

Financial Report
with Other Supplementary Information

Ferris State University

*Years ended June 30, 2015 and 2014
with Report of Independent Auditors*



Ferris State University

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Ferris State University
Financial Report
with Other Supplementary Information
Years ended June 30, 2015 and 2014

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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 June 30, 2015 and 2014, 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 risk 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 1 and Note 6 to the financial statements, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the University to report its net pension obligation and associated deferred outflows of resources, deferred inflows of resources, and pension expense. The University has restated their July 1, 2014 net position accordingly. Our opinion is not modified with respect to these matters.

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 4 through 15 and the Required Supplementary Information on page 44 (Schedule of the University's Proportionate Share of the Net Pension Obligation, Schedule of University Contributions, 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. These limited procedures 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 October 16, 2015 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 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 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
October 16, 2015

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, 2015 with selected comparative information as of and for the years ended June 30, 2014 and 2013. The University includes the Ferris Foundation 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 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.

Financial Highlights

The University's net position decreased by \$0.2 million during the fiscal year ending June 30, 2015, prior to the pension obligation restatement. Significant components of the change in net position were operating revenues increased by \$3.4 million, operating expenses increased by \$17.0 million, and nonoperating revenues (expenses) decreased by \$8.8 million. Beginning net position was restated and reduced by \$64.2 million in the unrestricted category to reflect the required net pension obligation reporting of the multi-employer pension plan the University is a member of.

Operating revenues remained consistent when compared to prior year with the increase attributed to tuition revenue growth. The current year operating expenses include \$1.0 million of multi-employer pension plan reporting required under new accounting standards. The largest functional expenditure increase of \$8.4 million was instruction related. All other functional expenditure changes were modest in comparison. The \$8.8 million nonoperating revenues (expenses) decrease was the result of modest investment gains of \$1.4 million in the current year compared with strong investment gains of \$15.4 million in prior year. Investment gains for the University and the Ferris Foundation (Foundation) were \$0.9 million of income and \$0.5 million of income, respectively. This reflects investment returns of 0.6 percent on the University's operating funds and 0.7 percent on the Foundation's portfolio. Net increases in gifts of \$0.8 million and State appropriations of \$4.2 million are offset by decreases in Pell grants of \$0.1 million and decreases in interest on debt of \$0.3 million make up the remaining changes in nonoperating revenues (expenses).

Ferris State University
Management's Discussion and Analysis (continued)

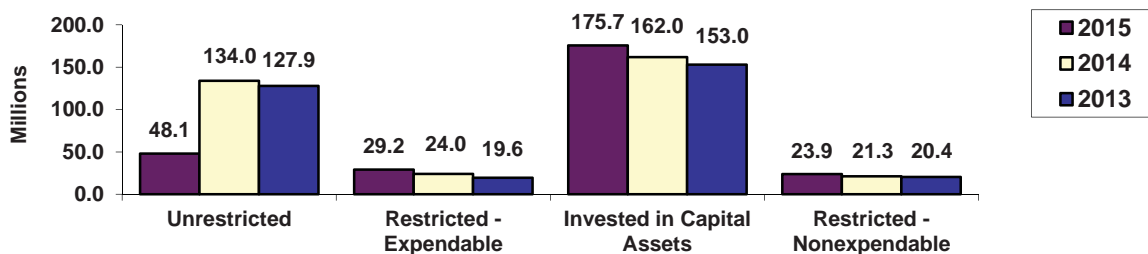
Financial Highlights (continued)

The largest component of operating revenues is tuition and fees, net of scholarships. The \$4.3 million increase in tuition and fees was a result of a 2.6 percent increase in the undergraduate tuition rate generating an additional \$3.8 million which was offset by an increase in institutional scholarships of \$2.1 million. Increases in enrollment comprised the remaining \$2.6 million increase.

Operating expenses increased by \$17.0 million. The largest general functional increase was \$8.4 million in instruction due, in part, to the creation of additional academic offerings. All other expenditure increases and decreases were modest and part of normal operations.

For the year ended June 30, 2014, the University's net position increased by \$20.4 million. Operating revenues decreased by \$1.9 million while operating expense increased by \$0.6 million. Nonoperating revenues (expenses) increased \$9.8 million primarily due to investment gains of \$15.4 million, an increase of \$6.1 million from the prior year. Other changes in nonoperating revenues (expenses) included net increases in gifts of \$1.6 million, State appropriations of \$1.8 million, Pell grants of \$0.1 million, and decreases in interest on debt of \$0.2 million. Investment gain for the University and the Foundation increased to \$8.6 million and \$6.8 million, respectively. This reflected investment returns of 6.0 percent on the University's operating funds and 17.1 percent on the Foundation's portfolio. Operating revenues included a \$2.0 million increase in tuition and fees resulting from a 2.2 percent increase in the undergraduate rate generating an additional \$3.2 million which was offset by an increase in institutional scholarships of \$1.5 million. Enrollment increases comprised the remaining \$0.3 million increase. Operating expenses increased by \$0.6 million resulting from general functional expenditure increases totaling \$5.2 million, offset by a decrease of \$4.6 million in other expenses related to one time increase in prior year from the disposal of real estate sold.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2015, 2014, and 2013:



Ferris State University
Management's Discussion and Analysis (continued)

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 - as one way to measure the University's financial health, or financial position. Many other nonfinancial factors, such as the trend in student applications, student retention, condition of the 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 \$64.4 million to \$276.9 million. After restatement of net position related to net pension obligations, total unrestricted net position decreased by \$21.7 million to \$48.1 million. This total is comprised of (\$65.2) million net unfunded pension obligation; \$80.3 million identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments; and \$33.0 million unrestricted and undesignated. The unrestricted and undesignated amount is comprised of \$22.4 million for self-supporting departmental, student loan, and auxiliary activities, and \$10.6 million for maintenance and construction projects on campus.

For the year ending June 30, 2014, total net position increased \$20.4 million to \$341.3 million.

Ferris State University
Management's Discussion and Analysis (continued)

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)

	2015	2014	2013
Assets			
Current assets	\$ 110.6	\$ 119.9	\$ 114.4
Noncurrent assets:			
Capital assets - Net of depreciation	279.7	271.1	254.1
Other	108.9	112.4	103.6
Total assets	499.2	503.4	472.1
Deferred Outflows of Resources			
Net pension obligation	0.5	-	-
Refunding of debt	0.7	0.8	0.9
Total deferred outflows of resources	1.2	0.8	0.9
Liabilities			
Current liabilities	34.9	33.8	29.9
Long-term liabilities	188.6	129.1	122.2
Total liabilities	223.5	162.9	152.1
Net Position			
Invested in capital assets	175.7	162.0	153.0
Restricted - Expendable	29.2	24.0	19.6
Restricted - Nonexpendable	23.9	21.3	20.4
Unrestricted	48.1	134.0	127.9
Total net position	\$ 276.9	\$ 341.3	\$ 320.9

Ferris State University
Management's Discussion and Analysis (continued)

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

	2015	2014	2013
Operating Revenues			
Tuition and fees - Net	\$ 120.7	\$ 116.4	\$ 114.4
Grants and contracts	3.8	3.0	3.2
Departmental activities	11.9	11.6	10.8
Auxiliary activities - Net	28.2	30.1	31.1
Other operating revenues	1.0	1.1	4.6
Total operating revenues	165.6	162.2	164.1
Operating Expenses			
Instruction	96.1	87.7	87.5
Research	0.5	0.7	0.5
Public service	4.8	4.3	4.5
Academic support	29.1	28.4	27.1
Student services	18.4	16.8	16.3
Institutional support	23.8	22.1	20.9
Operation and maintenance of plant	23.4	21.6	19.5
Depreciation	11.2	9.5	9.9
Student aid	17.8	18.0	19.0
Auxiliary enterprises	22.6	21.7	20.4
Other expenses	0.7	0.6	5.2
Total operating expenses	248.4	231.4	230.8
Operating Loss	(82.8)	(69.2)	(66.7)
Nonoperating Revenues (Expenses)			
State appropriations	50.3	46.1	44.3
Federal Pell grants	23.7	23.8	23.7
Gifts	8.9	8.1	6.5
Investment gain	1.4	15.4	9.3
Interest on capital assets - Related debt	(4.3)	(4.6)	(4.8)
Total nonoperating revenues (expenses)	80.0	88.8	79.0
Income (Loss) - Before other revenues	(2.8)	19.6	12.3
Other Revenues			
State capital appropriations	-	-	1.3
Additions to permanent endowments	2.6	0.8	1.6
Total other revenues	2.6	0.8	2.9
Increase (Decrease) in Net Position	(0.2)	20.4	15.2
Net Position - Beginning of year	341.3	320.9	305.7
Cumulative effect of change in accounting principle	(64.2)	-	-
Net Position - Beginning of year - As restated	277.1	320.9	305.7
Net Position - End of year	<u>\$ 276.9</u>	<u>\$ 341.3</u>	<u>\$ 320.9</u>

Ferris State University
Management's Discussion and Analysis (continued)

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, 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 ending June 30, 2015:

- Student tuition and fees revenue increased \$4.3 million due to the net effect of the following factors: Board-approved tuition increase of 2.6 percent, enrollment growth from prior year, and an increase in student financial support.
- Auxiliary enterprises operating revenue decreased by \$1.9 million. Housing and dining centers decreased \$2.5 million. Other changes totaled an increase of \$0.6 million.
- Grant revenues increased \$0.8 million, primarily resulting from receipts from a State Stormwater, Asset Management, and Wastewater grant totaling \$0.5 million. Other changes totaled the remaining increase of \$0.3 million.

