

Financial Report

**Ferris State University**

*Years ended June 30, 2019 and 2018  
with Report of Independent Auditors*



# Ferris State University

## **Board of Trustees**

Amna P. Seibold  
Chair

Ana L. Ramirez-Saenz  
Vice Chair

Rupesh K. Srivastava  
Secretary

Lori Gwizdala  
Immediate Past Chair

Robert J. Hegbloom  
Trustee

Kurt A. Hofman  
Trustee

Kari Sederburg  
Trustee

LaShanda R. Thomas  
Trustee

## **Executive Officers**

David L. Eisler  
President

Tara McCrackin  
Interim President Kendall College of Art &  
Design and Vice President of Ferris State  
University

Paul Blake  
Provost & Vice President for Academic  
Affairs

Shelly L. Percy  
Vice President for University Advancement  
& Marketing

David Pilgrim  
Vice President for Diversity & Inclusion

Miles Postema  
Vice President & General Counsel

Michael Hughes  
Interim Vice President for Administration &  
Finance

Jeanine Ward-Roof  
Vice President for Student Affairs

## **Finance Unit Staff**

Michael A. Grandy  
Associate Vice President for Finance

Nicole C. Lintemuth  
Director of Accounting Services

Ferris State University  
Financial Report  
Years ended June 30, 2019 and 2018

**Contents**

Report of Independent Auditors.....	1
Management’s Discussion and Analysis .....	3
Financial Statements	
Statements of Net Position.....	15
Statements of Revenues, Expenses, and Changes in Net Position .....	16
Statements of Cash Flows.....	17
Notes to Financial Statements.....	19
Required Supplementary Information	
Schedule of the University’s Proportionate Share of the Net Pension Obligation .....	50
Schedule of University’s Pension Contributions .....	50
Notes to Required Pension Supplementary Information .....	50
Schedule of the University’s Proportionate Share of the Net OPEB Obligation.....	51
Schedule of University’s OPEB Contributions.....	51
Notes to Required OPEB Supplementary Information.....	51
Other Supplementary Information	
Report of Independent Auditors on Other Supplementary Information .....	52
Combining Statement of Net Position .....	53
Combining Statement of Revenues, Expenses, and Changes in Net Position .....	54

## 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, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ferris State University as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 and the Required Supplementary Information on pages 50 and 51 (related to pension and postemployment benefits, and Notes to Required Supplementary Information) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2019, on our consideration of Ferris State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ferris State University's internal control over financial reporting and compliance.

*Andrews Hooper Paulik PLC*

Grand Rapids, Michigan  
September 17, 2019

## 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, 2019 with selected comparative information as of and for the years ended June 30, 2018 and 2017. The University includes the Ferris Foundation (audited financial statements can be found at [www.ferris.edu/giving/ferris-foundation/policies.htm](http://www.ferris.edu/giving/ferris-foundation/policies.htm)) as well as all site locations, including the main campus in Big Rapids, Kendall College of Art and Design, Urban Institute of Contemporary Art, and numerous sites across the State. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University's administration.

### **Using this Report**

This annual financial report includes the report of independent auditors, the management's discussion and analysis, the financial statements, including the notes to the financial statements, required supplementary information, and other supplementary information. The financial statements included in this report are the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) accounting principles, which establish standards for public colleges and universities.

### **Financial Highlights**

The University's operating revenues decreased by \$4.2 million during the fiscal year ended June 30, 2019 due to modest declines in student enrollment and on-campus residents. The University's operating expenses decreased \$4.5 million during the fiscal year ended June 30, 2019 due to decreases in operating budgets. The University's total assets grew \$8.1 million to \$565.2 million at year end. The University invested significantly in the physical properties as capital assets increased \$7.4 million to \$332.7 million net of depreciation for the fiscal year ended June 30, 2019.

Operating revenues decreased \$4.2 million or 2.6 percent compared to prior year. This decrease is mostly attributable to tuition revenue. Operating expenditures decreased \$4.5 million or 1.8 percent compared to prior year. The current year operating expenses include \$12.9 million of multi-employer pension plan and (\$3.1) million of other post employment benefits (OPEB) reporting. The total of all other expenditures decreased 4.5 percent. Investment gains for the University and the Ferris Foundation (Foundation) were \$4.9 million and \$4.1 million, respectively. This reflects investment returns of 4.4 percent on the University's operating funds and 4.9 percent on the Foundation's portfolio.

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

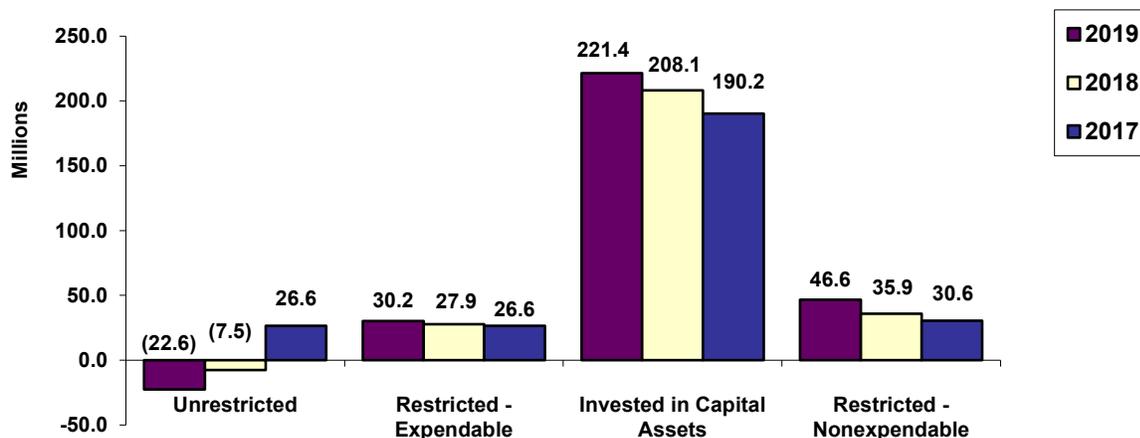
**Financial Highlights (continued)**

The largest component of operating revenues is tuition and fees, net of scholarships. Tuition and fees revenue decreased \$3.6 million resulting from a decrease in enrollment totaling \$6.6 million and additional tuition discounts totaling \$1.3 million, partially offset by a 3.8 percent increase in the undergraduate tuition rate generating \$4.3 million.

Operating expenses decreased by \$4.5 million. Multi-employer pension and OPEB expense increased \$6.5 million due to a change in the University's proportionate share of the net pension and OPEB obligation and pension and OPEB system investment returns. All other operating expenses decreased \$11.0 million. The functional areas with the largest decrease in operating expenditures were academic support of \$2.3 million and institutional support of \$1.3 million.

For the year ended June 30, 2018, the University's operating revenues decreased by \$2.6 million. The University's total assets grew \$7.7 million to \$557.1 million at year end. The University continued to invest in the physical properties as operations and maintenance expenditures totaled \$19.8 million and capital assets increased \$29.9 million to \$535.8 million before depreciation for the fiscal year ending June 30, 2018. Operating expenses increased by \$12.1 million. Multi-employer pension and OPEB expense increased \$5.5 million due to a change in the University's proportionate share of the net pension obligation and pension system investment returns and the adoption of GASB 75, which is discussed further in the notes to the financial statements. All other operating expenses increased \$6.6 million. The functional areas with the largest increase in operating expenditures were instruction, academic support, and student aid. Instruction increased \$2.4 million, academic support increased \$2.6 million, and student aid increased \$2.4 million. Non-operating revenues (expenses) increased \$0.8 million during fiscal year 2018. Investment gains for the University and the Foundation were \$3.5 million and \$5.2 million, respectively. This reflects investment returns of 3.8 percent on the University's operating funds and 7.0 percent on the Foundation's portfolio.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2019, 2018, and 2017:



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, which is one way to measure the University's financial health, or financial position. Many other nonfinancial factors, such as the trend in student applications, student retention, condition of the facilities, and strength of the educational offerings, also need to be considered to assess the overall health of the University.

These financial statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**Net Position**

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

For the year ended June 30, 2018, total net position decreased by \$9.6 million to \$264.4 million. Unrestricted net position decreased by \$34.1 million to (\$7.5) million. This total was comprised of (\$92.2) million net unfunded pension obligation; (\$23.1) million net unfunded OPEB obligation; \$77.7 million identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments; and \$30.1 million unrestricted and undesignated. The unrestricted and undesignated amount was comprised of \$22.1 million for self-supporting departmental, student loan, and auxiliary activities, and \$8.0 million for maintenance and construction projects on campus.

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)**

	2019	2018	2017
<b>Assets</b>			
Current assets	\$ 104.9	\$ 109.9	\$ 109.8
Noncurrent assets:			
Capital assets - Net of depreciation	332.7	325.3	304.1
Other	127.6	121.9	135.5
Total assets	<b>565.2</b>	<b>557.1</b>	<b>549.4</b>
<b>Deferred Outflows of Resources</b>			
Net pension obligation	6.0	6.5	6.5
Net OPEB obligation	2.0	1.4	-
Refunding of debt	3.4	3.7	3.9
Total deferred outflows of resources	<b>11.4</b>	<b>11.6</b>	<b>10.4</b>
<b>Liabilities</b>			
Current liabilities	39.1	43.6	44.2
Long-term liabilities	254.7	256.6	239.0
Total liabilities	<b>293.8</b>	<b>300.2</b>	<b>283.2</b>
<b>Deferred Inflows of Resources</b>			
Net pension obligation	4.5	3.1	2.6
Net OPEB obligation	2.7	1.0	-
Total deferred inflows of resources	<b>7.2</b>	<b>4.1</b>	<b>2.6</b>
<b>Net Position</b>			
Invested in capital assets	221.4	208.1	190.2
Restricted - Expendable	30.2	27.9	26.6
Restricted - Nonexpendable	46.6	35.9	30.6
Unrestricted	(22.6)	(7.5)	26.6
Total net position	<b>\$ 275.6</b>	<b>\$ 264.4</b>	<b>\$ 274.0</b>

