Financial Report

Ferris State University

Years ended June 30, 2017 and 2016
with Report of Independent Auditors

CPAs & ADVISORS
ANDREWS HOOPER PAVLIK PLC

Ferris State University

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Financial Report
Years ended June 30, 2017 and 2016

Contents

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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, 2017 and 2016, 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 and the Required Supplementary Information on page 46 (Schedule of the University's Proportionate Share of the Net Pension Obligation, Schedule of University's 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, 2017, 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, 2017

Ferris State University
Management's Discussion and Analysis

The following discussion and analysis of Ferris State University's (the "University") financial statements provides an overview of the University's financial activities for the year ended June 30, 2017 with selected comparative information as of and for the years ended June 30, 2016 and 2015. The University includes the Ferris Foundation (audited financial statements can be found at www.ferris.edu/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 decreased by $4.9 million during the fiscal year ending June 30, 2017 due to modest declines in student enrollment and housing. The University's operating expenses decreased $20.0 million during the fiscal year ending June 30, 2017 due to reductions in operating budgets and changes to the University's proportionate share of the Michigan Public Schools Employees Retirement System (MPSERS) pension obligation. The University's total assets grew $47.5 million to $549.4 million at year end. The University invested significantly in the physical properties as capital assets increased $26.5 million to $304.1 million net of depreciation for the fiscal year ending June 30, 2017.

Operating revenues decreased $4.9 million or 2.9 percent compared to prior year. This decrease is mostly attributable to tuition revenue and auxiliary activities decreases. Operating expenditures decreased $20.0 million or 7.6 percent compared to prior year. The current year operating expenses include ($2.3) million of multi-employer pension plan reporting required under governmental accounting standards. The total of all other expenditures decreased 3.6 percent. Nonoperating revenues (expenses) increased $13.5 million during the fiscal year. Investment gains for the University and the Ferris Foundation (Foundation) were $6.3 million and $6.5 million, respectively. This reflects investment returns of 5.7 percent on the University's operating funds and 9.3 percent on the Foundation's portfolio.

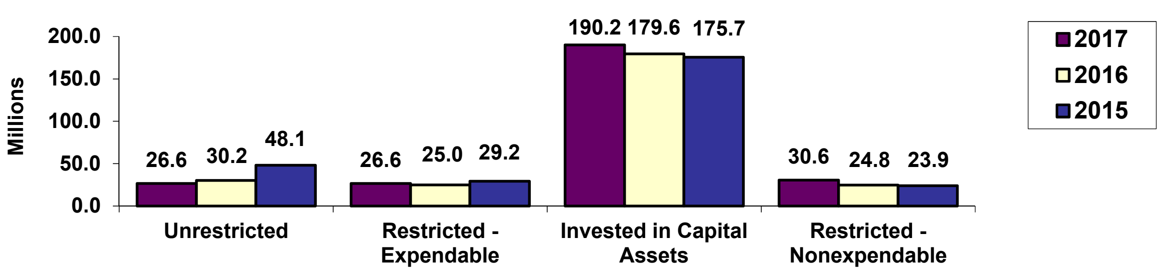
Financial Highlights (continued)

The largest component of operating revenues is tuition and fees, net of scholarships. Tuition and fees revenue decreased $3.4 million resulting primarily from a decrease in enrollment totaling ($6.0 million) partially offset by 2.7 percent increase in the undergraduate tuition rate generating $4.1 million.

Operating expenses decreased by $20.0 million. Multi-employer pension expense decreased $10.7 million due to a change in the University's proportionate share of the net pension obligation and pension system investment returns. All other operating expenses decreased $9.3 million. Budget reductions occurred during the fiscal year as a result of decreased enrollment. The functional areas with the largest decrease in operating expenditures were instruction and operations and maintenance of plant. Instruction decreased $4.3 million as budget reductions were implemented. Operations and maintenance of plant decreased $6.0 million primarily from the increased use of funds towards capital projects versus maintenance projects.

For the year ended June 30, 2016, the University's operating revenues increased by $5.7 million. 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 expenditures increased $15.9 million or 6.4 percent compared to prior 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 was most attributable to a $4.2 million decrease in gifts. Investment gains for the University and the 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.

The following chart provides a graphical breakdown of net position by category for the fiscal years ended June 30, 2017, 2016, and 2015:



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

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

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

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

Net Position

Total net position increased by $14.4 million to $274.0 million. Unrestricted net position decreased by $3.6 million to $26.6 million. This total is comprised of ($88.8) million net unfunded pension obligation; $87.2 million identified for departmental use, maintenance and replacement of facilities, debt service, and Foundation endowments; and $28.2 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 $7.1 million for maintenance and construction projects on campus.

For the year ending June 30, 2016, 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 was 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 was 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.

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)

	2017	2016	2015
Assets			
Current assets	$ 109.8	$ 102.0	$ 110.6
Noncurrent assets:			
Capital assets - Net of depreciation	304.1	277.6	279.7
Other	135.5	122.3	108.9
Total assets	**549.4**	**501.9**	**499.2**
Deferred Outflows of Resources			
Net pension obligation	6.5	8.5	6.8
Refunding of debt	3.9	0.6	0.7
Total deferred outflows of resources	**10.4**	**9.1**	**7.5**
Liabilities			
Current liabilities	44.2	34.2	34.9
Long-term liabilities	239.0	216.5	188.6
Total liabilities	**283.2**	**250.7**	**223.5**
Deferred Inflows of Resources			
Net pension obligation	2.6	0.7	6.3
Total deferred inflows of resources	**2.6**	**0.7**	**6.3**
Net Position			
Invested in capital assets	190.2	179.6	175.7
Restricted - Expendable	26.6	25.0	29.2
Restricted - Nonexpendable	30.6	24.8	23.9
Unrestricted	26.6	30.2	48.1
Total net position	**$ 274.0**	**$ 259.6**	**$ 276.9**