For the year ended June 30, 2014, the significant operating revenue factors were as follows:

- Student tuition and fees revenue increased \$2.0 million due to the net effect of the following factors: Board-approved tuition increase of 2.2 percent, enrollment growth from prior year, and an increase in student financial support.
- Auxiliary enterprises operating revenue decreased by \$1.0 million. Housing and dining centers decreased \$0.5 million. The 2013 sale of the Holiday Inn Hotel and Conference Center resulted in a \$0.2 million decrease in 2014 operating revenue. Other changes totaled the remaining \$0.3 million decrease.
- Other operating revenues decreased \$3.5 million relating to the 2013 sale of the Holiday Inn Hotel and Conference Center.

Ferris State University
Management's Discussion and Analysis (continued)

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, gifts, and investment gain (including realized and unrealized gains and losses).

Nonoperating revenues (expenses) was significantly impacted by the following factors during the year ending June 30, 2015:

- The State appropriation of \$50.3 million is an increase of \$4.2 million from the 2014 level. This includes \$1.1 million of support for the University's share of the current year pension obligation.
- Investment gain decreased by \$14.0 million from \$15.4 million in 2014 to \$1.4 million in 2015. The \$1.4 million investment gain is comprised of \$10.8 million realized gains and \$9.4 of unrealized losses.
- Gift income increased by \$0.8 million from \$8.1 million in 2014 to \$8.9 million in 2015. This includes pledges receivable net of allowance for doubtful accounts with net pledges receivable totaling \$5.6 million.

For the year ended June 30, 2014, significant nonoperating revenues (expenses) factors were as follows:

- The State appropriation of \$46.1 million is an increase of \$1.8 million from the 2013 level.
- Investment gain increased by \$6.1 million from \$9.3 million in 2013 to \$15.4 million in 2014. The \$15.4 million investment gain is comprised of \$8.8 million of realized gains and \$6.6 of unrealized gain.
- Gift income increased by \$1.6 million from \$6.5 million in 2013 to \$8.1 million in 2014. Pledges receivable increased \$2.0 million while other gifts decreased \$0.4 million.

Ferris State University
Management's Discussion and Analysis (continued)

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 ending June 30, 2015:

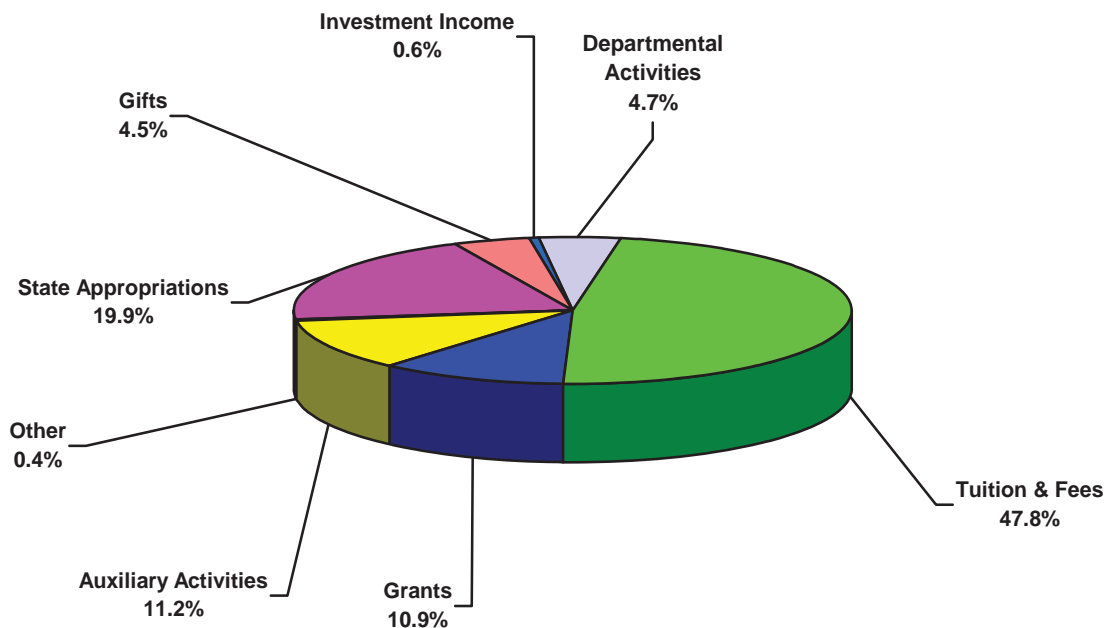
- Other revenues include increases to permanent endowments of the Ferris Foundation. These revenues increased to \$2.6 million from \$0.8 million in prior year. Of the current year total, \$0.2 million relates to net pledges.

For the year ending June 30, 2014:

- There were no active State capital projects in 2014 resulting in a decrease of \$1.3 million in State capital appropriations when compared to 2013.
- Other revenues also include increases to permanent endowments of the Ferris Foundation. These revenues decreased to \$0.8 million from \$1.6 million in 2013. One time increases of \$0.6 million were realized in 2013 from the merging of the David Walcott Kendall Memorial School Foundation with the Ferris Foundation.

Total Revenues

The following is a graphic illustration of total revenues by source for June 30, 2015:



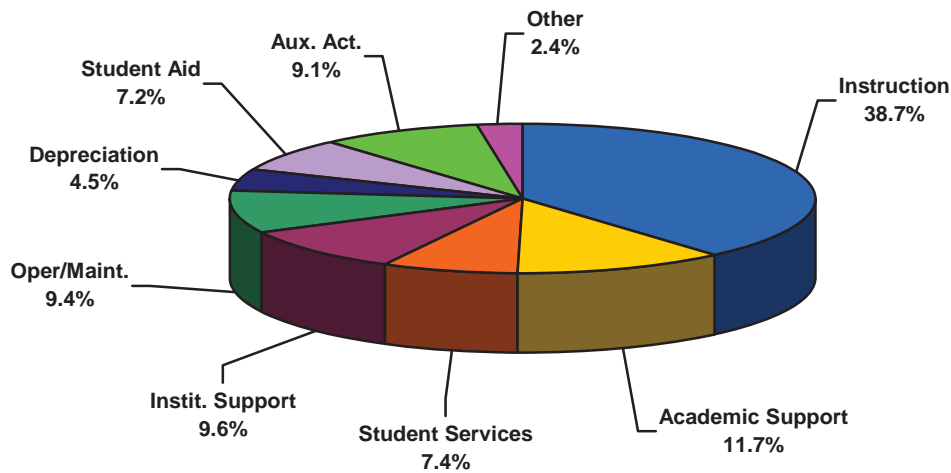
Ferris State University
Management's Discussion and Analysis (continued)

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses increased by \$17.0 million from 2014 levels to \$248.4 million. Instruction, student services, and student aid represent \$132.3 million, or 53.3 percent, of the total. Operations and maintenance of plant and depreciation total \$34.6 million, or 13.9 percent, and auxiliary operations total \$22.6 million, or 9.1 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

During the 2014 fiscal year, operating expenses increased by \$0.6 million from 2013 levels to \$231.4 million. Instruction, student services, and student aid represent \$122.5 million, or 52.9 percent, of the total. Operations and maintenance of plant and depreciation total \$31.1 million, or 13.4 percent, and auxiliary operations total \$21.7 million, or 9.4 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses. Other expenses decreased by \$4.6 million in 2014 from the one-time expense incurred in 2013 from the sale of the Holiday Inn Hotel and Conference Center.

