At June 30, 2020, the University recorded the following amounts related to these grants:

- $4,573,407 was awarded under the Higher Education Emergency Relief Funding. The purpose of this grant was to award emergency financial aid grants to students. As of June 30, 2020, the University awarded grants to students in the total amount of $2,123,987. This is included in nonoperating CARES Act HEERF revenue on the statement of revenues, expenses, and changes in net position.

COVID-19 and CARES Act (continued)

- $4,573,407 was awarded under the Institutional Relief Funding. The University chose to reimburse itself for the housing and meal plan refunds discussed above. The University had drawn down the entire balance related to the Institutional Relief Funding as of June 30, 2020. Requirements state that at least 50 percent of the combined funds of the Higher Education Emergency Relief Funding and Institutional Relief Funding must be used for emergency financial aid grants to student. Accordingly, the University recognized $2,123,987 of revenue, which is included in nonoperating CARES Act HEERF revenue on the statement of revenues, expenses, and changes in net position and $2,449,420 as unearned revenue in the statement of net position.

- $448,717 was awarded under the Title III Strengthening the Institutions Relief Funding (SIP). The University chose to reimburse itself for additional housing and meal plan refunds discussed above. The University recorded expense, revenue, and receivable for the entire balance related to the SIP as of June 30, 2020.

In addition, the State of Michigan passed Senate Bill 373 on July 22, 2020 which reduced State Aid funding by $6,163,608 and replaced it with CARES Act funds. Since this occurred after June 30, 2020, no revenue or receivable was recorded at June 30, 2020 related to the CARES Act funding passed-through the State of Michigan. The University will be able to recognize revenue from the grant equal to allowable expenditures incurred between March 1 and December 31, 2020 during the fiscal year ended June 30, 2021.

Financial Highlights

The University's operating revenues increased by $0.7 million during the fiscal year ended June 30, 2020. The University's operating expenses decreased $3.8 million during the fiscal year ended June 30, 2020 due to decreases in operating budgets. The University's total assets grew $19.7 million to $584.9 million at year end. The University suspended investment in the physical properties as of March 2020 and capital assets decreased $2.3 million to $330.4 million net of depreciation for the fiscal year ended June 30, 2020.

Operating revenues increased $0.7 million or 0.4 percent compared to prior year. Operating expenses decreased $3.8 million or 1.5 percent compared to prior year. The current year operating expenses include $4.0 million of multi-employer pension plan and ($5.2) million of other post employment benefits (OPEB) reporting. The total of all other expenditures increased 2.9 percent. Investment gains for the University and the Ferris Foundation (Foundation) were $3.8 million and $0.4 million, respectively. This reflects investment returns of 4.1 percent on the University's operating funds and 0.4 percent on the Foundation's portfolio.

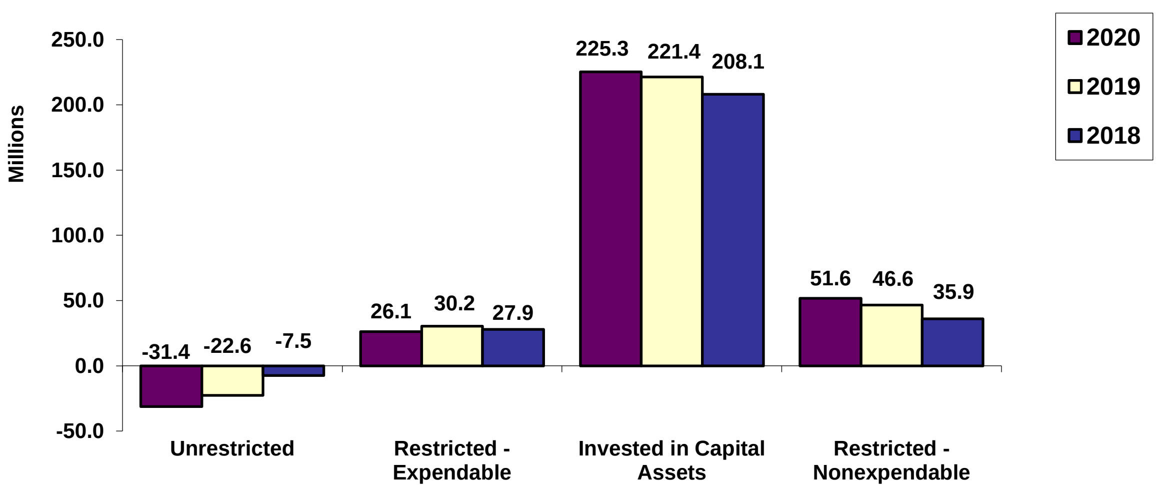
The largest component of operating revenues is tuition and fees, net of scholarships. Tuition and fees revenue increased $0.3 million resulting from a decrease in enrollment totaling $6.8 million and a reduction of tuition discounts totaling $1.1 million, partially offset by a 3.2 percent increase in the undergraduate tuition rate generating $5.4 million.

Financial Highlights (continued)

Operating expenses decreased by $3.8 million. Multi-employer pension and OPEB expense decreased $10.6 million due to a change in the University's proportionate share of the net pension and OPEB liability and pension and OPEB system investment returns. All other operating expenses increased $6.8 million. The functional areas with the largest increase in operating expenditures were institutional support of $4.1 million and student aid of $1.9 million.

For the year ended June 30, 2019, the University's operating revenues decreased by $4.2 million. The University's total assets grew $8.1 million to $565.2 million at year end. The University continued to invest in the physical properties as operations and maintenance expenditures totaled $19.8 million and capital assets increased $18.3 million to $554.0 million before depreciation for the fiscal year ending June 30, 2019. Operating expenses decreased by $4.5 million. Multi-employer pension and OPEB expense increased $6.5 million due to a change in the University's proportionate share of the net pension and OPEB liability and pension and OPEB system investment returns. All other operating expenses decreased $11.0 million. The functional areas with the largest decrease in operating expenditures were academic support, and institutional support. Academic support decreased $2.3 million, and institutional support decreased $1.3 million. Investment gains for the University and the Foundation were $4.9 million and $4.1 million, respectively. This reflects investment returns of 4.4 percent on the University's operating funds and 4.9 percent on the Foundation's portfolio.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2020, 2019, and 2018:



The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position

The statements of net position and the statements of revenues, expenses, and changes in net position report information on the University as a whole. When revenue and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. 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 position and net position changes. Net position is the difference between assets plus deferred outflow of resources and liabilities plus deferred inflows of resources, which is 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 facilities, and strength of the educational offerings, also need to be considered to assess the overall health of the University.

These financial 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.

Net Position

Total net position decreased by $4.0 million to $271.6 million. Unrestricted net position decreased by $8.8 million to ($31.4) million. This total is comprised of ($107.4) million net unfunded pension liability; ($14.8) million net unfunded OPEB liability; $63.1 million identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments; and $27.7 million unrestricted and undesignated. The unrestricted and undesignated amount is comprised of $19.5 million for self-supporting departmental, student loan, and auxiliary activities, and $8.2 million for maintenance and construction projects on campus.

For the year ended June 30, 2019, total net position increased by $11.2 million to $275.6 million. Unrestricted net position decreased by $15.1 million to ($22.6) million. This total is comprised of ($104.3) million net unfunded pension liability; ($20.0) million net unfunded OPEB liability; $72.5 million identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments; and $29.2 million unrestricted and undesignated. The unrestricted and undesignated amount is comprised of $20.2 million for self-supporting departmental, student loan, and auxiliary activities, and $9.0 million for maintenance and construction projects on campus.

Net Position (continued)

The following is a comparison of the major components of the net position of the University and operating results for the years ended June 30:

Net Position as of June 30 (in millions)

	2020	2019	2018
Assets			
Current assets	$ 101.0	$ 104.9	$ 109.9
Noncurrent assets:			
Capital assets - Net of depreciation	330.4	332.7	325.3
Other	153.5	127.6	121.9
Total assets	**584.9**	**565.2**	**557.1**
Deferred Outflows of Resources			
Net pension liability	4.7	6.0	6.5
Net OPEB liability	1.5	2.0	1.4
Refunding of debt	3.3	3.4	3.7
Total deferred outflows of resources	**9.5**	**11.4**	**11.6**
Liabilities			
Current liabilities	46.9	39.1	43.6
Long-term liabilities	271.7	254.7	256.6
Total liabilities	**318.6**	**293.8**	**300.2**
Deferred Inflows of Resources			
Net pension liability	2.8	4.5	3.1
Net OPEB liability	1.4	2.7	1.0
Total deferred inflows of resources	**4.2**	**7.2**	**4.1**
Net Position			
Invested in capital assets	225.3	221.4	208.1
Restricted - Expendable	26.1	30.2	27.9
Restricted - Nonexpendable	51.6	46.6	35.9
Unrestricted	(31.4)	(22.6)	(7.5)
Total net position	**$ 271.6**	**$ 275.6**	**$ 264.4**

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

	2020	2019	2018
Operating Revenues			
Tuition and fees - Net	$ 116.0	$ 115.7	$ 119.3
Grants and contracts	4.5	3.7	4.0
Departmental activities	10.1	11.3	12.2
Auxiliary activities - Net	28.9	28.0	28.2
Other operating revenues	0.8	0.9	0.1
Total operating revenues	160.3	159.6	163.8
Operating Expenses			
Instruction	98.9	99.9	100.4
Research	0.4	0.4	0.6
Public service	4.5	4.9	5.0
Academic support	25.9	27.8	30.1
Student services	18.8	19.0	18.8
Institutional support	30.2	26.1	27.4
Operation and maintenance of plant	16.1	19.8	20.0
Depreciation	11.4	10.7	10.8
Student aid	21.8	19.9	19.8
Auxiliary enterprises	20.0	23.3	23.2
Other expenses	0.1	0.1	0.3
Total operating expenses	248.1	251.9	256.4
Operating Loss	(87.8)	(92.3)	(92.6)
Nonoperating Revenues (Expenses)			
State appropriations	50.7	55.9	54.8
Federal Pell Grants	19.7	21.1	22.2
CARES Act HEERF	4.2	-	-
Gifts	7.1	7.5	7.8
Investment gain	4.2	9.0	8.7
Interest on capital assets - Related debt	(4.4)	(4.4)	(4.4)
Total nonoperating revenues (expenses)	81.5	89.1	89.1
Loss - Before other revenues	(6.3)	(3.2)	(3.5)
Other Revenues			
State capital appropriations	0.6	6.2	15.4
Additions to permanent endowments	1.7	8.2	2.9
Total other revenues	2.3	14.4	18.3
Increase (Decrease) in Net Position	(4.0)	11.2	14.8
Net Position - Beginning of year	275.6	264.4	274.0
Cumulative effect of change in accounting principle	-	-	(24.4)
Net Position - Beginning of year - As restated	275.6	264.4	249.6
Net Position - End of year	**$ 271.6**	**$ 275.6**	**$ 264.4**

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, 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 during the year ended June 30, 2020:

- Student tuition and fees revenue increased $0.3 million due to the net effect of the following: a decrease in enrollment totaling $6.8 million, reduction of tuition discounts totaling $1.1 million, partially offset by a 3.2 percent increase in the undergraduate tuition rate generating $5.4 million.

- Auxiliary enterprises operating revenue increased by $0.9 million. Housing and dining revenues before eliminations decreased $1.1 million offset by a reduction of room and board discounts totaling 1.1 million. Other changes totaled a increase of $0.9 million.

For the year ended June 30, 2019, the significant operating revenue factors were as follows:

- Student tuition and fees revenue decreased $3.6 million due to the net effect of the following: a decrease in enrollment totaling $6.6 million, additional tuition discounts totaling $1.3 million, partially offset by a 3.8 percent increase in the undergraduate tuition rate generating $4.3 million.

- Auxiliary enterprises operating revenue decreased by $0.2 million. Housing and dining revenues before eliminations decreased $0.2 million.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) are all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, Federal Pell Grants, CARES Act HEERF, gifts, and investment gain (including realized and unrealized gains and losses). Also included in this category is interest on capital debt.

Nonoperating revenues (expenses) was significantly impacted by the following factors during the year ended June 30, 2020:

- The State appropriation of $50.7 million is a decrease of $5.2 million from the 2019 level.

- Investment gain decreased by $4.8 million from $9.0 million in 2019 to $4.2 million in 2020. The $4.2 million investment gain is comprised of $1.0 million realized gains and $3.2 million of unrealized gains.

- Pell Grants decreased $1.4 million from $21.1 million in 2019 to $19.7 million in 2020.

- CARES Act HEERF grants were $4.2 million in 2020 and none in 2019.

Nonoperating Revenues (Expenses) (continued)

- Gift income decreased by $0.4 million from $7.5 million in 2019 to $7.1 million in 2020. This includes new pledges receivable.