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

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

	2019	2018	2017
<b>Operating Revenues</b>			
Tuition and fees - Net	\$ 115.7	\$ 119.3	\$ 122.1
Grants and contracts	3.7	4.0	4.0
Departmental activities	11.3	12.2	11.8
Auxiliary activities - Net	28.0	28.2	27.9
Other operating revenues	0.9	0.1	0.6
Total operating revenues	<u>159.6</u>	<u>163.8</u>	<u>166.4</u>
<b>Operating Expenses</b>			
Instruction	99.9	100.4	98.0
Research	0.4	0.6	0.7
Public service	4.9	5.0	5.1
Academic support	27.8	30.1	27.5
Student services	19.0	18.8	18.5
Institutional support	26.1	27.4	25.4
Operation and maintenance of plant	19.8	20.0	19.7
Depreciation	10.7	10.8	9.3
Student aid	19.9	19.8	17.4
Auxiliary enterprises	23.3	23.2	22.4
Other expenses	0.1	0.3	0.3
Total operating expenses	<u>251.9</u>	<u>256.4</u>	<u>244.3</u>
<b>Operating Loss</b>	(92.3)	(92.6)	(77.9)
<b>Nonoperating Revenues (Expenses)</b>			
State appropriations	55.9	54.8	53.2
Federal Pell Grants	21.1	22.2	20.5
Gifts	7.5	7.8	5.5
Investment gain	9.0	8.7	12.8
Interest on capital assets - Related debt	(4.4)	(4.4)	(3.7)
Total nonoperating revenues (expenses)	<u>89.1</u>	<u>89.1</u>	<u>88.3</u>
<b>Income (Loss) - Before other revenues</b>	(3.2)	(3.5)	10.4
<b>Other Revenues</b>			
State capital appropriations	6.2	15.4	-
Additions to permanent endowments	8.2	2.9	4.0
Total other revenues	<u>14.4</u>	<u>18.3</u>	<u>4.0</u>
<b>Increase in Net Position</b>	11.2	14.8	14.4
<b>Net Position - Beginning of year</b>	264.4	274.0	259.6
Cumulative effect of change in accounting principle	-	(24.4)	-
<b>Net Position - Beginning of year - As restated</b>	<u>264.4</u>	<u>249.6</u>	<u>259.6</u>
<b>Net Position - End of year</b>	<u><u>\$ 275.6</u></u>	<u><u>\$ 264.4</u></u>	<u><u>\$ 274.0</u></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 ended June 30, 2019:

- Student tuition and fees revenue decreased \$3.6 million due to the net effect of the following: a decrease in enrollment totaling \$6.6 million, additional tuition discounts totaling \$1.3 million, partially offset by a 3.8 percent increase in the undergraduate tuition rate generating \$4.3 million.
- Auxiliary enterprises operating revenue decreased by \$0.2 million. Housing and dining revenues before eliminations decreased \$0.2 million. Other changes totaled a decrease of \$0.01 million.

For the year ended June 30, 2018, the significant operating revenue factors were as follows:

- Student tuition and fees revenue decreased \$2.8 million due to the net effect of the following: a decrease in enrollment totaling \$6.6 million, additional tuition discounts totaling \$1.8 million, partially offset by a 3.8 percent increase in the undergraduate tuition rate generating \$5.6 million.
- Auxiliary enterprises operating revenue increased by \$0.3 million. Housing and dining revenues before eliminations increased \$0.8 million. Other changes totaled a decrease of \$0.5 million.

**Nonoperating Revenues (Expenses)**

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

Nonoperating revenues (expenses) was significantly impacted by the following factors during the year ended June 30, 2019:

- The State appropriation of \$55.9 million is an increase of \$1.1 million from the 2018 level.
- Investment gain increased by \$0.3 million from \$8.7 million in 2018 to \$9.0 million in 2019. The \$9.0 million investment gain is comprised of \$5.9 million realized gains and \$3.1 million of unrealized gains.
- Pell Grants decreased \$1.1 million from \$22.2 million in 2018 to \$21.1 million in 2019.

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

**Nonoperating Revenues (Expenses) (continued)**

- Gift income decreased by \$0.3 million from \$7.8 million in 2018 to \$7.5 million in 2019. This includes pledges receivable of \$4.2 million.

For the year ended June 30, 2018, significant nonoperating revenues (expenses) factors were as follows:

- The State appropriation of \$54.8 million is an increase of \$1.6 million from the 2017 level. This includes \$0.5 million of support, and \$1.1 million in deferred inflow for the University's share of the current year pension and OPEB obligation.
- Investment gain decreased by \$4.1 million from \$12.8 million in 2017 to \$8.7 million in 2018. The \$8.7 million investment gain is comprised of \$15.6 million realized gains and \$6.9 million of unrealized losses.
- Pell Grants increased \$1.7 million from \$20.5 million in 2017 to \$22.2 million in 2018.
- Gift income increased by \$2.3 million from \$5.5 million in 2017 to \$7.8 million in 2018. This includes pledges receivable of \$3.4 million net of allowance for doubtful accounts.

**Other Revenues**

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

For the year ended June 30, 2019:

- State capital appropriations were \$6.2 million for the Swan Annex project. This is a decrease of \$9.2 million from 2018.
- Other revenues include changes to permanent endowments of the Ferris Foundation. These revenues increased by \$5.3 million from \$2.9 million in 2018 to \$8.2 million in 2019. Of the current year total, \$0.4 million relates to pledges receivable, net of allowance for doubtful accounts.

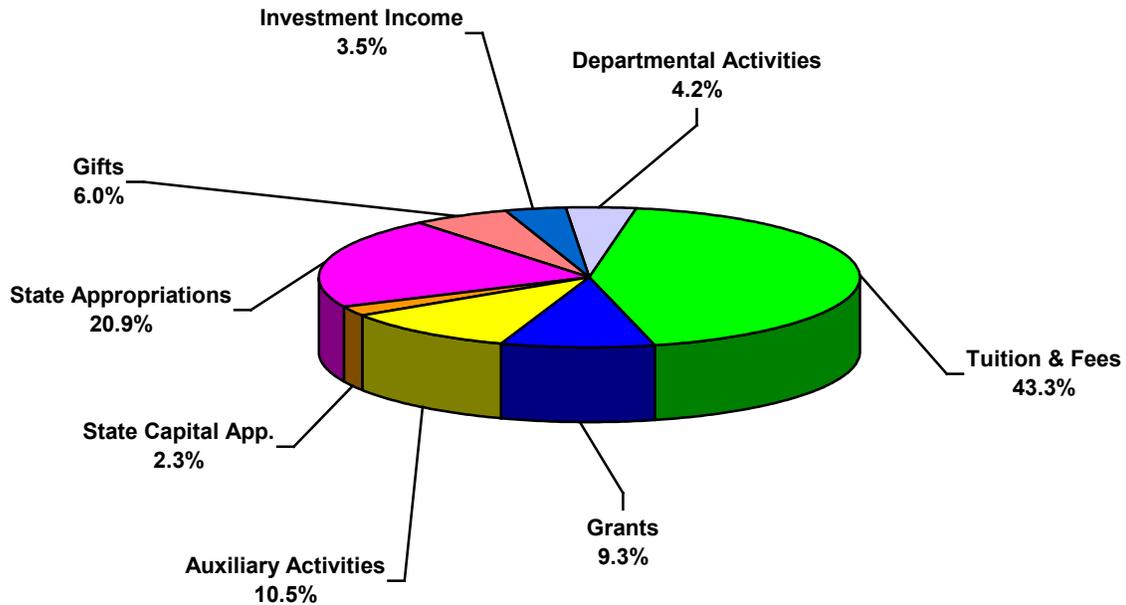
For the year ended June 30, 2018:

- State capital appropriations increased to \$15.4 million for the Swan Annex project.
- Other revenues include changes to permanent endowments of the Ferris Foundation. These revenues decreased by \$1.1 million from \$4.0 million in 2017 to \$2.9 million in 2018. Of the current year total, \$0.3 million relates to pledges receivable, net of allowance for doubtful accounts.

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

**Total Revenues**

The following is a graphic illustration of total revenues by source for June 30, 2019:



**Operating Expenses**

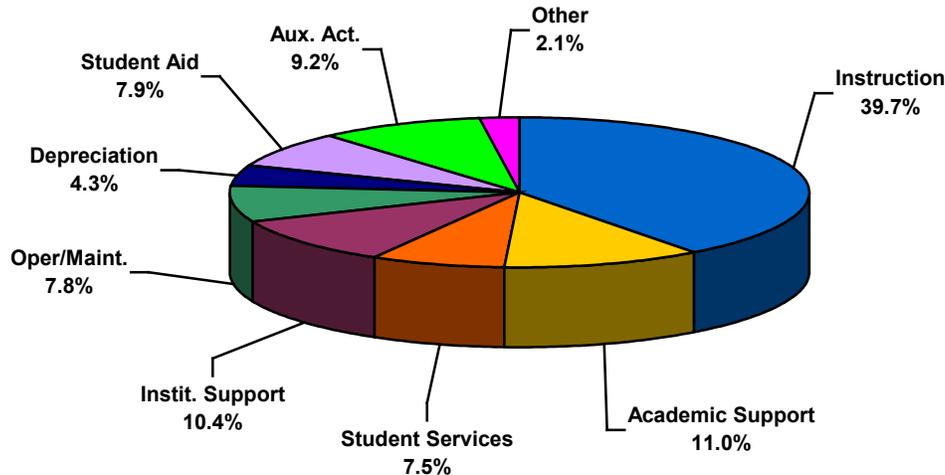
Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses decreased by \$4.5 million from 2018 levels to \$251.9 million. Instruction, student services, and student aid represent \$138.8 million, or 55.1 percent, of the total. Operations and maintenance of plant and depreciation total \$30.5 million, or 12.1 percent, and auxiliary operations total \$23.3 million, or 9.2 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

During the 2018 fiscal year, operating expenses increased by \$12.1 million from 2017 levels to \$256.4 million. Instruction, student services, and student aid represent \$139.0 million, or 54.2 percent, of the total. Operations and maintenance of plant and depreciation total \$30.8 million, or 12.0 percent, and auxiliary operations total \$23.2 million, or 9.0 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

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

**Operating Expenses (continued)**

The following is a graphic illustration of operating expenses by function for June 30, 2019:



**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)**

	2019	2018	2017
<b>Net Cash (Used in) Provided by:</b>			
Operating activities	\$ (73.2)	\$ (81.8)	\$ (62.9)
Noncapital financing activities	91.2	84.9	82.8
Capital and related financing activities	(21.7)	(29.9)	(12.9)
Investing activities	(2.7)	2.4	15.7
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(6.4)</b>	<b>(24.4)</b>	<b>22.7</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>31.4</b>	<b>55.8</b>	<b>33.1</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 25.0</b>	<b>\$ 31.4</b>	<b>\$ 55.8</b>

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

**Statement of Cash Flows (continued)**

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 decreased by \$8.6 million from \$81.8 million in 2018 to \$73.2 million in 2019.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by \$6.3 million from \$84.9 million in 2018 to \$91.2 million in 2019.