The following is a graphic illustration of operating expenses by function for June 30, 2015:



Ferris State University
Management's Discussion and Analysis (continued)

Statement of Cash Flows

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

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

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

	2015	2014	2013
Net Cash (Used in) Provided by:			
Operating activities	\$ (71.2)	\$ (58.7)	\$ (57.5)
Noncapital financing activities	84.7	78.5	75.0
Capital and related financing activities	(30.4)	(23.7)	(6.4)
Investing activities	(2.7)	5.1	0.2
Increase (Decrease) in Cash	(19.6)	1.2	11.3
Cash and Cash Equivalents - Beginning of year	58.2	57.0	45.7
Cash and Cash Equivalents - End of year	\$ 38.6	\$ 58.2	\$ 57.0

Major sources of funds from operations came from student tuition and fees, grants and contracts, along with residential life and other auxiliary activities. These sources were offset by expenditures for operations such as payments to employees and suppliers and loans issued to students. The net total of cash used in operations increased by \$12.5 million from \$58.7 million in 2014 to \$71.2 million in 2015.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by \$6.2 million from \$78.5 million in 2014 to \$84.7 million in 2015.

Cash used in capital and related financing activities totaled \$30.4 million, used primarily for capital assets acquired during the year, construction projects of \$21.8 million, and debt and interest payments of \$22.5 million which were offset by proceeds from current year bond offering of \$12.9 million, and other proceeds totaling \$1.0 million.

Cash used by investing activities totaled \$2.7 million. This is the amount of cash used for investment purchases in excess of cash provided by the sale of investments.

Ferris State University
Management's Discussion and Analysis (continued)

Capital Assets and Debt Administration

Capital Assets

At June 30, 2015, the University had \$279.7 million invested in capital assets, net of accumulated depreciation of \$182.3 million.

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

	2015	2014	2013
Land, land improvements, and infrastructure	\$ 25.9	\$ 25.6	\$ 24.8
Buildings and improvements	358.2	329.8	324.6
Furniture, fixtures, and equipment	76.1	75.1	75.8
Construction in progress	1.8	18.6	2.6
Total	<u>\$ 462.0</u>	<u>\$ 449.1</u>	<u>\$ 427.8</u>

Infrastructure additions totaled \$0.3 million for new sidewalk sections and other improvements. Changes to building and improvements totaling \$28.4 million included the following: \$32.6 million construction of the University Center, \$1.7 million for original structure of Rankin Center added to University Center, \$0.5 million for Urban Institute of Contemporary Arts renovation work, other additions totaling \$0.4 million offset by \$1.3 million for disposal of Helen Ferris residence hall and partial disposal of the Rankin Center of \$5.5 million.

Expenditures totaling \$1.8 million for plans for a new Katke professional golf management center, plans for Swan annex project, track resurfacing, tunnel infrastructure work, and multiple roofing replacements were included in construction in progress. Capitalization of the University Center transferred from construction in progress to buildings and improvements.

The annual library collection adjustment resulted in offsetting increases of \$0.9 million to both the furniture, fixtures, and equipment category as well as accumulated depreciation.

Debt Administration

At year end, the University had \$94.0 million in debt outstanding compared to \$99.6 million at 2014 and \$91.9 million at 2013. In addition to General Revenue Bond debt, the University is a guarantor on \$11.7 million of Limited Obligation Recovery Zone Facility Revenue Bonds Series 2010A for the Ferris Building. The balance at June 30, 2014 was \$12.0 million and \$12.3 million at June 30, 2013. This building is being leased and the debt is included in the long-term liabilities.

Ferris State University
Management's Discussion and Analysis (continued)

Economic Factors That Will Affect the Future

In 2015, the State of Michigan continues to exhibit the kind of economic recovery that has led to stable and gradually increasing investment in higher education, allowing the University to plan for the future. Both the Governor and State Legislature have stressed the importance of higher education – especially in the areas of Science, Technology, Engineering and Mathematics – to Michigan's continued economic health. The University's emphasis on career-oriented degrees supports the state's goal of an educated workforce prepared for 21st century challenges. In addition to supporting Michigan's economic recovery, the University's mission in providing career-oriented education positions the University well for continued alignment with the state's performance-funding metrics.

Another positive development this year helps address the long-term legacy costs and unfunded mandate of the Michigan Public Schools Employees Retirement System (MPERS). The 2015-16 approved State higher education budget includes base funding to partially defray costs of the system for the seven member universities which pay into MPERS. That appropriation will be used to support the unfunded pension liabilities above an agreed-upon cap, reducing long-term liabilities and flattening the rate of future MPERS cost increases. This comes as new federal reporting regulations require institutions to record unfunded pension liabilities in their financial statements. However, at present this is only a partial solution. The existing disparity between MPERS and non-MPERS universities creates an uneven burden for students at MPERS universities and should be eliminated.

One area of continuing concern is student debt. It has been a national trend to shift the cost of public education to students and to eliminate support for student financial aid programs as states have struggled to balance their budgets. For the first time in many years, there is some hope that a consensus could be found at both the state and federal level to address this issue. At the University, reducing student debt is a main goal of our strategic plan. Increased student support, cost containment, financial literacy and reducing time-to-graduation are all part of a comprehensive effort to make a difference for our students. In 2013-14, the most recent data available, student debt for students carrying debt declined \$1,605.

The University is enjoying steady enrollment at a time when the state's demographic trend is for diminishing cohorts of graduating high school seniors. The University is meeting the needs of students seeking career-oriented degrees. In some cases, the University is looking to increase its physical capacity to deliver instruction in such areas as Information Security and Intelligence, and Welding Engineering Technology – degree programs with waitlists of accepted students.

The University's strategic plan focuses on students and student achievement that leads to completion of degrees relevant to career success. Positive movement on state support, student debt and MPERS relief are all important for the stability of the University, its students and their futures. Looking forward, the University's career-oriented focus will continue to attract students and align with the State's priorities and performance-funding metrics. This positions the University well for its enrollment outlook, state funding, degree affordability, and therefore stable finances.

Ferris State University
Statements of Net Position

	June 30	
	2015	2014
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 38,603,931	\$ 56,739,696
Short-term investments (Note 2)	48,117,875	42,443,603
Accounts receivable - Net (Note 3)	22,072,365	19,120,656
Inventories	949,766	904,473
Prepaid expenses and other assets	813,383	719,640
Total current assets	<u>110,557,320</u>	<u>119,928,068</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	-	1,444,423
Endowment investments (Note 2)	48,015,795	45,898,531
Other long-term investments (Note 2)	42,079,766	45,711,579
Student loans receivable - Net (Note 3)	18,154,757	18,536,892
Other noncurrent assets	717,721	757,190
Capital assets - Net (Note 4)	279,701,527	271,122,852
Total noncurrent assets	<u>388,669,566</u>	<u>383,471,467</u>
Total assets	<u>499,226,886</u>	<u>503,399,535</u>
Deferred Outflows of Resources		
Net pension obligation	518,862	-
Refunding of debt	732,338	808,105
Total deferred outflows of resources	<u>1,251,200</u>	<u>808,105</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	18,728,637	19,117,657
Unearned revenue	9,000,968	8,236,967
Long-term liabilities - Current portion (Note 5)	7,223,001	6,517,981
Total current liabilities	<u>34,952,606</u>	<u>33,872,605</u>
Noncurrent liabilities:		
Deposits	750,200	815,419
Federal student loan payable	12,908,104	12,936,850
Long-term liabilities (Note 5)	109,191,243	115,325,566
Net pension obligation	65,729,143	-
Total noncurrent liabilities	<u>188,578,690</u>	<u>129,077,835</u>
Total liabilities	<u>223,531,296</u>	<u>162,950,440</u>
Net Position		
Net investment in capital assets	175,758,761	162,014,039
Restricted for (Note 1):		
Nonexpendable:		
Scholarships	23,886,583	21,262,399
Expendable:		
Scholarships	10,902,870	10,510,123
Research	85,261	68,618
Instructional department uses	4,626,648	4,963,147
Loans	6,841,080	7,015,161
Capital projects	200	200
Other	6,737,766	1,427,834
Unrestricted (Note 1)	48,107,621	133,995,679
Total net position	<u>\$ 276,946,790</u>	<u>\$ 341,257,200</u>

See accompanying notes.