For the year ended June 30, 2019, significant nonoperating revenues (expenses) factors were as follows:

- The State appropriation of $55.9 million is an increase of $1.1 million from the 2018 level.

- Investment gain increased by $0.3 million from $8.7 million in 2018 to $9.0 million in 2019. The $9.0 million investment gain is comprised of $5.9 million realized gains and $3.1 million of unrealized gains.

- Pell Grants decreased $1.1 million from $22.2 million in 2018 to $21.1 million in 2019.

- Gift income decreased by $0.3 million from $7.8 million in 2018 to $7.5 million in 2019. This includes new pledges receivable.

Other Revenues

Other revenues 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 the year ended June 30, 2020:

- State capital appropriations were $0.6 million for the Swan Annex project. This is a decrease of $5.6 million from 2019.

- Other revenues include changes to permanent endowments of the Ferris Foundation. These revenues decreased by $6.5 million from $8.2 million in 2019 to $1.7 million in 2020.

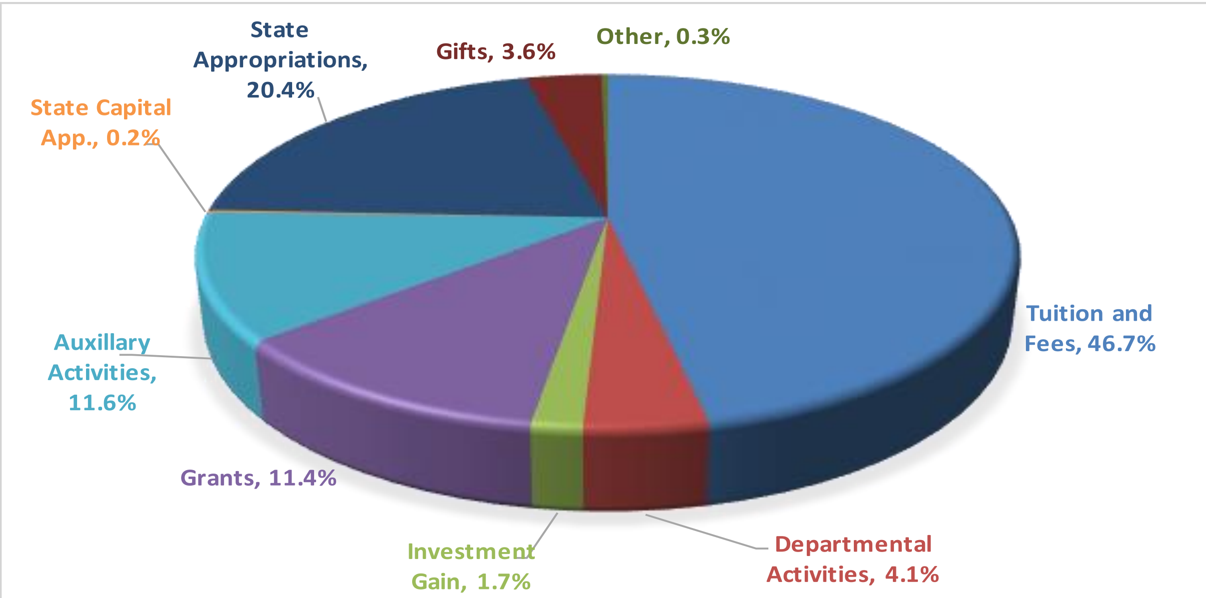
For the year ended June 30, 2019:

- State capital appropriations were $6.2 million for the Swan Annex project. This is a decrease of $9.2 million from 2018.

- Other revenues include changes to permanent endowments of the Ferris Foundation. These revenues increased by $5.3 million from $2.9 million in 2018 to $8.2 million in 2019.

Total Revenues

The following is a graphic illustration of total revenues by source for June 30, 2020:



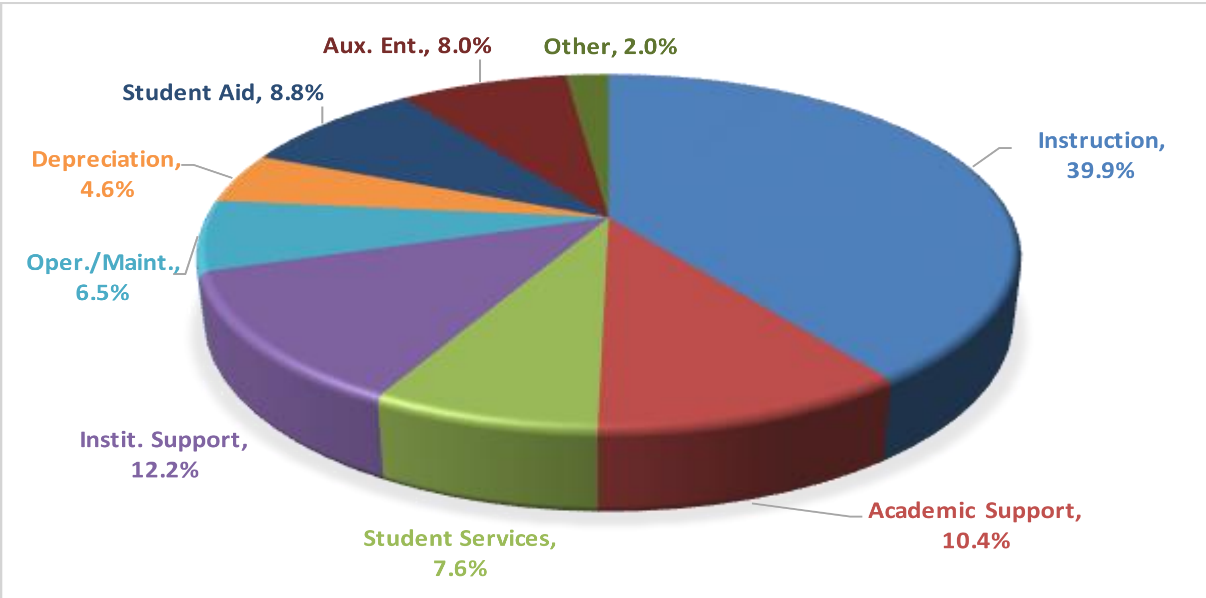
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses decreased by $3.8 million from 2019 levels to $248.1 million. Instruction, student services, and student aid represent $139.5 million, or 56.2 percent, of the total. Operations and maintenance of plant and depreciation total $27.5 million, or 11.1 percent, and auxiliary enterprises total $20.0 million, or 8.0 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

During the 2019 fiscal year, expenses decreased by $4.5 million from 2018 levels to $251.9 million. Instruction, student services, and student aid represent $138.8 million, or 55.1 percent, of the total. Operations and maintenance of plant and depreciation total $30.5 million, or 12.1 percent, and auxiliary enterprises total $23.3 million, or 9.2 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

Operating Expenses (continued)

The following is a graphic illustration of operating expenses by function for June 30, 2020:



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)

	2020	2019	2018
Net Cash:			
Operating activities	$ (72.9)	$ (73.2)	$ (81.8)
Noncapital financing activities	91.3	91.2	84.9
Capital and related financing activities	9.6	(21.7)	(29.9)
Investing activities	8.1	(2.7)	2.4
Net Change in Cash and Cash Equivalents	36.1	(6.4)	(24.4)
Cash and Cash Equivalents - Beginning of year	25.0	31.4	55.8
Cash and Cash Equivalents - End of year	**$ 61.1**	**$ 25.0**	**$ 31.4**

Statement of Cash Flows (continued)

Major sources of funds from operations came from student tuition and fees, along with residential life and other auxiliary activities. These sources were offset by expenditures for operations such as payments to employees and suppliers and loans issued to students. The net total of cash used in operations decreased by $0.3 million from $73.2 million in 2019 to $72.9 million in 2020.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by $0.1 million from $91.2 million in 2019 to $91.3 million in 2020.

Cash generated in capital and related financing activities totaled $9.6 million, used primarily for capital assets acquired during the year and construction projects of $9.6 million, and debt and interest payments of $25.0 million which were offset by other proceeds totaling $44.2 million.

Cash generated in investing activities totaled $8.1 million. This is the amount of cash provided by the sale of investments in excess of cash used for the purchase of investments.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2020, the University had $330.4 million invested in capital assets, net of accumulated depreciation of $231.5 million.

Details of these assets at June 30 are shown below (in millions):

	2020	2019	2018
Land, land improvements, and infrastructure	$ 32.0	$ 31.3	$ 31.0
Buildings and improvements	441.6	405.9	395.8
Furniture, fixtures, and equipment	86.5	86.1	81.2
Construction in progress	1.8	30.7	27.8
Total	**$ 561.9**	**$ 554.0**	**$ 535.8**

Football field artificial turf replacement comprised the addition to land, land improvements, and infrastructure while construction of Swan Annex, Pharmacy building renovation, ICET Asphalt Lab, Katke exterior enclosure, and various other small projects comprise the buildings and improvements additions.

Expenditures totaling $1.8 million for the Virtual Learning Center, KCAD HVACR project, and other small projects were included in construction in progress at June 30, 2020.

Capital Assets and Debt Administration (continued)

Debt Administration

At year end, the University had $110.9 million in debt outstanding compared to $96.0 million at 2019 and $103.0 million at 2018. In addition to General Revenue Bond debt, as of June 30, 2020, the University is a guarantor on $9.8 million of Limited Obligation Recovery Zone Facility Revenue Bonds Series 2010A for the Ferris Building in Grand Rapids. The balance at June 30, 2019 was $10.2 million and $10.6 million at June 30, 2018. This building is being leased and the debt is included in the long-term liabilities.

Economic Factors Affecting the Future

These are unprecedented times in Michigan, our country, and our world. COVID-19 and resulting gubernatorial orders closed the doors of educational institutions across the state last March. During this period, Michigan higher education institutions have lost millions of dollars in revenue and provided student refunds. At the same time, they have spent millions of dollars seeking to keep students, employees, and communities safe from the continued impact of COVID-19. Efforts for this are too numerous to list here, but include reducing the density of our classrooms and our residential housing facilities, moving more than half of fall classes to hybrid and online delivery, and extensive testing. At the time of this writing, it is unknown when education, business, industry, and our communities can return to pre-COVID-19 human interactions. Until this can occur, the economic impact on public universities will be profound and of unprecedented magnitude.

Despite diversification over the past decade, Michigan still is heavily dependent upon the automotive industry, and the slowdown in this industry sector has begun again. The disruptive effect of autonomous and electric vehicles, coupled with the looming threat of an economic recession, is of great significance and concern. In addition, the devastating impact of COVID-19 on Michigan's small businesses, restaurants, and tourism, coupled with significant increases in unemployment continues to have a ripple effect on communities across the state and is especially hard-hitting in rural communities that rely on tourism and small business to thrive.

With the landscape of higher education in Michigan changing, a variety of factors are influencing investment in and support of public universities. At the forefront is the COVID-19 pandemic, the additional challenges it brings, and the resulting adverse financial implications. Following this are two decades of diminished support that has placed Michigan 44th among states in per resident support of higher education. In 2001, Michigan ranked 21st. Our state is again faced with budget shortfalls, and it is hoped that the sharp reductions made to public universities in the great recession will be avoided.

While virtually no elected officials remain in office from 2009, our students still suffer from the sharp, drastic cuts made to the Promise Scholarship and other student financial aid programs during this period. While the State looks to increase the percentage of college educated citizens, it ignores the sharp funding differences between leading states in this effort and Michigan.

Economic Factors Affecting the Future (continued)

At Ferris State University, there is deep concern about funding for the Tuition Incentive Program (TIP). These students are already enrolled and taking classes from the University, depending on this support to attend college. With the state budget not approved at this time, TIP funding is a top legislative priority for the University. This support helps students escape the endless cycle of economic poverty and is vital for our students and their futures. Through this program, Ferris has proven it changes the lives of many students, helping them prepare for high-paying careers and to become productive citizens. Most importantly, our TIP students graduate with work-ready degrees – over 71% in high demand careers. No other institution in the State has this record of success. Michigan needs many, many more of these graduates, and at Ferris State University, we are committed to this.

Before COVID-19, higher education in the State was already suffering from the sharp decline in the number of Michigan high school graduates. This decrease began in 2009 and is projected to continue through most of the next decade, resulting in significant competition for graduating high school students. This decrease in high school graduates, due to the State's declining birthrate, is a growing challenge for higher education and for business and industry looking for the talent needed to fuel economic growth. When enrollments decline at Ferris State University, budgets are reduced so that outputs match inputs and the University's financial condition is solid and firmly grounded. To address this challenge, the University is investing resources in identifying, enrolling, and retaining qualified students. In doing so, we address what will be a steadily increasing talent crisis for Michigan's employers.