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

	2017	2016	2015
Operating Revenues			
Tuition and fees - Net	$ 122.1	$ 125.5	$ 120.7
Grants and contracts	4.0	3.6	3.8
Departmental activities	11.8	11.9	11.9
Auxiliary activities - Net	27.9	29.1	28.2
Other operating revenues	0.6	1.2	1.0
Total operating revenues	166.4	171.3	165.6
Operating Expenses			
Instruction	98.0	102.3	96.1
Research	0.7	0.6	0.5
Public service	5.1	5.0	4.8
Academic support	27.5	29.2	29.1
Student services	18.5	19.4	18.4
Institutional support	25.4	27.0	23.8
Operation and maintenance of plant	19.7	25.7	23.4
Depreciation	9.3	11.3	11.2
Student aid	17.4	18.5	17.8
Auxiliary enterprises	22.4	24.7	22.6
Other expenses	0.3	0.6	0.7
Total operating expenses	244.3	264.3	248.4
Operating Loss	(77.9)	(93.0)	(82.8)
Nonoperating Revenues (Expenses)			
State appropriations	53.2	50.7	50.3
Federal Pell grants	20.5	22.7	23.7
Gifts	5.5	4.7	8.9
Investment gain	12.8	1.1	1.4
Interest on capital assets - Related debt	(3.7)	(4.4)	(4.3)
Total nonoperating revenues (expenses)	88.3	74.8	80.0
Income (Loss) - Before other revenues	10.4	(18.2)	(2.8)
Other Revenues			
Additions to permanent endowments	4.0	0.9	2.6
Total other revenues	4.0	0.9	2.6
Increase (Decrease) in Net Position	14.4	(17.3)	(0.2)
Net Position - Beginning of year	259.6	276.9	277.1
Net Position - End of year	**$ 274.0**	**$ 259.6**	**$ 276.9**

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, 2017:

- Student tuition and fees revenue decreased $3.4 million due to the net effect of the following factors: Board-approved tuition increase of 2.7 percent totaling a $4.1 million increase, a 3.8 percent decrease in credit hour enrollment totaling a $6.0 million decrease, and the remainder of the decrease due to a larger percentage of dual and concurrent enrollment.

- Auxiliary enterprises operating revenue decreased by $1.2 million. Housing and dining revenues before eliminations decreased $0.8 million. Other changes totaled a decrease of $0.4 million.

For the year ended June 30, 2016, the significant operating revenue factors were as follows:

- 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.

Nonoperating Revenues (Expenses)

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

Nonoperating revenues (expenses) was significantly impacted by the following factors during the year ending June 30, 2017:

- The State appropriation of $53.2 million is an increase of $2.5 million from the 2016 level. This includes $1.1 million of support, offset by $0.8 million in deferred inflow for the University's share of the current year pension obligation.

- Investment gain increased by $11.7 million from $1.1 million in 2016 to $12.8 million in 2017. The $12.8 million investment gain is comprised of $5.6 million realized gains and $7.2 million of unrealized gains.

- Pell grants decreased $2.2 million from $22.7 million in 2016 to $20.5 million in 2017.

Nonoperating Revenues (Expenses) (continued)

- Gift income increased by $0.8 million from $4.7 million in 2016 to $5.5 million in 2017. This includes pledges receivable of $3.7 million net of allowance for doubtful accounts.

For the year ended June 30, 2016, significant nonoperating revenues (expenses) factors were as follows:

- 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.

- 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 in 2015 to $22.7 million in 2016.

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, 2017:

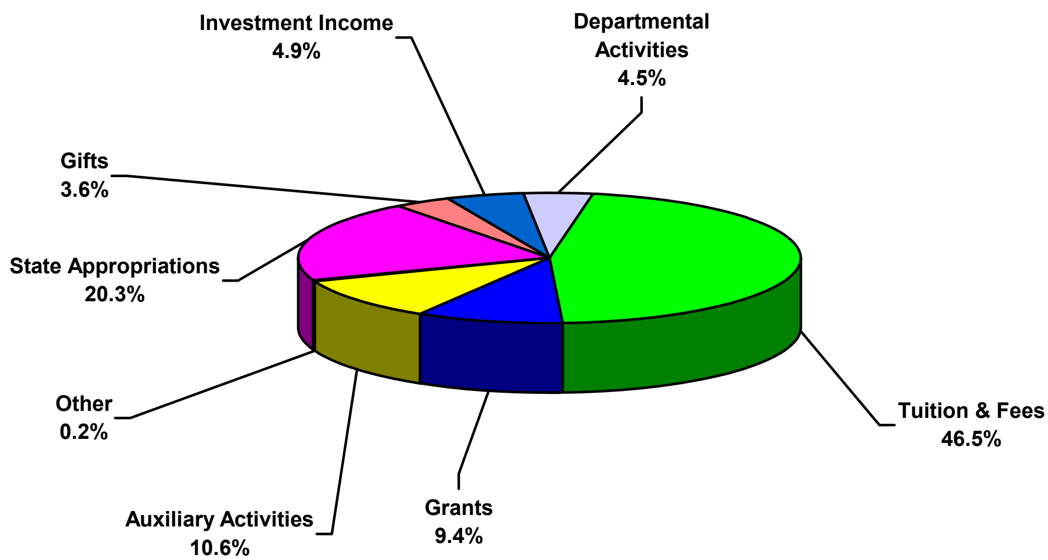
- Other revenues include increases to permanent endowments of the Ferris Foundation. These revenues increased by $3.1 million from $0.9 million in 2016 to $4.0 million in 2017. Of the current year total, $1.5 million relates to pledges receivable net of allowance for doubtful accounts.

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.

Total Revenues

The following is a graphic illustration of total revenues by source for June 30, 2017:



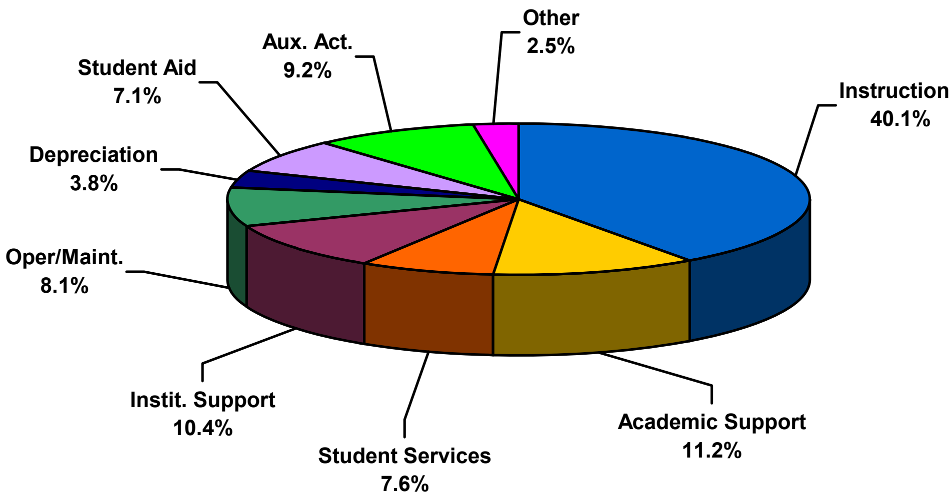
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the University. These expenses decreased by $20.0 million from 2016 levels to $244.3 million. Instruction, student services, and student aid represent $133.9 million, or 54.8 percent, of the total. Operations and maintenance of plant and depreciation total $29.0 million, or 11.9 percent, and auxiliary operations total $22.4 million, or 9.2 percent. Academic support, institutional support, and other small categories comprise the remainder of the operating expenses.