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

	Year Ended June 30	
	2015	2014
Operating Revenues		
Tuition and fees - Net of scholarship allowances of \$33,501,233 for 2015 and \$31,390,057 for 2014	\$ 120,715,410	\$ 116,440,452
Federal grants and contracts	2,506,444	2,267,806
State and local grants and contracts - Net of refunds	876,149	327,405
Nongovernmental grants	439,423	395,099
Departmental activities	11,908,541	11,579,115
Auxiliary enterprises - Net of scholarship allowances of \$6,466,598 for 2015 and \$6,848,821 for 2014	28,149,397	30,105,818
Other operating revenues	1,026,583	1,107,420
Total operating revenues	165,621,947	162,223,115
Operating Expenses		
Instruction	96,128,836	87,723,061
Research	457,603	710,516
Public service	4,832,786	4,254,934
Academic support	29,087,540	28,444,496
Student services	18,405,654	16,754,144
Institutional support	23,831,272	22,128,901
Operation and maintenance of plant	23,363,275	21,579,963
Depreciation	11,236,660	9,546,795
Student aid	17,771,120	18,047,262
Auxiliary enterprises	22,557,741	21,655,795
Other expenses	665,337	552,855
Total operating expenses	248,337,824	231,398,722
Operating Loss	(82,715,877)	(69,175,607)
Nonoperating Revenues (Expenses)		
State appropriations	50,263,844	46,067,208
Federal Pell grants	23,669,591	23,821,289
Gifts	8,891,643	8,083,456
Investment gain	1,444,984	15,369,938
Interest on capital asset - Related debt	(4,281,557)	(4,588,314)
Net nonoperating revenues (expenses)	79,988,505	88,753,577
Income (Loss) - Before other revenues	(2,727,372)	19,577,970
Other Revenues		
State capital appropriations	-	17,827
Additions to permanent endowments	2,614,768	800,870
Increase (Decrease) in Net Position	(112,604)	20,396,667
Net Position		
Beginning of year	341,257,200	320,860,533
Cumulative effect of change in accounting principle	(64,197,806)	-
Beginning of year - As restated	277,059,394	320,860,533
End of year	\$ 276,946,790	\$ 341,257,200

Ferris State University
Statements of Cash Flows

	Year Ended June 30	
	2015	2014
Cash Flows from Operating Activities		
Tuition and fees	\$ 120,757,581	\$ 116,603,125
Grants and contracts	3,628,604	2,799,682
Payments to suppliers	(126,562,618)	(112,256,759)
Payments to employees	(110,844,440)	(106,877,562)
Interest collected on student loans	504,701	647,648
Loans issued to students	(3,210,642)	(3,593,621)
Collection of loans from students	3,118,038	2,950,720
Auxiliary enterprise charges	28,149,397	30,105,818
Other receipts	13,219,316	10,905,651
Net cash used in operating activities	<u>(71,240,063)</u>	<u>(58,715,298)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	49,636,480	45,815,246
Pell grant receipts	23,669,591	23,821,289
Gifts and grants for other than capital purposes	8,841,447	8,022,472
Private gifts for endowment purposes	2,614,768	800,870
Federal direct loan lending receipts	92,245,300	92,881,708
Federal direct loan lending disbursements	(92,275,262)	(92,878,094)
Net cash provided by noncapital financing activities	<u>84,732,324</u>	<u>78,463,491</u>
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	-	60,019
Capital grants and gifts received	50,196	60,984
Purchase of capital assets and construction	(21,824,543)	(27,815,438)
Proceeds from sale of buildings and equipment	221,948	197,407
Proceeds from capital debt	12,880,000	12,570,000
Principal paid on capital debt	(18,880,000)	(5,120,000)
Proceeds from capital debt premium	785,066	426,342
Interest paid on capital debt	(3,590,377)	(4,061,929)
Net cash used in capital and related financing activities	<u>(30,357,710)</u>	<u>(23,682,615)</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	24,603,821	35,183,402
Investment income	10,807,518	34,006,326
Purchase of investments	(38,126,078)	(64,033,232)
Net cash provided by (used in) investing activities	<u>(2,714,739)</u>	<u>5,156,496</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19,580,188)	1,222,074
Cash and Cash Equivalents - Beginning of year	58,184,119	56,962,045
Cash and Cash Equivalents - End of year	\$ 38,603,931	\$ 58,184,119

See accompanying notes.

Ferris State University
Statements of Cash Flows (continued)

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

	Year Ended June 30	
	2015	2014
Operating loss	\$ (82,715,877)	\$ (69,175,607)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	11,236,660	9,546,795
Amortization of bond insurance costs	39,469	38,956
Amortization of net pension obligation	3,888,796	-
Proceeds from capital debt premium	(785,066)	(426,342)
Loss on disposal of fixed assets	1,787,260	1,062,987
Decrease (increase) in assets:		
Accounts receivable	(2,324,345)	(2,626,636)
Student loans receivable	383,351	(352,505)
Inventories, prepaid expenses, and other assets	(139,036)	(34,841)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(389,020)	3,564,499
Deposits and unearned revenue	698,782	112,062
Accrued sick leave	(44,716)	(424,666)
Net pension obligation	(2,876,321)	-
Net cash used in operating activities	<u>\$ (71,240,063)</u>	<u>\$ (58,715,298)</u>

Ferris State University
Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies

Ferris State University (the “University”) is an institution of higher education created on September 1, 1884 as Big Rapids Industrial School. In 1885, the school name was changed to Ferris Industrial School; in 1898 to Ferris Institute; in 1950 became a component unit of the State of Michigan (the “State”); in 1963 Ferris State College; and in 1987 to its current structure of Ferris State University. 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 Trustees is appointed by the Governor of the State. Accordingly, the University is included in the State’s financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University follows the business-type activities reporting requirements of GASB Statements No. 34 and No. 35, which provide a comprehensive one-line look at the University’s financial activities.

The financial statements have been prepared incorporating totals from the University and the Ferris Foundation (Foundation). The Foundation was evaluated in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. 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, 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 Statement No. 61, 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, 2015 audited financial statements for the Ferris Foundation can be found at: www.ferris.edu/foundation.

Ferris State University
Notes to Financial Statements (continued)

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 at June 30			
Assets	2015	2014	
Investments	\$ 48,015,795	\$ 45,898,531	
Other assets	7,652,426	1,899,500	
Total assets	55,668,221	47,798,031	
Liabilities			
Other liabilities	268,457	113,890	
Total liabilities	268,457	113,890	
Net Assets			
Unrestricted	12,744,978	12,123,792	
Temporarily restricted	18,768,203	14,297,950	
Permanently restricted	23,886,583	21,262,399	
Total net assets	\$ 55,399,764	\$ 47,684,141	

Ferris Foundation			
Condensed Statements of Activities for the Year Ended June 30			
	2015	2014	
Support, revenue, and gains			
Gifts and contributions	\$ 11,821,872	\$ 997,050	
Other support, revenue, and gains	547,061	6,797,504	
Total support, revenue, and gains	12,368,933	7,794,554	
Expenses			
Disbursements to Ferris	3,757,877	1,152,129	
Other expenses	2,148,426	388,594	
Total expenses	5,906,303	1,540,723	
Revenue, gains, and other support over expenses	6,462,630	6,253,831	
Net transfers from Ferris	1,252,993	41,900	
Increase in net assets	7,715,623	6,295,731	
Net assets - beginning of year	47,684,141	41,388,410	
Net assets - end of year	\$ 55,399,764	\$ 47,684,141	

Ferris State University
Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Ferris Foundation		
Condensed Statements of Cash Flows for the Year Ended June 30		
	2015	2014
Net cash used in operating activities	\$ (770,993)	\$ (408,435)
Net cash used in investing activities	(2,254,688)	(184,474)
Net cash provided by financing activities	3,852,037	828,278
Net increase in cash and cash equivalents	826,356	235,369
Cash and cash equivalents - beginning of year	1,274,634	1,039,265
Cash and cash equivalents - end of year	\$ 2,100,990	\$ 1,274,634

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

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires the University to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB Statement No. 68 requiring the University to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the University has reported a net pension liability of \$68,605,464 as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

Restricted Net Position

Restricted net position represent 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 \$23,886,583 at June 30, 2015 and \$21,262,399 at June 30, 2014. The remaining restricted balance of \$29,193,825 at June 30, 2015 and \$23,985,083 at June 30, 2014 consists primarily of funds restricted for student loans, scholarships, and other purposes.