Fortunately, the University has a strong competitive position with its focus upon much needed and unique career-oriented degrees, continued partnerships with community colleges across the state to provide bachelor completion degrees, dual and concurrent agreements with high schools across the state, and online education. Going forward, it is important we align University resources with areas of strong interest, promote the distinctive programs and strengths of the University, continue investment in new degree programs in high need/demand areas, and provide short-term certificates and opportunities for adult learners to re-train for employment.

To further enhance the University's position in the hyper-competitive landscape of higher education, a year ago the University's Board of Trustees approved a five-year strategic plan, *Ferris Forward*. This is squarely focused on the key elements that will guide Ferris State University's strategic direction and success in this unsettled environment.

The University remains steadfast in providing the affordable opportunity of a college degree for students. It does so by constraining costs and providing increased financial support for students. Over the last decade, the average net price at Ferris State University has declined by 8.9%. Ferris is the only public university with a decline in net price over this period and the range for other Michigan public universities is from an increase of 2.1% up to an increase of 47.9%. During this past decade, the increase in cost of attendance at Ferris State University has been 22.3%, again the lowest among Michigan public universities, which average an increase of 40.0% over this time period. As a result, the average student debt for Ferris graduates with student loans has decreased by $1,071 since 2015.

Economic Factors Affecting the Future (continued)

To build private support for students and their education, in November 2017, the University launched "Now & Always," its first comprehensive capital campaign with a goal of $80 million, including $36 million in new scholarship endowments through the Ferris Futures Scholarship Challenge. Because of the success experienced, the campaign goal was increased to $115 million and donations have now passed the $100 million mark. The Ferris Foundation Endowment continues to grow and now exceeds $93 million, with these assets dedicated to supporting the educational mission of the University. The combined impact of these additional sources of revenue position the University well for recruitment and retention, state funding, degree affordability and therefore, stable finances.

Looking forward, the University's career-oriented focus, with educational offerings in Big Rapids, throughout Michigan, and increasingly online will continue to attract students and align with the state's priorities and performance-based funding metrics. Combined with a learner-centered approach where theory meets practice, dedicated faculty who work with students in small class settings, staff throughout the University who support students, and commitments to affordability, diversity, and opportunity, this creates a strong environment for learning and student success.

As more fully discussed in the section titled COVID-19 and CARES Act, the COVID-19 pandemic has had and economic impact on the University as well as the state, national, and international communities. The University returned to face-to-face instruction and opened University housing and campus facilities for the fall 2020 semester. If COVID-19 conditions don't improve or worsen, the University may be required, by governmental order or by University decision, to return to online classes and close University housing and dining. Should this occur, it would have a material impact on University operation. Management has been reviewing budget operations to minimize the financial impact should this occur.

Ferris State University
Statements of Net Position

	June 30	
	2020	**2019**
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	**$ 33,463,288**	$ 25,025,455
Short-term investments (Note 2)	**48,568,817**	52,973,208
Accounts receivable - Net (Note 3)	**17,631,064**	25,166,220
Inventories	**793,883**	1,032,184
Prepaid expenses and other assets	**507,421**	705,559
Total current assets	**100,964,473**	104,902,626
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	**27,589,838**	-
Endowment investments (Note 2)	**87,398,716**	84,531,179
Other long-term investments (Note 2)	**24,969,420**	27,366,720
Student loans receivable - Net (Note 3)	**13,451,807**	15,540,855
Other noncurrent assets	**26,924**	180,799
Capital assets - Net (Note 4)	**330,428,645**	332,710,744
Total noncurrent assets	**483,865,350**	460,330,297
Total assets	**584,829,823**	565,232,923
Deferred Outflows of Resources		
Net pension liability (Note 6)	**4,739,726**	5,974,035
Net OPEB liability (Note 6)	**1,482,174**	2,039,772
Refunding of debt	**3,304,193**	3,403,542
Total deferred outflows of resources	**9,526,093**	11,417,349
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**27,220,969**	21,901,771
Unearned revenue	**10,337,186**	7,987,633
Long-term liabilities - Current portion (Note 5)	**9,334,673**	9,219,364
Total current liabilities	**46,892,828**	39,108,768
Noncurrent Liabilities		
Deposits	**793,570**	569,450
Federal student loan payable	**9,307,773**	12,280,070
Long-term liabilities (Note 5)	**137,327,862**	116,771,461
Net pension liability (Note 6)	**109,335,758**	105,739,673
Net OPEB liability (Note 6)	**14,953,741**	19,365,447
Total noncurrent liabilities	**271,718,704**	254,726,101
Total liabilities	**318,611,532**	293,834,869
Deferred Inflows of Resources		
Net pension liability (Note 6)	**2,797,230**	4,500,437
Net OPEB liability (Note 6)	**1,392,349**	2,729,815
Total deferred inflows of resources	**4,189,579**	7,230,252
Net Position		
Net investment in capital assets	**225,286,332**	221,357,516
Restricted for (Note 1):		
Nonexpendable:		
Scholarships	**51,561,944**	46,582,338
Expendable:		
Scholarships	**11,126,184**	12,808,332
Research	**81,555**	55,250
Instructional department uses	**3,930,328**	4,325,789
Loans	**8,410,663**	8,463,285
Capital projects	**200**	200
Other	**2,573,649**	4,615,209
Unrestricted (Note 1)	**(31,416,050)**	(22,622,768)
Total net position	**$ 271,554,805**	$ 275,585,151

See accompanying notes.

Ferris State University
Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2020	**2019**
Operating Revenues		
Tuition and fees - Net of scholarship allowances of $33,513,870 for 2020 and $35,099,740 for 2019	**$ 115,970,351**	$ 115,760,500
Federal grants and contracts	**3,316,726**	2,641,836
State and local grants and contracts - Net of refunds	**538,835**	497,617
Nongovernmental grants	**689,681**	599,177
Departmental activities	**10,114,895**	11,304,814
Auxiliary enterprises - Net of scholarship allowances of $5,671,214 for 2020 and $6,907,817 for 2019	**28,860,982**	27,974,288
Other operating revenues	**794,675**	857,962
Total operating revenues	**160,286,145**	159,636,194
Operating Expenses		
Instruction	**98,918,441**	99,912,530
Research	**393,945**	366,133
Public service	**4,441,487**	4,946,805
Academic support	**25,902,796**	27,808,837
Student services	**18,822,402**	19,011,096
Institutional support	**30,187,258**	26,161,673
Operation and maintenance of plant	**16,095,172**	19,785,052
Depreciation	**11,449,238**	10,716,837
Student aid	**21,820,445**	19,885,612
Auxiliary enterprises	**19,972,801**	23,273,285
Other expenses	**78,414**	86,689
Total operating expenses	**248,082,399**	251,954,549
Operating Loss	**(87,796,254)**	(92,318,355)
Nonoperating Revenues (Expenses)		
State appropriations	**50,743,091**	55,853,973
Federal Pell Grants	**19,693,172**	21,107,513
CARES Act HEERF	**4,247,974**	-
Gifts	**7,074,963**	7,511,752
Investment gain	**4,156,376**	8,988,205
Interest on capital asset - Related debt	**(4,449,678)**	(4,386,081)
Net nonoperating revenues (expenses)	**81,465,898**	89,075,362
Loss - Before other revenues	**(6,330,356)**	(3,242,993)
Other Revenues		
State capital appropriations	**560,899**	6,204,726
Additions to permanent endowments	**1,739,111**	8,269,643
Increase (Decrease) in Net Position	**(4,030,346)**	11,231,376
Net Position		
Beginning of year	**275,585,151**	264,353,775
End of year	**$ 271,554,805**	$ 275,585,151

See accompanying notes.

Ferris State University
Statements of Cash Flows

	Year Ended June 30	
	2020	**2019**
Cash Flows from Operating Activities		
Tuition and fees	**$ 115,631,531**	$ 116,579,797
Grants and contracts	**393,785**	3,729,364
Payments to suppliers	**(126,324,620)**	(123,971,726)
Payments to employees	**(106,003,897)**	(112,038,476)
Interest collected on student loans	**781,364**	820,192
Loans issued to students	**(1,198,767)**	(942,714)
Collection of loans from students	**2,547,134**	2,441,457
Auxiliary enterprise charges	**28,860,982**	27,974,288
Other receipts	**12,352,435**	12,176,941
Net cash from operating activities	**(72,960,053)**	(73,230,877)
Cash Flows from Noncapital Financing Activities		
State appropriations	**56,702,602**	55,650,002
Pell Grant receipts	**19,693,172**	21,107,513
CARES Act HEERF	**6,697,394**	-
Gifts and grants for other than capital purposes	**6,534,704**	6,144,010
Private gifts for endowment purposes	**1,739,111**	8,269,643
Federal direct loan lending receipts	**67,592,613**	72,029,756
Federal direct loan lending disbursements	**(67,633,296)**	(72,029,756)
Net cash from noncapital financing activities	**91,326,300**	91,171,168
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	**2,713,431**	8,729,263
Capital grants and gifts received	**540,259**	1,367,742
Purchase of capital assets and construction	**(9,609,528)**	(19,764,674)
Proceeds from sale of capital assets	**123,601**	65,729
Proceeds from capital debt	**34,655,000**	-
Principal paid on capital debt	**(20,125,000)**	(7,380,000)
Proceeds from capital debt premium	**6,181,072**	-
Interest paid on capital debt	**(4,907,941)**	(4,699,016)
Net cash from capital and related financing activities	**9,570,894**	(21,680,956)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	**23,288,043**	15,380,619
Investment income	**4,156,376**	5,942,630
Purchase of investments	**(19,353,889)**	(23,971,420)
Net cash from investing activities	**8,090,530**	(2,648,171)
Change in Cash and Cash Equivalents	**36,027,671**	(6,388,836)
Cash and Cash Equivalents - Beginning of year	**25,025,455**	31,414,291
Cash and Cash Equivalents - End of year	**$ 61,053,126**	$ 25,025,455

Ferris State University
Statements of Cash Flows (continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended June 30	
	2020	**2019**
Operating loss	**$ (87,796,254)**	$ (92,318,355)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**11,449,238**	12,163,772
Amortization of bond insurance costs	**153,875**	20,516
Loss on disposal of capital assets	**318,788**	159,220
Decrease (increase) in assets:		
Accounts receivable	**(518,156)**	173,885
Student loans receivable	**(842,566)**	2,291,876
Inventories, prepaid expenses, and other assets	**436,439**	(341,447)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	**5,319,198**	(5,164,762)
Deposits and unearned revenue	**124,253**	518,150
Accrued sick leave	**518,250**	304,754
Net pension/OPEB liability	**(2,123,118)**	8,961,514
Net cash from operating activities	**$ (72,960,053)**	$ (73,230,877)

1. Summary of Significant Accounting Policies

Ferris State University (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 (State); in 1963 Ferris State College; and in 1987 to its current structure of Ferris State University. On December 31, 2000, Kendall College of Art and Design (Kendall) located in Grand Rapids, Michigan officially merged with the University. On August 28, 2013, the Urban Institute of Contemporary Art (UICA) located in Grand Rapids officially merged with Kendall.

The University's Board of Trustee members are 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.

The financial statements have been prepared incorporating totals from the University and the Ferris Foundation (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 a member of the University's Board of Trustees, certain officers of the University as set forth in the Foundation bylaws, and other representatives elected by the Foundation's Board. The University has a significant fiduciary relationship with the Foundation. In accordance with the provision of GASB Standards, 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. The June 30, 2020 audited financial statements for the Ferris Foundation can be found at: www.ferris.edu/giving/ferris-foundation/policies.htm.

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Condensed financial information for the Ferris Foundation is provided below:

Ferris Foundation
Condensed Statements of Financial Position as of June 30

Assets	2020	2019
Cash and cash equivalents	$ 1,617,902	$ 4,070,739
Investments	87,398,716	84,531,179
Other assets	3,184,737	4,219,111
Total assets	**92,201,355**	**92,821,029**
Liabilities		
Other liabilities	112,869	249,542
Total liabilities	**112,869**	**249,542**
Net Assets		
Without donor restrictions	23,626,398	27,884,846
With donor restrictions	68,462,088	64,686,641
Total net assets	**$ 92,088,486**	**$ 92,571,487**

Ferris Foundation
Condensed Statements of Activities for the Year Ended June 30

Support, revenue, and gains	2020	2019
Gifts and contributions	$ 7,140,771	$ 14,408,250
Other support, revenue, and gains	370,488	4,063,154
Total support, revenue, and gains	**7,511,259**	**18,471,404**
Expenses		
Disbursements to Ferris	5,285,385	4,988,227
Other expenses	2,680,100	3,232,305
Total expenses	**7,965,485**	**8,220,532**
Support, revenue, and gains over (under) expenses	(454,226)	10,250,872
Net transfers from (to) Ferris	(28,775)	309,293
Change in net assets	(483,001)	10,560,165
Net assets - beginning of year	92,571,487	82,011,322
Net assets - end of year	**$ 92,088,486**	**$ 92,571,487**

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Ferris Foundation
Condensed Statements of Cash Flows for the Year Ended June 30

	2020	2019
Net cash from operating activities	$ (3,063,050)	$ (1,237,424)
Net cash from investing activities	(4,082,854)	(4,459,810)
Net cash from financing activities	4,693,067	8,482,815
Net change in cash and cash equivalents	**(2,452,837)**	**2,785,581**
Cash and cash equivalents - beginning of year	4,070,739	1,285,158
Cash and cash equivalents - end of year	**$ 1,617,902**	**$ 4,070,739**

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.

