Financial Report
with Other Supplementary Information

Ferris State University

Years ended June 30, 2016 and 2015
with Report of Independent Auditors

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CPAs & ADVISORS
ANDREWS HOOPER PAVLIK PLC

Ferris State University

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with Other Supplementary Information
Years ended June 30, 2016 and 2015

Contents

CPAs & ADVISORS

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Report of Independent Auditors

Board of Trustees
Ferris State University
Big Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Ferris State University, a component unit of the State of Michigan, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ferris State University as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 and the Required Supplementary Information on page 48 (Schedule of the University's Proportionate Share of the Net Pension Obligation, Schedule of University Contributions, and Notes to Required Supplementary Information) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 August 30, 2016 on our consideration of Ferris State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ferris State University's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
August 30, 2016

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, 2016 with selected comparative information as of and for the years ended June 30, 2015 and 2014. The University includes the Ferris Foundation as well as all site locations including the main campus in Big Rapids, Kendall College of Art and Design, Urban Institute of Contemporary Art, and numerous sites across the State. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University's administration.

Using this Report

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

Financial Highlights

The University's operating revenues increased by $5.7 million during the fiscal year ending June 30, 2016. The University's total assets grew $2.7 million to $501.9 million at year end. The University continued to invest in the physical properties as operations and maintenance expenditures totaled $25.7 million and capital assets increased $8.5 million to $470.5 million before depreciation for the fiscal year ending June 30, 2016.

Operating revenues increased $5.7 million or 3.4 percent compared to prior year. This increase is mostly attributable to tuition revenue increases. Operating expenditures increased $15.9 million or 6.4 percent compared to prior year. The current year operating expenses include $8.4 million of multi-employer pension plan reporting required under governmental accounting standards. The total of all other expenditures increased 3.0 percent. The largest functional expenditure increase of $6.2 million was instruction related. Nonoperating revenues (expenses) decreased $5.2 million during the fiscal year. This is most attributable to a $4.2 million decrease in gifts. Investment gains for the University and the Ferris Foundation (Foundation) were $1.2 million of income and $0.1 million of loss, respectively. This reflects investment returns of 0.3 percent on the University's operating funds and (1.0) percent on the Foundation's portfolio.

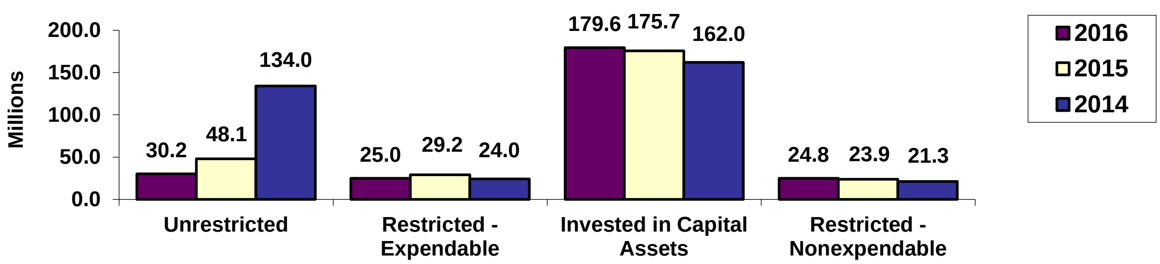
Financial Highlights (continued)

The largest component of operating revenues is tuition and fees, net of scholarships. The $4.8 million increase in tuition and fees was a result of a 2.7 percent increase in the undergraduate tuition rate generating an additional $3.3 million. A decrease in scholarships allowance of $1.5 million comprised the remaining increase in tuition and fees.

Operating expenses increased by $15.9 million. Multi-employer pension expense increased $7.4 million due to a change in the University's proportionate share of the net pension obligation, less than expected pension system investment returns, and larger than expected pension system expenses. The largest general functional increase of $6.2 million was in instruction, due in part, to the creation of additional academic offerings. All other expenditure increases and decreases were modest and part of normal operations.

For the year ended June 30, 2015, the University's net position decreased by $0.2 million prior to the pension obligation restatement. Operating revenues increased by $3.4 million while operating expense increased by $17.0 million. Nonoperating revenues (expenses) decreased $8.8 million. Beginning net position was restated and reduced by $64.2 million in the unrestricted category to reflect the required net pension obligation reporting of the multi-employer pension plan in which the University is required to be a member. Operating revenues remained consistent when compared to prior year with the increase attributed to tuition revenue growth. Instruction related expenditures increased $8.4 million while most other expenditures had modest increases. Investment returns were 0.6 percent on the University's operating funds and 0.7 percent on the Foundation's portfolio compared to much stronger returns in 2014.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2016, 2015, and 2014:



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

The statements of net position and the statements of revenues, expenses, and changes in net position report information on the University as a whole. When revenue and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenue and expenses may be thought of as Ferris State University's operating results.

These two statements report the University's net position and net position changes. Net position is the difference between assets plus deferred outflow of resources and liabilities plus deferred inflows of resources, which is one way to measure the University's financial health, or financial position. Many other nonfinancial factors, such as the trend in student applications, student retention, condition of the facilities, and strength of the educational offerings, also need to be considered to assess the overall health of the University.

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

Net Position

Total net position decreased by $17.3 million to $259.6 million. Unrestricted net position decreased by $17.9 million to $30.2 million. This total is comprised of ($91.9) million net unfunded pension obligation; $91.0 million identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments; and $31.1 million unrestricted and undesignated. The unrestricted and undesignated amount is comprised of $21.1 million for self-supporting departmental, student loan, and auxiliary activities, and $10.0 million for maintenance and construction projects on campus.

For the year ending June 30, 2015, total net position decreased $64.4 million to $276.9 million.

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)

	2016	2015	2014
Assets			
Current assets	$ 102.0	$ 110.6	$ 119.9
Noncurrent assets:			
Capital assets - Net of depreciation	277.6	279.7	271.1
Other	122.3	108.9	112.4
Total assets	**501.9**	**499.2**	**503.4**
Deferred Outflows of Resources			
Net pension obligation	8.5	6.8	-
Refunding of debt	0.6	0.7	0.8
Total deferred outflows of resources	**9.1**	**7.5**	**0.8**
Liabilities			
Current liabilities	34.2	34.9	33.8
Long-term liabilities	216.5	188.6	129.1
Total liabilities	**250.7**	**223.5**	**162.9**
Deferred Inflows of Resources			
Net pension obligation	0.7	6.3	-
Total deferred inflows of resources	**0.7**	**6.3**	**-**
Net Position			
Invested in capital assets	179.6	175.7	162.0
Restricted - Expendable	25.0	29.2	24.0
Restricted - Nonexpendable	24.8	23.9	21.3
Unrestricted	30.2	48.1	134.0
Total net position	**$ 259.6**	**$ 276.9**	**$ 341.3**

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

	2016	2015	2014
Operating Revenues			
Tuition and fees - Net	$ 125.5	$ 120.7	$ 116.4
Grants and contracts	3.6	3.8	3.0
Departmental activities	11.9	11.9	11.6
Auxiliary activities - Net	29.1	28.2	30.1
Other operating revenues	1.2	1.0	1.1
Total operating revenues	171.3	165.6	162.2
Operating Expenses			
Instruction	102.3	96.1	87.7
Research	0.6	0.5	0.7
Public service	5.0	4.8	4.3
Academic support	29.2	29.1	28.4
Student services	19.4	18.4	16.8
Institutional support	27.0	23.8	22.1
Operation and maintenance of plant	25.7	23.4	21.6
Depreciation	11.3	11.2	9.5
Student aid	18.5	17.8	18.0
Auxiliary enterprises	24.7	22.6	21.7
Other expenses	0.6	0.7	0.6
Total operating expenses	264.3	248.4	231.4
Operating Loss	(93.0)	(82.8)	(69.2)
Nonoperating Revenues (Expenses)			
State appropriations	50.7	50.3	46.1
Federal Pell grants	22.7	23.7	23.8
Gifts	4.7	8.9	8.1
Investment gain	1.1	1.4	15.4
Interest on capital assets - Related debt	(4.4)	(4.3)	(4.6)
Total nonoperating revenues (expenses)	74.8	80.0	88.8
Income (Loss) - Before other revenues	(18.2)	(2.8)	19.6
Other Revenues			
Additions to permanent endowments	0.9	2.6	0.8
Total other revenues	0.9	2.6	0.8
Increase (Decrease) in Net Position	(17.3)	(0.2)	20.4
Net Position - Beginning of year	276.9	341.3	320.9
Cumulative effect of change in accounting principle	-	(64.2)	-
Net Position - Beginning of year - As restated	276.9	277.1	320.9
Net Position - End of year	**$ 259.6**	**$ 276.9**	**$ 341.3**

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, housing, and dining. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

The following major factors significantly impacted operating revenue during the year ending June 30, 2016:

- Student tuition and fees revenue increased $4.8 million due to the net effect of the following factors: Board-approved tuition increase of 2.7 percent and a decrease in scholarship allowances.