Ferris State University
Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Unrestricted Net Position

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

	2015	2014
Designated for general fund division use	\$ 11,032,329	\$ 11,250,964
Designated for encumbrances	784,950	312,578
Designated for maintenance and replacement	55,705,599	75,285,858
Designated for Foundation endowments	12,744,978	12,123,792
Designated for unfunded pension obligation	(65,210,281)	-
Unrestricted and undesignated	33,050,046	35,022,487
Total unrestricted net position	<u>\$ 48,107,621</u>	<u>\$ 133,995,679</u>

Cash and Cash Equivalents

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

Investments

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

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.

Capital Assets

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

Ferris State University
Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources

Deferred outflows of resources consist of gain/loss on the defeasance of the refunding of debt and net outflows related to multi-employer net pension obligation. Deferred outflows of resources related to refunding of debt totaled \$732,338 at June 30, 2015 and \$808,105 at June 30, 2014. 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 obligation amounts totaled \$518,862 at June 30, 2015. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members.

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 Obligation

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

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, 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

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.

Ferris State University
Notes to Financial Statements (continued)

2. Cash and Investments (continued)

Intermediate and Long-term Investments

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

Endowment Investments

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

As of June 30, 2015, 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	\$ 2,056,200	\$ 2,056,200	\$ -	\$ -	\$ -
Money markets	36,547,731	36,547,731	-	-	-
Mutual bond funds	62,032,153	-	18,171,800	43,860,353	-
Mutual equity funds	28,004,789	-	-	-	28,004,789
Real estate funds	6,277,822	-	-	-	6,277,822
Marketable securities	260,027	-	-	-	260,027
International equity funds	21,526,760	-	-	-	21,526,760
Alternative investments	18,945,913	-	-	-	18,945,913
Cash surrender value of life insurance	1,165,972	1,165,972	-	-	-
Total	<u>\$ 176,817,367</u>	<u>\$ 39,769,903</u>	<u>\$ 18,171,800</u>	<u>\$ 43,860,353</u>	<u>\$ 75,015,311</u>

As of June 30, 2014, 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	\$ 2,017,606	\$ 2,017,606	\$ -	\$ -	\$ -
Money markets	56,166,513	56,166,513	-	-	-
Mutual bond funds	60,718,849	-	17,618,908	43,099,941	-
Mutual equity funds	27,322,518	-	-	-	27,322,518
Real estate funds	4,920,040	-	-	-	4,920,040
Marketable securities	246,498	-	-	-	246,498
International equity funds	22,981,427	-	-	-	22,981,427
Alternative investments	16,714,726	-	-	-	16,714,726
Cash surrender value of life insurance	1,149,655	1,149,655	-	-	-
Total	<u>\$ 192,237,832</u>	<u>\$ 59,333,774</u>	<u>\$ 17,618,908</u>	<u>\$ 43,099,941</u>	<u>\$ 72,185,209</u>

Ferris State University
Notes to Financial Statements (continued)

2. Cash and Investments (continued)

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 advisors, Fund Evaluation Group. Equity funds are considered to be long-term funds and, therefore, are presented as investments with maturities over 10 years. Market risks (including interest rate risk and liquidity risk) and credit risks are managed by Board policies as described below.

Interest Rate Risk

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

Liquidity Risk

In accordance with 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 risk. However, Board policy establishes limits on balances held in any one bank or bank account to reduce risk. At June 30, 2015, the carrying amount of the University's deposits was \$2,762,073 and \$2,534,447 at June 30, 2014. Of that amount, \$1,000,000 was insured for both years. Of the bank balance, \$1,800,138 at June 30, 2015 was collateralized (\$1,440,631 at June 30, 2014). The FDIC insurance limit is \$250,000 per depositor; in addition, the University utilized collateralized banking products.

Ferris State University
Notes to Financial Statements (continued)

2. Cash and Investments (continued)

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.

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 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:

	2015		2014	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Vanguard Short Term Bond Index	\$ 9,021,509	AA+	\$ 8,413,407	AA
Western Asset	8,159,989	AA-	8,027,215	AA
PIMCO Total Return	-		8,037,482	A+
PIMCO Real Return	11,770,223	AA	12,140,335	AA+
Vanguard Short Term Investment Grade	3,154,592	AA+	3,119,642	AA-
Franklin Templeton Global Bond	5,995,698	A-	6,085,859	A-
Loomis Sayles Institutional High Yield	1,076,028	BBB-	1,119,686	B
Commonfund Multi-Strategy Bond Fund	22,854,114	A+	13,775,223	A+
Total	<u>\$ 62,032,153</u>		<u>\$ 60,718,849</u>	

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 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 \$36,356,661 for the year ended June 30, 2015 and \$35,782,011 for the year ended June 30, 2014.

Ferris State University
Notes to Financial Statements (continued)

3. Accounts Receivable and Student Loans Receivable

Accounts receivable consist of the following at June 30:

	2015	2014
Student	\$ 9,445,397	\$ 8,788,786
Grants and contracts	307,302	142,636
State appropriations	8,924,912	8,297,548
Pledges receivable	5,945,446	3,831,835
Other	987,669	1,617,901
Total accounts receivable	25,610,726	22,678,706
Less allowance for doubtful accounts	3,538,361	3,558,050
Total accounts receivable - Net	<u>\$ 22,072,365</u>	<u>\$ 19,120,656</u>

Student loans receivable of \$18,154,757 for the year ended June 30, 2015 and \$18,536,892 for the year ended June 30, 2014, are recorded net of an allowance for doubtful accounts of \$3,400,000 for 2015 and 2014.

4. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 8,446,594	\$ -	\$ -	\$ -	\$ 8,446,594
Infrastructure	10,536,422	285,010	-	-	10,821,432
Building and building improvements	329,824,778	1,855,052	(6,840,599)	33,328,481	358,167,712
Furniture, fixtures, and equipment	75,113,164	3,117,224	(2,091,899)	-	76,138,489
Subtotal - Depreciable assets	423,920,958	5,257,286	(8,932,498)	33,328,481	453,574,227
Land	6,596,622	-	-	-	6,596,622
Construction in progress	18,591,898	16,567,257	-	(33,328,481)	1,830,674
Subtotal - Nondepreciable assets	25,188,520	16,567,257	-	(33,328,481)	8,427,296
Total	449,109,478	21,824,543	(8,932,498)	-	462,001,523
Less accumulated depreciation:					
Land improvements	5,718,976	254,874	-	-	5,973,850
Infrastructure	5,109,071	514,372	-	-	5,623,443
Building and building improvements	124,887,379	7,706,119	(5,113,673)	-	127,479,825
Furniture, fixtures, and equipment	42,271,200	2,761,295	(1,809,617)	-	43,222,878
Total accumulated depreciation	177,986,626	11,236,660	(6,923,290)	-	182,299,996
Capital assets - Net	<u>\$ 271,122,852</u>	<u>\$ 10,587,883</u>	<u>\$ (2,009,208)</u>	<u>\$ -</u>	<u>\$ 279,701,527</u>

Ferris State University
Notes to Financial Statements (continued)

4. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 7,768,112	\$ 678,482	\$ -	\$ -	\$ 8,446,594
Infrastructure	10,467,479	934,060	(865,117)	-	10,536,422
Building and building improvements	324,574,567	5,774,506	(2,600,757)	2,076,462	329,824,778
Furniture, fixtures, and equipment	75,800,521	2,332,255	(3,019,612)	-	75,113,164
Subtotal - Depreciable assets	418,610,679	9,719,303	(6,485,486)	2,076,462	423,920,958
Land	6,596,622	-	-	-	6,596,622
Construction in progress	2,572,225	18,096,135	-	(2,076,462)	18,591,898
Subtotal - Nondepreciable assets	9,168,847	18,096,135	-	(2,076,462)	25,188,520
Total	427,779,526	27,815,438	(6,485,486)	-	449,109,478
Less accumulated depreciation:					
Land improvements	5,498,027	220,949	-	-	5,718,976
Infrastructure	5,606,852	367,336	(865,117)	-	5,109,071
Building and building improvements	119,621,081	7,026,361	(1,760,063)	-	124,887,379
Furniture, fixtures, and equipment	42,938,963	1,932,149	(2,599,912)	-	42,271,200
Total accumulated depreciation	173,664,923	9,546,795	(5,225,092)	-	177,986,626
Capital assets - Net	\$ 254,114,603	\$ 18,268,643	\$ (1,260,394)	\$ -	\$ 271,122,852

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)	5 years
Land improvements and infrastructure	20 years
Equipment	5 to 15 years

Several of the buildings on campus were financed through the issuance of bonds by the State of Michigan Building Authority (SBA). The SBA bonds are secured by a pledge of rentals to be received from the State of Michigan pursuant to a lease agreement entered into among the SBA, the State of Michigan, and the University. During the lease term, the SBA will hold title to the buildings, the State of Michigan will make all lease payments to the SBA, and the University will be responsible for all operating and maintenance costs. At the expiration of the lease, the SBA will transfer the title of the buildings to the University. The renovations are being recorded as 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.