Adoption of New Standard

On July 1, 2019, the University adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* Statement No. 89 required the University to account for interest costs incurred before the end of a construction period as expenses rather than capitalizing the costs. The requirements of the statement were applied prospectively; therefore, no prior year capitalized interest was restated.

Restricted Net Position

Restricted net position represents amounts over which third parties have imposed restrictions that cannot be changed by the Board of Trustees (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 $51,561,944 at June 30, 2020 and $46,582,338 at June 30, 2019. The remaining restricted balance of $26,122,579 at June 30, 2020 and $30,268,065 at June 30, 2019 consists primarily of funds restricted for student loans, scholarships, and other purposes.

1. Summary of Significant Accounting Policies (continued)

Unrestricted Net Deficit

The University has designated the use of unrestricted net position (deficit) as follows at June 30:

	2020	2019
Designated for general fund division use	$ 3,413,272	$ 9,291,315
Designated for encumbrances	1,147,203	1,063,489
Designated for maintenance and replacement	34,915,913	34,218,620
Designated for Foundation endowments	23,626,398	27,884,846
Designated for unfunded pension and OPEB liability	(122,257,178)	(124,321,565)
Unrestricted and undesignated	27,738,342	29,240,527
Total unrestricted net deficit	$ (31,416,050)	$ (22,622,768)

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less. Restricted cash and cash equivalents are unspent bond funds.

Investments

Investments, including those of the Foundation, are recorded at fair value, based on quoted market prices or most recent valuation adjusted for capital calls and distributions.

Accounts Receivable and Allowance

Accounts receivable are recorded net of an allowance for uncollectible amounts. The allowance is based on management's judgement of potential uncollectible amounts, which includes such factors as historical experience and type of receivable. The allowance for uncollectible accounts receivable is $2,477,228 at June 30, 2020 and $2,641,787 at June 30, 2019.

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 consist of bond insurance amortized over the life of the bonds using the straight-line method. Bond issuance costs amortized are included in other noncurrent assets on the statements of net position.

1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are recorded at cost or, if acquired by gift, at acquisition value at the date of acquisition. Depreciation is provided for on a straight-line basis over the estimated useful life. Library books are recorded using a historically-based estimated value where volumes with publication dates within five years of purchase are depreciated over the remaining years until the volume reaches five years old.

Deferred Inflows and Outflows of Resources

Deferred outflows of resources consist of gain/loss on the defeasance of the refunding of debt and outflows related to multi-employer net pension and other post employment benefits (OPEB) liabilities. Deferred outflows of resources related to refunding of debt totaled $3,304,193 at June 30, 2020 and $3,403,542 at June 30, 2019. Refunding of debt amounts are amortized over the remaining life of the refunded bond or the life of the new bond, whichever is shorter. Deferred outflows of resources related to net pension liability amounts totaled $4,739,726 at June 30, 2020 and $5,974,035 at June 30, 2019. Deferred outflows of resources related to net OPEB liability amounts totaled $1,482,174 at June 30, 2020 and $2,039,772 at June 30, 2019. Net pension and OPEB liability amounts related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liability the following year, while other amounts reported as net pension and OPEB liability will be amortized over the actuarial calculated expected remaining service life of the members or 5 years, in accordance with GASB standards. Deferred inflows of resources relate to multi-employer net pension and OPEB liability. Deferred inflows of resources related to net pension liability amounts totaled $2,797,230 at June 30, 2020 and $4,500,437 at June 30, 2019. Deferred inflows of resources related to net OPEB liability amounts totaled $1,392,349 at June 30, 2020 and $2,729,815 at June 30, 2019. Net pension and OPEB liability amounts related to funding received through state appropriations for contributions subsequent to the measurement date will be recognized the following year, while other amounts reported as net pension and OPEB liabilities will be amortized over 5 years.

Unearned Tuition and Fee Revenues

Tuition and fee revenues received and related to the period after June 30 have been recorded as unearned revenue.

Net Pension and OPEB Liabilities

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEBs, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

1. Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Revenues

All revenues from programmatic sources are considered to be operating revenues. Included in nonoperating revenues are state appropriations, Federal Pell Grants, CARES Act HEERF, investment gain, and gifts. State appropriations are recognized in the period for which they were appropriated by the State of Michigan.

2. Cash and Investments

As of June 30, 2020, 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	$ 29,842,703	$ 29,842,703	$ -	$ -	$ -
Money markets	31,210,423	31,210,423	-	-	-
Mutual bond funds	53,123,049	-	22,729,694	30,393,355	-
Marketable securities	173,451	-	-	173,451	-
Mutual equity funds	59,040,379	-	-	-	59,040,379
Real estate funds	2,859,187	-	-	-	2,859,187
International equity funds	17,741,135	-	-	-	17,741,135
Total	193,990,327	$ 61,053,126	$ 22,729,694	$ 30,566,806	$ 79,640,701
Limited partnerships that calculate net asset value per share	26,889,736				
Cash surrender value of life insurance	1,110,016				
Balance at June 30, 2020	$ 221,990,079				

As of June 30, 2019, 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	$ 4,809,083	$ 4,809,083	$ -	$ -	$ -
Money markets	20,216,372	20,216,372	-	-	-
Mutual bond funds	56,295,646	-	38,313,077	17,982,569	-
Marketable securities	174,775	-	-	174,775	-
Mutual equity funds	62,399,080	-	-	-	62,399,080
Real estate funds	2,911,387	-	-	-	2,911,387
International equity funds	17,997,907	-	-	-	17,997,907
Total	164,804,250	$ 25,025,455	$ 38,313,077	$ 18,157,344	$ 83,308,374
Limited partnerships that calculate net asset value per share	24,041,649				
Cash surrender value of life insurance	1,050,663				
Balance at June 30, 2019	$ 189,896,562				

2. Cash and Investments (continued)

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 Board for investments with maturities over one year. The primary objective is to provide more emphasis on maximizing income without undue exposure to risk.

Endowment Investments

The Board 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 statements of revenues, expenses, and changes in net position.

Investment funds are presented above based on the fund's segmented time distribution maturity as provided by investment advisor, Ellwood Associates. 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.

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 does 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 University Board policy, operating investment holdings will be sufficiently liquid to ensure that cash flow needs are maintained throughout the year. University investments are held in marketable securities that generally can be sold on one day's notice. Endowment investment holdings are managed by Foundation Board policy and reflect investments that have immediate liquidity as well as investments with semi-liquid and illiquid properties. These semi-liquid and illiquid investments are identified and reflect the long term investment nature of the endowment pool.

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 credit risk. However, Board policy establishes limits on balances held in any one bank or bank account to reduce risk. The carrying amount of the University's deposits was $2,913,120 at June 30, 2020 and $3,005,259 at June 30, 2019. Of these amounts, $2,500,000 was insured for 2020 and $2,200,000 for 2019. Of the bank balance, no amount was collateralized for 2020 and 2019. The FDIC insurance limit is $250,000 per depositor.

Credit Risk

The primary investment objective for the short-term investment pool accounts shall be to provide for the preservation of capital, with a secondary emphasis upon the maximization of investment income without undue exposure to risk. Funds needed for expenditures in less than one year shall be considered short-term. The average weighted maturity for each short-term investment manager shall be between one day and one year. The University identifies credit quality features for the short-term pool such as utilizing banks with well capitalized bank ratios, commercial paper with the highest rating category, and minimum purchase ratings of AA or better for the short-term portfolio.

2. Cash and Investments (continued)

Credit Risk (continued)

The primary investment objectives for the intermediate-term investment pool accounts shall be the preservation of capital and the maximization of income without undue exposure to risk. Funds needed for expenditures within one to five years shall be considered intermediate-term and may be placed through direct investments, the use of mutual funds, money managers, or a combination. Credit quality features identified include a weighted average credit quality of AA for the intermediate-term pool of funds. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be BBB for the intermediate-term pool.

At June 30, the University's debt instruments and related ratings consisted of the following:

	2020		2019	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Vanguard Short-Term Bond Index	$ 5,015,859	AA	$ 4,757,718	A
Western Asset	7,298,059	A	8,598,847	AA-
Franklin Templeton Global Bond	3,153,546	BBB	4,140,046	A
Loomis Sayles Institutional High Yield	1,203,598	B	2,502,227	BB-
Seix Floating Rate High Income Fund	1,536,881	B	3,396,281	B
Baird Intermediate	13,023,408	A	11,807,558	AA-
Baird Core Plus	21,891,698	A	17,982,569	A+
Hotchkis and Wiley	-		3,110,400	B+
Total	$ 53,123,049		$ 56,295,646	

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

Foreign Currency Risk

The University and the Foundation hold investments in some international mutual funds, global funds, and alternative investments. These funds may be invested in various countries throughout the world and, therefore, may expose the University and the Foundation to foreign credit risk. Investments in these funds were $42,211,483 for the year ended June 30, 2020 and $42,069,358 for the year ended June 30, 2019.

3. Accounts Receivable and Student Loans Receivable

Accounts receivable-net consisted of the following at June 30:

	2020	2019
Student	$ 10,770,753	$ 10,307,680
Grants and contracts	1,371,815	192,655
State appropriations	4,169,998	10,070,778
State capital appropriations	-	2,152,532
Pledges receivable	3,200,193	4,238,094
Other	595,533	846,268
Total accounts receivable	20,108,292	27,808,007
Less: allowance for doubtful accounts	2,477,228	2,641,787
Total accounts receivable - net	$ 17,631,064	$ 25,166,220

Student loans receivable of $13,451,807 for the year ended June 30, 2020 and $15,540,855 for the year ended June 30, 2019, are recorded net of an allowance for doubtful accounts of $3,400,000 for 2020 and 2019.

4. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 13,505,149	$ -	$ -	$ 681,074	$ 14,186,223
Infrastructure	11,213,141	-	-	-	11,213,141
Building and building improvements	405,920,072	-	-	35,674,752	441,594,824
Furniture, fixtures, and equipment	86,050,187	2,234,481	(1,753,217)	-	86,531,451
Subtotal - Depreciable assets	516,688,549	2,234,481	(1,753,217)	36,355,826	553,525,639
Land	6,596,622	-	-	-	6,596,622
Construction in progress	30,748,567	7,375,047	-	(36,355,826)	1,767,788
Subtotal - Nondepreciable assets	37,345,189	7,375,047	-	(36,355,826)	8,364,410
Total	554,033,738	9,609,528	(1,753,217)	-	561,890,049
Less accumulated depreciation:					
Land improvements	7,474,001	523,458	-	-	7,997,459
Infrastructure	8,234,274	812,990	-	-	9,047,264
Building and building improvemen	157,404,883	8,062,990	-	-	165,467,873
Furniture, fixtures, and equipment	48,209,836	2,049,800	(1,310,828)	-	48,948,808
Total accumulated depreciation	221,322,994	11,449,238	(1,310,828)	-	231,461,404
Capital assets - Net	$ 332,710,744	$ (1,839,710)	$ (442,389)	$ -	$ 330,428,645

4. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 13,118,220	$ -	$ -	$ 386,929	$ 13,505,149
Infrastructure	11,213,141	-	-	-	11,213,141
Building and building improvements	395,848,100	-	-	10,071,972	405,920,072
Furniture, fixtures, and equipment	81,186,824	6,349,785	(1,486,422)	-	86,050,187
Subtotal - Depreciable assets	501,366,285	6,349,785	(1,486,422)	10,458,901	516,688,549
Land	6,596,622	-	-	-	6,596,622
Construction in progress	27,792,579	13,414,889	-	(10,458,901)	30,748,567
Subtotal - Nondepreciable assets	34,389,201	13,414,889	-	(10,458,901)	37,345,189
Total	535,755,486	19,764,674	(1,486,422)	-	554,033,738
Less accumulated depreciation:					
Land improvements	6,984,596	489,405	-	-	7,474,001
Infrastructure	7,422,462	811,812	-	-	8,234,274
Building and building improvements	150,015,620	7,389,263	-	-	157,404,883
Furniture, fixtures, and equipment	45,998,017	3,473,292	(1,261,473)	-	48,209,836
Total accumulated depreciation	210,420,695	12,163,772	(1,261,473)	-	221,322,994
Capital assets - Net	$325,334,791	$ 7,600,902	$ (224,949)	$ -	$332,710,744

The following estimated useful life for each asset class are used to compute depreciation:

Buildings	50 years
Library books (included in furniture, fixtures, and equipment)	0 to 5 years
Land improvements and infrastructure	20 years
Furniture, fixtures, and equipment	5 to 20 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 buildings or equipment as appropriate as expenditures are incurred by the SBA, and revenue from the State of Michigan is being recorded for the same amount.