During the 2016 fiscal year, operating 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.

Operating Expenses (continued)

The following is a graphic illustration of operating expenses by function for June 30, 2017:



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)

	2017	2016	2015
Net Cash (Used in) Provided by:			
Operating activities	$ (63.2)	$ (54.4)	$ (71.2)
Noncapital financing activities	82.8	78.8	84.7
Capital and related financing activities	(3.6)	(19.4)	(30.4)
Investing activities	15.7	(10.5)	(2.7)
Increase (Decrease) in Cash and Cash Equivalents	31.7	(5.5)	(19.6)
Cash and Cash Equivalents - Beginning of year	33.1	38.6	58.2
Cash and Cash Equivalents - End of year	**$ 64.8**	**$ 33.1**	**$ 38.6**

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 increased by $8.5 million from $54.4 million in 2016 to $62.9 million in 2017.

State appropriations, gifts, and grants received during the current year provide noncapital financing sources. The net cash generated in this area increased by $4.0 million from $78.8 million in 2016 to $82.8 million in 2017.

Cash used in capital and related financing activities totaled $12.9 million, used primarily for capital assets acquired during the year and construction projects of $35.8 million, and debt and interest payments of $42.2 million which were offset by other proceeds totaling $65.1 million.

Cash generated by investing activities totaled $15.7 million. This is the amount of cash provided by the sale of investments in excess of the cash used for investment purchases.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017, the University had $304.1 million invested in capital assets, net of accumulated depreciation of $201.8 million.

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

	2017	2016	2015
Land, land improvements, and infrastructure	$ 26.9	$ 26.8	$ 25.9
Buildings and improvements	362.5	359.1	358.2
Furniture, fixtures, and equipment	79.5	78.4	76.1
Construction in progress	37.0	6.2	1.8
Total	**$ 505.9**	**$ 470.5**	**$ 462.0**

Top Taggart track resurfacing and additional parking lot lighting comprised the additions to land, land improvements, and infrastructure while construction of additional West Campus Apartments comprised the buildings and improvements additions.

Expenditures totaling $34.2 million for Swan annex project, north campus residence hall project, student recreational complex renovation, masonry work at Kendall College of Art and Design, plans for a new Katke professional golf management center, and soccer and intramural fields work were included in construction in progress at June 30, 2017.

Capital Assets and Debt Administration (continued)

Debt Administration

At year end, the University had $109.1 million in debt outstanding compared to $88.3 million at 2016 and $94.0 million at 2015. In addition to General Revenue Bond debt, the University is a guarantor on $11.0 million of Limited Obligation Recovery Zone Facility Revenue Bonds Series 2010A for the Ferris Building. The balance at June 30, 2016 was $11.3 million and $11.7 million at June 30, 2015. This building is being leased and the debt is included in the long-term liabilities.

Economic Factors Affecting the Future

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

Michigan is experiencing a marked decline in the number of high school graduates. This decline began in 2009 and is projected to continue through 2027, resulting in significant competition for graduating high school students. This decrease in high school graduates, due to the state's declining birthrate, is a challenge. When experiencing a decrease in enrollment, the University reduces budgets so that outputs match inputs and the University's financial condition is solid and firmly grounded.

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

Another area of concern is state support. Michigan has transferred much of the cost of a public education to our students and sharply reduced state financial aid programs. The intent language in the 2019 state budget would further reduce Tuition Incentive Program support for university students. This will negatively impact our students who most need this support. 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.

The University remains steadfast in providing opportunities for students. The ability to award year-round Pell grants allows our students to continue studying year-round thus shortening their time to a degree and lessening student debt. The Swan Annex expansion creating Centers for Welding Excellence and Advanced Manufacturing, the newly constructed North Hall, the success of recent fundraising efforts, and the increase in endowed scholarships through the Ferris Futures Scholarship Challenge all position the University well for recruitment and retention, state funding, degree affordability, and therefore, stable finances.

Economic Factors Affecting the Future (continued)

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, dedicated faculty who work with students in small class settings, and staff throughout the University who support students, this creates a strong environment for student success.

Ferris State University
Statements of Net Position

	June 30	
	2017	**2016**
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	**$ 39,967,492**	$ 33,116,912
Short-term investments (Note 2)	**45,572,213**	46,252,853
Accounts receivable - Net (Note 3)	**22,883,592**	21,225,632
Inventories	**868,525**	908,762
Prepaid expenses and other assets	**508,768**	481,937
Total current assets	**109,800,590**	101,986,096
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	**15,827,891**	-
Endowment investments (Note 2)	**71,307,226**	65,951,840
Other long-term investments (Note 2)	**30,095,795**	37,692,368
Student loans receivable - Net (Note 3)	**18,091,624**	18,024,088
Other noncurrent assets	**221,831**	678,253
Capital assets - Net (Note 4)	**304,088,731**	277,571,409
Total noncurrent assets	**439,633,098**	399,917,958
Total assets	**549,433,688**	501,904,054
Deferred Outflows of Resources		
Net pension obligation (Note 6)	**6,544,459**	8,484,853
Refunding of debt	**3,852,503**	656,570
Total deferred outflows of resources	**10,396,962**	9,141,423
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**28,480,571**	19,064,108
Unearned revenue	**7,524,321**	7,683,273
Long-term liabilities - Current portion (Note 5)	**8,240,537**	7,485,647
Total current liabilities	**44,245,429**	34,233,028
Noncurrent Liabilities		
Deposits	**721,450**	713,160
Federal student loan payable	**12,334,034**	12,361,688
Long-term liabilities (Note 5)	**133,230,152**	103,665,814
Net pension obligation (Note 6)	**92,688,360**	99,772,504
Total noncurrent liabilities	**238,973,996**	216,513,166
Total liabilities	**283,219,425**	250,746,194
Deferred Inflows of Resources		
Net pension obligation (Note 6)	**2,613,817**	654,448
Total deferred inflows of resources	**2,613,817**	654,448
Net Position		
Net investment in capital assets	**190,163,176**	179,624,174
Restricted for (Note 1):		
Nonexpendable:		
Scholarships	**30,670,507**	24,803,709
Expendable:		
Scholarships	**11,048,866**	9,177,482
Research	**85,955**	84,216
Instructional department uses	**4,235,573**	3,798,218
Loans	**7,314,588**	7,041,187
Capital projects	**200**	200
Other	**3,895,619**	4,953,859
Unrestricted (Note 1)	**26,582,924**	30,161,790
Total net position	**$ 273,997,408**	$ 259,644,835

See accompanying notes.