Cash used in capital and related financing activities totaled \$21.7 million, used primarily for capital assets acquired during the year and construction projects of \$19.8 million, and debt and interest payments of \$12.1 million which were offset by other proceeds totaling \$10.2 million.

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

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2019, the University had \$332.7 million invested in capital assets, net of accumulated depreciation of \$221.3 million.

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

	2019	2018	2017
Land, land improvements, and infrastructure	\$ 31.3	\$ 31.0	\$ 26.9
Buildings and improvements	405.9	395.8	362.5
Furniture, fixtures, and equipment	86.1	81.2	79.5
Construction in progress	30.7	27.8	37.0
Total	<b>\$ 554.0</b>	<b>\$ 535.8</b>	<b>\$ 505.9</b>

Stadium drive expansion comprised the addition to land, land improvements, and infrastructure while construction of Ken Janke Sr Golf Learning Center and student recreational complex renovation comprise the buildings and improvements additions.

Expenditures totaling \$30.7 million for the Swan Annex project, Pharmacy building renovation, housing improvements, Katke Golf Center, and other small projects were included in construction in progress at June 30, 2019.

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

**Capital Assets and Debt Administration (continued)**

**Debt Administration**

At year end, the University had \$96.0 million in debt outstanding compared to \$103.0 million at 2018 and \$109.1 million at 2017. In addition to General Revenue Bond debt, the University is a guarantor on \$10.2 million of Limited Obligation Recovery Zone Facility Revenue Bonds Series 2010A for the Ferris Building in Grand Rapids. The balance at June 30, 2018 was \$10.6 million and \$11.0 million at June 30, 2017. This building is being leased and the debt is included in the long-term liabilities.

**Economic Factors Affecting the Future**

The landscape of higher education in Michigan is changing, and a variety of factors influence investment in and support of public universities. The State's performance-based funding model continues to reward the University's mission of providing a career-oriented education, and in doing so, addressing the state's skills gap, graduating men and women highly sought after in businesses and industries across the state.

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

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

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

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

**Economic Factors Affecting the Future (continued)**

A number of economic challenges loom for higher education in Michigan. Two decades of diminished support have placed Michigan 44<sup>th</sup> among states in per resident support of higher education. In 2001, Michigan ranked 21<sup>st</sup>. While the state has worked to restore the funds cut to public higher education institutions during the great recession, it has done little, if anything, to replace the sharp, drastic cuts to student financial aid when the Promise Scholarship and other student support programs were eliminated during this period. While the state looks to duplicate scholarship programs and increase the percentage of college educated citizens, it ignores the sharp funding differences between these states and Michigan.

Despite diversification over the past decade, Michigan still is heavily dependent upon the automotive industry, and the slowdown in this industry sector has begun. The disruptive effect of autonomous and electric vehicles, coupled with the looming threat of an economic recession, is of great significance and concern. It was clear in the last recession that higher education was among the first budget items to be cut, and only the action of the Obama administration in setting a higher education funding floor for states to receive federal funds, kept these cuts to higher education from being even greater. Regrettably, this federal action did not include state student financial aid support, thus the large cuts identified above.

Although the state budget has not been approved at this time, the University is very grateful that the proposed cuts for Tuition Incentive Program (TIP) students are not included in preliminary budgets. Restoring TIP funding was a top legislative priority, as this support helps students escape the endless cycle of economic poverty. It is vital for our students and their futures. Through this program, the University changes the lives of many students, helping them prepare for high-paying careers and to become productive citizens. Michigan needs many, many more of these graduates, and at Ferris State University, we are committed to this.

The University remains steadfast in providing the affordable opportunity of a college degree for students. It does so by constraining costs for students, in fact reducing the net price for all University students over the last eight-year period. In November 2017, the University launched "Now & Always," its first comprehensive capital campaign with a goal of \$80 million, including \$36 million in new scholarship endowments through the Ferris Futures Scholarship Challenge. Because of the success experienced, the campaign goal was increased to \$115 million. The Ferris Foundation Endowment continues to grow and is nearing \$90 million, with these assets dedicated to supporting the educational mission of the University. The combined impact of these additional sources of revenue position the University well for recruitment and retention, state funding, degree affordability and therefore, stable finances.

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

Ferris State University  
Statements of Net Position

	June 30	
	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 25,025,455	\$ 30,043,814
Short-term investments (Note 2)	52,973,208	50,736,605
Accounts receivable - Net (Note 3)	25,166,220	27,673,190
Inventories	1,032,184	891,838
Prepaid expenses and other assets	705,559	504,458
Total current assets	104,902,626	109,849,905
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents (Note 2)	-	1,370,477
Endowment investments (Note 2)	84,531,179	77,431,951
Other long-term investments (Note 2)	27,366,720	25,066,175
Student loans receivable - Net (Note 3)	15,540,855	17,859,790
Other noncurrent assets	180,799	201,315
Capital assets - Net (Note 4)	332,710,744	325,334,791
Total noncurrent assets	460,330,297	447,264,499
Total assets	565,232,923	557,114,404
<b>Deferred Outflows of Resources</b>		
Net pension obligation (Note 6)	5,974,035	6,520,447
Net OPEB obligation (Note 6)	2,039,772	1,396,557
Refunding of debt	3,403,542	3,628,024
Total deferred outflows of resources	11,417,349	11,545,028
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	21,901,771	27,066,533
Unearned revenue	7,987,633	7,449,683
Long-term liabilities - Current portion (Note 5)	9,219,364	9,076,963
Total current liabilities	39,108,768	43,593,179
<b>Noncurrent Liabilities</b>		
Deposits	569,450	589,250
Federal student loan payable	12,280,070	12,307,129
Long-term liabilities (Note 5)	116,771,461	124,526,525
Net pension obligation (Note 6)	105,739,673	95,596,170
Net OPEB obligation (Note 6)	19,365,447	23,590,353
Total noncurrent liabilities	254,726,101	256,609,427
Total liabilities	293,834,869	300,202,606
<b>Deferred Inflows of Resources</b>		
Net pension obligation (Note 6)	4,500,437	3,125,962
Net OPEB obligation (Note 6)	2,729,815	977,089
Total deferred inflows of resources	7,230,252	4,103,051
<b>Net Position</b>		
Net investment in capital assets	221,357,516	208,126,556
Restricted for (Note 1):		
Nonexpendable:		
Scholarships	46,582,338	35,862,789
Expendable:		
Scholarships	12,808,332	12,649,280
Research	55,250	42,345
Instructional department uses	4,325,789	4,357,463
Loans	8,463,285	7,587,225
Capital projects	200	200
Other	4,615,209	3,280,455
Unrestricted (Note 1)	(22,622,768)	(7,552,538)
Total net position	\$ 275,585,151	\$ 264,353,775

See accompanying notes.

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

	Year Ended June 30	
	2019	2018
<b>Operating Revenues</b>		
Tuition and fees - Net of scholarship allowances of \$35,099,740 for 2019 and \$33,800,487 for 2018	\$ 115,760,500	\$ 119,303,790
Federal grants and contracts	2,641,836	2,666,504
State and local grants and contracts - Net of refunds	497,617	470,871
Nongovernmental grants	599,177	825,686
Departmental activities	11,304,814	12,212,860
Auxiliary enterprises - Net of scholarship allowances of \$6,907,817 for 2019 and \$6,534,471 for 2018	27,974,288	28,205,136
Other operating revenues	857,962	137,935
<b>Total operating revenues</b>	<b>159,636,194</b>	<b>163,822,782</b>
<b>Operating Expenses</b>		
Instruction	99,912,530	100,439,913
Research	366,133	597,447
Public service	4,946,805	4,981,880
Academic support	27,808,837	30,158,410
Student services	19,011,096	18,817,470
Institutional support	26,161,673	27,407,960
Operation and maintenance of plant	19,785,052	19,991,712
Depreciation	10,716,837	10,774,649
Student aid	19,885,612	19,785,801
Auxiliary enterprises	23,273,285	23,161,990
Other expenses	86,689	301,467
<b>Total operating expenses</b>	<b>251,954,549</b>	<b>256,418,699</b>
<b>Operating Loss</b>	<b>(92,318,355)</b>	<b>(92,595,917)</b>
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	55,853,973	54,797,535
Federal Pell Grants	21,107,513	22,201,471
Gifts	7,511,752	7,818,914
Investment gain	8,988,205	8,660,308
Interest on capital asset - Related debt	(4,386,081)	(4,415,474)
<b>Net nonoperating revenues (expenses)</b>	<b>89,075,362</b>	<b>89,062,754</b>
<b>Loss - Before other revenues</b>	<b>(3,242,993)</b>	<b>(3,533,163)</b>
<b>Other Revenues</b>		
State capital appropriations	6,204,726	15,431,939
Additions to permanent endowments	8,269,643	2,926,928
<b>Increase in Net Position</b>	<b>11,231,376</b>	<b>14,825,704</b>
<b>Net Position</b>		
Beginning of year	264,353,775	273,997,408
Cumulative effect of change in accounting principle	-	(24,469,337)
Beginning of year - As restated	<b>264,353,775</b>	<b>249,528,071</b>
End of year	<b>\$ 275,585,151</b>	<b>\$ 264,353,775</b>

See accompanying notes.