5. Long-term Liabilities

Long-term obligation activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2019	$ -	$ 34,655,000	$ -	$ 34,655,000	$ 1,350,000
Unamortized bond premium	-	6,181,072	309,054	5,872,018	309,054
General Revenue Refunding Bonds, Series 2016	55,505,000	-	1,880,000	53,625,000	1,385,000
Unamortized bond premium	7,921,986	-	360,090	7,561,896	360,090
General Revenue Refunding Bonds, Series 2014B	7,165,000	-	1,455,000	5,710,000	3,205,000
Unamortized bond premium	483,117	-	60,389	422,728	60,390
General Revenue Bonds, Series 2014A	11,110,000	-	385,000	10,725,000	395,000
Unamortized bond premium	341,072	-	17,053	324,019	17,053
General Revenue Refunding Bonds, Series 2012	7,390,000	-	1,185,000	6,205,000	440,000
Unamortized bond premium	354,678	-	27,283	327,395	27,283
General Revenue Refunding Bonds, Series 2008	14,825,000	-	14,825,000	-	-
Total bonds and notes payable	105,095,853	40,836,072	20,503,869	125,428,056	7,548,870
Other liabilities:					
Accured sick leave	9,495,426	518,250	-	10,013,676	-
Accrued interest payable (bonds)	1,027,629	219,960	-	1,247,589	1,247,589
Accrued interest payable (capital lease)	131,917	-	3,703	128,214	128,214
Capital lease payable	10,240,000	-	395,000	9,845,000	410,000
Total	$ 125,990,825	$ 41,574,282	$20,902,572	$ 146,662,535	$ 9,334,673

Long-term obligation activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2016	$ 56,150,000	$ -	$ 645,000	$ 55,505,000	$ 1,880,000
Unamortized bond premium	8,282,076	-	360,090	7,921,986	360,090
General Revenue Refunding Bonds, Series 2014B	8,580,000	-	1,415,000	7,165,000	1,455,000
Unamortized bond premium	543,508	-	60,391	483,117	60,391
General Revenue Bonds, Series 2014A	11,485,000	-	375,000	11,110,000	385,000
Unamortized bond premium	358,126	-	17,054	341,072	17,054
General Revenue Refunding Bonds, Series 2012	8,540,000	-	1,150,000	7,390,000	1,185,000
Unamortized bond premium	381,961	-	27,283	354,678	27,283
General Revenue Bonds, Series 2009	1,225,000	-	1,225,000	-	-
General Revenue Refunding Bonds, Series 2008	17,015,000	-	2,190,000	14,825,000	2,295,000
Total bonds and notes payable	112,560,671	-	7,464,818	105,095,853	7,664,818
Other liabilities:					
Accured sick leave	9,190,672	304,754	-	9,495,426	-
Accrued interest payable (bonds)	1,096,428	-	68,799	1,027,629	1,027,629
Accrued interest payable (capital lease)	135,717	-	3,800	131,917	131,917
Capital lease payable	10,620,000	-	380,000	10,240,000	395,000
Total	$ 133,603,488	$ 304,754	$ 7,917,417	$ 125,990,825	$ 9,219,364

5. Long-term Liabilities (continued)

General Revenue Refunding Bonds, Series 2019A

The University issued $34,655,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 4.00 percent to 5.00 percent. A rating of "A1" was assigned to these bonds by Moody's and an "A+" rating by Standard and Poors. The bonds are payable from general revenues of the University and callable at par starting in year ten, and mature in varying amounts through 2040. Proceeds from the issuance were used to advance refund a portion of General Revenue Refunding Bonds, Series 2008 and for construction projects on campus. Projects include the construction of the Center for Athletic Performance; upgraded housing for information technology staff and equipment; upgraded Kendall College of Art and Design heating and ventilation system; renovation of Miller Residence Hall; and other miscellaneous projects. The refunding was done to take advantage of lower interest rates and to reduce debt payments. The refunding resulted in a net present value benefit of $1,330,000 over the life of the bonds; a deferred outflow of resources of approximately $1,420,000; and a total cash flow savings of $1,327,000.

General Revenue Refunding Bonds, Series 2016

The University issued $56,150,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 3.00 percent to 5.00 percent. A rating of "A1" was assigned to these bonds by Moody's and an "A" rating by Standard and Poors. The bonds are payable from general revenues of the University and callable at par starting in year ten, and mature in varying amounts through 2042. Proceeds from the issuance were used to advance refund a portion of General Revenue Refunding Bonds, Series 2009 and for construction projects on campus. Projects include the construction and furnishing of the North Hall, a new 402 bed residence hall; renovation of the Student Recreational Center; and other miscellaneous projects. The refunding was done to take advantage of lower interest rates and to reduce debt payments. The refunding resulted in a net present value benefit of $4,236,000 over the life of the bonds; a deferred outflow of resources of approximately $3,400,000; and a total cash flow savings of $5,622,000.

General Revenue Refunding Bonds, Series 2014B

The University issued $12,880,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 3.00 percent to 4.00 percent. A rating of "A1" was assigned to these bonds by Moody's. The bonds are payable from general revenues of the University and callable at par starting in year ten, and mature in varying amounts through 2027. Proceeds from the issuance were used to refund General Revenue Refunding Bonds, Series 2005. The refunding was done to take advantage of lower interest rates and to reduce debt payments. The refunding resulted in a net present value benefit of $1,746,000 over the life of the bonds; a deferred outflow of resources of approximately $560,000; and a total cash flow savings of $2,000,000.

5. Long-term Liabilities (continued)

General Revenue Bonds, Series 2014A

The University issued $12,570,000 of General Revenue Bonds. The outstanding balance carries interest rates of 3.00 percent to 4.00 percent. A rating of “A1” was assigned to these bonds by Moody’s. The bonds are payable from general revenues of the University, callable at par, and mature in varying amounts through 2039. Proceeds from the issuance were used to finance a portion of the University Center project. The University Center located in the center of campus, serves as a gathering place for the campus community and a home for its commuter students. The center includes dining options, the Ferris Bookstore, the University Center Art Gallery, community areas, meeting rooms, and offices.

General Revenue Refunding Bonds, Series 2012

The University issued $13,750,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 2.25 percent to 3.375 percent. A rating of “A” was assigned to these bonds by Standard & Poor’s. The bonds are payable from general revenues of the University, callable at par, and mature in varying amounts through 2032. Proceeds from the issuance were used to refund General Revenue Bonds, Series 2001 of $8,940,000 and General Revenue Bonds, Series 2002 in the amount of $4,810,000. The refunding was done in order to reduce debt payments. The refunding decreased the University’s total debt service payments by approximately $2,800,000. The refunding resulted in a net present value benefit of $2,218,000 over the life of the bonds; a deferred outflow of resources of approximately $80,000; and a total cash flow savings of $3,451,000.

General Revenue Bonds, Series 2009

The University issued $38,935,000 of General Revenue Bonds. Previous outstanding balances carried an interest rate of 4.00 percent. Proceeds from this issuance were used for renovation of the Rock Café, a dining unit within the University’s auxiliary services area which was converted from a traditional cafeteria style to a marketplace concept and construction of an exterior green and multipurpose space located near the Rock Café. Another major project funded was construction of new east campus suites student housing which was completed and opened for August 2010 occupancy. Also, proceeds were used for construction of a new building for the Michigan College of Optometry, a project 75.0 percent funded by the State of Michigan, with the remainder financed from private donations and bond proceeds. The remainder of the bond funds were used for miscellaneous building and site improvements. During 2017, the University paid off these bonds from the proceeds of the General Revenue Refunding Bonds, Series 2016, except for $2,405,000 which was due in two payments paid in full in 2019.

5. Long-term Liabilities (continued)

General Revenue Refunding Bonds, Series 2008

The University issued $32,915,000 of General Revenue Refunding Bonds. Previous outstanding balances carries interest rates of 4.00 percent to 4.50 percent. 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 par, and mature in varying amounts through 2029. 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 paid in October 2009. The refunding resulted in a net present value benefit of $1,728,000 over the life of the bonds; a deferred outflow of resources of approximately $240,000; and a cash flow savings of $2,514,000. During 2020, the University paid off these bonds from the proceeds of the General Revenue Refunding Bonds, Series 2019A.

Federal Building Capital Lease, Series 2010A

In September 2010, a sublease was made between Federal Building Partners LLC and the University to lease the Federal Building in downtown Grand Rapids. The agreement involved issuance of bonds by the Economic Development Corporation of the City of Grand Rapids for the renovation of the building to be done by Federal Building Partners. A bond rating of “A” was assigned to these bonds by Standard & Poor’s with maturity dates varying in amounts through 2036. The University is a guarantor for the Series 2010A bond issuance for $12,615,000. The outstanding balance carries interest rates of 4.625 percent to 5.50 percent. Ownership of the building could eventually pass from the City of Grand Rapids to the University if the University refinances the bonds or assumes the existing bonds. The capital lease is listed as a long term obligation and the related asset is included in Building and Building Improvements at June 30, 2020 and 2019.

5. Long-term Liabilities (continued)

Principal and Interest Maturities and Interest Expense

Total principal and interest maturities on all bond and capital lease obligations as of June 30, 2020 are as follows:

	Bonds			Capital Lease
Year	Principal	Interest		Minimum Payments
2021	$ 6,775,000	$ 4,861,058		$ 912,606
2022	5,930,000	4,597,183		911,606
2023	6,210,000	4,319,129		914,481
2024	6,190,000	4,032,745		911,231
20025	6,205,000	3,744,039		912,794
2026-2030	27,965,000	14,451,728		4,562,675
2031-2035	23,290,000	8,765,866		4,565,784
2036-2040	23,255,000	3,484,850		914,475
2041-2042	5,100,000	507,531		-
Total	110,920,000	$ 48,764,129		14,605,652
Unamortized premium	14,508,056		Less: amount representing interest	4,760,652
Total	$ 125,428,056		Present value of minimum lease payments	$ 9,845,000

Bond interest expense was approximately $4,450,000 for the year ended June 30, 2020 and approximately $4,386,000 for the year ended June 30, 2019. Since the University adopted GASB Statement No. 89, there was no construction period interest capitalized for the year ended June 30, 2020. For the year ended June 30, 2019, construction period interest, which was capitalized as part of the cost of the assets constructed was $75,614.

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 non-represented employees hired on or after July 1, 2001 are no longer eligible for the sick leave payout upon retirement.

6. Retirement Plans

Michigan Public School Employees' Retirement System

Plan Description

The University is required to participate in MPSERS (or System), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the MPSERS Board's authority to promulgate or amend the provisions of the System. The MPSERS Board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member. The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available at www.michigan.gov/orsschools. Separate pension and OPEB information related to the University's employees included in this plan is not available. The seven participating public universities have a net pension and OPEB liability that is separated out from the system-wide MPSERS plan. The net pension and OPEB liability information included in this Note relates to the seven public universities that participate in MPSERS and not the plan as a whole.

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental, and vision coverage under the MPSERS Act (1980 PA 300 as amended).

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuations allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20 year period ending September 30, 2038.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

The schedule below summarizes pension and OPEB contribution rates in effect for System years ended September 30, 2019 and 2018:

	Pension		OPEB	
System Year Ended	Funded Portion	Unfunded Portion	Funded Portion	Unfunded Portion
September 30, 2019	5.29%	19.74%	0.43%	5.99%
September 30, 2018	4.87%	19.60%	0.31%	6.13%

The University's required contributions to the pension plan for the System year ended September 30, 2019 was $8,161,050 and $8,366,795 for the System year ended September 30, 2018. The University's required contribution to the OPEB plan for the System year ended September 30, 2019 was $2,114,611 and $2,118,466 for the System year ended September 30, 2018.

Benefits Provided

Benefit provisions of the defined benefit pension and OPEB plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions.