- Auxiliary enterprises operating revenue increased by $0.9 million. Housing and dining revenues before eliminations increased $0.6 million. Other changes totaled an increase of $0.3 million.

For the year ended June 30, 2015, the significant operating revenue factors were as follows:

- Student tuition and fees revenue increased $4.3 million due to the net effect of the following factors: Board-approved tuition increase of 2.6 percent, enrollment growth from 2014, and an increase in student financial support.

- Auxiliary enterprises operating revenue decreased by $1.9 million. Housing and dining decreased $2.5 million. Other changes totaled an increase of $0.6 million.

- Grant revenues increased $0.8 million, primarily resulting from receipts from a State Stormwater, Asset Management, and Wastewater grant totaling $0.5 million. Other changes totaled the remaining increase of $0.3 million.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) are all revenue sources that are primarily nonexchange in nature. They consist primarily of state appropriations, Federal Pell grants, gifts, and investment gain (including realized and unrealized gains and losses).

Nonoperating revenues (expenses) was significantly impacted by the following factors during the year ending June 30, 2016:

- The State appropriation of $50.7 million is an increase of $0.4 million from the 2015 level. This includes $0.9 million of support offset by $0.6 million in deferred inflow for the University's share of the current year pension obligation.

- Investment gain decreased by $0.3 million from $1.4 million in 2015 to $1.1 million in 2016. The $1.1 million investment gain is comprised of $4.5 million realized gains and $3.4 million of unrealized losses.

Nonoperating Revenues (Expenses) (continued)

- Gift income decreased by $4.2 million from $8.9 million in 2015 to $4.7 million in 2016. This includes pledges receivable net of allowance for doubtful accounts with net pledges receivable totaling $3.6 million.

- Pell grants decreased $1.0 million from $23.7 million is 2015 to $22.7 million in 2016.

For the year ended June 30, 2015, significant nonoperating revenues (expenses) factors were as follows:

- The State appropriation of $50.3 million is an increase of $4.2 million from the 2014 level. This includes $1.1 million of support for the University's share of the 2015 pension obligation.

- Investment gain decreased by $14.0 million from $15.4 million in 2014 to $1.4 million in 2015. The $1.4 million investment gain is comprised of $10.8 million realized gains and $9.4 of unrealized losses.

- Gift income increased by $0.8 million from $8.1 million in 2014 to $8.9 million in 2015. This includes pledges receivable net of allowance for doubtful accounts with net pledges receivable totaling $5.4 million.

Other Revenues

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

For the year ending June 30, 2016:

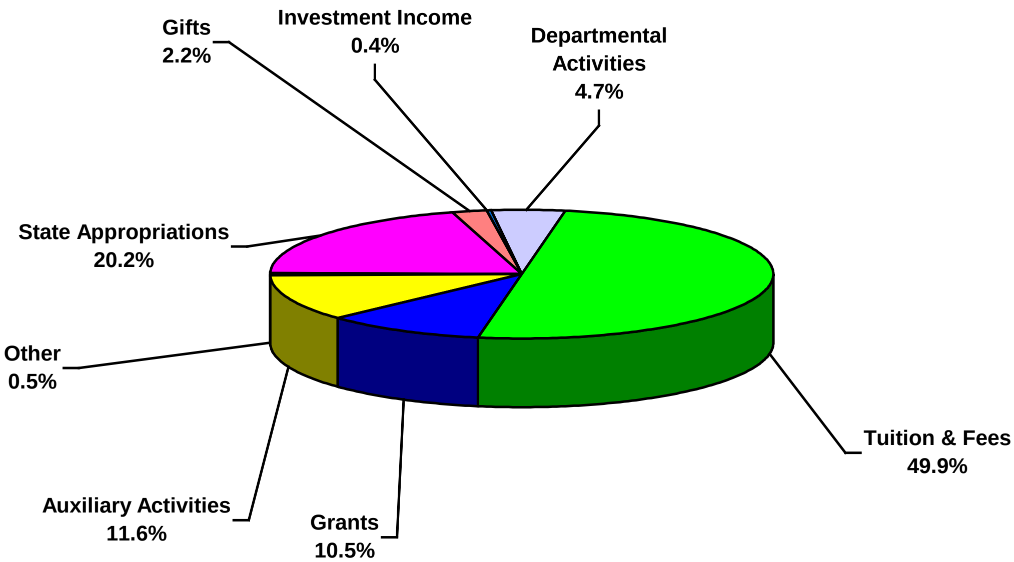
- Other revenues include increases to permanent endowments of the Ferris Foundation. These revenues decreased to $0.9 million from $2.6 million in prior year. Of the current year total, $0.2 million relates to net pledges.

For the year ending June 30, 2015:

- Other revenues include increases to permanent endowments of the Ferris Foundation. These revenues increased to $2.6 million from $0.8 million in 2014. Of the 2015 total, $0.2 million relates to net pledges.

Total Revenues

The following is a graphic illustration of total revenues by source for June 30, 2016:



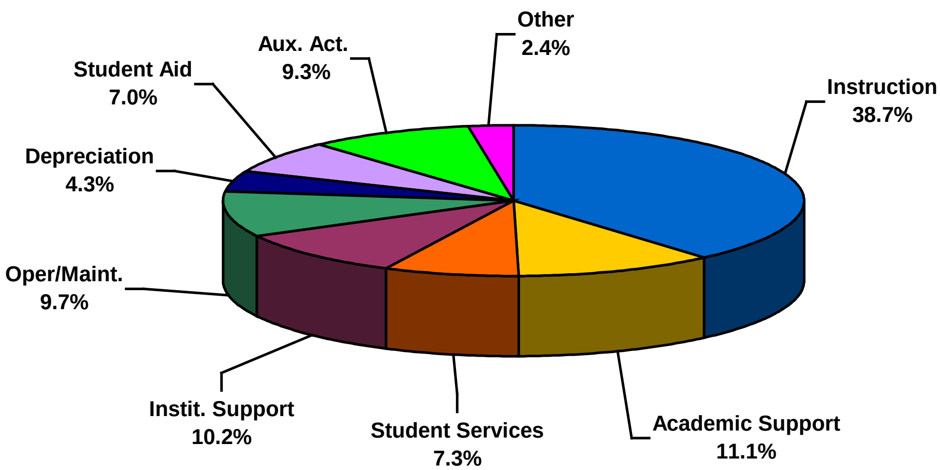
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses increased by $15.9 million from 2015 levels to $264.3 million. Instruction, student services, and student aid represent $140.2 million, or 53.0 percent, of the total. Operations and maintenance of plant and depreciation total $37.0 million, or 14.0 percent, and auxiliary operations total $24.7 million, or 9.3 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

During the 2015 fiscal year, operating expenses increased by $17.0 million from 2014 levels to $248.4 million. Instruction, student services, and student aid represent $132.3 million, or 53.3 percent, of the total. Operations and maintenance of plant and depreciation total $34.6 million, or 13.9 percent, and auxiliary operations total $22.6 million, or 9.1 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

Operating Expenses (continued)

The following is a graphic illustration of operating expenses by function for June 30, 2016:



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)

	2016	2015	2014
Net Cash (Used in) Provided by:			
Operating activities	$ (54.4)	$ (71.2)	$ (58.7)
Noncapital financing activities	78.8	84.7	78.5
Capital and related financing activities	(19.4)	(30.4)	(23.7)
Investing activities	(10.5)	(2.7)	5.1
Increase (Decrease) in Cash and Cash Equivalents	(5.5)	(19.6)	1.2
Cash and Cash Equivalents - Beginning of year	38.6	58.2	57.0
Cash and Cash Equivalents - End of year	**$ 33.1**	**$ 38.6**	**$ 58.2**

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 $16.8 million from $71.2 million in 2015 to $54.4 million in 2016.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area decreased by $5.9 million from $84.7 million in 2015 to $78.8 million in 2016.

Cash used in capital and related financing activities totaled $19.4 million, used primarily for capital assets acquired during the year, construction projects of $9.4 million, and debt and interest payments of $10.4 million which were offset by other proceeds totaling $0.4 million.