Ferris State University
Notes to Financial Statements (continued)

5. Long-term Liabilities

Long-term obligation activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2014B	\$ -	\$ 12,880,000	\$ 265,000	\$ 12,615,000	\$ 1,320,000
General Revenue Bonds, Series 2014A	12,570,000	-	-	12,570,000	355,000
General Revenue Refunding Bonds, Series 2012	12,785,000	-	1,005,000	11,780,000	1,045,000
General Revenue Bonds, Series 2009	35,055,000	-	1,050,000	34,005,000	1,085,000
General Revenue Refunding Bonds, Series 2008	24,800,000	-	1,820,000	22,980,000	1,895,000
General Revenue Refunding Bonds, Series 2005	14,415,000	-	14,415,000	-	-
Total bonds and notes payable	99,625,000	12,880,000	18,555,000	93,950,000	5,700,000
Other liabilities:					
Accrued sick leave	8,722,563	-	44,716	8,677,847	-
Unamortized bond premiums	303,682	785,066	80,176	1,008,572	80,176
Accrued interest payable (bonds)	1,049,460	89,800	177,652	961,608	961,608
Accrued interest payable (capital lease)	147,842	-	1,625	146,217	146,217
Capital lease payable	11,995,000	-	325,000	11,670,000	335,000
Total	\$ 121,843,547	\$ 13,754,866	\$ 19,184,169	\$ 116,414,244	\$ 7,223,001

Long-term obligation activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Bonds, Series 2014A	\$ -	\$ 12,570,000	-	\$ 12,570,000	-
General Revenue Refunding Bonds, Series 2012	13,750,000	-	965,000	12,785,000	1,005,000
General Revenue Bonds, Series 2009	36,070,000	-	1,015,000	35,055,000	1,050,000
General Revenue Refunding Bonds, Series 2008	26,540,000	-	1,740,000	24,800,000	1,820,000
General Revenue Refunding Bonds, Series 2005	15,500,000	-	1,085,000	14,415,000	1,135,000
Total bonds and notes payable	91,860,000	12,570,000	4,805,000	99,625,000	5,010,000
Other liabilities:					
Accrued sick leave	9,147,229	-	424,666	8,722,563	-
Unamortized bond premiums (discounts)	(119,927)	426,342	2,733	303,682	(14,321)
Accrued interest payable (bonds)	1,016,743	82,467	49,750	1,049,460	1,049,460
Accrued interest payable (capital lease)	150,205	-	2,363	147,842	147,842
Capital lease payable	12,310,000	-	315,000	11,995,000	325,000
Total	\$ 114,364,250	\$ 13,078,809	\$ 5,599,512	\$ 121,843,547	\$ 6,517,981

General Revenue Refunding Bonds, Series 2014B

The University issued \$12,880,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 2.00 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 decreased the University's total debt service payment by approximately \$2,000,000, with the net present value and cash flow savings of approximately \$1,746,000.

Ferris State University
Notes to Financial Statements (continued)

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 2.00 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 a premium, and mature in varying amounts through 2035. 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 4.00 percent. A rating of “A” was assigned to these bonds by Standards & Poor’s. The bonds are payable from general revenues of the University, callable at a premium, 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 advance 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 \$2,217,683 over the life of the bonds; a deferred outflow of resources of approximately \$80,000; and a total net present cash flow savings of \$3,451,040.

General Revenue Bonds, Series 2009

The University issued \$38,935,000 of General Revenue Bonds. The outstanding balance carries interest rates of 3.50 percent to 5.25 percent. A rating of “AAA” was assigned to these bonds by Standards & Poor’s. The bonds are insured, payable from general revenues of the University, callable at a premium, and mature in varying amounts through 2039. Proceeds from this issuance 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 was 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.

Ferris State University
Notes to Financial Statements (continued)

5. Long-term Liabilities (continued)

General Revenue Refunding Bonds, Series 2008

The University issued \$32,915,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 4.00 percent to 5.00 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 a premium, 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.

General Revenue Refunding Bonds, Series 2005

The University issued \$21,230,000 of General Revenue Refunding Bonds. Proceeds from this issuance in the amount of \$19,760,000 were placed in an irrevocable trust for the purpose of refunding certain maturities of the General Revenue and Refunding Bonds, Series 1995 and a portion of the General Revenue Bonds, Series 1998. The remaining proceeds of \$1,470,000 were used for renovations of the Instructional Resource Center building and repurposing the facility to focus on programs associated with its adjacent College of Business. During 2015, the University paid off these bonds from the proceeds of the General Revenue Refunding Bonds, Series 2014B.

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 3.75 percent to 5.50 percent. Ownership of the building could eventually pass from the City of Grand Rapids to the University after construction is complete and the tax credit recapture expiration date passes. The capital lease is listed as a long term obligation and the related asset included in Buildings and Building Improvements at June 30, 2015 and 2014.

Ferris State University
Notes to Financial Statements (continued)

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, 2015 are as follows:

Year	Bond		Capital Lease
	Principal	Interest	Minimum Payments
2016	\$ 5,700,000	\$ 3,747,545	\$ 913,169
2017	5,900,000	3,545,120	914,469
2018	6,120,000	3,331,733	915,169
2019	6,355,000	3,100,408	915,269
2020	6,590,000	2,862,595	915,262
2021-2025	24,605,000	11,212,425	4,562,719
2026-2030	17,765,000	6,627,203	4,562,675
2031-2035	11,090,000	3,668,363	4,565,784
2036-2039	9,825,000	987,131	914,475
Total	\$ 93,950,000	\$ 39,082,523	\$ 19,178,991
	Less: amount representing interest		7,508,991
	Present value of minimum lease payments		<u>\$ 11,670,000</u>

Bond interest expense was approximately \$4,282,000 for the year ended June 30, 2015 and \$4,588,000 for the year ended June 30, 2014. Construction period interest, which is capitalized as part of the cost of the assets constructed, was \$0 for the year ended June 30, 2015 and \$50,749 for the year ended June 30, 2014.

Accrued Sick Leave

The University provides termination benefits upon retirement resulting from unused sick days which are defined by each respective labor contract and administrative policy. The liability, which is calculated based on eligible service requirements and earned sick leave hours, is recorded using the vesting method and based on those employees currently eligible. Effective July 1, 2001, all nonunion employees hired on or after July 1, 2001 are no longer eligible for the sick leave payout upon retirement.

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans

Michigan Public School Employees' Retirement System

Plan Description

The University participates in the Michigan Public School Employees' Retirement System (MPSERS or System), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all hourly employees and some salary employees hired prior to January 1, 1996. Employees hired on or after January 1, 1996 cannot participate in MPSERS, unless they previously were enrolled in the plan at the University, or one of the other six universities that are part of MPSERS. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909. Separate pension information related to the University's employees included in this plan is not available. The seven participating public universities have a net pension obligation that is separated out from the system-wide MPSERS plan. The net pension obligation information included in this Note relates to the seven public universities that participate in MPSERS and not the plan as a whole.

Contributions

Public Act 300 of 1980, as amended, requires the University to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each University's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

University contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. The University contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The rates from October 1 to September 30 are as follows:

<u>Fiscal Year Ended</u>	<u>Funded Portion</u>	<u>Unfunded Portion</u>
June 30, 2015	4.80%	17.72%
June 30, 2014	3.00%	16.61%

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Depending on the plan selected, plan member contributions range from 0 percent to 7 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The University's required and actual contributions to the plan for the year ended June 30, 2015 was \$6,149,000. Contributions include \$1,133,000 of revenue received from the State of Michigan to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2015.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 years with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death, and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members that do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability for the seven universities participating in MPSERS is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the University's contribution requirement).