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

	Year Ended June 30	
	2017	2016
Operating Revenues		
Tuition and fees - Net of scholarship allowances of $31,979,814 for 2017 and $32,042,612 for 2016	**$ 122,091,696**	$ 125,540,140
Federal grants and contracts	**2,841,934**	2,550,680
State and local grants and contracts - Net of refunds	**382,911**	557,957
Nongovernmental grants	**808,246**	528,857
Departmental activities	**11,746,616**	11,912,181
Auxiliary enterprises - Net of scholarship allowances of $5,935,148 for 2017 and $6,025,782 for 2016	**27,850,643**	29,068,477
Other operating revenues	**600,876**	1,161,539
Total operating revenues	**166,322,922**	171,319,831
Operating Expenses		
Instruction	**97,951,169**	102,300,315
Research	**727,570**	607,746
Public service	**5,050,060**	5,013,185
Academic support	**27,493,118**	29,233,926
Student services	**18,525,625**	19,422,075
Institutional support	**25,355,391**	26,951,170
Operation and maintenance of plant	**19,724,007**	25,724,343
Depreciation	**9,262,063**	11,328,170
Student aid	**17,417,321**	18,444,155
Auxiliary enterprises	**22,424,465**	24,718,813
Other expenses	**276,043**	560,924
Total operating expenses	**244,206,832**	264,304,822
Operating Loss	**(77,883,910)**	(92,984,991)
Nonoperating Revenues (Expenses)		
State appropriations	**53,159,620**	50,657,682
Federal Pell grants	**20,489,267**	22,706,756
Gifts	**5,495,636**	4,646,080
Investment gain	**12,760,290**	1,140,092
Interest on capital asset - Related debt	**(3,696,307)**	(4,368,951)
Net nonoperating revenues (expenses)	**88,208,506**	74,781,659
Income (Loss) - Before other revenues	**10,324,596**	(18,203,332)
Other Revenues		
Additions to permanent endowments	**4,027,977**	901,377
Increase (Decrease) in Net Position	**14,352,573**	(17,301,955)
Net Position		
Beginning of year	**259,644,835**	276,946,790
End of year	**$ 273,997,408**	$ 259,644,835

See accompanying notes.

Ferris State University
Statements of Cash Flows

	Year Ended June 30	
	2017	**2016**
Cash Flows from Operating Activities		
Tuition and fees	**$ 121,306,389**	$ 123,185,844
Grants and contracts	**4,133,955**	2,991,551
Payments to suppliers	**(114,873,906)**	(114,074,164)
Payments to employees	**(113,196,707)**	(111,272,981)
Interest collected on student loans	**543,245**	661,462
Loans issued to students	**(3,179,986)**	(3,885,201)
Collection of loans from students	**2,561,017**	3,565,405
Auxiliary enterprise charges	**27,850,643**	29,068,477
Other receipts	**11,692,637**	15,407,752
Net cash used in operating activities	**(63,162,713)**	(54,351,855)
Cash Flows from Noncapital Financing Activities		
State appropriations	**52,820,645**	51,078,895
Pell grant receipts	**20,489,267**	22,706,756
Gifts and grants for other than capital purposes	**5,475,375**	4,360,336
Private gifts for endowment purposes	**4,027,977**	901,377
Federal direct loan lending receipts	**82,905,970**	87,157,484
Federal direct loan lending disbursements	**(82,897,782)**	(87,368,481)
Net cash provided by noncapital financing activities	**82,821,452**	78,836,367
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts received	**20,261**	285,744
Purchase of capital assets and construction	**(35,817,228)**	(9,473,079)
Proceeds from sale of buildings and equipment	**36,620**	120,051
Proceeds from capital debt	**56,150,000**	-
Principal paid on capital debt	**(35,635,000)**	(6,035,000)
Proceeds from capital debt premium	**9,002,256**	-
Interest paid on capital debt	**2,612,717**	(4,325,714)
Net cash used in capital and related financing activities	**(3,630,374)**	(19,427,998)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	**39,624,691**	31,802,372
Investment income	**5,619,627**	4,507,472
Purchase of investments	**(29,562,201)**	(46,853,377)
Net cash used in investing activities	**15,682,117**	(10,543,533)
Net Increase (Decrease) in Cash and Cash Equivalents	**31,710,482**	(5,487,019)
Cash and Cash Equivalents - Beginning of year	**33,116,912**	38,603,931
Cash and Cash Equivalents - End of year	**$ 64,827,394**	$ 33,116,912

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	
	2017	**2016**
Operating loss	**$ (77,883,910)**	$ (92,984,991)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**9,262,063**	11,328,170
Amortization of bond insurance costs	**456,422**	39,468
Loss on disposal of fixed assets	**1,223**	154,976
Decrease (increase) in assets:		
Accounts receivable	**(1,162,205)**	1,079,968
Student loans receivable	**(103,378)**	(204,750)
Inventories, prepaid expenses, and other assets	**13,406**	372,450
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	**9,416,463**	335,471
Deposits and unearned revenue	**(150,662)**	(1,354,735)
Accrued sick leave	**329,026**	804,748
Net pension obligation	**(3,341,161)**	26,077,370
Net cash used in operating activities	**$ (63,162,713)**	$ (54,351,855)

1. Summary of Significant Accounting Policies

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

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

Basis of Presentation

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

The financial statements have been prepared incorporating totals from the University and the Ferris Foundation (Foundation). The Foundation was established as a separate nonprofit corporation which exists for the sole purpose of soliciting, collecting, and investing donations for the benefit of the University. The Foundation's Board of Directors' membership includes a member of the University's Board of Trustees, certain officers of the University as set forth in the Foundation bylaws, and other representatives elected by the Foundation's Board. The University has a significant fiduciary relationship with the Foundation. In accordance with the provision of GASB Standards, the Foundation is treated as a blended component unit of the University and the financial statements of the Foundation have been combined with those of the University. The June 30, 2017 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	2017	2016
Investments	$ 71,307,226	$ 65,951,840
Other assets	6,886,191	4,533,159
Total assets	**78,193,417**	**70,484,999**
Liabilities		
Other liabilities	429,289	125,762
Total liabilities	**429,289**	**125,762**
Net Assets		
Unrestricted	31,382,788	30,745,963
Temporarily restricted	15,710,833	14,809,565
Permanently restricted	30,670,507	24,803,709
Total net assets	**$ 77,764,128**	**$ 70,359,237**