Depending on the defined benefit (DB) pension plan option selected, member retirement benefits are calculated as final average compensation multiplied by years of service multiplied by a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account, if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefund basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future OPEB liabilities, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurance as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of MPSERS who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stopped paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

MPSERS Fiduciary Net Position-Pension

MPSERS Net Pension Liability – Seven Universities as of September 30, 2019

Total pension liability	$ 1,200,891,617
Plan fiduciary net position	(531,300,707)
Net pension liability	$ 669,590,910
Plan fiduciary net position as a percentage of total pension liability	44.24%
Net pension liability as a percentage of covered payroll	314.52%

MPSERS Net Pension Liability – Seven Universities as of September 30, 2018

Total pension liability	$ 1,180,646,584
Plan fiduciary net position	(541,609,200)
Net pension liability	$ 639,037,384
Plan fiduciary net position as a percentage of total pension liability	45.87%
Net pension liability as a percentage of covered payroll	306.17%

MPSERS Fiduciary Net Position-OPEB

MPSERS Net OPEB Liability – Seven Universities as of September 30, 2019

Total OPEB liability	$ 235,765,954
Plan fiduciary net position	(143,985,860)
Net OPEB liability	$ 91,780,094
Plan fiduciary net position as a percentage of total OPEB liability	61.07%
Net OPEB liability as a percentage of covered payroll	43.11%

MPSERS Net OPEB Liability – Seven Universities as of September 30, 2018

Total OPEB liability	$ 246,663,333
Plan fiduciary net position	(128,022,779)
Net OPEB liability	$ 118,640,554
Plan fiduciary net position as a percentage of total OPEB liability	51.90%
Net OPEB liability as a percentage of covered payroll	56.84%

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense

At June 30, 2020, the University reported a liability of $109,335,758 and $105,739,673 for the year ended June 30, 2019 for its proportionate share of the net pension liability. The June 30, 2020 net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2018. The University's proportion of the net pension liability was based on statutorily required contributions in relation to all reporting unit's statutorily required contributions for the measurement period. At September 30, 2019, the University's proportionate share was 16.32873996 percent (16.54671156 percent at September 30, 2018), a decrease of 0.21797160 percent.

The University recognized $10,887,555 of pension expense for the year ended June 30, 2020 and $19,467,893 for the year ended June 30, 2019. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual plan investment earnings	$ -	$ 1,978,769
University contributions subsequent to the measurement date	4,739,726	-
Rate stabilization appropriations received subsequent to the measurement date	-	818,461
	$ 4,739,726	$ 2,797,230

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 82,010
Net difference between projected and actual plan investment earnings	-	3,497,744
Changes of assumption	848,138	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	43,491
University contributions subsequent to the measurement date	5,125,897	-
Rate stabilization appropriations received subsequent to the measurement date	-	877,192
	$ 5,974,035	$ 4,500,437

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Rate stabilization appropriations received subsequent to the measurement date reported as deferred inflows of resources will be recognized as revenue in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30		Amount
2020	$	(982,619)
2021		(1,063,696)
2022		(264,305)
2023		331,851
	$	(1,978,769)

Net OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and OPEB Expense

At June 30, 2020, the University reported a liability of $14,953,741 and $19,365,447 for the year ended June 30, 2019 for its proportionate share of the net OPEB liability. The June 30, 2020 net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2018. The University's proportion of the net OPEB was based on statutorily required contributions in relation to all reporting unit's statutorily required contributions for the measurement period. At September 30, 2019, the University's proportionate share was 16.29301112 percent (16.32278864 percent at September 30, 2018), a decrease of 0.02977752 percent.

The University recognized $3,196,711 of negative OPEB expense for the year ended June 30, 2020 and $1,200,518 of negative OPEB expense for the year ended June 30, 2019. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	-	$	923,508
Net difference between projected and actual plan investment earnings		-		460,744
Changes of assumption		371,235		-
Changes in proportion and differences between University contributions and proportionate share of contributions		-		8,097
University contributions subsequent to the measurement date		1,110,939		-
	$	1,482,174	$	1,392,349

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,523,633
Net difference between projected and actual plan investment earnings	-	1,103,364
Changes of assumption	827,249	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	102,818
University contributions subsequent to the measurement date	1,212,523	-
	$ 2,039,772	$ 2,729,815

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30	Amount
2020	$ (803,153)
2021	(242,782)
2022	(54,743)
2023	79,564
	$ (1,021,114)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

The total pension and OPEB liability for the System in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry age, normal
- Wage inflation rate - 2.75 percent
- Investment rate of return – 6.80 percent for pension and 6.95 percent for OPEB
- Projected salary increases - 2.75 percent to 11.55 percent, including wage inflation at 2.75 percent
- Cost-of-living adjustments - 3.0 percent annual non-compounded for MIP members
- Healthcare cost trend rate - 7.5 percent year 1 graded to 3.5 percent in year 12
- Mortality Retirees - RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82 percent for males and 78 percent for females and adjusted for mortality improvements using projection scale MP-2017 from 2006
- Mortality Active Members - RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006
- Opt out assumptions - 21.0 percent of eligible participants hired before July 1, 2008 and 30.0 percent of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor coverage - 80.0 percent of male retirees and 67.0 percent of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage election at retirement - 75.0 percent of male and 60.0 percent of female future retirees are assumed to elect coverage for 1 or more dependents

The actuarial assumptions used for the September 30, 2019 valuation were based on the results of an actuarial experience study for the period October 1, 2012 to September 30, 2017 beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2019 are based on the results of an actuarial valuation date of September 30, 2018 and rolled forward using generally accepted actuarial procedures, including the experience study. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience. Similar assumptions were used in the September 30, 2017 actuarial valuation.

Rate of Return

For the System's fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.14 percent while the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.37 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Discount Rate

A discount rate of 6.80 percent was used to measure the total pension liability recorded at June 30, 2020 (7.05 percent at June 30, 2019). A discount rate of 6.95 percent was used to measure the total OPEB liability recorded at June 30, 2020 (7.15 percent at June 30, 2019). These discount rates were based on the long-term expected rate of return on pension and OPEB plan investments of 6.80 percent and 6.95 percent, respectively. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension and OPEB plan's target asset allocation as of September 30, 2019 and 2018 are summarized in the following table:

Investment Category	Target Allocation	Expected Real Rate of Return September, 30, 2019	Expected Real Rate of Return September, 30, 2018
Domestic Equity Pools	28.0%	5.5	5.7
Private Equity Pools	18.0	8.6	9.2
International Equity	16.0	7.3	7.2
Fixed Income Pools	10.5	1.2	0.5
Real Estate & Infrastructure Pools	10.0	4.2	3.9
Absolute Return Pools	15.5	5.4	5.2
Short Term Investment Pools	2.0	0.8	0.0
Total	100.0%		

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the June 30, 2020 net pension liability of the University, calculated using a discount rate of 6.80 percent, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (5.80 percent) or 1.00 percentage point higher (7.80 percent) than the current rate.

1.00 percent decrease (5.80 percent)	Current Discount Rate (6.80 percent)	1.00 percent increase (7.80 percent)
$ 128,736,298	$ 109,335,758	$ 92,807,526

The following table presents the June 30, 2019 net pension liability of the University, calculated using a discount rate of 7.05 percent, as well as what the University's net pension liability would be if it were calculated using a discount rate of 1.00 percentage point lower (6.05 percent) or 1.00 percentage point higher (8.05 percent) than the current rate.

1.00 percent decrease (6.05 percent)	Current Discount Rate (7.05 percent)	1.00 percent increase (8.05 percent)
$ 125,003,119	$ 105,739,673	$ 89,306,553

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rate

The following tables present the June 30, 2020 net OPEB liability of the University, calculated using a discount rate of 6.95 percent, as well as what the University's net OPEB liability would be if it were calculated using a discount rate and healthcare cost trend rate that is 1.00 percentage point lower (5.95 percent) or 1.00 percentage point higher (7.95 percent) than the current rate.

1.00 percent decrease (5.95 percent)	Current Discount Rate (6.95 percent)	1.00 percent increase (7.95 percent)
$ 18,791,298	$ 14,953,741	$ 11,686,988

1.00 percent decrease	Current Healthcare Cost Trend Rate	1.00 percent increase
$ 11,466,720	$ 14,953,741	$ 18,949,402

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

The following tables present the June 30, 2019 net OPEB liability of the University, calculated using a discount rate of 7.15 percent, as well as what the University's net OPEB liability would be if it were calculated using a discount rate and healthcare cost trend rate that is 1.00 percentage point lower (6.15 percent) or 1.00 percentage point higher (8.15 percent) than the current rate.

1.00 percent decrease (6.15 percent)	Current Discount Rate (7.15 percent)	1.00 percent increase (8.15 percent)
$ 23,296,878	$ 19,365,447	$ 16,008,479

1.00 percent decrease	Current Healthcare Cost Trend Rate	1.00 percent increase
$ 15,762,133	$ 19,365,447	$ 23,488,133

Payable to the Pension Plan

At June 30, 2020 and 2019, the University reported a payable of $2,302,000 and $1,674,000 respectively, for the outstanding amount of contributions to the pension plan and $698,000 and $508,000 respectively for the outstanding amount of contributions to the OPEB plan required for the year then ended for the statutorily required pension and OPEB contributions related to accrued labor expense.

Defined Contribution Plan

The University provides noncontributory retirement plans for all qualified employees. 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 and faculty; and 10 percent for all other eligible employee groups to the plan with 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 staff also participate in a defined contribution plan through TIAA-CREF with contribution rates ranging from 12 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 year ended June 30, 2020, the University contributed $10,377,585 to the TIAA-CREF and Fidelity Investment plans ($10,679,953 for the year ended June 30, 2019).

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 2020, there were 11 universities that participated 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, AFSCME, Police, Police Sergeants, FNTFO, and Nurses union employees' health benefits. Liabilities for estimates of losses retained by the University under self-insurance programs have been established.

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 was signed in fiscal year 1990 for a 20-year term beginning upon completion of the center. The Center was completed in fiscal year 1992, marking the start of the 20-year lease. The lease was extended in fiscal year 2012 and 2017 for an additional ten years per extension and expiring in fiscal year 2027 with the option of additional five-year renewals. Annual payments for the lease total approximately $505,000.

The University also leases certain equipment under various agreements, which generally require an annual rental payment and operating expenses, expiring in 2025.

8. Leases (continued)

Future minimum payments at June 30, 2020 under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Year		Amount
2021	$	972,183
2022		746,423
2023		684,870
2024		651,787
2025		638,206
Total	$	3,693,469

Rental expense for the year ended June 30, 2020 was approximately $1,768,000 and $2,199,000 for the year ended June 30, 2019.

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, 2020 resulting in the following commitments to vendors:

		Spent to Date		Construction Commitments at Year End
Virtual Learning Center	$	1,051,833	$	372,660
West Building		163,038		813,111
KCAD HVACR Project		314,961		3,347,082
Rock Café Renovations		110,324		43,997
Other smaller projects		127,632		1,042,838
Total	$	1,767,788	$	5,619,688

The University has several multi-year recruiting and marketing contracts for recruiting and marketing services as of June 30, 2020 resulting in the following commitments to vendors:

Year		Amount
2021	$	995,168
2022		1,072,618
2023		421,083
2024		428,029
2025		282,168
Total	$	3,199,066

10. Fair Value Measurement

The following tables present information about the University's assets measured at fair value on a recurring basis at June 30, 2020 and 2019 and the valuation techniques used by the University to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the University has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The University's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2020 and 2019, there were no transfers between levels of the fair value hierarchy.

Assets measured at fair value on a recurring basis at June 30, 2020 included the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2020
Mutual bond funds	$ 53,123,049	$ -	$ -	$ 53,123,049
Mutual equity funds	59,040,379	-	-	59,040,379
Real estate funds	2,859,187	-	-	2,859,187
Marketable securities	173,451	-	-	173,451
International equity funds	17,741,135	-	-	17,741,135
Total	$ 132,937,201	$ -	$ -	132,937,201
Limited partnerships that calculate net asset value per share				26,889,736
Cash surrender value of life insurance				1,110,016
Balance at June 30, 2020				$160,936,953

10. Fair Value Measurement (continued)

Assets measured at fair value on a recurring basis at June 30, 2019 included the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
Mutual bond funds	$ 56,295,646	$ -	$ -	$ 56,295,646
Mutual equity funds	62,399,080	-	-	62,399,080
Real estate funds	2,911,387	-	-	2,911,387
Marketable securities	174,775	-	-	174,775
International equity funds	17,997,907	-	-	17,997,907
Total	$ 139,778,795	$ -	$ -	139,778,795
Limited partnerships that calculate net asset value per share				24,041,649
Cash surrender value of life insurance				1,050,663
Balance at June 30, 2019				$164,871,107

Mutual bond funds, mutual equity funds, real estate funds, marketable securities, and international equity funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

11. Investments in Entities that Calculate Net Assets Value per Share

The University holds shares or interests in investment companies at year end, whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Investments held at June 30, 2020 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	$ 1,774,464	$ 2,093,977
Limited partnerships – private equity/distressed	13,117,796	7,318,054
Limited partnerships – hedge funds	8,637,389	-
Limited partnerships – natural resources/commodities	3,069,576	622,132
Limited partnerships – private credit	290,511	1,709,489
Balance at June 30, 2020	$ 26,889,736	$ 11,743,652

Investments held at June 30, 2019 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	$ 3,328,553	$ 652,845
Limited partnerships – private equity/distressed	10,522,224	7,975,681
Limited partnerships – hedge funds	6,025,259	-
Limited partnerships – natural resources/commodities	4,165,613	871,559
Balance at June 30, 2019	$ 24,041,649	$ 9,500,085

11. Investments in Entities that Calculate Net Assets Value per Share (continued)

Real Estate

Five limited partnerships comprise the total investment in real estate. Investment managers invest in office, apartment, industrial, development opportunities, property management, and other commercial real estate in North America, Europe, and Asia Pacific. Two partnerships are expired and continue to liquidate, two partnerships expire over the next 8 years, and one partnership expires over the next 10 years.