Cash used by investing activities totaled $10.5 million. This is the amount of cash used for investment purchases in excess of cash provided by the sale of investments.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the University had $277.6 million invested in capital assets, net of accumulated depreciation of $192.9 million.

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

	2016	2015	2014
Land, land improvements, and infrastructure	$ 26.8	$ 25.9	$ 25.6
Buildings and improvements	359.1	358.2	329.8
Furniture, fixtures, and equipment	78.4	76.1	75.1
Construction in progress	6.2	1.8	18.6
Total	**$ 470.5**	**$ 462.0**	**$ 449.1**

Top Taggart track resurfacing and utility tunnel infrastructure comprised the additions to land, land improvements, and infrastructure while roofing replacement work comprised the buildings and improvements additions.

Expenditures totaling $6.2 million for west campus apartments construction, student recreation center mechanical systems, swan annex project, north campus residence hall project, plans for a new Katke professional golf management center, and soccer and intramural fields work were included in construction in progress at June 30, 2016.

Capital Assets and Debt Administration (continued)

Debt Administration

At year end, the University had $88.3 million in debt outstanding compared to $94.0 million at 2015 and $99.6 million at 2014. In addition to General Revenue Bond debt, the University is a guarantor on $11.3 million of Limited Obligation Recovery Zone Facility Revenue Bonds Series 2010A for the Ferris Building. The balance at June 30, 2015 was $11.7 million and $12.0 million at June 30, 2014. This building is being leased and the debt is included in the long-term liabilities.

Economic Factors Affecting the Future

In 2016, higher education remains a priority in state funding decisions. The Michigan economy is slowly increasing, which allows for investment in public universities. Both the Governor and state Legislature understand the importance of higher education, especially in the areas of Science, Technology, Engineering, and Mathematics, to Michigan's continued economic prosperity. The state's performance-based funding model continues to reward Ferris' mission of providing a career-oriented education. In addition to supporting Michigan's economic recovery, the University's mission in providing career-oriented education positions the University well for continued alignment with the state's performance-based funding metrics. Future concerns in state support are reflected in the funding of road improvements from the General Fund beginning in 2019 and resistance to using School Aid funds for public universities.

MPSERS costs will continue to be a financial burden especially in yearly funding of MPSERS health benefits. State legislation passed in 2015 will offset a portion of the pension cost increases by capping the University's unfunded liability costs at no more than 25.73% of salary. As of early September, however, implementation of that legislation has yet to occur and the financial relief provided is unclear.

The University is very grateful for action by the Legislature and Governor for capital outlay funding for the expansion of the Swan Annex. This will allow enrollment of increased numbers of students in Welding Engineering Technology and Advanced Manufacturing, two careers in high demand with waitlists of accepted students. A state policy of continued investment in advanced, technologically sophisticated facilities is essential to the continued competitive economic advantage Michigan universities provide.

A challenge facing not only Ferris State University but the entire state is a decline in the number of high school graduates in Michigan. This decline began in 2009 and is projected to continue through 2027. The University has a strong competitive position with its focus upon much needed and unique career-oriented degrees, its partnerships with community colleges across the state to provide bachelor completion degrees, and its online courses and degrees. After a period of steady enrollment, this fall the University experienced an enrollment decline both in new and continuing students. Going forward it will be important to align University resources with areas of strong need and interest, and to continue to invest in new degree programs in high need and demand areas.

Economic Factors Affecting the Future (continued)

An area of continuing concern is student debt. It has been a national trend to shift the cost of public education to students and to eliminate support for student financial aid programs as states have struggled to balance their budgets. Regrettably, a consensus at the state and federal levels to address this issue has yet to develop. At the University, reducing student debt is a main strategic goal. Increased student support, cost containment, financial literacy, and the reduction in time-to-graduation are all part of a comprehensive effort that is working to reduce student debt. In 2014-15, the most recent data available, student debt declined for the second year in a row, with an overall decline of $1,665 during this period.

The University's strategic plan focuses on students and student success. Positive movement on state support, capital outlay investment, student debt, and MPSERS relief are all important for the stability of the University, its students, and their futures. Looking forward, the University's career-oriented focus will continue to attract students and align with the state's priorities and performance-based funding metrics. Combined with a learner-centered approach where theory meets practice and faculty work with students in small class settings, this creates a strong environment for student success. This positions the University well for its enrollment outlook, state funding, degree affordability, and therefore stable finances.

Ferris State University
Statements of Net Position

	June 30 2016	June 30 2015
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	**$ 33,116,912**	$ 38,603,931
Short-term investments (Note 2)	**46,252,853**	48,117,875
Accounts receivable - Net (Note 3)	**21,225,632**	22,072,365
Inventories	**908,762**	949,766
Prepaid expenses and other assets	**481,937**	813,383
Total current assets	**101,986,096**	110,557,320
Noncurrent Assets		
Endowment investments (Note 2)	**65,951,840**	48,015,795
Other long-term investments (Note 2)	**37,692,368**	42,079,766
Student loans receivable - Net (Note 3)	**18,024,088**	18,154,757
Other noncurrent assets	**678,253**	717,721
Capital assets - Net (Note 4)	**277,571,409**	279,701,527
Total noncurrent assets	**399,917,958**	388,669,566
Total assets	**501,904,054**	499,226,886
Deferred Outflows of Resources		
Net pension obligation (Note 6)	**8,484,853**	6,838,131
Refunding of debt	**656,570**	732,338
Total deferred outflows of resources	**9,141,423**	7,570,469
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	**19,064,108**	18,728,637
Unearned revenue	**7,683,273**	9,000,968
Long-term liabilities - Current portion (Note 5)	**7,485,647**	7,223,001
Total current liabilities	**34,233,028**	34,952,606
Noncurrent liabilities:		
Deposits	**713,160**	750,200
Federal student loan payable	**12,361,688**	12,908,104
Long-term liabilities (Note 5)	**103,665,814**	109,191,243
Net pension obligation (Note 6)	**99,772,504**	65,729,143
Total noncurrent liabilities	**216,513,166**	188,578,690
Total liabilities	**250,746,194**	223,531,296
Deferred Inflows of Resources		
Net pension obligation (Note 6)	**654,448**	6,319,269
Total deferred inflows of resources	**654,448**	6,319,269
Net Position		
Net investment in capital assets	**179,624,174**	175,758,761
Restricted for (Note 1):		
Nonexpendable:		
Scholarships	**24,803,709**	23,886,583
Expendable:		
Scholarships	**9,177,482**	10,902,870
Research	**84,216**	85,261
Instructional department uses	**3,798,218**	4,626,648
Loans	**7,041,187**	6,841,080
Capital projects	**200**	200
Other	**4,953,859**	6,737,766
Unrestricted (Note 1)	**30,161,790**	48,107,621
Total net position	**$ 259,644,835**	$ 276,946,790

See accompanying notes.

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

	Year Ended June 30	
	2016	**2015**
Operating Revenues		
Tuition and fees - Net of scholarship allowances of $32,042,612 for 2016 and $33,501,233 for 2015	**$ 125,540,140**	$ 120,715,410
Federal grants and contracts	**2,550,680**	2,506,444
State and local grants and contracts - Net of refunds	**557,957**	876,149
Nongovernmental grants	**528,857**	439,423
Departmental activities	**11,912,181**	11,908,541
Auxiliary enterprises - Net of scholarship allowances of $6,025,782 for 2016 and $6,466,598 for 2015	**29,068,477**	28,149,397
Other operating revenues	**1,161,539**	1,026,583
Total operating revenues	**171,319,831**	165,621,947
Operating Expenses		
Instruction	**102,300,315**	96,128,836
Research	**607,746**	457,603
Public service	**5,013,185**	4,832,786
Academic support	**29,233,926**	29,087,540
Student services	**19,422,075**	18,405,654
Institutional support	**26,951,170**	23,831,272
Operation and maintenance of plant	**25,724,343**	23,363,275
Depreciation	**11,328,170**	11,236,660
Student aid	**18,444,155**	17,771,120
Auxiliary enterprises	**24,718,813**	22,557,741
Other expenses	**560,924**	665,337
Total operating expenses	**264,304,822**	248,337,824
Operating Loss	**(92,984,991)**	(82,715,877)
Nonoperating Revenues (Expenses)		
State appropriations	**50,657,682**	50,263,844
Federal Pell grants	**22,706,756**	23,669,591
Gifts	**4,646,080**	8,891,643
Investment gain	**1,140,092**	1,444,984
Interest on capital asset - Related debt	**(4,368,951)**	(4,281,557)
Net nonoperating revenues (expenses)	**74,781,659**	79,988,505
Loss - Before other revenues	**(18,203,332)**	(2,727,372)
Other Revenues		
Additions to permanent endowments	**901,377**	2,614,768
Decrease in Net Position	**(17,301,955)**	(112,604)
Net Position		
Beginning of year	**276,946,790**	341,257,200
Cumulative effect of change in accounting principle	**-**	(64,197,806)
Beginning of year - As restated	**276,946,790**	277,059,394
End of year	**$ 259,644,835**	$ 276,946,790

See accompanying notes.