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

Support, revenue, and gains	2017	2016
Gifts and contributions	$ 9,677,723	$ 5,408,930
Other support, revenue, and gains (losses)	6,469,759	(146,854)
Total support, revenue, and gains	**16,147,482**	**5,262,076**
Expenses		
Disbursements to Ferris	6,205,381	5,556,318
Other expenses	2,853,604	2,872,380
Total expenses	**9,058,985**	**8,428,698**
Revenue, gains, and other support over (under) expenses	7,088,497	(3,166,622)
Net transfers from Ferris	316,394	18,126,095
Increase in net assets	7,404,891	14,959,473
Net assets - beginning of year	70,359,237	55,399,764
Net assets - end of year	**$ 77,764,128**	**$ 70,359,237**

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

	2017	2016
Net cash from operating activities	$ (1,948,794)	$ (1,341,925)
Net cash from investing activities	15,043	(19,005,404)
Net cash from financing activities	4,327,012	19,006,579
Net change in cash and cash equivalents	**2,393,261**	**(1,340,750)**
Cash and cash equivalents - beginning of year	760,240	2,100,990
Cash and cash equivalents - end of year	**$ 3,153,501**	**$ 760,240**

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.

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 $30,670,507 at June 30, 2017 and $24,803,709 at June 30, 2016. The remaining restricted balance of $26,580,801 at June 30, 2017 and $25,055,162 at June 30, 2016 consists primarily of funds restricted for student loans, scholarships, and other purposes.

Unrestricted Net Position

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

	2017	2016
Designated for general fund division use	$ 9,067,303	$ 9,312,236
Designated for encumbrances	625,632	568,523
Designated for maintenance and replacement	46,102,222	50,339,704
Designated for Foundation endowments	31,382,788	30,745,963
Designated for unfunded pension obligation	(88,757,718)	(91,942,099)
Unrestricted and undesignated	28,162,697	31,137,463
Total unrestricted net position	$ 26,582,924	$ 30,161,790

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Investments

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

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.

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 $3,852,503 at June 30, 2017 and $656,570 at June 30, 2016. 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 $6,544,459 at June 30, 2017 and $8,484,853 at June 30, 2016. 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 $2,613,817 at June 30, 2017 and $654,448 at June 30, 2016. 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.

1. Summary of Significant Accounting Policies (continued)

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.

2. Cash and Investments

As of June 30, 2017, 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	$ 1,179,846	$ 1,179,846	$ -	$ -	$ -
Money markets	54,615,537	54,615,537	-	-	-
Mutual bond funds	55,158,493	-	15,182,120	39,976,373	-
Mutual equity funds	32,017,447	-	-	-	32,017,447
Real estate funds	3,525,432	-	-	-	3,525,432
Marketable securities	280,445	-	-	-	280,445
International equity funds	21,540,801	-	-	-	21,540,801
Alternative investments	33,444,733	-	-	-	33,444,733
Cash surrender value of life insurance	1,007,883	1,007,883	-	-	-
Total	$ 202,770,617	$ 56,803,266	$ 15,182,120	$ 39,976,373	$ 90,808,858

2. Cash and Investments (continued)

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

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.

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.

2. Cash and Investments (continued)

Concentration of Credit Risk

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

Investment funds are presented above based on the fund's segmented time distribution maturity as provided by investment advisor, Fund Evaluation Group. On July 1, 2017, the University engaged Ellwood Associates as its investment advisor. Equity funds are considered to be long-term funds and, therefore, are presented as investments with maturities over 10 years. Market risks (including interest rate risk and liquidity risk) and credit risks are managed by Board policies as described below.

Interest Rate Risk

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

Liquidity Risk

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be available or returned. The University does not have a deposit policy for custodial risk. However, Board policy establishes limits on balances held in any one bank or bank account to reduce risk. At June 30, 2017, the carrying amount of the University's deposits was $2,790,390 and $2,409,959 at June 30, 2016. Of these amounts, $750,000 was insured for both 2017 and 2016. Of the bank balance, no amount was collateralized for both 2017 and 2016. The FDIC insurance limit is $250,000 per depositor.

2. Cash and Investments (continued)

Credit Risk

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

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

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

	2017		2016	
	Market Value	NRSRO Rating	Market Value	NRSRO Rating
Vanguard Short-Term Bond Index	$ 7,753,829	AA	$ 9,251,097	AA
Western Asset	7,196,125	AA-	8,573,641	AA-
PIMCO Real Return	10,240,604	AA	12,159,542	AA
Vanguard Short-Term Investment Grade	766,918	AA+	756,997	A+
Franklin Templeton Global Bond	6,661,374	BBB	5,749,022	BBB+
Loomis Sayles Institutional High Yield	2,344,259	BB	2,041,382	BB-
Blackrock Total Return	5,866,739	A	5,252,961	A
Commonfund Multi-Strategy Bond Fund	14,328,645	A+	14,481,335	A+
Total	$ 55,158,493		$ 58,265,977	

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

Foreign Currency Risk

The University and the Foundation hold investments in some international mutual funds and alternative investments. These funds may be invested in various countries throughout the world and, therefore, may expose the University and the Foundation to foreign credit risk. Investments in these funds were $45,262,819 for the year ended June 30, 2017 and $46,779,049 for the year ended June 30, 2016.

3. Accounts Receivable and Student Loans Receivable

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

	2017	2016
Student	$ 11,079,603	$ 10,444,958
Grants and contracts	278,311	406,829
State appropriations	9,653,902	9,158,147
Pledges receivable	3,807,701	4,110,055
Other	1,258,313	758,249
Total accounts receivable	26,077,830	24,878,238
Less allowance for doubtful accounts	3,194,238	3,652,606
Total accounts receivable - Net	$ 22,883,592	$ 21,225,632

Student loans receivable of $18,091,624 for the year ended June 30, 2017 and $18,024,088 for the year ended June 30, 2016, are recorded net of an allowance for doubtful accounts of $3,400,000 for 2017 and 2016.

4. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 9,003,147	$ 120,292	$ -	$ -	$ 9,123,439
Infrastructure	11,213,141	-	-	-	11,213,141
Building and building improvements	359,100,400	45,470	-	3,369,896	362,515,766
Furniture, fixtures, and equipment	78,349,304	1,460,515	(371,122)	-	79,438,697
Subtotal - Depreciable assets	457,665,992	1,626,277	(371,122)	3,369,896	462,291,043
Land	6,596,622	-	-	-	6,596,622
Construction in progress	6,192,601	34,190,951	-	(3,369,896)	37,013,656
Subtotal - Nondepreciable assets	12,789,223	34,190,951	-	(3,369,896)	43,610,278
Total	470,455,215	35,817,228	(371,122)	-	505,901,321
Less accumulated depreciation:					
Land improvements	6,244,250	270,318	-	-	6,514,568
Infrastructure	6,154,049	851,007	-	(433,602)	6,571,454
Building and building improvements	135,207,024	6,927,956	-	433,602	142,568,582
Furniture, fixtures, and equipment	45,278,483	1,212,782	(333,279)	-	46,157,986
Total accumulated depreciation	192,883,806	9,262,063	(333,279)	-	201,812,590
Capital assets - Net	$ 277,571,409	$ 26,555,165	$ (37,843)	$ -	$ 304,088,731

4. Capital Assets (continued)

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

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, 2017 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
General Revenue Refunding Bonds, Series 2016	$ -	$ 56,150,000	$ -	$ 56,150,000	$ -
Unamortized bond premium	-	9,002,256	360,090	8,642,166	360,090
General Revenue Refunding Bonds, Series 2014B	11,295,000	-	1,345,000	9,950,000	1,370,000
Unamortized bond premium	664,286	-	60,389	603,897	60,390
General Revenue Bonds, Series 2014A	12,215,000	-	360,000	11,855,000	370,000
Unamortized bond premium	392,234	-	17,054	375,180	17,054
General Revenue Refunding Bonds, Series 2012	10,735,000	-	1,080,000	9,655,000	1,115,000
Unamortized bond premium	436,527	-	27,283	409,244	27,283
General Revenue Bonds, Series 2009	32,920,000	-	30,515,000	2,405,000	1,180,000
Unamortized bond discount	(564,652)	-	(564,652)	-	-
General Revenue Refunding Bonds, Series 2008	21,085,000	-	1,985,000	19,100,000	2,085,000
Total bonds and notes payable	89,178,395	65,152,256	35,185,164	119,145,487	6,584,817
Other liabilities:					
Accured sick leave	9,482,595	566,887	-	10,049,482	-
Accrued interest payable (bonds)	1,014,229	137,124	-	1,151,353	1,151,353
Accrued interest payable (capital lease)	141,242	-	1,875	139,367	139,367
Capital lease payable	11,335,000	-	350,000	10,985,000	365,000
Total	$ 111,151,461	$ 65,856,267	$ 35,537,039	$ 141,470,689	$ 8,240,537

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
Unamortized bond premium	724,676	-	60,390	664,286	60,390
General Revenue Bonds, Series 2014A	12,570,000	-	355,000	12,215,000	360,000
Unamortized bond premium	409,288	-	17,054	392,234	17,053
General Revenue Refunding Bonds, Series 2012	11,780,000	-	1,045,000	10,735,000	1,080,000
Unamortized bond premium	463,810	-	27,283	436,527	27,283
General Revenue Bonds, Series 2009	34,005,000	-	1,085,000	32,920,000	1,130,000
Unamortized bond discount	(589,202)	-	(24,550)	(564,652)	(24,550)
General Revenue Refunding Bonds, Series 2008	22,980,000	-	1,895,000	21,085,000	1,985,000
Total bonds and notes payable	94,958,572	-	5,780,177	89,178,395	5,980,176
Other liabilities:					
Accured sick leave	8,677,847	804,748	-	9,482,595	-
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

General Revenue Refunding Bonds, Series 2016

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

5. Long-term Liabilities (continued)

General Revenue Refunding Bonds, Series 2014B

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

General Revenue Bonds, Series 2014A

The University issued $12,570,000 of General Revenue Bonds. The outstanding balance carries interest rates of 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 2039. Proceeds from the issuance were used to finance a portion of the University Center project. The University Center located in the center of campus, serves as a gathering place for the campus community and a home for its commuter students. The center includes dining options, the Ferris Bookstore, the University Center Art Gallery, community areas, meeting rooms, and offices.

General Revenue Refunding Bonds, Series 2012

The University issued $13,750,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 2.25 percent to 3.375 percent. A rating of "A" was assigned to these bonds by 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 $2,218,000 over the life of the bonds; a deferred outflow of resources of approximately $80,000; and a total cash flow savings of $3,451,000.

5. Long-term Liabilities (continued)

General Revenue Bonds, Series 2009

The University issued $38,935,000 of General Revenue Bonds. The outstanding balance carries an interest rate of 4.00 percent. Proceeds from this issuance were used for renovation of the Rock Café, a dining unit within the University's auxiliary services area which was converted from a traditional cafeteria style to a marketplace concept and construction of an exterior green and multipurpose space located near the Rock Café. Another major project funded was construction of new east campus suites student housing which was completed and 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. During 2017, the University paid off these bonds from the proceeds of the General Revenue Refunding Bonds, Series 2016, except for $2,405,000 which is due in two payments through 2019.

General Revenue Refunding Bonds, Series 2008

The University issued $32,915,000 of General Revenue Refunding Bonds. The outstanding balance carries interest rates of 4.00 percent to 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. The refunding resulted in a net present value benefit of $1,728,000 over the life of the bonds; a deferred outflow of resources of approximately $240,000; and a cash flow savings of $2,514,000.

Federal Building Capital Lease, Series 2010A

In September 2010, a sublease was made between Federal Building Partners LLC and the University to lease the Federal Building in downtown Grand Rapids. The agreement involved issuance of bonds by the Economic Development Corporation of the City of Grand Rapids for the renovation of the building to be done by Federal Building Partners. A bond rating of "A" was assigned to these bonds by Standard & Poor's with maturity dates varying in amounts through 2036. The University is a guarantor for the Series 2010A bond issuance for $12,615,000. The outstanding balance carries interest rates of 3.75 percent to 5.50 percent. Ownership of the building could eventually pass from the City of Grand Rapids to the University if the University refinances the bonds or assumes the existing bonds. The capital lease is listed as a long term obligation and the related asset is included in Buildings and Building Improvements at June 30, 2017 and 2016.