Ferris State University  
Statements of Cash Flows

	Year Ended June 30	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 116,579,797	\$ 119,567,728
Grants and contracts	3,729,364	4,004,019
Payments to suppliers	(123,971,726)	(131,172,126)
Payments to employees	(112,038,476)	(114,651,189)
Interest collected on student loans	820,192	494,973
Loans issued to students	(942,714)	(3,059,972)
Collection of loans from students	2,441,457	2,796,833
Auxiliary enterprise charges	27,974,288	28,205,136
Other receipts	12,176,941	12,006,678
Net cash used in operating activities	<u>(73,230,877)</u>	<u>(81,807,920)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	55,650,002	54,625,556
Pell Grant receipts	21,107,513	22,201,471
Gifts and grants for other than capital purposes	6,144,010	5,177,115
Private gifts for endowment purposes	8,269,643	2,926,928
Federal direct loan lending receipts	72,029,756	78,270,171
Federal direct loan lending disbursements	(72,029,756)	(78,270,171)
Net cash provided by noncapital financing activities	<u>91,171,168</u>	<u>84,931,070</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital appropriations	8,729,263	10,754,870
Capital grants and gifts received	1,367,742	2,641,799
Purchase of capital assets and construction	(19,764,674)	(32,484,089)
Proceeds from sale of capital assets	65,729	381,753
Principal paid on capital debt	(7,380,000)	(6,485,000)
Interest paid on capital debt	(4,699,016)	(4,714,386)
Net cash used in capital and related financing activities	<u>(21,680,956)</u>	<u>(29,905,053)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	15,380,619	81,758,917
Investment income	5,942,630	15,645,493
Purchase of investments	(23,971,420)	(95,003,599)
Net cash used in investing activities	<u>(2,648,171)</u>	<u>2,400,811</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(6,388,836)</b>	<b>(24,381,092)</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<u><b>31,414,291</b></u>	<u><b>55,795,383</b></u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u><b>\$ 25,025,455</b></u></u>	<u><u><b>\$ 31,414,291</b></u></u>

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:

	<b>Year Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Operating loss	\$ (92,318,355)	\$ (92,595,917)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,163,772	10,774,649
Amortization of bond insurance costs	20,516	20,516
Loss on disposal of capital assets	159,220	81,627
Decrease (increase) in assets:		
Accounts receivable	173,885	112,895
Student loans receivable	2,291,876	204,929
Inventories, prepaid expenses, and other assets	(341,447)	(19,003)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(5,164,762)	(1,414,038)
Deposits and unearned revenue	518,150	(206,838)
Accrued sick leave	304,754	(858,810)
Net pension/OPEB obligation	8,961,514	2,092,070
Net cash used in operating activities	<b>\$ (73,230,877)</b>	<b>\$ (81,807,920)</b>

Ferris State University  
Notes to Financial Statements  
June 30, 2019

## **1. Summary of Significant Accounting Policies**

Ferris State University (University) is an institution of higher education created on September 1, 1884 as Big Rapids Industrial School. In 1885, the school name was changed to Ferris Industrial School; in 1898 to Ferris Institute; in 1950 became a component unit of the State of Michigan (State); in 1963 Ferris State College; and in 1987 to its current structure of Ferris State University. On December 31, 2000, Kendall College of Art and Design (Kendall) located in Grand Rapids, Michigan officially merged with the University. On August 28, 2013, the Urban Institute of Contemporary Art (UICA) located in Grand Rapids officially merged with Kendall.

The University's Board of Trustee members are appointed by the Governor of the State. Accordingly, the University is included in the State's financial statements as a discrete component unit. Transactions with the State relate primarily to appropriations for operations and capital improvements and grants from various state agencies.

### **Basis of Presentation**

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

The financial statements have been prepared incorporating totals from the University and the Ferris Foundation (Foundation). The Foundation was established as a separate nonprofit corporation which exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of the University. The Foundation's Board of Directors' membership includes a member of the University's Board of Trustees, certain officers of the University as set forth in the Foundation bylaws, and other representatives elected by the Foundation's Board. The University has a significant fiduciary relationship with the Foundation. In accordance with the provision of GASB Standards, the Foundation is treated as a blended component unit of the University and the financial statements of the Foundation have been combined with those of the University. The June 30, 2019 audited financial statements for the Ferris Foundation can be found at: [www.ferris.edu/giving/ferris-foundation/policies.htm](http://www.ferris.edu/giving/ferris-foundation/policies.htm).

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:

<b>Ferris Foundation</b>			
<b>Condensed Statements of Financial Position as of June 30</b>			
<b>Assets</b>	2019		2018
Cash and cash equivalents	\$ 4,070,739	\$	1,285,158
Investments	84,531,179		77,431,951
Other assets	4,219,111		3,472,144
Total assets	<b>92,821,029</b>		<b>82,189,253</b>
<b>Liabilities</b>			
Other liabilities	249,542		177,931
Total liabilities	<b>249,542</b>		<b>177,931</b>
<b>Net Assets</b>			
Without donor restrictions	27,884,846		30,068,384
With donor restrictions	64,686,641		51,942,938
Total net assets	<b>\$ 92,571,487</b>	<b>\$</b>	<b>82,011,322</b>

<b>Ferris Foundation</b>			
<b>Condensed Statements of Activities for the Year Ended June 30</b>			
	2019		2018
Support, revenue, and gains			
Gifts and contributions	\$ 14,408,250	\$	7,877,341
Other support, revenue, and gains	4,063,154		5,127,418
Total support, revenue, and gains	<b>18,471,404</b>		<b>13,004,759</b>
Expenses			
Disbursements to Ferris	4,988,227		5,945,201
Other expenses	3,232,305		2,933,045
Total expenses	<b>8,220,532</b>		<b>8,878,246</b>
Revenue, gains, and other support over expenses	10,250,872		4,126,513
Net transfers from Ferris	309,293		120,681
Increase in net assets	10,560,165		4,247,194
Net assets - beginning of year	82,011,322		77,764,128
Net assets - end of year	<b>\$ 92,571,487</b>	<b>\$</b>	<b>82,011,322</b>

Ferris State University  
Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Basis of Presentation (continued)**

<b>Ferris Foundation</b>		
<b>Condensed Statements of Cash Flows for the Year Ended June 30</b>		
	2019	2018
Net cash from operating activities	\$ (1,237,424)	\$ (1,837,338)
Net cash from investing activities	(4,459,810)	(3,040,365)
Net cash from financing activities	8,482,815	3,009,360
Net change in cash and cash equivalents	<b>2,785,581</b>	<b>(1,868,343)</b>
Cash and cash equivalents - beginning of year	1,285,158	3,153,501
Cash and cash equivalents - end of year	<b>\$ 4,070,739</b>	<b>\$ 1,285,158</b>

**Accrual Accounting**

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

**Adoption of New Standard**

On July 1, 2017, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. Statement No. 75 required the University to recognize its unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The Statement also revised note disclosures and required supplementary information (RSI). In accordance with the Statement, the University reported a net OPEB liability of \$26,104,891 as a change in accounting principle adjustment to unrestricted net position as of July 1, 2017.

**Restricted Net Position**

Restricted net position represents amounts over which third parties have imposed restrictions that cannot be changed by the Board of Trustees (Board), including amounts that the Board has agreed to set aside under contractual agreements with third parties. Funds held by the Foundation for endowments or donor-designated purposes were \$46,582,338 at June 30, 2019 and \$35,862,789 at June 30, 2018. The remaining restricted balance of \$30,268,065 at June 30, 2019 and \$27,916,968 at June 30, 2018 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 Deficit**

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

	2019	2018
Designated for general fund division use	\$ 9,291,315	\$ 9,235,183
Designated for encumbrances	1,063,489	901,195
Designated for maintenance and replacement	34,218,620	37,502,688
Designated for Foundation endowments	27,884,846	30,068,384
Designated for unfunded pension and OPEB obligation	(124,321,565)	(115,372,570)
Unrestricted and undesignated	29,240,527	30,112,582
Total unrestricted net deficit	\$ (22,622,768)	\$ (7,552,538)

**Cash and Cash Equivalents**

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

**Investments**

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

**Accounts Receivable and Allowance**

Accounts receivable are recorded net of an allowance for uncollectible amounts. The allowance is based on management's judgement of potential uncollectible amounts, which includes such factors as historical experience and type of receivable. The allowance for uncollectible accounts receivable is \$2,641,787 at June 30, 2019 and \$2,523,645 at June 30, 2018.

**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.

Ferris State University  
Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Capital Assets**

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

**Deferred Inflows and Outflows of Resources**

Deferred outflows of resources consist of gain/loss on the defeasance of the refunding of debt and outflows related to multi-employer net pension and OPEB obligations. Deferred outflows of resources related to refunding of debt totaled \$3,403,542 at June 30, 2019 and \$3,628,024 at June 30, 2018. 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 \$5,974,035 at June 30, 2019 and \$6,520,447 at June 30, 2018. Deferred outflows of resources related to net OPEB obligation amounts totaled \$2,039,772 at June 30, 2019 and \$1,396,557 at June 30, 2018. Net pension and OPEB obligation amounts related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liability the following year, while other amounts reported as net pension and OPEB obligations will be amortized over the actuarial calculated expected remaining service life of the members or 5 years, in accordance with GASB standards.

Deferred inflows of resources relate to multi-employer net pension and OPEB obligations. Deferred inflows of resources related to net pension obligation amounts totaled \$4,500,437 at June 30, 2019 and \$3,125,962 at June 30, 2018. Deferred inflows of resources related to net OPEB obligation amounts totaled \$2,729,815 at June 30, 2019 and \$977,089 at June 30, 2018. Net pension and OPEB obligation amounts related to funding received through state appropriations for contributions subsequent to the measurement date will be recognized the following year, while other amounts reported as net pension and OPEB obligations will be amortized over 5 years.