Ferris State University
Statements of Cash Flows

	Year Ended June 30 2016	Year Ended June 30 2015
Cash Flows from Operating Activities		
Tuition and fees	**$ 123,185,844**	$ 120,757,581
Grants and contracts	**2,991,551**	3,628,604
Payments to suppliers	**(114,074,164)**	(126,562,618)
Payments to employees	**(111,272,981)**	(110,844,440)
Interest collected on student loans	**661,462**	504,701
Loans issued to students	**(3,885,201)**	(3,210,642)
Collection of loans from students	**3,565,405**	3,118,038
Auxiliary enterprise charges	**29,068,477**	28,149,397
Other receipts	**15,407,752**	13,219,316
Net cash used in operating activities	**(54,351,855)**	(71,240,063)
Cash Flows from Noncapital Financing Activities		
State appropriations	**51,078,895**	49,636,480
Pell grant receipts	**22,706,756**	23,669,591
Gifts and grants for other than capital purposes	**4,360,336**	8,841,447
Private gifts for endowment purposes	**901,377**	2,614,768
Federal direct loan lending receipts	**87,157,484**	92,245,300
Federal direct loan lending disbursements	**(87,368,481)**	(92,275,262)
Net cash provided by noncapital financing activities	**78,836,367**	84,732,324
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	**285,744**	50,196
Purchase of capital assets and construction	**(9,473,079)**	(21,824,543)
Proceeds from sale of buildings and equipment	**120,051**	221,948
Proceeds from capital debt	**-**	12,880,000
Principal paid on capital debt	**(6,035,000)**	(18,880,000)
Proceeds from capital debt premium	**-**	785,066
Interest paid on capital debt	**(4,325,714)**	(3,590,377)
Net cash used in capital and related financing activities	**(19,427,998)**	(30,357,710)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	**31,802,372**	24,603,821
Investment income	**4,507,472**	10,807,518
Purchase of investments	**(46,853,377)**	(38,126,078)
Net cash used in investing activities	**(10,543,533)**	(2,714,739)
Net Decrease in Cash and Cash Equivalents	**(5,487,019)**	(19,580,188)
Cash and Cash Equivalents - Beginning of year	**38,603,931**	58,184,119
Cash and Cash Equivalents - End of year	**$ 33,116,912**	$ 38,603,931

See accompanying notes.

Ferris State University
Statements of Cash Flows (continued)

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

	Year Ended June 30	
	2016	**2015**
Operating loss	**$ (92,984,991)**	$ (82,715,877)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**11,328,170**	11,236,660
Amortization of bond insurance costs	**39,468**	39,469
Proceeds from capital debt premium	**-**	(785,066)
Loss on disposal of fixed assets	**154,976**	1,787,260
Decrease (increase) in assets:		
Accounts receivable	**1,079,968**	(2,324,345)
Student loans receivable	**(204,750)**	383,351
Inventories, prepaid expenses, and other assets	**372,450**	(139,036)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	**335,471**	(389,020)
Deposits and unearned revenue	**(1,354,735)**	698,782
Accrued sick leave	**804,748**	(44,716)
Net pension obligation	**26,077,370**	1,012,475
Net cash used in operating activities	**$ (54,351,855)**	$ (71,240,063)

Ferris State University
Notes to Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies

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

The University's Board of 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 evaluated in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Foundation was established as a separate nonprofit corporation which exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of the University. The Foundation's Board of Directors' membership includes a member of the University's Board, certain officers of the University as set forth in the Foundation bylaws, and other representatives elected by the Foundation's Board. The University has a significant fiduciary relationship with the Foundation. In accordance with the provision of GASB Statement No. 61, the Foundation is treated as a blended component unit of the University and the financial statements of the Foundation have been combined with those of the University. The June 30, 2016 audited financial statements for the Ferris Foundation can be found at: www.ferris.edu/foundation.

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Condensed financial information for the Ferris Foundation is provided below:

Ferris Foundation
Condensed Statements of Financial Position at June 30

Assets		2016		2015
Investments	$	65,951,840	$	48,015,795
Other assets		4,533,159		7,652,426
Total assets		**70,484,999**		**55,668,221**
Liabilities				
Other liabilities		125,762		268,457
Total liabilities		**125,762**		**268,457**
Net Assets				
Unrestricted		30,745,963		12,744,978
Temporarily restricted		14,809,565		18,768,203
Permanently restricted		24,803,709		23,886,583
Total net assets	**$**	**70,359,237**	**$**	**55,399,764**

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

Support, revenue, and gains		2016		2015
Gifts and contributions	$	5,408,930	$	11,821,872
Other support, revenue, and gains (losses)		(146,854)		547,061
Total support, revenue, and gains		**5,262,076**		**12,368,933**
Expenses				
Disbursements to Ferris		5,556,318		3,757,877
Other expenses		2,872,380		2,148,426
Total expenses		**8,428,698**		**5,906,303**
Revenue, gains, and other support over (under) expenses		(3,166,622)		6,462,630
Net transfers from Ferris		18,126,095		1,252,993
Increase in net assets		14,959,473		7,715,623
Net assets - beginning of year		55,399,764		47,684,141
Net assets - end of year	**$**	**70,359,237**	**$**	**55,399,764**

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

		2016		2015
Net cash used in operating activities	$	(1,341,925)	$	(770,993)
Net cash used in investing activities		(19,005,404)		(2,254,688)
Net cash provided by financing activities		19,006,579		3,852,037
Net change in cash and cash equivalents		**(1,340,750)**		**826,356**
Cash and cash equivalents - beginning of year		2,100,990		1,274,634
Cash and cash equivalents - end of year	**$**	**760,240**	**$**	**2,100,990**

Accrual Accounting

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

Adoption of New Standard

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

Restricted Net Position

Restricted net position represent amounts over which third parties have imposed restrictions that cannot be changed by the Board of Trustees (Board), including amounts that the Board has agreed to set aside under contractual agreements with third parties. Funds held by the Foundation for endowments or donor-designated purposes were $24,803,709 at June 30, 2016 and $23,886,583 at June 30, 2015. The remaining restricted balance of $25,055,162 at June 30, 2016 and $29,193,825 at June 30, 2015 consists primarily of funds restricted for student loans, scholarships, and other purposes.

1. Summary of Significant Accounting Policies (continued)

Unrestricted Net Position

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

	2016	2015
Designated for general fund division use	$ 9,312,236	$ 11,032,329
Designated for encumbrances	568,523	784,950
Designated for maintenance and replacement	50,339,704	55,705,599
Designated for Foundation endowments	30,745,963	12,744,978
Designated for unfunded pension obligation	(91,942,099)	(65,210,281)
Unrestricted and undesignated	31,137,463	33,050,046
Total unrestricted net position	$ 30,161,790	$ 48,107,621

Cash and Cash Equivalents

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

Investments

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

Inventories

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

Bond Issuance Costs

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

Capital Assets

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

1. Summary of Significant Accounting Policies (continued)

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 obligation. Deferred outflows of resources related to refunding of debt totaled $656,570 at June 30, 2016 and $732,338 at June 30, 2015. 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 $8,484,853 at June 30, 2016 and $6,838,131 at June 30, 2015. Net pension obligation amounts related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability the following year, while other amounts reported as net pension obligation 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 obligation. Deferred inflows of resources totaled $654,448 at June 30, 2016 and $6,319,269 at June 30, 2015. Net pension 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 obligation 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 Obligation

For purposes of measuring the net pension obligation, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (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.

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.

Reclassifications

Certain amounts in 2015 have been reclassified to conform with the 2016 presentation.