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, 2017 are as follows:

	Bond			Capital Lease
Year	Principal	Interest		Minimum Payments
2018	$ 6,120,000	$ 4,495,564		$ 915,169
2019	7,000,000	4,248,114		915,269
2020	7,200,000	3,974,164		915,263
2021	6,935,000	3,712,064		912,606
2022	5,205,000	3,477,738		911,606
2023-2027	27,395,000	13,868,606		4,564,469
2028-2032	18,415,000	8,617,929		4,563,797
2033-2037	17,300,000	4,846,600		3,653,174
2038-2042	13,545,000	1,261,300		-
	109,115,000	$ 48,502,079		17,351,353
Unamortized premium	10,030,487		Amount representing interest	6,366,353
Total	$ 119,145,487		Present value of minimum lease payments	$ 10,985,000

Bond interest expense was approximately $3,696,000 for the year ended June 30, 2017 and $4,369,000 for the year ended June 30, 2016. Construction period interest, which is capitalized as part of the cost of the assets constructed, was $663,879 for the year ended June 30, 2017 and $0 for June 30, 2016.

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 statute and may be amended only by action of the State Legislature. Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuations allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20 year period.

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

The schedule below summarizes pension contribution rates in effect for fiscal years ending June 30, 2017 and 2016:

Fiscal Year Ended	Funded Portion	Unfunded Portion
June 30, 2017	4.30%	18.75%
June 30, 2016	4.87%	17.73%

The University's required contributions to the plan for the year ended June 30, 2017 was $7,186,435 and $6,240,513 for the year ended June 30, 2016.

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 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, 2016

Total pension liability	$ 1,052,555,585
Plan fiduciary net position	492,315,440
Net pension liability	$ 560,240,145
Plan fiduciary net position as a percentage of total pension liability	46.77%
Net pension liability as a percentage of covered-employee payroll	737.82%

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%

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, 2017, the University reported a liability of $92,688,360 for the year ended June 30, 2017 and $99,772,504 for the year ended June 30, 2016 for its proportionate share of the net pension liability. The June 30, 2017 net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. 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, 2016, the University's proportionate share was 16.54439805 percent (18.18674970 percent at September 30, 2015).

The University recognized $3,011,679 of pension expense for the year ended June 30, 2017 and $33,566,260 for the year ended June 30, 2016. At June 30, 2017, 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	$ 148,399	$ -
Net difference between projected and actual plan investment	898,621	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	1,802,589
University contributions subsequent to the measurement date	5,497,439	-
Rate stabilization appropriations received subsequent to the measurement date	-	811,228
	$ 6,544,459	$ 2,613,817

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	-
Rate stabilization appropriations received subsequent to the measurement date	-	654,448
	$ 8,484,853	$ 654,448

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension obligation in the year ended June 30, 2018. Rate stabilization appropriations received subsequent to the measurement date reported as deferred inflows of resources will be recognized as revenue in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30	Amount
2017	$ (1,879,233)
2018	(225,044)
2019	1,266,561
2020	82,147
	$ (755,569)

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 for the system in the September 30, 2015 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

6. Retirement Plans (continued)

Michigan Public School Employees' Retirement System (continued)

The actuarial assumptions used for the September 30, 2015 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012 beginning with the September 30, 2014 valuation. The total pension obligations as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015 and rolled forward using generally accepted actuarial procedures, including the experience study. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience. Similar assumptions were used in the September 30, 2014 actuarial valuation.

Discount Rate

A discount rate of 8.00 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 8.00 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, 2016 and 2015 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28.0%	5.9%
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate & Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
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, 2016:

1.00 percent decrease (7.00 percent)	Current Discount Rate (8.00 percent)	1.00 percent increase (9.00 percent)
$ 108,307,512	$ 92,688,360	$ 79,188,804

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

Payable to the Pension Plan

At June 30, 2017 and 2016, the University reported a payable of $1,000,000 and $1,408,000 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, 2017, the University contributed approximately $8,204,000 to the TIAA-CREF plan ($8,147,000 for the year ended June 30, 2016), and approximately $2,747,000 to the Fidelity Investments plan ($2,344,000 for the year ended June 30, 2016).

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, 2017 was 0.38 percent on member wages and 6.98 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, 2017, 2016, and 2015 were $2,429,000, $3,053,000, and $3,496,000, 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 2017, there were 11 universities that participated in MUSIC. Each participating university is responsible for a first tier of losses up to a level that has been actuarially determined. MUSIC is financially responsible for a second tier of losses. For comprehensive general liability, errors and omissions, and all risk property insurance, MUSIC has purchased excess insurance coverage with commercial insurance carriers to cover a third tier of losses. However, in the event the insurance reserves established by MUSIC are insufficient to meet its second tier obligations, each of the participating universities share this obligation by agreements with MUSIC.

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

Self-insurance

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

8. Leases

The University leases 30 percent of the Applied Technology Center located on the campus of Grand Rapids Community College in Grand Rapids, Michigan. The lease was signed in fiscal year 1990 for a 20-year term beginning upon completion of the center. The Center was completed in fiscal year 1992, marking the start of the 20-year lease. The lease was extended in fiscal year 2012 and again in fiscal year 2017 for an additional five years expiring in fiscal year 2022 with option of additional five-year renewals. Annual payments for the lease total approximately $608,000.

The University also leases certain equipment under various agreements, which generally require an annual rental payment and operating expenses, expiring in 2022.

8. Leases (continued)

Future minimum payments at June 30, 2017 under noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Year	Amount
2018	$ 972,137
2019	821,227
2020	821,912
2021	724,287
2022	11,139
Total	$ 3,350,702

Rental expense for the year ended June 30, 2017 was approximately $2,182,000 and $2,185,000 for the year ended June 30, 2016.

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, 2017 resulting in the following commitments to vendors:

	Spent to Date	Construction Commitments at Year End
Katke PGM Center	$ 75,672	$ 91,346
Swan Annex	7,416,977	15,684,118
Soccer/Intramural Fields	3,870,044	109,426
Student Recreation Center Mechanical	1,998,605	-
North Campus Residence Hall	22,546,240	7,007,689
SRC Renovation	112,877	639,587
Swan 1st Floor Renovation	516,045	1,548,848
Other smaller projects	477,196	61,425
Total	$ 37,013,656	$ 25,142,439

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, 2017 and 2016 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, 2017 and 2016, there were no transfers between levels of the fair value hierarchy.