**Unearned Tuition and Fee Revenues**

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

**Net Pension and OPEB Obligation**

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

Ferris State University  
Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Operating and Nonoperating Revenues**

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

**2. Cash and Investments**

As of June 30, 2019, the University had the following cash and investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Cash and cash equivalents	\$ 4,809,083	\$ 4,809,083	\$ -	\$ -	\$ -
Money markets	20,216,372	20,216,372	-	-	-
Mutual bond funds	56,295,646	-	38,313,077	17,982,569	-
Mutual equity funds	62,399,080	-	-	-	62,399,080
Real estate funds	2,911,387	-	-	-	2,911,387
International equity funds	17,997,907	-	-	-	17,997,907
Total	<u>\$ 164,629,475</u>	<u>\$ 25,025,455</u>	<u>\$ 38,313,077</u>	<u>\$ 17,982,569</u>	<u>\$ 83,308,374</u>

As of June 30, 2018, the University had the following cash and investments and maturities:

Cash and cash equivalents	\$ 1,554,574	\$ 1,554,574	\$ -	\$ -	\$ -
Money markets	29,859,717	29,859,717	-	-	-
Mutual bond funds	48,946,199	-	29,370,275	19,575,924	-
Mutual equity funds	58,541,650	-	-	-	58,541,650
International equity funds	16,786,850	-	-	-	16,786,850
Total	<u>\$ 155,688,990</u>	<u>\$ 31,414,291</u>	<u>\$ 29,370,275</u>	<u>\$ 19,575,924</u>	<u>\$ 75,328,500</u>

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

**Endowment Investments**

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

**Concentration of Credit Risk**

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

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

**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.

Ferris State University  
Notes to Financial Statements (continued)

**2. Cash and Investments (continued)**

**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. The carrying amount of the University's deposits was \$3,005,259 at June 30, 2019 and \$2,594,619 at June 30, 2018. Of these amounts, \$1,000,000 was insured for both 2019 and 2018. Of the bank balance, no amount was collateralized for both 2019 and 2018. The FDIC insurance limit is \$250,000 per depositor.

**Credit Risk**

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

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

Ferris State University  
Notes to Financial Statements (continued)

**2. Cash and Investments (continued)**

**Credit Risk (continued)**

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

	2019		2018	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Vanguard Short-Term Bond Index	\$ 4,757,718	A	\$ 3,522,114	AA
Western Asset	8,598,847	AA-	8,013,026	AA-
Franklin Templeton Global Bond	4,140,046	A	3,917,115	A
Loomis Sayles Institutional High Yield	2,502,227	BB-	2,387,874	BB
Seix Floating Rate High Income Fund	3,396,281	B	1,497,461	BB
Baird Intermediate	11,807,558	AA-	10,032,685	AA-
Baird Core Plus	17,982,569	A+	16,590,559	A+
Hotchkis and Wiley	3,110,400	B+	2,985,365	B
Total	\$ 56,295,646		\$ 48,946,199	

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

**Foreign Currency Risk**

The University and the Foundation hold investments in some international mutual funds, global funds, and alternative investments. These funds may be invested in various countries throughout the world and, therefore, may expose the University and the Foundation to foreign credit risk. Investments in these funds were \$42,069,358 for the year ended June 30, 2019 and \$41,612,659 for the year ended June 30, 2018.

Ferris State University  
Notes to Financial Statements (continued)

**3. Accounts Receivable and Student Loans Receivable**

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

	2019	2018
Student	\$ 10,307,680	\$ 10,608,827
Grants and contracts	192,655	210,448
State appropriations	10,070,778	9,879,326
State capital appropriations	2,152,532	4,677,069
Pledges receivable	4,238,094	3,457,378
Other	846,268	1,363,787
Total accounts receivable	27,808,007	30,196,835
Less: allowance for doubtful accounts	2,641,787	2,523,645
Total accounts receivable - Net	<u>\$ 25,166,220</u>	<u>\$ 27,673,190</u>

Student loans receivable of \$15,540,855 for the year ended June 30, 2019 and \$17,859,790 for the year ended June 30, 2018, are recorded net of an allowance for doubtful accounts of \$3,400,000 for 2019 and 2018.

**4. Capital Assets**

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

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

Additions to accumulated depreciation includes \$1,446,935 reported in the statement of revenues, expenses, and changes in net position as operations and maintenance of plant in addition to the \$10,716,837 of depreciation.

Ferris State University  
Notes to Financial Statements (continued)

**4. Capital Assets (continued)**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 9,123,439	\$ -	\$ -	\$ 3,994,781	\$ 13,118,220
Infrastructure	11,213,141	-	-	-	11,213,141
Building and building improvements	362,515,766	232,373	-	33,099,961	395,848,100
Furniture, fixtures, and equipment	79,438,697	4,378,051	(2,629,924)	-	81,186,824
Subtotal - Depreciable assets	462,291,043	4,610,424	(2,629,924)	37,094,742	501,366,285
Land	6,596,622	-	-	-	6,596,622
Construction in progress	37,013,656	27,873,665	-	(37,094,742)	27,792,579
Subtotal - Nondepreciable assets	43,610,278	27,873,665	-	(37,094,742)	34,389,201
Total	505,901,321	32,484,089	(2,629,924)	-	535,755,486
Less accumulated depreciation:					
Land improvements	6,514,568	470,028	-	-	6,984,596
Infrastructure	6,571,454	851,008	-	-	7,422,462
Building and building improvements	142,568,582	7,447,038	-	-	150,015,620
Furniture, fixtures, and equipment	46,157,986	2,006,575	(2,166,544)	-	45,998,017
Total accumulated depreciation	201,812,590	10,774,649	(2,166,544)	-	210,420,695
Capital assets - Net	\$304,088,731	\$ 21,709,440	\$ (463,380)	\$ -	\$325,334,791

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

Buildings	50 years
Library books (included in furniture, fixtures, and equipment)	0 to 5 years
Land improvements and infrastructure	20 years
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, 2019 was as follows:

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

Long-term obligation activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2016	\$ 56,150,000	\$ -	\$ -	\$ 56,150,000	\$ 645,000
Unamortized bond premium	8,642,166	-	360,090	8,282,076	360,090
General Revenue Refunding Bonds, Series 2014B	9,950,000	-	1,370,000	8,580,000	1,415,000
Unamortized bond premium	603,897	-	60,389	543,508	60,391
General Revenue Bonds, Series 2014A	11,855,000	-	370,000	11,485,000	375,000
Unamortized bond premium	375,180	-	17,054	358,126	17,054
General Revenue Refunding Bonds, Series 2012	9,655,000	-	1,115,000	8,540,000	1,150,000
Unamortized bond premium	409,244	-	27,283	381,961	27,283
General Revenue Bonds, Series 2009	2,405,000	-	1,180,000	1,225,000	1,225,000
General Revenue Refunding Bonds, Series 2008	19,100,000	-	2,085,000	17,015,000	2,190,000
Total bonds and notes payable	119,145,487	-	6,584,816	112,560,671	7,464,818
Other liabilities:					
Accrued sick leave	10,049,482	-	858,810	9,190,672	-
Accrued interest payable (bonds)	1,151,353	-	54,925	1,096,428	1,096,428
Accrued interest payable (capital lease)	139,367	-	3,650	135,717	135,717
Capital lease payable	10,985,000	-	365,000	10,620,000	380,000
Total	\$ 141,470,689	\$ -	\$ 7,867,201	\$ 133,603,488	\$ 9,076,963

### General Revenue Refunding Bonds, Series 2016

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

Ferris State University  
Notes to Financial Statements (continued)

**5. Long-term Liabilities (continued)**

**General Revenue Refunding Bonds, Series 2014B**

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

**General Revenue Bonds, Series 2014A**

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

**General Revenue Refunding Bonds, Series 2012**

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

Ferris State University  
Notes to Financial Statements (continued)

**5. Long-term Liabilities (continued)**

**General Revenue Bonds, Series 2009**

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

**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 4.50 percent. A rating of "AAA" was assigned to these bonds by Standard & Poor's. The bonds are insured, payable from general revenues of the University, callable at par, and mature in varying amounts through 2029. Proceeds from this issuance were placed in an irrevocable trust for the purpose of refunding certain maturities of the General Revenue and Refunding Bonds, Series 1998 in the amount of \$32,825,000, which represents the callable portion of the bonds. The remaining \$1,650,000 portion of the 1998 bonds was not refunded and was paid in October 2009. The refunding resulted in a net present value benefit of \$1,728,000 over the life of the bonds; a deferred outflow of resources of approximately \$240,000; and a cash flow savings of \$2,514,000.

**Federal Building Capital Lease, Series 2010A**

In September 2010, a sublease was made between Federal Building Partners LLC and the University to lease the Federal Building in downtown Grand Rapids. The agreement involved issuance of bonds by the Economic Development Corporation of the City of Grand Rapids for the renovation of the building to be done by Federal Building Partners. A bond rating of "A" was assigned to these bonds by Standard & Poor's with maturity dates varying in amounts through 2036. The University is a guarantor for the Series 2010A bond issuance for \$12,615,000. The outstanding balance carries interest rates of 4.625 percent to 5.50 percent. Ownership of the building could eventually pass from the City of Grand Rapids to the University if the University refinances the bonds or assumes the existing bonds. The capital lease is listed as a long term obligation and the related asset is included in Building and Building Improvements at June 30, 2019 and 2018.

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, 2019 are as follows:

Year	Bonds		Capital Lease
	Principal	Interest	Minimum Payments
2020	\$ 7,200,000	\$ 3,974,164	\$ 915,263
2021	6,935,000	3,712,064	912,606
2022	5,205,000	3,477,738	911,606
2023	5,435,000	3,252,258	914,481
2024	5,360,000	3,017,470	911,231
2025-2029	24,530,000	11,546,972	4,564,750
2030-2034	16,945,000	7,064,861	4,564,453
2035-2039	18,845,000	3,309,844	1,826,525
2040-2042	5,540,000	403,031	-
	95,995,000	\$ 39,758,402	15,520,915
Unamortized premium	9,100,853		5,280,915
Total	\$ 105,095,853		\$ 10,240,000
		Amount representing interest	
		Present value of minimum lease payments	

Bond interest expense was approximately \$4,386,000 for the year ended June 30, 2019 and \$4,415,000 for the year ended June 30, 2018. Construction period interest, which is capitalized as part of the cost of the assets constructed, was \$75,614 for the year ended June 30, 2019 and \$331,264 for the year ended June 30, 2018.

**Accrued Sick Leave**

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

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans**

**Michigan Public School Employees' Retirement System**

*Plan Description*

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

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

*Contributions and Funded Status*

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuations allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 21 year period ending September 30, 2038.

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

The schedule below summarizes pension and OPEB contribution rates in effect for System years ended September 30, 2018 and 2017:

<u>System Year Ended</u>	<u>Pension</u>		<u>OPEB</u>	
	<u>Funded Portion</u>	<u>Unfunded Portion</u>	<u>Funded Portion</u>	<u>Unfunded Portion</u>
September 30, 2018	4.87%	19.60%	0.31%	6.13%
September 30, 2017	4.30%	18.75%	0.38%	6.98%

The University's required contributions to the pension plan for the System year ended September 30, 2018 was \$8,366,795 and \$7,794,238 for the System year ended September 30, 2017. The University's required contribution to the OPEB plan for the System year ended September 30, 2018 was \$2,118,466 and \$2,756,911 for the System year ended September 30, 2017.