Private Equity/Distressed

The private equity manager(s) are fund of funds managers and direct placement fund managers investing in a program of venture capital, domestic private equity, distressed and buyout strategies, and international private capital investments using a value-added approach. The private capital program is designed to also invest in opportunistic funds. The Foundation utilizes ten managers to invest in eighteen private equity funds. Investment commitments are spread across multiple years to create vintage year diversification in addition to program diversification. Both distressed investment funds are considered a fund of funds with emphasis on investing in private companies undergoing financial distress.

Hedge Funds

Four limited partnerships make up the investments in hedge funds. Investment managers use various strategies including equity long/short hedge funds, event-driven hedge funds, global opportunities hedge funds, multi-strategy hedge funds, real estate funds, and private equity funds.

Natural Resources/Commodities

Five limited partnerships comprise the total of investments in natural resources/commodities. Investment managers invest in a multi-fund manager approach in the areas of natural resources/commodities such as oil and gas, timber, renewable energy, and mining; mineral extraction; energy funds; publicly traded master limited partnerships; and commodities including energy, livestock, grains, industrial metals, and softs. The partnerships terminate 12-15 years after official partnership filing; terminations vary from December 31, 2020 to December 31, 2021.

Private Credit

One limited partnership comprises the total of investments in private credit. The investment manager is focused on providing debt capital to borrowers based on real estate collateral. High points are its ability to take advantage of market opportunities during period of market dislocation/increased financial regulation. The management team has a proven track record through multiple real estate cycles. The fund’s first close was in April 2020 and has a 7 year commitment plus two one-year extensions with an option to extend.

11. Investments in Entities that Calculate Net Assets Value per Share (continued)

Liquidity and Redemption Notice Requirements

Investments in entities that calculate net asset value per share have illiquid properties associated with nature and type of investment in private capital and hedge funds. Certain lock up periods and redemption notification requirements are mandatory to liquidate these funds. Limited secondary markets exist for certain types of investment vehicles. For private equity, real estate, and natural resource investments that calculate net asset value per share, the University must hold these assets and receive distributions through the period of investment until the partnership terminates. Although distributions are made throughout the period of time the investment is held, this is not considered a liquid market. The University holds a commodity fund that allows weekly redemptions. The University's investments with hedge funds also have written notification requirements to access the funds. Funds requested for liquidation are made available depending on partnership agreements; currently this range is between 30 – 100 days. Hedge funds may also have other provisions on liquidity to meet annual audit requirements.

12. Impact of COVID-19

On March 13, 2020, the President of the United States of America issued a proclamation, "Declaring a National Emergency concerning the Novel Coronavirus Disease (COVID-19) Outbreak." On March 10, 2020, the governor of the State of Michigan issued executive order 2020-04 declaring a state of emergency due to COVID-19 and on March 23 issued a statewide stay-at-home order to fight the outbreak of COVID-19. Effective Monday, March 16, Ferris State University suspended face-to-face instruction for lecture and discussion classes and moved to online or remote instruction for the balance of spring semester 2020. Summer semester instruction was also online or remote. Effective March 18, many faculty and staff began working from home and then on March 23, all but essential workers moved to working from home. The following represent some of the impacts of COVID-19 on University operations and the financial statements.

Auxiliary Operations - Housing & Meal Plan Refunds

University housing and campus dining remained open through the spring semester to accommodate students that were not able to move off campus. Students that elected to move out of University housing between March 17 and April 19 were given pro-rata refunds of their spring 2020 housing and meal plan balance. Commuter students with a remaining meal plan balance were also issued refunds. In total, the University refunded $5,246,050 in housing and meal plans related to spring semester 2020.

12. Impact of COVID-19 (continued)

CARES Act

The Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by Congress and signed into law to provide economic relief from COVID-19. The University received the following grants under the CARES Act through the US Department of Education:

- $4,573,407 Higher Education Emergency Relief Funding;
- $4,573,407 Institutional Relief Funding; and
- $448,717 Title III Strengthening the Institutions Relief Funding

The Higher Education Emergency Relief Funding provided funding to universities to use for emergency financial aid grants to students for expenses related to the disruption of campus operations due to the coronavirus. As of June 30, 2020, the University had awarded grants totaling $2,123,987 to students. This is included in nonoperating CARES Act HEERF revenue on the statement of revenues, expenses, and changes in net position.

The Institutional Relief Funding allows the University to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. Frequently asked questions issued by the US Department of Education specifically allow the University to reimburse itself for refunds to students for room and board, tuition and other fees as a result of significant changes to the delivery of instruction. As a result, the University reimbursed itself for $4,573,407 of housing and meal plan refunds noted above.

The Higher Education Emergency Relief Funding and the Institutional Relief Funding are awarded under Section 18004(a)(1) of the CARES Act. There is a requirement that of the combined funds, at the end of the grant period, at least 50 percent must be used for emergency financial aid grants to students. As a result of this grant condition at June 30, 2020, the University is only able to recognize revenue from the Institutional Relief Funding equal to the amount recognized for the Higher Education Emergency Relief Funding. The University had drawn down the entire $4,573,407 related to the Institutional Relief Funding and accordingly, recognized $2,123,987 of revenue which is included in nonoperating CARES Act HEERF revenue on the statement of revenues, expenses, and changes in net position and recognized $2,449,420 of unearned revenue.

The Title III Strengthening the Institutions Relief Funding allows the University to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. Guidance issued by the US Department of Education specifically allow Institutions to use this funding to cover the cost of technology associated with a transition to distance education, grants to cover the costs of attendance for eligible students, and faculty and staff trainings. Additionally, funds may be used to cover operational costs, such as lost revenue, reimbursements for prior expenses, and payroll. As a result, the University reimbursed itself for $448,717 of additional housing and meal plan refunds noted above.

12. Impact of COVID-19 (continued)

CARES Act (continued)

In addition, a provision of the CARES Act allows the University to defer payment of the employer portion of Social Security taxes through December 31, 2020. As of June 30, 2020, the University had deferred $1,110,181 of taxes which is reported in accounts payable and accrued liabilities on the statement of net position. The University will be required to pay 50% of the total deferral by December 31, 2021 and the remainder by December 31, 2022.

State Appropriations - CARES Act Pass Through Funds

On July 22, 2020, the State of Michigan passed Senate Bill 373 which reduced the state appropriations funding for the University for the fiscal year ended June 30, 2020 by $6,163,608. Accordingly, the accounts receivable, net on the statement of net position and the state appropriations nonoperating revenue on the statement of revenues, expenses, and changes in net position, have been reduced to reflect that subsequent reduction.

At that same time, the State allocated $6,163,608 from the federal funding awarded to the State under the CARES Act to the University. Since that award was made after June 30, 2020, no revenue from that allocation can be reflected in the University's financial statements as of and for the fiscal year ended June 30, 2020. The federal pass through funding has the same restrictions as noted in the CARES Act for the funds awarded to the State. During the fiscal year ended June 30, 2021, the University will be able to recognize revenue from the pass-through funds equal to allowable expenditures and foregone revenue incurred between March 1 and December 31, 2020.

Accounting Standards Delayed

GASB and the Financial Accounting Standards Board (FASB) each delayed the effective implementation dates of select accounting and financial reporting standards that would have been effective initially for the fiscal year ended June 30, 2020 for the University and the Foundation. The University and the Foundation elected to delay implementation of those standards

13. Subsequent Events

The University has returned to in person instruction with operational campus housing and dining services. Should COVID-19 events occur that result in the University suspending in person instruction and campus operations, the economic impact on the University would be material. Management has been reviewing budget options to minimize the financial impact should this occur.

13. Subsequent Events (continued)

On July 7, 2020, the University closed on issuance of $4,600,000 of General Revenue Refunding bonds. The outstanding balance carries an interest rate of 5.00 percent. A rating of A1 was assigned by Moody's and A+ by Standard and Poors. The bonds are payable from general revenues of the University, callable at a premium, and mature in varying amounts through 2035. Proceeds from the issuance along with University fundraising reserves of $4,290,853 were used to refund the Federal Building Capital Lease, Series 2010A of $9,845,000. The refunding decreased the University's total debt service payments by approximately $3,459,794. The refunding results in net present value savings of $1,832,718 over the life of the bonds.

On June 4, 2020, the University Board of Trustees approved a voluntary separation package to reduce cost through a reduction of its force. The voluntary separation package was approved for Administrative employees; Support Employees; Clerical Technical Association members; American Federation of State, County and Municipal Employees members; Police Officers' Labor Council I members; and Police Officers' Labor Council II members. At June 30, 2020, there was one accepted agreement included in the financial statements. As of September 18, 2020, there were 47 approved separation packages resulting in expenses of approximately $1,450,000.

Ferris State University
Required Supplementary Information

Schedule of the University's Proportionate Share of the Net Pension Liability (amounts determined as of 9/30 of the fiscal year)

University's proportionate share of the net pension liability:	2020	2019	2018	2017	2016
As a percentage	16.33%	16.55%	16.62%	16.54%	18.19%
Amount	$ 109,335,758	$105,739,673	$95,596,170	$ 92,688,360	$ 99,772,504
University's covered payroll	$ 34,731,000	$ 34,050,070	$34,551,000	$ 13,099,319	$ 13,528,532
University's proportionate share of the net pension liability, as a percentage of the University's covered payroll	314.81%	310.54%	276.68%	707.58%	737.50%
MPSERS fiduciary net position as a percentage of the University employers pension liability	44.24%	45.87%	47.42%	46.77%	47.45%

Schedule of University's Pension Contributions (amounts determined as of 6/30 of the fiscal year)

	2020	2019	2018	2017	2016
Statutorily required contribution	$ 6,191,021	$ 6,658,134	$ 7,324,888	$ 7,363,777	$ 7,425,452
Contributions in relation to the statutorily required contribution	6,191,021	6,658,134	7,324,888	7,363,777	7,425,452
Contribution excess	$ -	$ -	$ -	$ -	$ -
University's covered payroll	$ 35,251,965	$ 34,560,768	$34,175,250	$ 12,519,799	$ 12,641,911
Contributions as a percentage of covered payroll	17.56%	19.27%	21.43%	58.82%	58.74%

Notes to Required Pension Supplementary Information

There were no changes of benefit terms from October 1, 2014 through September 30, 2019. The discount rate was reduced to 6.80 percent for the September 30, 2019 valuation from the 7.05 percent at September 30, 2018. In addition, the September 30, 2017 discount rate was reduced from 8.00 percent, which was the discount rate for years ended September 30, 2016, 2015, and 2014.

Schedule of the University's Proportionate Share of the Net OPEB Liability (amounts determined as of 9/30 of the fiscal year)

University's proportionate share of the net OPEB liability:	2020	2019	2018
As a percentage	16.29%	16.32%	16.58%
Amount	$14,953,741	$19,365,447	$23,590,353
University's covered payroll	$34,731,000	$34,050,070	$34,551,000
University's proportionate share of the net OPEB liability, as a percentage of the University's covered payroll	43.06%	56.87%	68.28%
MPSERS fiduciary net position as a percentage of the University employers OPEB liability	61.07%	51.90%	44.11%

Schedule of University's OPEB Contributions (amounts determined as of 6/30 of the fiscal year)

	2020	2019	2018
Statutorily required contribution	$ 1,523,762	$ 1,660,269	$ 1,971,639
Contributions in relation to the statutorily required contribution	1,523,762	1,660,269	1,971,639
Contribution excess	$ -	$ -	$ -
University's covered payroll	$35,425,000	$34,560,768	$34,175,250
Contributions as a percentage of covered payroll	4.30%	4.80%	5.77%

Notes to Required OPEB Supplementary Information

There were no changes of benefit terms from October 1, 2017 through September 30, 2019. The discount rate was reduced to 6.95 percent for the September 30, 2019 valuation from the 7.15 percent at September 30, 2018.