2. Cash and Investments

As of June 30, 2016, 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	$ 1,225,486	$ 1,225,486	$ -	$ -	$ -
Money markets	31,891,426	31,891,426	-	-	-
Mutual bond funds	58,265,977	-	15,757,115	42,508,862	-
Mutual equity funds	29,876,001	-	-	-	29,876,001
Real estate funds	4,509,298	-	-	-	4,509,298
Marketable securities	242,822	-	-	-	242,822
International equity funds	22,543,722	-	-	-	22,543,722
Alternative investments	33,272,884	-	-	-	33,272,884
Cash surrender value of life insurance	1,186,357	1,186,357	-	-	-
Total	$ 183,013,973	$ 34,303,269	$ 15,757,115	$ 42,508,862	$ 90,444,727

As of June 30, 2015, the University had the following cash and investments and maturities:

	Fair Market Value	Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Cash and cash equivalents	$ 2,056,200	$ 2,056,200	$ -	$ -	$ -
Money markets	36,547,731	36,547,731	-	-	-
Mutual bond funds	62,032,153	-	18,171,800	43,860,353	-
Mutual equity funds	28,004,789	-	-	-	28,004,789
Real estate funds	4,017,989	-	-	-	4,017,989
Marketable securities	260,027	-	-	-	260,027
International equity funds	21,526,760	-	-	-	21,526,760
Alternative investments	21,205,746	-	-	-	21,205,746
Cash surrender value of life insurance	1,165,972	1,165,972	-	-	-
Total	$ 176,817,367	$ 39,769,903	$ 18,171,800	$ 43,860,353	$ 75,015,311

Cash and Short-term Investments

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

Intermediate and Long-term Investments

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

2. Cash and Investments (continued)

Endowment Investments

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

Concentration of Credit Risk

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

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

Interest Rate Risk

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

Liquidity Risk

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

2. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial risk. However, Board policy establishes limits on balances held in any one bank or bank account to reduce risk. At June 30, 2016, the carrying amount of the University's deposits was $2,409,959 and $2,762,073 at June 30, 2015. Of that amount, $750,000 was insured for 2016 and $1,000,000 for 2015. Of the bank balance, $0 at June 30, 2016 was collateralized ($1,800,138 at June 30, 2015). 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 pool of funds. In addition, the minimum acceptable credit quality at the time of purchase for individual securities shall be BBB for the intermediate-term pool.

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

	2016		2015	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Blackrock Total Return	$ 5,252,961	A	$ -	
Commonfund Multi-Strategy Bond Fund	14,481,335	A+	22,854,114	A+
Franklin Templeton Global Bond	5,749,022	BBB+	5,995,698	A-
Loomis Sayles Institutional High Yield	2,041,382	BB-	1,076,028	BBB-
PIMCO Real Return	12,159,542	AA	11,770,223	AA
Vanguard Short Term Bond Index	9,251,097	AA	9,021,509	AA+
Vanguard Short Term Investment Grade	756,997	A+	3,154,592	AA+
Western Asset	8,573,641	AA-	8,159,989	AA-
Total	$ 58,265,977		$ 62,032,153	

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

2. Cash and Investments (continued)

Foreign Currency Risk

The University and the Foundation hold investments in some international mutual funds and alternative investments. These funds may be invested in various countries throughout the world and, therefore, may expose the University and the Foundation to foreign credit risk. Investments in these funds were $42,269,750 for the year ended June 30, 2016 and $36,356,661 for the year ended June 30, 2015.

3. Accounts Receivable and Student Loans Receivable

Accounts receivable consist of the following at June 30:

	2016	2015
Student	$ 10,444,958	$ 9,445,397
Grants and contracts	406,829	307,302
State appropriations	9,158,147	8,924,912
Pledges receivable	4,110,055	5,945,446
Other	758,249	987,669
Total accounts receivable	24,878,238	25,610,726
Less allowance for doubtful accounts	3,652,606	3,538,361
Total accounts receivable - Net	$ 21,225,632	$ 22,072,365

Student loans receivable of $18,024,088 for the year ended June 30, 2016 and $18,154,757 for the year ended June 30, 2015, are recorded net of an allowance for doubtful accounts of $3,400,000 for 2016 and 2015.

4. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 8,446,594	$ -	$ -	$ 556,553	$ 9,003,147
Infrastructure	10,821,432	-	-	391,709	11,213,141
Building and building improvements	358,167,712	-	-	932,688	359,100,400
Furniture, fixtures, and equipment	76,138,489	3,230,202	(1,019,387)	-	78,349,304
Subtotal - Depreciable assets	453,574,227	3,230,202	(1,019,387)	1,880,950	457,665,992
Land	6,596,622	-	-	-	6,596,622
Construction in progress	1,830,674	6,242,877	-	(1,880,950)	6,192,601
Subtotal - Nondepreciable assets	8,427,296	6,242,877	-	(1,880,950)	12,789,223
Total	462,001,523	9,473,079	(1,019,387)	-	470,455,215
Less accumulated depreciation:					
Land improvements	5,973,850	270,400	-	-	6,244,250
Infrastructure	5,623,443	530,606	-	-	6,154,049
Building and building improvements	127,479,825	7,727,199	-	-	135,207,024
Furniture, fixtures, and equipment	43,222,878	2,799,965	(744,360)	-	45,278,483
Total accumulated depreciation	182,299,996	11,328,170	(744,360)	-	192,883,806
Capital assets - Net	$ 279,701,527	$ (1,855,091)	$ (275,027)	$ -	$ 277,571,409

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

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

4. Capital Assets (continued)

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

Buildings	50 years
Library books (included in furniture, fixtures, and equipment)	5 years
Land improvements and infrastructure	20 years
Equipment	5 to 15 years

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

5. Long-term Liabilities

Long-term obligation activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2014B	$ 12,615,000	$ -	$ 1,320,000	$ 11,295,000	$ 1,345,000
General Revenue Bonds, Series 2014A	12,570,000	-	355,000	12,215,000	360,000
General Revenue Refunding Bonds, Series 2012	11,780,000	-	1,045,000	10,735,000	1,080,000
General Revenue Bonds, Series 2009	34,005,000	-	1,085,000	32,920,000	1,130,000
General Revenue Refunding Bonds, Series 2008	22,980,000	-	1,895,000	21,085,000	1,985,000
Total bonds and notes payable	93,950,000	-	5,700,000	88,250,000	5,900,000
Other liabilities:					
Accrued sick leave	8,677,847	804,748	-	9,482,595	-
Unamortized bond premiums	1,008,572	-	80,177	928,395	80,176
Accrued interest payable (bonds)	961,608	52,621	-	1,014,229	1,014,229
Accrued interest payable (capital lease)	146,217	-	4,975	141,242	141,242
Capital lease payable	11,670,000	-	335,000	11,335,000	350,000
Total	$ 116,414,244	$ 857,369	$ 6,120,152	$ 111,151,461	$ 7,485,647

5. Long-term Liabilities (continued)

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

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

General Revenue Refunding Bonds, Series 2014B

The University issued $12,880,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 2.00 percent to 4.00 percent. A rating of "A1" was assigned to these bonds by Moody's. The bonds are payable from general revenues of the University and callable at par starting in year ten, and mature in varying amounts through 2027. Proceeds from the issuance were used to refund General Revenue Refunding Bonds, Series 2005. The refunding was done to take advantage of lower interest rates and to reduce debt payments. The refunding decreased the University's total debt service payments by approximately $2,000,000, with the net present value and cash flow savings of approximately $1,746,000.

General Revenue Bonds, Series 2014A

The University issued $12,570,000 of General Revenue Bonds. The outstanding balance carries interest rates of 2.00 percent to 4.00 percent. A rating of "A1" was assigned to these bonds by Moody's. The bonds are payable from general revenues of the University, callable at par, and mature in varying amounts through 2035. Proceeds from the issuance were used to finance a portion of the University Center project. The University Center located in the center of campus, serves as a gathering place for the campus community and a home for its commuter students. The center includes dining options, the Ferris Bookstore, the University Center Art Gallery, community areas, meeting rooms, and offices.

5. Long-term Liabilities (continued)

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 Standards & Poor’s. The bonds are payable from general revenues of the University, callable at a 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 $2,217,683 over the life of the bonds; a deferred outflow of resources of approximately $80,000; and a total net present cash flow savings of $3,451,040.

General Revenue Bonds, Series 2009

The University issued $38,935,000 of General Revenue Bonds. The outstanding balance carries interest rates of 4.00 percent to 5.25 percent. A rating of “AAA” was assigned to these bonds by Standards & Poor’s. The bonds are insured, payable from general revenues of the University, callable at par, and mature in varying amounts through 2039. Proceeds from this issuance were used for renovation of the Rock Café, a dining unit within the University’s auxiliary services area which was converted from a traditional cafeteria style to a marketplace concept and construction of an exterior green and multipurpose space located near the Rock Café. Another major project funded was construction of new east campus suites student housing which was completed and was opened for August 2010 occupancy. Also, proceeds were used for construction of a new building for the Michigan College of Optometry, a project 75.0 percent funded by the State of Michigan, with the remainder financed from private donations and bond proceeds. The remainder of the bond funds were used for miscellaneous building and site improvements.