*Benefits Provided*

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

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

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

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

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

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

*MPSERS Fiduciary Net Position-Pension*

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

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

MPSERS Net Pension Liability – Seven Universities as of September 30, 2017

Total pension liability	\$ 1,094,077,095
Plan fiduciary net position	<u>(518,815,498)</u>
Net pension liability	<u>\$ 575,261,597</u>
Plan fiduciary net position as a percentage of total pension liability	47.42%
Net pension liability as a percentage of covered payroll	271.62%

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

*MPSERS Fiduciary Net Position-OPEB*

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

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

MPSERS Net OPEB Liability – Seven Universities as of September 30, 2017

Total OPEB liability	\$ 254,601,120
Plan fiduciary net position	(112,299,654)
Net OPEB liability	<u>\$ 142,301,466</u>
Plan fiduciary net position as a percentage of total OPEB liability	44.11%
Net OPEB liability as a percentage of covered payroll	67.19%

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

At June 30, 2019, the University reported a liability of \$105,739,673 and \$95,596,170 for the year ended June 30, 2018 for its proportionate share of the net pension liability. The June 30, 2019 net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2017. 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, 2018, the University's proportionate share was 16.54671156 percent (16.61786052 percent at September 30, 2017), a decrease of .07114896 percent.

The University recognized \$19,467,893 of pension expense for the year ended June 30, 2019 and \$11,060,984 for the year ended June 30, 2018. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 102,793
Net difference between projected and actual plan investment earnings	-	2,125,525
Changes of assumption	806,889	-
Changes in proportion and differences between University contributions and proportionate share of contributions	44,311	32,971
University contributions subsequent to the measurement date	5,669,247	-
Rate stabilization appropriations received subsequent to the measurement date	-	864,673
	\$ 6,520,447	\$ 3,125,962

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension obligation in the year ended June 30, 2020. Rate stabilization appropriations received subsequent to the measurement date reported as deferred inflows of resources will be recognized as revenue in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30	Amount
2019	\$ 575,199
2020	(1,332,017)
2021	(1,414,176)
2022	(604,113)
	\$ (2,775,107)

*Net OPEB Obligation, Deferred Outflows of Resources, Deferred Inflows of Resources, and OPEB Expense*

At June 30, 2019, the University reported a liability of \$19,365,447 and \$23,590,353 for the year ended June 30, 2018 for its proportionate share of the net OPEB liability. The June 30, 2019 net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2017. The University's proportion of the net OPEB was based on statutorily required contributions in relation to all reporting unit's statutorily required contributions for the measurement period. At September 30, 2018, the University's proportionate share was 16.32278864 percent (16.57773016 percent at September 30, 2017), a decrease of 0.25494152 percent.

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

The University recognized \$1,200,518 of negative OPEB expense for the year ended June 30, 2019 and \$1,219,462 of OPEB expense for the year ended June 30, 2018. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 177,629
Net difference between projected and actual plan investment earnings	-	765,302
Changes in proportion and differences between University contributions and proportionate share of contributions	-	34,158
University contributions subsequent to the measurement date	1,396,557	-
	\$ 1,396,557	\$ 977,089

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30	Amount
2019	\$ (1,122,139)
2020	(322,937)
2021	(322,936)
2022	(134,554)
	\$ (1,902,566)

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

*Actuarial Assumptions*

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

The total pension and OPEB liability for the System in the September 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry age, normal
- Wage inflation rate - 2.75 percent
- Investment rate of return - 7.05 percent for pension and 7.15 percent for OPEB
- Projected salary increases - 2.75 percent to 11.55 percent, including wage inflation at 2.75 percent
- Cost-of-living adjustments - 3.0 percent annual non-compounded for MIP members
- Healthcare cost trend rate - 7.5 percent year 1 graded to 3.0 percent in year 12
- Mortality Retirees - RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82 percent for males and 78 percent for females and adjusted for mortality improvements using projection scale MP-2017 from 2006
- Mortality Active Members - RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006
- Opt out assumptions - 21.0 percent of eligible participants hired before July 1, 2008 and 30.0 percent of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor coverage - 80.0 percent of male retirees and 67.0 percent of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage election at retirement - 75.0 percent of male and 60.0 percent of female future retirees are assumed to elect coverage for 1 or more dependents

The actuarial assumptions used for the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2012 to September 30, 2017 beginning with the September 30, 2017 valuation. The total pension and OPEB obligations as of September 30, 2018 are based on the results of an actuarial valuation date of September 30, 2017 and rolled forward using generally accepted actuarial procedures, including the experience study. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience. Similar assumptions were used in the September 30, 2016 actuarial valuation.

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

*Rate of Return*

For the System's fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11 percent while the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount Rate*

A discount rate of 7.05 percent was used to measure the total pension liability recorded at June 30, 2019 (7.50 percent at June 30, 2018). A discount rate of 7.15 percent was used to measure the total OPEB liability recorded at June 30, 2019 (7.50 percent at June 30, 2018). These discount rates were based on the long-term expected rate of return on pension and OPEB plan investments of 7.05 percent and 7.15 percent, respectively. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

*Long-Term Expected Return on Plan Assets*

The long-term expected rate of return on pension and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension and OPEB plan's target asset allocation as of September 30, 2018 and 2017 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return September, 30, 2018	Long-term Expected Real Rate of Return September, 30, 2017
Domestic Equity Pools	28.0%	5.7%	5.6%
Private Equity Pools	18.0	9.2	8.7
International Equity Pools	16.0	7.2	7.2
Fixed Income Pools	10.5	0.5	(0.1)
Real Estate & Infrastructure Pools	10.0	3.9	4.2
Absolute Return Pools	15.5	5.2	5.0
Short Term Investment Pools	2.0	0.0	(0.9)
Total	<u>100.0%</u>		

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

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

The following table presents the June 30, 2019 net pension obligation of the University, calculated using a discount rate of 7.05 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 (6.05 percent) or 1.00 percentage point higher (8.05 percent) than the current rate.

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

The following table presents the June 30, 2018 net pension obligation of the University, calculated using a discount rate of 7.50 percent, as well as what the University's net pension obligation would be if it were calculated using a discount rate of 1.00 percentage point lower (6.50 percent) or 1.00 percentage point higher (8.50 percent) than the current rate.

1.00 percent decrease (6.50 percent)	Current Discount Rate (7.50 percent)	1.00 percent increase (8.50 percent)
\$ 112,161,244	\$ 95,596,170	\$ 81,298,256

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

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

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

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

Ferris State University  
Notes to Financial Statements (continued)

**6. Retirement Plans (continued)**

**Michigan Public School Employees' Retirement System (continued)**

The following tables present the June 30, 2018 net OPEB obligation of the University, calculated using a discount rate of 7.50 percent, as well as what the University's net OPEB obligation would be if it were calculated using a discount rate and healthcare cost trend rate that is 1.00 percentage point lower (6.50 percent) or 1.00 percentage point higher (8.50 percent) than the current rate.

1.00 percent decrease (6.50 percent)	Current Discount Rate (7.50 percent)	1.00 percent increase (8.50 percent)
\$ 27,502,268	\$ 23,590,353	\$ 20,220,989

1.00 percent decrease	Current Healthcare Cost Trend Rate	1.00 percent increase
\$ 19,968,872	\$ 23,590,353	\$ 27,692,891

*Payable to the Pension Plan*

At June 30, 2019 and 2018, the University reported a payable of \$1,674,000 and \$1,264,000 respectively, for the outstanding amount of contributions to the pension plan and \$508,000 and \$336,000 respectively for the outstanding amount of contributions to the OPEB plan required for the year then ended for the statutorily required pension and OPEB contributions related to accrued labor expense.

**Defined Contribution Plan**

The University provides noncontributory retirement plans for all qualified employees. Prior to March 28, 1996, faculty and non-bargaining unit job groups were eligible to participate in the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) plan. TIAA-CREF is a defined contribution plan whereby the University generally contributes 12 percent of employees' pay for administration and faculty; and 10 percent for all other eligible employee groups to the plan with no liability beyond that contribution. All eligible employees hired after March 28, 1996 have the option to participate in either TIAA-CREF or a second defined contribution plan with Fidelity Investments Tax Exempt Service Company (Fidelity Investments). The Fidelity Investments plan calls for the same contribution rates. Kendall staff also participate in a defined contribution plan through TIAA-CREF with contribution rates ranging from 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, 2019, the University contributed \$10,679,953 to the TIAA-CREF and Fidelity Investment plans (\$12,135,712 for the year ended June 30, 2018).

Ferris State University  
Notes to Financial Statements (continued)

## **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 2019, there were 11 universities that participated in MUSIC. Each participating university is responsible for a first tier of losses up to a level that has been actuarially determined. MUSIC is financially responsible for a second tier of losses. For comprehensive general liability, errors and omissions, and all risk property insurance, MUSIC has purchased excess insurance coverage with commercial insurance carriers to cover a third tier of losses. However, in the event the insurance reserves established by MUSIC are insufficient to meet its second tier obligations, each of the participating universities share this obligation by agreements with MUSIC.

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

### **Self-insurance**

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

## **8. Leases**

The University leases 30 percent of the Applied Technology Center located on the campus of Grand Rapids Community College in Grand Rapids, Michigan. The lease was signed in fiscal year 1990 for a 20-year term beginning upon completion of the center. The Center was completed in fiscal year 1992, marking the start of the 20-year lease. The lease was extended in fiscal year 2012 and again in fiscal year 2017 for an additional five years expiring in fiscal year 2022 with the option of additional five-year renewals. Annual payments for the lease total approximately \$617,000.

The University also leases certain equipment under various agreements, which generally require an annual rental payment and operating expenses, expiring in 2023.