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

MPSERS Net Pension Liability – Seven Universities as of September 30, 2014

Total pension liability	\$ 1,013,910,892
Plan fiduciary net position	638,804,892
Net pension liability	<u>\$ 375,106,000</u>
Plan fiduciary net position as a percentage of total pension liability	63.00%
Net pension liability as a percentage of covered-employee payroll	424.35%

MPSERS Net Pension Liability – Seven Universities as of October 1, 2013

Total pension liability	\$ 980,227,806
Plan fiduciary net position	587,853,544
Net pension liability	<u>\$ 392,374,262</u>

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

At June 30, 2015, the University reported a liability of \$65,729,143 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. 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, 2014, the University's proportionate share was 17.52282 percent.

For the year ended June 30, 2015, the University recognized pension expense of \$7,155,206. At June 30, 2015, 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
Changes of assumptions	\$ 1,958,207	\$ -
Net difference between projected and actual plan investment	-	6,319,269
Changes in proportion and differences between University contributions and proportionate share of contributions	5,105	-
University contributions subsequent to the measurement date	4,874,819	-
	<u>\$ 6,838,131</u>	<u>\$ 6,319,269</u>

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2016	\$ 383,495
2017	(1,579,817)
2018	(1,579,817)
2019	(1,579,818)
	<u>\$ (4,355,957)</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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.

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

The total pension liability in the September 30, 2014 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 - 3.5 percent
- Investment rate of return - 7.0 percent to 8.0 percent
- Projected salary increases - 3.5 percent to 12.3 percent, including wage inflation at 3.5 percent
- Cost-of-living adjustments - 3.0 percent annual non-compounded for MIP members
- Healthcare cost trend rate - 8.5 percent year 1 graded to 3.5 percent year 12
- Mortality - RP-2000 male/female combined healthy life mortality tables, adjusted for mortality improvements to 2025 using projection scale BB

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 8.00 percent; the municipal bond rate is 4.11 percent (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve); and the resulting single discount rate is 8.00 percent.

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension 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 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 plan's target asset allocation as of September 30, 2014 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28.0%	4.8%
Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate & Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(.2)
Total	100.0%	

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

The following presents the net pension obligations of the University, calculated using a discount rate of 8.00 percent, as well as what the University's net pension obligation would be if it were calculated using a discount rate that is 1.00 percentage point lower (7.00 percent) or 1.00 percentage point higher (9.00 percent) than the current rate:

1.00 percent decrease (7.00 percent)	Current Discount Rate (8.00 percent)	1.00 percent increase (9.00 percent)
\$ 82,262,168	\$ 65,729,143	\$ 51,482,801

Payable to the Pension Plan

At June 30, 2015, the University reported a payable of \$79,000 for the outstanding amount of contributions to the pension plan required for the year then ended for the statutorily required pension contributions related to accrued labor expense.

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Subsequent Event

On September 30, 2015, the University received \$17.3 million from the plan for a plan error requiring excess contributions. This refund reduced the plan's net position and will impact the University's net position and liability as of June 30, 2016.

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 5 percent to 15 percent of base salary. Plan participants maintain individual annuity contracts with TIAA-CREF or Fidelity Investments, which are fully vested.

For the year ended June 30, 2015, the University contributed approximately \$7,619,000 to the TIAA-CREF plan (\$7,385,000 at year ended June 30, 2014), and approximately \$2,318,000 to the Fidelity Investments plan (\$2,083,000 at year ended June 30, 2014).

Retiree Health

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The University contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The rate for the year ended June 30, 2015 was 0.89 percent on member wages and 10.53 percent on non-member wages (plan costs were invoiced to the University for June 30, 2014). The Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403b account.

Ferris State University
Notes to Financial Statements (continued)

6. Retirement Plans (continued)

Retiree Health (continued)

The University's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2015, 2014, and 2013 were \$3,496,000, \$3,358,000, and \$3,725,000, respectively.

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 2015, 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, 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 2010 for an additional five years expiring in July 2016 with option of additional five year renewals. Annual payments for the lease total approximately \$587,000.

The University also leases certain equipment under various agreements, which generally require an annual rental payment and operating expenses, expiring in 2020.

Ferris State University
Notes to Financial Statements (continued)

8. Leases (continued)

Future minimum payments at June 30, 2015 under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Year	Amount
2016	\$ 788,888
2017	124,622
2018	71,397
2019	25,893
2020	5,993
Total	<u>\$ 1,016,793</u>

Rental expense for the year ended June 30, 2015 was approximately \$2,357,000 and \$1,941,000 for the year ended June 30, 2014.

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, 2015 resulting in the following commitments to vendors:

	Spent to Date	Construction Commitments at Year End
Katke PGM Center	\$ 75,672	\$ 78,967
Roofing Replacements	767,956	48,964
Swan Annex	413,128	149,205
Top Taggart Track	484,424	-
Tunnel Infrastructure	89,494	342,129
Total	<u>\$ 1,830,674</u>	<u>\$ 619,265</u>

Ferris State University
Notes to Financial Statements (continued)

10. New Accounting Pronouncements

GASB Statement No. 72, Fair Value Measurement and Application

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. The University is currently evaluating the disclosures and impact this Statement will have on the financial statements when adopted.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The primary objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. The requirements of this Statement would be effective for fiscal years beginning after June 15, 2017. The University is currently evaluating the impact this Statement will have on the financial statements when adopted; however, the University believes that the impact will be material.

11. Subsequent Event

On August 28, 2015, the University submitted a bid to the County of Kent for the purchase of 78 and 82 Ionia Avenue NW (82 Ionia) located in Grand Rapids, Michigan. The University received a letter dated September 9, 2015 from the County of Kent advising the University of the County's intent to pursue an agreement with the University for the sale of 82 Ionia. The completion of the sale is subject to Board of Trustees approval and expected to occur in late fall 2015.

Ferris State University
Required Supplementary Information

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

University's proportionate share of the net pension obligation:	<u>2015</u>
As a percentage	17.52%
Amount	\$65,729,143
University's covered-employee payroll	\$31,642,187
University's proportionate share of the net pension obligation, as a percentage of the University's covered-employee payroll	207.73%
MPERS fiduciary net position as a percentage of the total pension liability	63.00%

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

	<u>2015</u>
Statutorily required contribution	\$ 5,666,782
Contributions in relation to the actuarially determined contractually required contribution	<u>6,148,573</u>
Contribution excess	\$ 481,791
University's covered-employee payroll	<u>\$31,749,846</u>
Contributions as a percentage of covered-employee payroll	19.37%

Notes to Required Supplementary Information

There were no changes of benefit terms or assumptions in 2014.

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, 2015 and 2014, and our report thereon dated October 16, 2015, 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 2014, 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 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 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
October 16, 2015

Ferris State University
Combining Statement of Net Position
June 30, 2015 and 2014