General Revenue Refunding Bonds, Series 2008

The University issued $32,915,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 4.00 percent to 5.00 percent. A rating of “AAA” was assigned to these bonds by Standard & Poor’s. The bonds are insured, payable from general revenues of the University, callable at 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.

5. Long-term Liabilities (continued)

General Revenue Refunding Bonds, Series 2005

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

Federal Building Capital Lease, Series 2010A

In September 2010, a sublease was made between Federal Building Partners LLC and the University to lease the Federal Building in downtown Grand Rapids. The agreement involved issuance of bonds by the Economic Development Corporation of the City of Grand Rapids for the renovation of the building to be done by Federal Building Partners. A bond rating of “A” was assigned to these bonds by Standard & Poor’s with maturity dates varying in amounts through 2036. The University is a guarantor for the Series 2010A bond issuance for $12,615,000. The outstanding balance carries interest rates of 3.75 percent to 5.50 percent. Ownership of the building could eventually pass from the City of Grand Rapids to the University after construction is complete and the tax credit recapture expiration date passes. The capital lease is listed as a long term obligation and the related asset included in Buildings and Building Improvements at June 30, 2016 and 2015.

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, 2016 are as follows:

	Bond		Capital Lease
Year	Principal	Interest	Minimum Payments
2017	$ 5,900,000	$ 3,545,120	$ 914,469
2018	6,120,000	3,331,733	915,169
2019	6,355,000	3,100,408	915,269
2020	6,590,000	2,862,595	915,262
2021	6,885,000	2,621,758	912,606
2022-2026	22,430,000	10,258,881	4,563,875
2027-2031	15,440,000	5,899,077	4,560,934
2032-2036	10,985,000	3,151,487	4,568,238
2037-2039	7,545,000	563,919	-
Total	$ 88,250,000	$ 35,334,978	$ 18,265,822
	Less: amount representing interest		6,930,822
	Present value of minimum lease payments		$ 11,335,000

Bond interest expense was approximately $4,369,000 for the year ended June 30, 2016 and $4,282,000 for the year ended June 30, 2015. Construction period interest, which is capitalized as part of the cost of the assets constructed, was $0 for both years ended June 30, 2016 and June 30, 2015.

Accrued Sick Leave

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

6. Retirement Plans

Michigan Public School Employees' Retirement System

Plan Description

The University is required to participate in the Michigan Public School Employees' Retirement System (MPSERS or System), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan 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 board's authority to promulgate or amend the provisions of the System. The 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/mpsers-cafr. Separate pension information related to the University's employees included in this plan is not available. The seven participating public universities have a net pension obligation that is separated out from the system- wide MPSERS plan. The net pension obligation information included in this Note relates to the seven public universities that participate in MPSERS and not the plan as a whole.

Contributions 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 statue 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, 2015 valuation will be amortized over a 21 year period.

The schedule below summarizes pension contribution rates in effect for fiscal years ending June 30, 2016 and 2015:

Fiscal Year Ended	Funded Portion	Unfunded Portion
June 30, 2016	4.87%	20.26%
June 30, 2015	4.80%	17.72%

The University's required contributions to the plan for the year ended June 30, 2016 was $6,240,513 and $5,666,782 for the year ended June 30, 2015.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. 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 member 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.

MPSERS Fiduciary Net Position

MPSERS Net Pension Liability – Seven Universities as of September 30, 2015

Total pension liability	$	1,043,945,699
Plan fiduciary net position		495,345,725
Net pension liability	$	548,599,974
Plan fiduciary net position as a percentage of total pension liability		47.45%
Net pension liability as a percentage of covered-employee payroll		691.61%

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

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

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

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

At June 30, 2016, the University reported a liability of $99,772,504 for the year ended June 30, 2016 and $65,729,143 for the year ended June 30, 2015 for its proportionate share of the net pension liability. The June 30, 2016 net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. 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, 2015, the University's proportionate share was 18.1867497 percent (17.52282 percent at September 30, 2014).

The University recognized $33,566,260 pension expense for the year ended June 30, 2016 and $7,155,206 for the year ended June 30, 2015. At June 30, 2016, 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	$ 1,370,436	$ -
Net difference between projected and actual plan investment	288,935	-
Changes in proportion and differences between University contributions and proportionate share of contributions	772,671	-
University contributions subsequent to the measurement date	6,052,811	-
	$ 8,484,853	$ -

At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 1,958,207	$ -
Net difference between projected and actual plan investment	-	6,319,269
Changes in proportion and differences between University contributions and proportionate share of contributions	5,105	-
University contributions subsequent to the measurement date	4,874,819	-
	$ 6,838,131	$ 6,319,269

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

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

Year Ending June 30	Amount
2017	$ 1,805,422
2018	(337,685)
2019	(337,685)
2020	1,301,990
	$ 2,432,042

The contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year. Additionally, the University recorded a deferred inflow of resources of $654,448 at June 30, 2016 for the funding received through State appropriations. This amount will be recognized in 2017.

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 liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry age, normal
- Wage inflation rate - 3.5 percent
- Investment rate of return - 7.0 percent to 8.0 percent
- Projected salary increases - 3.5 percent to 12.3 percent, including wage inflation at 3.5 percent
- Cost-of-living adjustments - 3.0 percent annual non-compounded for MIP members
- Mortality - RP-2000 male/female combined healthy life mortality tables, adjusted for mortality improvements to 2025 using projection scale BB

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience. Similar assumptions were used in the September 30, 2013 actuarial valuation.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Discount Rate

A discount rate of 8.0 percent was used to measure the total pension liability. This discount rate was based on the long term expected rate of return on pension plan investments of 8.0 percent. 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 plan's fiduciary net position was 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 are summarized in the following table:

Investment Category	Target Allocation	2015 Long-term Expected Real Rate of Return	2014 Long-term Expected Real Rate of Return
Domestic Equity Pools	28.0%	5.9%	4.8%
Alternative Investment Pools	18.0	9.2	8.5
International Equity	16.0	7.2	6.1
Fixed Income Pools	10.5	0.9	1.5
Real Estate & Infrastructure Pools	10.0	4.3	5.3
Absolute Return Pools	15.5	6.0	6.3
Short Term Investment Pools	2.0	0.0	(0.2)
Total	100.0%		

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

At September 30, 2015:

1.00 percent decrease (7.00 percent)	Current Discount Rate (8.00 percent)	1.00 percent increase (9.00 percent)
$ 117,066,763	$ 99,772,504	$ 84,844,934

At September 30, 2014:

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

Payable to the Pension Plan

At June 30, 2016 and 2015, the University reported a payable of $1,329,000 and $79,000 respectively, for the outstanding amount of contributions to the pension plan required for the year then ended for the statutorily required pension contributions related to accrued labor expense.

6. Retirement Plans (continued)

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, 2016, the University contributed approximately $8,147,000 to the TIAA-CREF plan ($7,619,000 at year ended June 30, 2015), and approximately $2,344,000 to the Fidelity Investments plan ($2,318,000 at year ended June 30, 2015).

Retiree Health

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. During the year the employee is working, the University contributes to MPSERS a percentage of member and non-member payrolls, determined by the plan's actuaries, for the unfunded portion of future pensions. Contribution rates are adjusted annually by the ORS. The rate for the year ended June 30, 2016 was 0.78 percent on member wages and 9.13 percent on non-member wages. The Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403b account.

The University's required and actual contributions to the MPSERS plan for retiree health care benefits for the years ended June 30, 2016, 2015, and 2014 were $3,053,000, $3,496,000, and $3,358,000, respectively.

7. Insurance

Risk-sharing Facility

The University participates in the Michigan Universities Self-insurance Corporation (MUSIC). This organization provides insurance coverage for losses commonly covered in the areas of general liability, errors and omissions, all risk property insurance, automobile liability, and automobile physical damage. In fiscal year 2016, there were 11 universities that participated in MUSIC. Each participating university is responsible for a first tier of losses up to a level that has been actuarially determined. MUSIC is financially responsible for a second tier of losses. For comprehensive general liability, errors and omissions, and all risk property insurance, MUSIC has purchased excess insurance coverage with commercial insurance carriers to cover a third tier of losses. However, in the event the insurance reserves established by MUSIC are insufficient to meet its second tier obligations, each of the participating universities share this obligation by agreements with MUSIC.