Other Supplementary Information

Report of Independent Auditors on Other Supplementary Information

Board of Trustees
Ferris State University
Big Rapids, Michigan

We have audited the basic financial statements of Ferris State University as of and for the years ended June 30, 2020 and 2019, and our report thereon dated September 18, 2020, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statement of net position and combining statement of revenues, expenses, and changes in net position, including comparative totals for 2019, are presented for purposes of additional analysis of the University's financial statements rather than to present the financial position and changes in financial position of the individual funds, and are not a required part of the financial statements. Such other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
September 18, 2020

Ferris State University
Combining Statement of Net Position
June 30, 2020 and 2019

	2020 Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation	Pension	OPEB	2019 Combined Total
Assets												
Current Assets												
Cash and cash equivalents	**$ 33,463,288**	$ 12,955,929	$ 7,313,551	$ 3,243,791	$ (479,401)	$ 3,203,377	$ 5,167,035	$ 441,104	$ 1,617,902	$ -	$ -	25,025,455
Short-term investments	**48,568,817**	20,130,299	22,673,444	2,046,464	2,670,886	1,047,724	-	-	-	-	-	52,973,208
Accounts receivable - Net	**17,631,064**	12,040,740	180,923	498,143	1,371,815	-	112,530	93,356	3,184,737	148,820	-	25,166,220
Inventories	**793,883**	24,828	204,422	564,633	-	-	-	-	-	-	-	1,032,184
Prepaid expenses and other assets	**507,421**	507,421	-	-	-	-	-	-	-	-	-	705,559
Total current assets	**100,964,473**	45,659,217	30,372,340	6,353,031	3,563,300	4,251,101	5,279,565	534,460	4,802,639	148,820	-	104,902,626
Noncurrent Assets												
Restricted cash and cash equivalents	**27,589,838**	-	-	-	-	-	27,589,838	-	-	-	-	-
Endowment investments	**87,398,716**	-	-	-	-	-	-	-	87,398,716	-	-	84,531,179
Other long-term investments	**24,969,420**	-	-	-	-	-	24,969,420	-	-	-	-	27,366,720
Student loans receivable - Net	**13,451,807**	-	-	-	-	13,451,807	-	-	-	-	-	15,540,855
Other noncurrent assets	**26,924**	-	-	-	-	-	26,924	-	-	-	-	180,799
Capital assets - Net	**330,428,645**	-	-	-	-	-	330,428,645	-	-	-	-	332,710,744
Total noncurrent assets	**483,865,350**	-	-	-	-	13,451,807	383,014,827	-	87,398,716	-	-	460,330,297
Total assets	**584,829,823**	45,659,217	30,372,340	6,353,031	3,563,300	17,702,908	388,294,392	534,460	92,201,355	148,820	-	565,232,923
Deferred Outflows of Resources												
Net pension liability	**4,739,726**	-	-	-	-	-	-	-	-	4,739,726	-	5,974,035
Net OPEB liability	**1,482,174**	-	-	-	-	-	-	-	-	-	1,482,174	2,039,772
Refunding of debt	**3,304,193**	-	-	-	-	-	3,304,193	-	-	-	-	3,403,542
Total deferred outflows of resources	**9,526,093**	-	-	-	-	-	3,304,193	-	-	4,739,726	1,482,174	11,417,349
Liabilities												
Current liabilities:												
Accounts payable and accrued liabilities	**27,220,969**	22,980,564	217,507	2,759,874	52,658	-	414,217	534,460	112,869	148,820	-	21,901,771
Unearned revenue	**10,337,186**	7,214,973	308,454	364,341	2,449,418	-	-	-	-	-	-	7,987,633
Long-term liabilities - Current portion	**9,334,673**	-	-	-	-	-	9,334,673	-	-	-	-	9,219,364
Total current liabilities	**46,892,828**	30,195,537	525,961	3,124,215	2,502,076	-	9,748,890	534,460	112,869	148,820	-	39,108,768
Noncurrent liabilities:												
Deposits	**793,570**	-	-	793,570	-	-	-	-	-	-	-	569,450
Federal student loan payable	**9,307,773**	-	-	-	-	9,307,773	-	-	-	-	-	12,280,070
Long-term liabilities	**137,327,862**	9,649,178	18,902	345,596	-	-	127,314,186	-	-	-	-	116,771,461
Net pension liability	**109,335,758**	-	-	-	-	-	-	-	-	109,335,758	-	105,739,673
Net OPEB liability	**14,953,741**	-	-	-	-	-	-	-	-	-	14,953,741	19,365,447
Total noncurrent liabilities	**271,718,704**	9,649,178	18,902	1,139,166	-	9,307,773	127,314,186	-	-	109,335,758	14,953,741	254,726,101
Total liabilities	**318,611,532**	39,844,715	544,863	4,263,381	2,502,076	9,307,773	137,063,076	534,460	112,869	109,484,578	14,953,741	293,834,869
Deferred Inflows of Resources												
Net pension liability	**2,797,230**	-	-	-	-	-	-	-	-	2,797,230	-	4,500,437
Net OPEB liability	**1,392,349**	-	-	-	-	-	-	-	-	-	1,392,349	2,729,815
Total deferred inflows of resources	**4,189,579**	-	-	-	-	-	-	-	-	2,797,230	1,392,349	7,230,252
Net Position												
Net investment in capital assets	**225,286,332**	-	-	-	-	-	225,286,332	-	-	-	-	221,357,516
Restricted for:												
Nonexpendable:												
Scholarships	**51,561,944**	-	-	-	-	-	-	-	51,561,944	-	-	46,582,338
Expendable:												
Scholarships	**11,126,184**	-	-	-	2,757,771	-	-	-	8,368,413	-	-	12,808,332
Research	**81,555**	-	-	-	81,555	-	-	-	-	-	-	55,250
Instructional department uses	**3,930,328**	-	-	-	107,496	-	-	-	3,822,832	-	-	4,325,789
Loans	**8,410,663**	-	-	-	-	8,161,211	-	-	249,452	-	-	8,463,285
Capital projects	**200**	-	-	-	-	-	-	-	200	-	-	200
Other	**2,573,649**	-	-	-	(1,885,598)	-	-	-	4,459,247	-	-	4,615,209
Unrestricted	**(31,416,050)**	5,814,502	29,827,477	2,089,650	-	233,924	29,249,177	-	23,626,398	(107,393,262)	(14,863,916)	(22,622,768)
Total net position	**$ 271,554,805**	**$ 5,814,502**	**$ 29,827,477**	**$ 2,089,650**	**$ 1,061,224**	**$ 8,395,135**	**$ 254,535,509**	**$ -**	**$ 92,088,486**	**$ (107,393,262)**	**$ (14,863,916)**	**275,585,151**

Ferris State University
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2020 and 2019

	2020 Combined Total	Eliminations	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation	Pension	OPEB	2019 Combined Total
Operating Revenues												
Tuition and fees - Net	**$ 115,970,351**	$ (33,513,870)	$ 149,484,221	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 115,760,500
Federal grants and contracts	**3,316,726**	-	-	-	18,986	3,297,740	-	-	-	-	-	2,641,836
State and local grants and contracts - Net	**538,835**	-	-	-	-	538,835	-	-	-	-	-	497,617
Nongovernmental grants	**689,681**	-	-	21,698	-	617,983	-	50,000	-	-	-	599,177
Departmental activities	**10,114,895**	(1,720,299)	3,135,401	8,553,786	-	60,886	-	85,121	-	-	-	11,304,814
Auxiliary enterprises - Net	**28,860,982**	(8,920,230)	-	-	37,781,212	-	-	-	-	-	-	27,974,288
Other operating revenues	**794,675**	(226,541)	41,246	128,763	8,692	-	781,364	61,151	-	-	-	857,962
Current funds expenditures for equipment and capital improvements	-	(1,560,083)	-	-	-	-	-	1,560,083	-	-	-	-
Total operating revenues	**160,286,145**	(45,941,023)	152,660,868	8,704,247	37,808,890	4,515,444	781,364	1,756,355	-	-	-	159,636,194
Operating Expenses												
Instruction	**98,918,441**	(345,997)	97,119,670	2,459,193	-	165,202	-	-	-	1,617,769	(2,097,396)	99,912,530
Research	**393,945**	(28,397)	205,730	39,427	-	177,185	-	-	-	-	-	366,133
Public service	**4,441,487**	(243,630)	155,967	3,614,593	-	933,552	-	-	-	64,070	(83,065)	4,946,805
Academic support	**25,902,796**	(466,505)	25,534,677	636,148	-	342,126	-	-	-	484,530	(628,180)	27,808,837
Student services	**18,822,402**	(638,141)	16,773,244	2,027,265	-	726,517	-	-	-	224,245	(290,728)	19,011,096
Institutional support	**30,187,258**	(8,671,453)	23,335,109	2,744,868	-	4,936,718	-	-	7,965,485	416,455	(539,924)	26,161,673
Operations and maintenance of plant	**16,095,172**	(239,663)	13,258,133	6,012	-	214	-	3,191,570	-	408,447	(529,541)	19,785,052
Depreciation	**11,449,238**	-	-	-	-	-	-	11,449,238	-	-	-	10,716,837
Student aid	**21,820,445**	(33,513,870)	26,082,743	2,667	241,221	29,007,684	-	-	-	-	-	19,885,612
Auxiliary enterprises	**19,972,801**	(9,277,490)	-	-	29,484,168	-	-	-	-	788,863	(1,022,740)	23,273,285
Other expenses	**78,414**	-	-	-	-	-	78,414	-	-	-	-	86,689
Total operating expenses	**248,082,399**	(53,425,146)	202,465,273	11,530,173	29,725,389	36,289,198	78,414	14,640,808	7,965,485	4,004,379	(5,191,574)	251,954,549
Operating (Loss) Income	**(87,796,254)**	7,484,123	(49,804,405)	(2,825,926)	8,083,501	(31,773,754)	702,950	(12,884,453)	(7,965,485)	(4,004,379)	5,191,574	(92,318,355)
Nonoperating Revenues (Expenses)												
State appropriations	**50,743,091**	-	49,865,899	-	-	-	-	-	-	877,192	-	55,853,973
Federal Pell Grants	**19,693,172**	-	-	-	-	19,693,172	-	-	-	-	-	21,107,513
CARES Act HEERF	**4,247,974**	-	-	-	-	4,247,974	-	-	-	-	-	-
Gifts	**7,074,963**	(7,484,123)	13,470	3,037,240	59,449	5,562,204	37,410	447,653	5,401,660	-	-	7,511,752
Investment gain	**4,156,376**	-	1,199,000	2,055,444	105,967	452	46,661	378,364	370,488	-	-	8,988,205
Interest on capital asset - Related debt	**(4,449,678)**	-	-	-	-	-	-	(4,449,678)	-	-	-	(4,386,081)
Net nonoperating revenues (expenses)	**81,465,898**	(7,484,123)	51,078,369	5,092,684	165,416	29,503,802	84,071	(3,623,661)	5,772,148	877,192	-	89,075,362
Income (Loss) - Before other revenues	**(6,330,356)**	-	1,273,964	2,266,758	8,248,917	(2,269,952)	787,021	(16,508,114)	(2,193,337)	(3,127,187)	5,191,574	(3,242,993)
Other Revenues												
State capital appropriations	**560,899**	-	-	-	-	-	-	560,899	-	-	-	6,204,726
Additions to permanent endowments	**1,739,111**	-	-	-	-	-	-	-	1,739,111	-	-	8,269,643
Increase (Decrease) in Net Position - Before transfers	**(4,030,346)**	-	1,273,964	2,266,758	8,248,917	(2,269,952)	787,021	(15,947,215)	(454,226)	(3,127,187)	5,191,574	11,231,376
Transfers In (Out)	-	-	(7,069,298)	1,931,092	(7,586,217)	(648,033)	(810,412)	14,211,643	(28,775)	-	-	-
Net Increase (Decrease) in Net Position	**(4,030,346)**	-	(5,795,334)	4,197,850	662,700	(2,917,985)	(23,391)	(1,735,572)	(483,001)	(3,127,187)	5,191,574	11,231,376
Net Position - Beginning of year	**275,585,151**	-	11,609,836	25,629,627	1,426,950	3,979,209	8,418,526	256,271,081	92,571,487	(104,266,075)	(20,055,490)	264,353,775
Net Position - End of year	**$ 271,554,805**	**$ -**	**$ 5,814,502**	**$ 29,827,477**	**$ 2,089,650**	**$ 1,061,224**	**$ 8,395,135**	**$ 254,535,509**	**$ 92,088,486**	**$ (107,393,262)**	**$ (14,863,916)**	$ 275,585,151