Ferris State University  
Notes to Financial Statements (continued)

**8. Leases (continued)**

Future minimum payments at June 30, 2019 under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Future Minimum Payment of Leases:

Year	Amount
2020	\$ 1,003,902
2021	887,580
2022	745,744
2023	25,891
2024	4,258
Total	<u>\$ 2,667,375</u>

Rental expense for the year ended June 30, 2019 was approximately \$2,199,000 and \$2,137,000 for the year ended June 30, 2018.

**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, 2019 resulting in the following commitments to vendors:

	Spent to Date	Construction Commitments at Year End
Swan Annex	\$ 25,579,753	\$ 406,786
Pharmacy Renovation	3,267,101	2,417,352
Housing Improvements	1,159,533	100,067
Katke Renovations	360,261	395,530
ICET Asphalt Lab	94,779	1,664,565
Taggart Field Artificial Turf Replacement	181,601	573,848
Other smaller projects	105,540	329,000
Total	<u>\$ 30,748,568</u>	<u>\$ 5,887,148</u>

**10. Fair Value Measurement**

The following tables present information about the University's assets measured at fair value on a recurring basis at June 30, 2019 and 2018 and the valuation techniques used by the University to determine those fair values.

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

Ferris State University  
Notes to Financial Statements (continued)

**10. Fair Value Measurement (continued)**

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

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

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

The University's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2019 and 2018, there were no transfers between levels of the fair value hierarchy.

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

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

Ferris State University  
Notes to Financial Statements (continued)

**10. Fair Value Measurement (continued)**

Assets measured at fair value on a recurring basis at June 30, 2018 included the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Mutual bond funds	\$ 48,946,199	\$ -	\$ -	\$ 48,946,199
Mutual equity funds	58,541,650	-	-	58,541,650
Marketable securities	259,801	-	-	259,801
International equity funds	16,786,850	-	-	16,786,850
Total	<u>\$ 124,534,500</u>	<u>\$ -</u>	<u>\$ -</u>	124,534,500
Limited partnerships that calculate net asset value per share				27,707,032
Cash surrender value of life insurance				993,199
Balance at June 30, 2018				<u>\$ 153,234,731</u>

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

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

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

Investments held at June 30, 2019 included the following:

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

Ferris State University  
Notes to Financial Statements (continued)

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

Investments held at June 30, 2018 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	\$ 2,745,025	\$ 1,158,757
Limited partnerships – private equity/distressed	7,251,109	5,955,511
Limited partnerships – hedge funds	10,911,497	-
Limited partnerships – natural resources/commodities	6,799,401	1,195,959
Balance at June 30, 2018	<u>\$ 27,707,032</u>	<u>\$ 8,310,227</u>

**Real Estate**

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

**Private Equity/Distressed**

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

**Hedge Funds**

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

**Natural Resources/Commodities**

Five limited partnerships comprise the total of investments in natural resources/commodities. Investment managers invest in a multi-fund manager approach in the areas of natural resources/commodities such as oil and gas, timber, renewable energy, and mining; mineral extraction; energy funds; publicly traded master limited partnerships; and commodities including energy, livestock, grains, industrial metals, and softs. The partnerships terminate 12-15 years after official partnership filing; terminations vary from December 31, 2019 to December 31, 2021.

Ferris State University  
Notes to Financial Statements (continued)

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

**Liquidity and Redemption Notice Requirements**

Investments in entities that calculate net asset value per share have illiquid properties associated with nature and type of investment in private capital and hedge funds. Certain lock up periods and redemption notification requirements are mandatory to liquidate these funds. Limited secondary markets exist for certain types of investment vehicles.

For private equity, real estate, and natural resource investments that calculate net asset value per share, the University must hold these assets and receive distributions through the period of investment until the partnership terminates. Although distributions are made throughout the period of time the investment is held, this is not considered a liquid market. The University holds a commodity fund that allows weekly redemptions. The University's investments with hedge funds also have written notification requirements to access the funds. Funds requested for liquidation are made available depending on partnership agreements; currently this range is between 30 – 100 days. Hedge funds may also have other provisions on liquidity to meet annual audit requirements.

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)**

	2019	2018	2017	2016	2015
University's proportionate share of the net pension liability:					
As a percentage	16.55%	16.62%	16.54%	18.19%	17.52%
Amount	\$ 105,739,673	\$95,596,170	\$92,688,360	\$ 99,772,504	\$ 65,729,143
University's covered payroll	\$ 34,050,070	\$34,551,000	\$13,099,319	\$ 13,528,532	\$ 14,188,130
University's proportionate share of the net pension liability, as a percentage of the University's covered payroll	310.54%	276.68%	707.58%	737.50%	463.27%
MPERS fiduciary net position as a percentage of the University employers pension liability	45.87%	47.42%	46.77%	47.45%	63.00%

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

	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 6,658,134	\$ 7,324,888	\$ 7,363,777	\$ 7,425,452	\$ 6,148,573
Contributions in relation to the statutorily required contribution	6,658,134	7,324,888	7,363,777	7,425,452	6,148,573
Contribution excess	\$ -	\$ -	\$ -	\$ -	\$ -
University's covered payroll	\$ 34,560,768	\$34,175,250	\$12,519,799	\$ 12,641,911	\$ 13,728,100
Contributions as a percentage of covered payroll	19.27%	21.43%	58.82%	58.74%	44.79%

**Notes to Required Pension Supplementary Information**

There were no changes of benefit terms from October 1, 2014 through September 30, 2018. The discount rate was reduced to 7.05 percent for the September 30, 2018 valuation from the 7.50 percent at September 30, 2017. In addition, the September 30, 2017 discount rate was reduced from 8.00 percent, which was the discount rate for years ended September 30, 2016, 2015, and 2014.

Ferris State University  
Required Supplementary Information (continued)

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

	2019	2018
University's proportionate share of the net OPEB liability:		
As a percentage	16.32%	16.58%
Amount	\$ 19,365,447	\$ 23,590,353
University's covered payroll	\$ 34,050,070	\$ 34,551,000
University's proportionate share of the net OPEB liability, as a percentage of the University's covered payroll	56.87%	68.28%
MPERS fiduciary net position as a percentage of the University employers OPEB liability	51.90%	44.11%

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

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

**Notes to Required OPEB Supplementary Information**

There were no changes of benefit terms from October 1, 2017 through September 30, 2018. The discount rate was reduced to 7.15 percent for the September 30, 2018 valuation from the 7.50 percent at September 30, 2017.

## 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, 2019 and 2018, and our report thereon dated September 17, 2019, 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 2018, are presented for purposes of additional analysis of the University's financial statements rather than to present the financial position and changes in financial position of the individual funds, and are not a required part of the financial statements. Such other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Andrews Hooper Pavlik PLC*

Grand Rapids, Michigan  
September 17, 2019

Ferris State University  
Combining Statement of Net Position  
June 30, 2019 and 2018

	2019 Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation	Pension	OPEB	2018 Combined Total
<b>Assets</b>												
<b>Current Assets</b>												
Cash and cash equivalents	\$ 25,025,455	\$ 10,090,134	\$ (1,109,997)	\$ (10,084)	\$ (602,876)	\$ 3,701,253	\$ 8,468,295	\$ 417,991	\$ 4,070,739	\$ -	\$ -	\$ 30,043,814
Short-term investments	52,973,208	16,468,253	26,943,956	3,698,368	4,406,143	1,456,488	-	-	-	-	-	50,736,605
Accounts receivable - Net	25,166,220	17,504,479	223,535	562,840	192,655	-	2,176,463	127,649	4,219,111	159,488	-	27,673,190
Inventories	1,032,184	33,049	187,061	812,074	-	-	-	-	-	-	-	891,838
Prepaid expenses and other assets	705,559	692,504	13,055	-	-	-	-	-	-	-	-	504,458
Total current assets	104,902,626	44,788,419	26,257,610	5,063,198	3,995,922	5,157,741	10,644,758	545,640	8,289,850	159,488	-	109,849,905
<b>Noncurrent Assets</b>												
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	1,370,477
Endowment investments	84,531,179	-	-	-	-	-	-	-	84,531,179	-	-	77,431,951
Other long-term investments	27,366,720	-	-	-	-	-	27,366,720	-	-	-	-	25,066,175
Student loans receivable - Net	15,540,855	-	-	-	-	15,540,855	-	-	-	-	-	17,859,790
Other noncurrent assets	180,799	-	-	-	-	-	180,799	-	-	-	-	201,315
Capital assets - Net	332,710,744	-	-	-	-	-	332,710,744	-	-	-	-	325,334,791
Total noncurrent assets	460,330,297	-	-	-	-	15,540,855	360,258,263	-	84,531,179	-	-	447,264,499
Total assets	565,232,923	44,788,419	26,257,610	5,063,198	3,995,922	20,698,596	370,903,021	545,640	92,821,029	159,488	-	557,114,404
<b>Deferred Outflows of Resources</b>												
Net pension liability	5,974,035	-	-	-	-	-	-	-	-	5,974,035	-	6,520,447
Net OPEB liability	2,039,772	-	-	-	-	-	-	-	-	-	2,039,772	1,396,557
Refunding of debt	3,403,542	-	-	-	-	-	3,403,542	-	-	-	-	3,628,024
Total deferred outflows of resources	11,417,349	-	-	-	-	-	3,403,542	-	-	5,974,035	2,039,772	11,545,028
<b>Liabilities</b>												
<b>Current liabilities:</b>												
Accounts payable and accrued liabilities	21,901,771	16,786,635	221,911	2,381,759	16,713	-	1,540,083	545,640	249,542	159,488	-	27,066,533
Unearned revenue	7,987,633	7,176,226	365,544	445,863	-	-	-	-	-	-	-	7,449,683
Long-term liabilities - Current portion	9,219,364	-	-	-	-	-	9,219,364	-	-	-	-	9,076,963
Total current liabilities	39,108,768	23,962,861	587,455	2,827,622	16,713	-	10,759,447	545,640	249,542	159,488	-	43,593,179
<b>Noncurrent liabilities:</b>												
Deposits	569,450	-	-	569,450	-	-	-	-	-	-	-	589,250
Federal student loan payable	12,280,070	-	-	-	-	12,280,070	-	-	-	-	-	12,307,129
Long-term liabilities	116,771,461	9,215,722	40,528	239,176	-	-	107,276,035	-	-	-	-	124,526,525
Net pension obligation	105,739,673	-	-	-	-	-	-	-	-	105,739,673	-	95,596,170
Net OPEB obligation	19,365,447	-	-	-	-	-	-	-	-	-	19,365,447	23,590,353
Total noncurrent liabilities	254,726,101	9,215,722	40,528	808,626	-	12,280,070	107,276,035	-	-	105,739,673	19,365,447	256,609,427
Total liabilities	293,834,869	33,178,583	627,983	3,636,248	16,713	12,280,070	118,035,482	545,640	249,542	105,899,161	19,365,447	300,202,606
<b>Deferred Inflows of Resources</b>												
Net pension liability	4,500,437	-	-	-	-	-	-	-	-	4,500,437	-	3,125,962
Net OPEB liability	2,729,815	-	-	-	-	-	-	-	-	-	2,729,815	977,089
Total deferred inflows of resources	7,230,252	-	-	-	-	-	-	-	-	4,500,437	2,729,815	4,103,051
<b>Net Position</b>												
Net investment in capital assets	221,357,516	-	-	-	-	-	221,357,516	-	-	-	-	208,126,556
<b>Restricted for:</b>												
<b>Nonexpendable:</b>												
Scholarships	46,582,338	-	-	-	-	-	-	-	46,582,338	-	-	35,862,789
<b>Expendable:</b>												
Scholarships	12,808,332	-	-	-	3,244,299	-	-	-	9,564,033	-	-	12,649,280
Research	55,250	-	-	-	55,250	-	-	-	-	-	-	42,345
Instructional department uses	4,325,789	-	-	-	70,158	-	-	-	4,255,631	-	-	4,357,463
Loans	8,463,285	-	-	-	-	8,184,553	-	-	278,732	-	-	7,587,225
Capital projects	200	-	-	-	-	-	-	-	200	-	-	200
Other	4,615,209	-	-	-	609,502	-	-	-	4,005,707	-	-	3,280,455
Unrestricted	(22,622,768)	11,609,836	25,629,627	1,426,950	-	233,973	34,913,565	-	27,884,846	(104,266,075)	(20,055,490)	(7,552,538)
Total net position	\$ 275,585,151	\$ 11,609,836	\$ 25,629,627	\$ 1,426,950	\$ 3,979,209	\$ 8,418,526	\$ 256,271,081	\$ -	\$ 92,571,487	\$ (104,266,075)	\$ (20,055,490)	\$ 264,353,775