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

Self-insurance

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

8. Leases

The University leases 30 percent of the Applied Technology Center located on the campus of Grand Rapids Community College in Grand Rapids, Michigan. The lease was signed in fiscal year 1990 for a 20-year term beginning upon completion of the center. The Center was completed in fiscal year 1992, marking the start of the 20-year lease. The lease was extended in fiscal year 2010 for an additional five years expiring in July 2016 with option of additional five year renewals. Annual payments for the lease total approximately $587,000.

The University also leases certain equipment under various agreements, which generally require an annual rental payment and operating expenses, expiring in 2021.

8. Leases (continued)

Future minimum payments at June 30, 2016 under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Year	Amount
2017	$ 892,448
2018	138,127
2019	54,163
2020	52,748
2021	37,404
Total	$ 1,174,890

Rental expense for the year ended June 30, 2016 was approximately $2,185,000 and $2,357,000 for the year ended June 30, 2015.

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, 2016 resulting in the following commitments to vendors:

	Spent to Date	Construction Commitments at Year End
West Campus Apartments	$ 3,128,919	$ 332,205
Student Recreation Center Mechanical	1,640,607	275,765
Swan Annex	1,140,126	1,008,641
Soccer/Intramural Fields	178,352	3,615,389
Katke PGM Center	75,672	-
North Campus Residence Hall	28,925	2,532,265
Total	$ 6,192,601	$ 7,764,265

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, 2016 and 2015 and the valuation techniques used by the University to determine those fair values.

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

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

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

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

The University's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

Assets measured at fair value on a recurring basis at June 30, 2016 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, 2016
Mutual bond funds	$ 43,784,642	$ 14,481,335	$ -	$ 58,265,977
Mutual equity funds	29,876,001	-	-	29,876,001
Real estate funds	4,509,298	-	-	4,509,298
Marketable securities	242,822	-	-	242,822
International equity funds	22,543,722	-	-	22,543,722
Total	$ 100,956,485	$ 14,481,335	$ -	115,437,820
Limited partnerships that calculated net asset value per share				33,272,884
Cash surrender value of life insurance				1,186,357
Balance at June 30, 2016				$ 149,897,061

10. Fair Value Measurement (continued)

Assets measured at fair value on a recurring basis at June 30, 2015 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, 2015
Mutual bond funds	$ 39,178,039	$ 22,854,114	$ -	$ 62,032,153
Mutual equity funds	28,004,789	-	-	28,004,789
Real estate funds	4,017,989	-	-	4,017,989
Marketable securities	260,027	-	-	260,027
International equity funds	21,526,760	-	-	21,526,760
Total	$ 92,987,604	$ 22,854,114	$ -	115,841,718
Limited partnerships that calculated net asset value per share				21,205,746
Cash surrender value of life insurance				1,165,972
Balance at June 30, 2015				$ 138,213,436

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. Mutual bond fund securities classified in Level 2 of the fair value hierarchy are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions.

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, 2016 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	$ 2,611,450	$ 93,344
Limited partnerships – private equity/distressed	4,520,012	5,976,073
Limited partnerships – hedge funds	18,263,652	-
Limited partnerships – natural resources/commodities	7,877,770	315,959
Balance at June 30, 2016	$ 33,272,884	$ 6,385,376

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

Investments held at June 30, 2015 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	$ 2,259,833	$ 253,750
Limited partnerships – private equity/distressed	2,894,584	4,579,680
Limited partnerships – hedge funds	11,953,207	-
Limited partnerships – natural resources/commodities	4,098,122	382,159
Balance at June 30, 2015	$ 21,205,746	$ 5,215,589

Real Estate

Four 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 while two partnerships expire over the next 5-10 years.

Private Equity/Distressed

The private equity manager(s) are fund of funds 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 University utilizes three managers to invest in seven private equity funds and one additional manager and fund that invests in emerging markets in Asia. This provides geographical diversification within the private equity portion of the portfolio. The distressed manager makes investments in privately placed pooled investment vehicles (private equity funds) that primarily make direct investments in privately owned companies. Both distressed investment funds are considered a fund of funds with emphasis on investing in private companies undergoing financial distress.

Hedge Funds

Six 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. Four partnerships terminate 12-15 years after official partnership filing; terminations vary from December 31, 2018 to December 31, 2021. One partnership has provisions that allow the University to withdraw at the end of each month, upon prior written instructions at least five days prior to month end.

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 to funds. Funds requested for liquidation are made available depending on partnership agreements; currently this range is between 30 – 100 days. Hedge funds may also have other provisions on liquidity to meet annual audit requirements.

12. New Accounting Pronouncements

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

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

12. Subsequent Event

The University plans to issue General Revenue and Refunding bonds of $64.8 million in October 2016. Proceeds of $28.0 million will be used to finance the construction and furnishing of a new 400 bed residence hall on the north part of the Big Rapids campus. Proceeds of $5.0 million will go toward the University's match for the Swan Annex State Capital Outlay Project, renovation and expansion of the Sports Complex, renovation of the Pharmacy Building, Student Recreation Center improvements, and other Master Plan components. The University plans to issue $29.4 million to advance refund the callable portion of the Series 2009 bonds. The University expects to achieve in excess of $4.0 million of present value savings from the refunding.

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

University's proportionate share of the net pension obligation:	2016	2015
As a percentage	18.19%	17.52%
Amount	$99,772,504	$ 65,729,143
University's covered-employee payroll	$31,593,388	$ 31,642,187
University's proportionate share of the net pension obligation, as a percentage of the University's covered-employee payroll	315.80%	207.73%
MPSERS fiduciary net position as a percentage of the total pension liability	47.45%	63.00%

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

	2016	2015
Statutorily required contribution	$ 6,240,513	$ 5,666,782
Contributions in relation to the actuarially determined contractually required contribution	7,425,452	6,148,573
Contribution excess	$ 1,184,939	$ 481,791
University's covered-employee payroll	$31,291,285	$ 31,749,846
Contributions as a percentage of covered-employee payroll	23.73%	19.37%

Notes to Required Supplementary Information

There were no changes of benefit terms or assumptions during 2015 or 2014.

Other Supplementary Information

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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, 2016 and 2015, and our report thereon dated August 30, 2016, 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 2015, are presented for purposes of additional analysis of the University's financial statements rather than to present the financial position and changes in financial position of the individual funds, and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
August 30, 2016

Ferris State University
Combining Statement of Net Position
June 30, 2016 and 2015