	2015 Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation	Pension Obligation	2014 Combined Total
Assets											
Current Assets											
Cash and cash equivalents	\$ 38,603,931	\$ 8,419,329	\$ 9,958,280	\$ 114,836	\$ 1,048,597	\$ 481,478	\$ 16,407,758	\$ 72,663	\$ 2,100,990	\$ -	\$ 56,739,696
Short-term investments	48,117,875	16,661,111	24,360,778	3,422,704	2,582,190	1,091,092	-	-	-	-	42,443,603
Accounts receivable - Net	22,072,365	15,186,101	458,876	325,285	307,302	-	50,000	193,365	5,551,436	-	19,120,656
Inventories	949,766	63,932	154,106	731,728	-	-	-	-	-	-	904,473
Prepaid expenses and other assets	813,383	718,583	74,809	19,991	-	-	-	-	-	-	719,640
Total current assets	110,557,320	41,049,056	35,006,849	4,614,544	3,938,089	1,572,570	16,457,758	266,028	7,652,426	-	119,928,068
Noncurrent Assets											
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	1,444,423
Endowment investments	48,015,795	-	-	-	-	-	-	-	48,015,795	-	45,898,531
Other long-term investments	42,079,766	1,165,972	-	-	-	-	40,913,794	-	-	-	45,711,579
Student loans receivable - Net	18,154,757	-	-	-	-	18,154,757	-	-	-	-	18,536,892
Other noncurrent assets	717,721	-	-	-	-	-	717,721	-	-	-	757,190
Capital assets - Net	279,701,527	-	-	-	-	-	279,701,527	-	-	-	271,122,852
Total noncurrent assets	388,669,566	1,165,972	-	-	-	18,154,757	321,333,042	-	48,015,795	-	383,471,467
Total assets	499,226,886	42,215,028	35,006,849	4,614,544	3,938,089	19,727,327	337,790,800	266,028	55,668,221	-	503,399,535
Deferred Outflows of Resources											
Net pension obligation	518,862	-	-	-	-	-	-	-	-	518,862	-
Refunding of debt	732,338	-	-	-	-	-	732,338	-	-	-	808,105
Total deferred outflows of resources	1,251,200	-	-	-	-	-	732,338	-	-	518,862	808,105
Liabilities											
Current liabilities:											
Accounts payable and accrued liabilities	18,728,637	12,826,813	264,740	1,109,705	99,284	-	3,893,610	266,028	268,457	-	19,117,657
Unearned revenue	9,000,968	8,142,460	626,487	232,021	-	-	-	-	-	-	8,236,967
Long-term liabilities - Current portion	7,223,001	-	-	-	-	-	7,223,001	-	-	-	6,517,981
Total current liabilities	34,952,606	20,969,273	891,227	1,341,726	99,284	-	11,116,611	266,028	268,457	-	33,872,605
Noncurrent liabilities:											
Deposits	750,200	-	-	750,200	-	-	-	-	-	-	815,419
Federal student loan payable	12,908,104	-	-	-	-	12,908,104	-	-	-	-	12,936,850
Long-term liabilities	109,191,243	8,165,548	28,284	484,015	-	-	100,513,396	-	-	-	115,325,566
Net pension obligation	65,729,143	-	-	-	-	-	-	-	-	65,729,143	-
Total noncurrent liabilities	188,578,690	8,165,548	28,284	1,234,215	-	12,908,104	100,513,396	-	-	65,729,143	129,077,835
Total liabilities	223,531,296	29,134,821	919,511	2,575,941	99,284	12,908,104	111,630,007	266,028	268,457	65,729,143	162,950,440
Net Position											
Net investment in capital assets	175,758,761	-	-	-	-	-	175,758,761	-	-	-	162,014,039
Restricted for:											
Nonexpendable:											
Scholarships	23,886,583	-	-	-	-	-	-	-	23,886,583	-	21,262,399
Expendable:											
Scholarships	10,902,870	-	-	-	3,291,535	-	-	-	7,611,335	-	10,510,123
Research	85,261	-	-	-	85,261	-	-	-	-	-	68,618
Instructional department uses	4,626,648	-	-	-	2,810	-	-	-	4,623,838	-	4,963,147
Loans	6,841,080	-	-	-	-	6,586,817	-	-	254,263	-	7,015,161
Capital projects	200	-	-	-	-	-	-	-	200	-	200
Other	6,737,766	-	-	-	459,199	-	-	-	6,278,567	-	1,427,834
Unrestricted	48,107,621	13,080,207	34,087,338	2,038,603	-	232,406	51,134,370	-	12,744,978	(65,210,281)	133,995,679
Total net position	\$ 276,946,790	\$ 13,080,207	\$ 34,087,338	\$ 2,038,603	\$ 3,838,805	\$ 6,819,223	\$ 226,893,131	\$ -	\$ 55,399,764	\$ (65,210,281)	\$ 341,257,200

Ferris State University
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015 and 2014

	2015 Combined		General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation	Pension Obligation	2014 Combined Total
	Total	Eliminations									
Operating Revenues											
Tuition and fees - Net	\$ 120,715,410	\$ (33,501,233)	\$ 154,216,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 116,440,452
Federal grants and contracts	2,506,444	-	-	-	15,209	2,491,235	-	-	-	-	2,267,806
State grants and contracts - Net	876,149	-	-	-	-	876,149	-	-	-	-	327,405
Nongovernmental grants	439,423	-	4,900	173,624	-	260,899	-	-	-	-	395,099
Departmental activities	11,908,541	(3,319,622)	4,592,357	10,558,854	-	76,952	-	-	-	-	11,579,115
Auxiliary enterprises - Net	28,149,397	(11,661,530)	-	-	39,810,927	-	-	-	-	-	30,105,818
Other operating revenues	1,026,583	(716,574)	273,174	157,224	1,000	-	504,701	807,058	-	-	1,107,420
Current funds expenditures for equipment and capital improvements	-	(1,516,753)	-	-	-	-	-	1,516,753	-	-	-
Total operating revenues	165,621,947	(50,715,712)	159,087,074	10,889,702	39,827,136	3,705,235	504,701	2,323,811	-	-	162,223,115
Operating Expenses											
Instruction	96,128,836	(583,063)	93,167,325	3,159,834	-	-	-	-	-	384,740	87,723,061
Research	457,603	-	189,529	232,572	-	35,502	-	-	-	-	710,516
Public service	4,832,786	(131,613)	131,926	3,831,249	-	991,099	-	-	-	10,125	4,254,934
Academic support	29,087,540	(315,093)	27,596,589	1,613,674	-	-	-	-	-	192,370	28,444,496
Student services	18,405,654	(168,324)	16,087,306	2,193,698	-	242,350	-	-	-	50,624	16,754,144
Institutional support	23,831,272	(8,696,867)	22,883,041	3,168,111	-	418,813	-	-	5,906,303	151,871	22,128,901
Operations and maintenance of plant	23,363,275	(648,444)	14,367,726	-	-	554,032	-	9,039,337	-	50,624	21,579,963
Depreciation	11,236,660	-	-	-	-	-	-	11,236,660	-	-	9,546,795
Student aid	17,771,120	(33,509,692)	21,137,737	36,835	974,893	29,131,347	-	-	-	-	18,047,262
Auxiliary enterprises	22,557,741	(12,288,277)	-	-	34,673,897	-	-	-	-	172,121	21,655,795
Other expenses	665,337	-	-	-	-	-	665,337	-	-	-	552,855
Total operating expenses	248,337,824	(56,341,373)	195,561,179	14,235,973	35,648,790	31,373,143	665,337	20,275,997	5,906,303	1,012,475	231,398,722
Operating (Loss) Income	(82,715,877)	5,625,661	(36,474,105)	(3,346,271)	4,178,346	(27,667,908)	(160,636)	(17,952,186)	(5,906,303)	(1,012,475)	(69,175,607)
Nonoperating Revenues (Expenses)											
State appropriations	50,263,844	-	50,263,844	-	-	-	-	-	-	-	46,067,208
Federal Pell grants	23,669,591	-	-	-	-	23,669,591	-	-	-	-	23,821,289
Gifts	8,891,643	(5,625,661)	12,017	591,210	99,683	4,584,237	23,053	-	9,207,104	-	8,083,456
Investment gain	1,444,984	-	101,843	3,762,220	(140,316)	(173,363)	(61,529)	(2,590,932)	547,061	-	15,369,938
Interest on capital asset - Related debt	(4,281,557)	-	-	-	-	-	-	(4,281,557)	-	-	(4,588,314)
Net nonoperating revenues (expenses)	79,988,505	(5,625,661)	50,377,704	4,353,430	(40,633)	28,080,465	(38,476)	(6,872,489)	9,754,165	-	88,753,577
Income (Loss) - Before other revenues	(2,727,372)	-	13,903,599	1,007,159	4,137,713	412,557	(199,112)	(24,824,675)	3,847,862	(1,012,475)	19,577,970
Other Revenues											
State capital appropriations	-	-	-	-	-	-	-	-	-	-	17,827
Additions to permanent endowments	2,614,768	-	-	-	-	-	-	-	2,614,768	-	800,870
Increase (Decrease) in Net Position - Before transfers	(112,604)	-	13,903,599	1,007,159	4,137,713	412,557	(199,112)	(24,824,675)	6,462,630	(1,012,475)	20,396,667
Transfers In (Out)	-	-	(14,757,831)	(5,356,885)	(4,461,582)	487,899	12,487	22,822,919	1,252,993	-	-
Net Increase (Decrease) in Net Position	(112,604)	-	(854,232)	(4,349,726)	(323,869)	900,456	(186,625)	(2,001,756)	7,715,623	(1,012,475)	20,396,667
Net Position - Beginning of year	341,257,200	-	13,934,439	38,437,064	2,362,472	2,938,349	7,005,848	228,894,887	47,684,141	-	320,860,533
Cumulative effect of change in accounting principle	(64,197,806)	-	-	-	-	-	-	-	-	(64,197,806)	-
Net Position - Beginning of year - As restated	277,059,394	-	13,934,439	38,437,064	2,362,472	2,938,349	7,005,848	228,894,887	47,684,141	(64,197,806)	320,860,533
Net Position - End of year	\$ 276,946,790	\$ -	\$ 13,080,207	\$ 34,087,338	\$ 2,038,603	\$ 3,838,805	\$ 6,819,223	\$ 226,893,131	\$ 55,399,764	\$ (65,210,281)	\$ 341,257,200