Ferris State University  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2019 and 2018

	2019 Combined		General Fund	Designated Fund	Auxiliary Fund	Expendable		Student Loan Fund	Plant Fund	Ferris Foundation	Pension	OPEB	2018 Combined Total
	Total	Eliminations				Restricted Fund							
<b>Operating Revenues</b>													
Tuition and fees - Net	\$ 115,760,500	\$ (35,099,740)	\$ 150,860,240	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,303,790
Federal grants and contracts	2,641,836	-	-	-	18,762	2,623,074	-	-	-	-	-	-	2,666,504
State grants and contracts - Net	497,617	-	-	-	5,000	492,617	-	-	-	-	-	-	470,871
Nongovernmental grants	599,177	-	500	72,128	-	476,549	-	50,000	-	-	-	-	825,686
Departmental activities	11,304,814	(1,864,279)	3,496,400	9,573,505	-	99,188	-	-	-	-	-	-	12,212,860
Auxiliary enterprises - Net	27,974,288	(10,954,622)	-	-	38,928,910	-	-	-	-	-	-	-	28,205,136
Other operating revenues	857,962	(203,856)	101,034	66,052	-	-	820,192	74,540	-	-	-	-	137,935
Current funds expenditures for equipment and capital improvements	-	(2,678,487)	-	-	-	-	-	2,678,487	-	-	-	-	-
<b>Total operating revenues</b>	<b>159,636,194</b>	<b>(50,800,984)</b>	<b>154,458,174</b>	<b>9,711,685</b>	<b>38,952,672</b>	<b>3,691,428</b>	<b>820,192</b>	<b>2,803,027</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>163,822,782</b>
<b>Operating Expenses</b>													
Instruction	99,912,530	(328,836)	93,172,437	2,981,866	-	122,341	-	-	-	5,223,342	(1,258,620)	-	100,439,913
Research	366,133	(1,922)	202,419	25,817	-	139,819	-	-	-	-	-	-	597,447
Public service	4,946,805	(265,950)	166,192	3,927,809	-	961,735	-	-	-	206,865	(49,846)	-	4,981,880
Academic support	27,808,837	(1,357,822)	25,750,215	2,025,277	-	203,713	-	-	-	1,564,417	(376,963)	-	30,158,410
Student services	19,011,096	(309,939)	17,476,829	1,067,925	-	226,715	-	-	-	724,028	(174,462)	-	18,817,470
Institutional support	26,161,673	(9,070,974)	22,924,714	2,712,120	-	354,659	-	-	8,220,532	1,344,623	(324,001)	-	27,407,960
Operations and maintenance of plant	19,785,052	(109,681)	14,015,471	9,285	-	95	-	4,868,888	-	1,318,764	(317,770)	-	19,991,712
Depreciation	10,716,837	-	-	-	-	-	-	10,716,837	-	-	-	-	10,774,649
Student aid	19,885,612	(35,104,890)	25,524,236	28,303	334,450	29,103,513	-	-	-	-	-	-	19,785,801
Auxiliary enterprises	23,273,285	(11,807,663)	-	-	33,147,657	-	-	-	-	2,547,024	(613,733)	-	23,161,990
Other expenses	86,689	-	-	-	-	-	86,689	-	-	-	-	-	301,467
<b>Total operating expenses</b>	<b>251,954,549</b>	<b>(58,357,677)</b>	<b>199,232,513</b>	<b>12,778,402</b>	<b>33,482,107</b>	<b>31,112,590</b>	<b>86,689</b>	<b>15,585,725</b>	<b>8,220,532</b>	<b>12,929,063</b>	<b>(3,115,395)</b>	<b>-</b>	<b>256,418,699</b>
<b>Operating (Loss) Income</b>	<b>(92,318,355)</b>	<b>7,556,693</b>	<b>(44,774,339)</b>	<b>(3,066,717)</b>	<b>5,470,565</b>	<b>(27,421,162)</b>	<b>733,503</b>	<b>(12,782,698)</b>	<b>(8,220,532)</b>	<b>(12,929,063)</b>	<b>3,115,395</b>	<b>-</b>	<b>(92,595,917)</b>
<b>Nonoperating Revenues (Expenses)</b>													
State appropriations	55,853,973	-	54,989,300	-	-	-	-	-	-	864,673	-	-	54,797,535
Federal Pell Grants	21,107,513	-	-	-	-	21,107,513	-	-	-	-	-	-	22,201,471
Gifts	7,511,752	(7,556,693)	4,110	3,087,811	72,212	5,333,052	36,860	395,793	6,138,607	-	-	-	7,818,914
Investment gain	8,988,205	-	1,562,669	2,219,198	193,425	107,404	102,140	740,215	4,063,154	-	-	-	8,660,308
Interest on capital asset - Related debt	(4,386,081)	-	-	-	-	-	-	(4,386,081)	-	-	-	-	(4,415,474)
<b>Net nonoperating revenues (expenses)</b>	<b>89,075,362</b>	<b>(7,556,693)</b>	<b>56,556,079</b>	<b>5,307,009</b>	<b>265,637</b>	<b>26,547,969</b>	<b>139,000</b>	<b>(3,250,073)</b>	<b>10,201,761</b>	<b>864,673</b>	<b>-</b>	<b>-</b>	<b>89,062,754</b>
<b>Income (Loss) - Before other revenues</b>	<b>(3,242,993)</b>	<b>-</b>	<b>11,781,740</b>	<b>2,240,292</b>	<b>5,736,202</b>	<b>(873,193)</b>	<b>872,503</b>	<b>(16,032,771)</b>	<b>1,981,229</b>	<b>(12,064,390)</b>	<b>3,115,395</b>	<b>-</b>	<b>(3,533,163)</b>
<b>Other Revenues</b>													
State capital appropriations	6,204,726	-	-	-	-	-	-	6,204,726	-	-	-	-	15,431,939
Additions to permanent endowments	8,269,643	-	-	-	-	-	-	-	8,269,643	-	-	-	2,926,928
<b>Increase (Decrease) in Net Position - Before transfers</b>	<b>11,231,376</b>	<b>-</b>	<b>11,781,740</b>	<b>2,240,292</b>	<b>5,736,202</b>	<b>(873,193)</b>	<b>872,503</b>	<b>(9,828,045)</b>	<b>10,250,872</b>	<b>(12,064,390)</b>	<b>3,115,395</b>	<b>-</b>	<b>14,825,704</b>
<b>Transfers In (Out)</b>	<b>-</b>	<b>-</b>	<b>(11,200,645)</b>	<b>(8,684,756)</b>	<b>(7,427,104)</b>	<b>318,034</b>	<b>41,963</b>	<b>26,643,215</b>	<b>309,293</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Increase (Decrease) in Net Position</b>	<b>11,231,376</b>	<b>-</b>	<b>581,095</b>	<b>(6,444,464)</b>	<b>(1,690,902)</b>	<b>(555,159)</b>	<b>914,466</b>	<b>16,815,170</b>	<b>10,560,165</b>	<b>(12,064,390)</b>	<b>3,115,395</b>	<b>-</b>	<b>14,825,704</b>
<b>Net Position - Beginning of year</b>	<b>264,353,775</b>	<b>-</b>	<b>11,028,741</b>	<b>32,074,091</b>	<b>3,117,852</b>	<b>4,534,368</b>	<b>7,504,060</b>	<b>239,455,911</b>	<b>82,011,322</b>	<b>(92,201,685)</b>	<b>(23,170,885)</b>	<b>-</b>	<b>249,528,071</b>
<b>Net Position - End of year</b>	<b>\$ 275,585,151</b>	<b>\$ -</b>	<b>\$ 11,609,836</b>	<b>\$ 25,629,627</b>	<b>\$ 1,426,950</b>	<b>\$ 3,979,209</b>	<b>\$ 8,418,526</b>	<b>\$ 256,271,081</b>	<b>\$ 92,571,487</b>	<b>\$ (104,266,075)</b>	<b>\$ (20,055,490)</b>	<b>\$ -</b>	<b>\$ 264,353,775</b>