	2016 Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation	Pension Obligation	2015 Combined Total
Assets											
Current Assets											
Cash and cash equivalents	**$ 33,116,912**	$ 7,320,605	$ 9,023,458	$ 1,250,688	$ 816,032	$ 408,333	$ 13,450,953	$ 86,603	$ 760,240	$ -	$ 38,603,931
Short-term investments	**46,252,853**	16,425,041	23,888,599	2,737,977	2,232,418	968,818	-	-	-	-	48,117,875
Accounts receivable - Net	**21,225,632**	16,151,209	269,981	335,111	406,829	-	125,000	164,583	3,772,919	-	22,072,365
Inventories	**908,762**	72,607	169,408	666,747	-	-	-	-	-	-	949,766
Prepaid expenses and other assets	**481,937**	481,937	-	-	-	-	-	-	-	-	813,383
Total current assets	**101,986,096**	40,451,399	33,351,446	4,990,523	3,455,279	1,377,151	13,575,953	251,186	4,533,159	-	110,557,320
Noncurrent Assets											
Endowment investments	**65,951,840**	-	-	-	-	-	-	-	65,951,840	-	48,015,795
Other long-term investments	**37,692,368**	1,186,357	-	-	-	-	36,506,011	-	-	-	42,079,766
Student loans receivable - Net	**18,024,088**	-	-	-	-	18,024,088	-	-	-	-	18,154,757
Other noncurrent assets	**678,253**	-	-	-	-	-	678,253	-	-	-	717,721
Capital assets - Net	**277,571,409**	-	-	-	-	-	277,571,409	-	-	-	279,701,527
Total noncurrent assets	**399,917,958**	1,186,357	-	-	-	18,024,088	314,755,673	-	65,951,840	-	388,669,566
Total assets	**501,904,054**	41,637,756	33,351,446	4,990,523	3,455,279	19,401,239	328,331,626	251,186	70,484,999	-	499,226,886
Deferred Outflows of Resources											
Net pension obligation	**8,484,853**	-	-	-	-	-	-	-	-	8,484,853	6,838,131
Refunding of debt	**656,570**	-	-	-	-	-	656,570	-	-	-	732,338
Total deferred outflows of resources	**9,141,423**	-	-	-	-	-	656,570	-	-	8,484,853	7,570,469
Liabilities											
Current liabilities:											
Accounts payable and accrued liabilities	**19,064,108**	14,689,144	154,138	1,894,543	28,663	-	1,920,672	251,186	125,762	-	18,728,637
Unearned revenue	**7,683,273**	7,024,004	436,751	222,518	-	-	-	-	-	-	9,000,968
Long-term liabilities - Current portion	**7,485,647**	-	-	-	-	-	7,485,647	-	-	-	7,223,001
Total current liabilities	**34,233,028**	21,713,148	590,889	2,117,061	28,663	-	9,406,319	251,186	125,762	-	34,952,606
Noncurrent liabilities:											
Deposits	**713,160**	-	-	713,160	-	-	-	-	-	-	750,200
Federal student loan payable	**12,361,688**	-	-	-	-	12,361,688	-	-	-	-	12,908,104
Long-term liabilities	**103,665,814**	9,009,796	31,403	441,396	-	-	94,183,219	-	-	-	109,191,243
Net pension obligation	**99,772,504**	-	-	-	-	-	-	-	-	99,772,504	65,729,143
Total noncurrent liabilities	**216,513,166**	9,009,796	31,403	1,154,556	-	12,361,688	94,183,219	-	-	99,772,504	188,578,690
Total liabilities	**250,746,194**	30,722,944	622,292	3,271,617	28,663	12,361,688	103,589,538	251,186	125,762	99,772,504	223,531,296
Deferred Inflows of Resources											
Net pension obligation	**654,448**	-	-	-	-	-	-	-	-	654,448	6,319,269
Total deferred inflows of resources	**654,448**	-	-	-	-	-	-	-	-	654,448	6,319,269
Net Position											
Net investment in capital assets	**179,624,174**	-	-	-	-	-	179,624,174	-	-	-	175,758,761
Restricted for:											
Nonexpendable:											
Scholarships	**24,803,709**	-	-	-	-	-	-	-	24,803,709	-	23,886,583
Expendable:											
Scholarships	**9,177,482**	-	-	-	2,886,032	-	-	-	6,291,450	-	10,902,870
Research	**84,216**	-	-	-	84,216	-	-	-	-	-	85,261
Instructional department uses	**3,798,218**	-	-	-	4,656	-	-	-	3,793,562	-	4,626,648
Loans	**7,041,187**	-	-	-	-	6,818,981	-	-	222,206	-	6,841,080
Capital projects	**200**	-	-	-	-	-	-	-	200	-	200
Other	**4,953,859**	-	-	-	451,712	-	-	-	4,502,147	-	6,737,766
Unrestricted	**30,161,790**	10,914,812	32,729,154	1,718,906	-	220,570	45,774,484	-	30,745,963	(91,942,099)	48,107,621
Total net position	**$ 259,644,835**	**$ 10,914,812**	**$ 32,729,154**	**$ 1,718,906**	**$ 3,426,616**	**$ 7,039,551**	**$ 225,398,658**	**$ -**	**$ 70,359,237**	**$ (91,942,099)**	**$ 276,946,790**

Ferris State University
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2016 and 2015

	2016 Combined Total	Eliminations	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation	Pension Obligation	2015 Combined Total
Operating Revenues											
Tuition and fees - Net	$ 125,540,140	$ (32,042,612)	$ 157,582,752	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 120,715,410
Federal grants and contracts	2,550,680	-	-	-	11,097	2,539,583	-	-	-	-	2,506,444
State grants and contracts - Net	557,957	-	-	-	-	557,957	-	-	-	-	876,149
Nongovernmental grants	528,857	-	4,400	195,340	7,500	321,617	-	-	-	-	439,423
Departmental activities	11,912,181	(1,752,614)	3,278,450	10,318,837	-	67,508	-	-	-	-	11,908,541
Auxiliary enterprises - Net	29,068,477	(10,931,584)	-	-	40,000,061	-	-	-	-	-	28,149,397
Other operating revenues	1,161,539	(639,962)	276,562	361,602	1,800	-	661,462	500,075	-	-	1,026,583
Current funds expenditures for equipment and capital improvements	-	(1,918,477)	-	-	-	-	-	1,918,477	-	-	-
Total operating revenues	171,319,831	(47,285,249)	161,142,164	10,875,779	40,020,458	3,486,665	661,462	2,418,552	-	-	165,621,947
Operating Expenses											
Instruction	102,300,315	(751,188)	96,505,248	3,318,601	-	33,323	-	-	-	3,194,331	96,128,836
Research	607,746	(25)	270,166	291,058	-	46,547	-	-	-	-	457,603
Public service	5,013,185	(107,779)	259,869	3,675,523	-	1,101,511	-	-	-	84,061	4,832,786
Academic support	29,233,926	(285,069)	25,941,679	1,963,144	-	17,007	-	-	-	1,597,165	29,087,540
Student services	19,422,075	(188,696)	16,604,818	2,297,095	-	288,551	-	-	-	420,307	18,405,654
Institutional support	26,951,170	(9,516,380)	23,669,522	2,806,380	-	302,031	-	-	8,428,698	1,260,919	23,831,272
Operations and maintenance of plant	25,724,343	(589,397)	14,866,774	14,690	-	205,505	-	10,806,464	-	420,307	23,363,275
Depreciation	11,328,170	-	-	-	-	-	-	11,328,170	-	-	11,236,660
Student aid	18,444,155	(32,042,612)	20,920,327	36,250	475,300	29,054,890	-	-	-	-	17,771,120
Auxiliary enterprises	24,718,813	(11,547,749)	-	43,350	34,794,169	-	-	-	-	1,429,043	22,557,741
Other expenses	560,924	-	-	-	-	-	560,924	-	-	-	665,337
Total operating expenses	264,304,822	(55,028,895)	199,038,403	14,446,091	35,269,469	31,049,365	560,924	22,134,634	8,428,698	8,406,133	248,337,824
Operating (Loss) Income	(92,984,991)	7,743,646	(37,896,239)	(3,570,312)	4,750,989	(27,562,700)	100,538	(19,716,082)	(8,428,698)	(8,406,133)	(82,715,877)
Nonoperating Revenues (Expenses)											
State appropriations	50,657,682	-	51,312,130	-	-	-	-	-	-	(654,448)	50,263,844
Federal Pell grants	22,706,756	-	-	-	-	22,706,756	-	-	-	-	23,669,591
Gifts	4,646,080	(7,743,646)	2,756	3,643,522	94,827	4,066,823	24,245	50,000	4,507,553	-	8,891,643
Investment gain	1,140,092	-	973,612	702,700	20,032	(31,042)	(4,659)	(373,697)	(146,854)	-	1,444,984
Interest on capital asset - Related debt	(4,368,951)	-	-	-	-	-	-	(4,368,951)	-	-	(4,281,557)
Net nonoperating revenues (expenses)	74,781,659	(7,743,646)	52,288,498	4,346,222	114,859	26,742,537	19,586	(4,692,648)	4,360,699	(654,448)	79,988,505
Income (Loss) - Before other revenues	(18,203,332)	-	14,392,259	775,910	4,865,848	(820,163)	120,124	(24,408,730)	(4,067,999)	(9,060,581)	(2,727,372)
Other Revenues											
Additions to permanent endowments	901,377	-	-	-	-	-	-	-	901,377	-	2,614,768
Increase (Decrease) in Net Position - Before transfers	(17,301,955)	-	14,392,259	775,910	4,865,848	(820,163)	120,124	(24,408,730)	(3,166,622)	(9,060,581)	(112,604)
Transfers In (Out)	-		(16,557,654)	(2,134,094)	(5,185,545)	407,974	100,204	22,914,257	18,126,095	(17,671,237)	-
Net Increase (Decrease) in Net Position	(17,301,955)	-	(2,165,395)	(1,358,184)	(319,697)	(412,189)	220,328	(1,494,473)	14,959,473	(26,731,818)	(112,604)
Net Position - Beginning of year	276,946,790	-	13,080,207	34,087,338	2,038,603	3,838,805	6,819,223	226,893,131	55,399,764	(65,210,281)	341,257,200
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	-		(64,197,806)
Net Position - Beginning of year - As restated	276,946,790	-	13,080,207	34,087,338	2,038,603	3,838,805	6,819,223	226,893,131	55,399,764	(65,210,281)	277,059,394
Net Position - End of year	$ 259,644,835	$ -	$ 10,914,812	$ 32,729,154	$ 1,718,906	$ 3,426,616	$ 7,039,551	$ 225,398,658	$ 70,359,237	$ (91,942,099)	$ 276,946,790