Assets measured at fair value on a recurring basis at June 30, 2017 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, 2017
Mutual bond funds	$ 40,829,848	$ 14,328,645	$ -	$ 55,158,493
Mutual equity funds	32,017,447	-	-	32,017,447
Real estate funds	3,525,432	-	-	3,525,432
Marketable securities	280,445	-	-	280,445
International equity funds	21,540,801	-	-	21,540,801
Total	$ 98,193,973	$ 14,328,645	$ -	112,522,618
Limited partnerships that calculate net asset value per share				33,444,733
Cash surrender value of life insurance				1,007,883
Balance at June 30, 2017				$ 146,975,234

10. Fair Value Measurement (continued)

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 calculate 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

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, 2017 included the following:

	Fair Value	Unfunded Commitments
Limited partnerships – real estate	$ 2,609,339	$ -
Limited partnerships – private equity/distressed	5,144,870	5,968,530
Limited partnerships – hedge funds	18,431,868	-
Limited partnerships – natural resources/commodities	7,258,656	1,399,459
Balance at June 30, 2017	$ 33,444,733	$ 7,367,989

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

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

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 8 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 four managers to invest in eight 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. An additional 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

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

Natural Resources/Commodities

Five limited partnerships comprise the total of investments in natural resources/commodities. Investment managers invest in a multi-fund manager approach in the areas of natural resources/commodities such as oil and gas, timber, renewable energy, and mining; mineral extraction; energy funds; publicly traded master limited partnerships; and commodities including energy, livestock, grains, industrial metals, and softs. The partnerships terminate 12-15 years after official partnership filing; terminations vary from December 31, 2018 to December 31, 2021.

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

Liquidity and Redemption Notice Requirements

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

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

12. 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 the University's fiscal year ending June 30, 2018. 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.

Ferris State University
Required Supplementary Information

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

University’s proportionate share of the net pension obligation:	2017	2016	2015
As a percentage	16.54%	18.19%	17.52%
Amount	$92,688,360	$99,772,504	$ 65,729,143
University’s covered-employee payroll	$13,099,319	$13,528,532	$ 14,188,130
University’s proportionate share of the net pension obligation, as a percentage of the University's covered-employee payroll	707.58%	737.50%	463.27%
MPSERS fiduciary net position as a percentage of the total pension liability	46.77%	47.45%	63.00%

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

	2017	2016	2015
Statutorily required contribution	$ 7,363,777	$ 7,425,452	$ 6,148,573
Contributions in relation to the actuarially determined contractually required contribution	7,363,777	7,425,452	6,148,573
Contribution excess	$ -	$ -	$ -
University's covered-employee payroll	$12,519,799	$12,641,911	$ 13,728,100
Contributions as a percentage of covered-employee payroll	58.82%	58.74%	44.79%

Notes to Required Supplementary Information

There were no changes of benefit terms or assumptions during 2016 or 2015.

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, 2017 and 2016, and our report thereon dated August 30, 2017, 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 2016, 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, 2017

Ferris State University
Combining Statement of Net Position
June 30, 2017 and 2016

	2017 Combined Total	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Agency Fund	Ferris Foundation	Pension	2016 Combined Total
Assets											
Current Assets											
Cash and cash equivalents	**$ 39,967,492**	$ 7,438,945	$ 10,457,300	$ 1,239,491	$ 986,351	$ 481,784	$ 15,915,440	$ 294,680	$ 3,153,501	$ -	$ 33,116,912
Short-term investments	**45,572,213**	16,517,908	21,698,076	3,731,744	2,574,789	1,049,696	-	-	-	-	46,252,853
Accounts receivable - Net	**22,883,592**	17,499,048	542,775	313,819	278,311	-	236,128	128,721	3,732,690	152,100	21,225,632
Inventories	**868,525**	18,596	167,654	682,275	-	-	-	-	-	-	908,762
Prepaid expenses and other assets	**508,768**	475,083	33,685	-	-	-	-	-	-	-	481,937
Total current assets	**109,800,590**	41,949,580	32,899,490	5,967,329	3,839,451	1,531,480	16,151,568	423,401	6,886,191	152,100	101,986,096
Noncurrent Assets											
Restricted cash and cash equivalents	**15,827,891**	-	-	-	-	-	15,827,891	-	-	-	-
Endowment investments	**71,307,226**	-	-	-	-	-	-	-	71,307,226	-	65,951,840
Other long-term investments	**30,095,795**	289,025	-	-	-	-	29,806,770	-	-	-	37,692,368
Student loans receivable - Net	**18,091,624**	-	-	-	-	18,091,624	-	-	-	-	18,024,088
Other noncurrent assets	**221,831**	-	-	-	-	-	221,831	-	-	-	678,253
Capital assets - Net	**304,088,731**	-	-	-	-	-	304,088,731	-	-	-	277,571,409
Total noncurrent assets	**439,633,098**	289,025	-	-	-	18,091,624	349,945,223	-	71,307,226	-	399,917,958
Total assets	**549,433,688**	42,238,605	32,899,490	5,967,329	3,839,451	19,623,104	366,096,791	423,401	78,193,417	152,100	501,904,054
Deferred Outflows of Resources											
Net pension obligation	**6,544,459**	-	-	-	-	-	-	-	-	6,544,459	8,484,853
Refunding of debt	**3,852,503**	-	-	-	-	-	3,852,503	-	-	-	656,570
Total deferred outflows of resources	**10,396,962**	-	-	-	-	-	3,852,503	-	-	6,544,459	9,141,423
Liabilities											
Current liabilities:											
Accounts payable and accrued liabilities	**28,480,571**	14,738,107	323,237	1,894,820	15,684	-	10,503,933	423,401	429,289	152,100	19,064,108
Unearned revenue	**7,524,321**	6,889,736	345,402	289,183	-	-	-	-	-	-	7,683,273
Long-term liabilities - Current portion	**8,240,537**	-	-	-	-	-	8,240,537	-	-	-	7,485,647
Total current liabilities	**44,245,429**	21,627,843	668,639	2,184,003	15,684	-	18,744,470	423,401	429,289	152,100	34,233,028
Noncurrent liabilities:											
Deposits	**721,450**	-	-	721,450	-	-	-	-	-	-	713,160
Federal student loan payable	**12,334,034**	-	-	-	-	12,334,034	-	-	-	-	12,361,688
Long-term liabilities	**133,230,152**	9,491,314	54,455	503,712	-	-	123,180,671	-	-	-	103,665,814
Net pension obligation	**92,688,360**	-	-	-	-	-	-	-	-	92,688,360	99,772,504
Total noncurrent liabilities	**238,973,996**	9,491,314	54,455	1,225,162	-	12,334,034	123,180,671	-	-	92,688,360	216,513,166
Total liabilities	**283,219,425**	31,119,157	723,094	3,409,165	15,684	12,334,034	141,925,141	423,401	429,289	92,840,460	250,746,194
Deferred Inflows of Resources											
Net pension obligation	**2,613,817**	-	-	-	-	-	-	-	-	2,613,817	654,448
Total deferred inflows of resources	**2,613,817**	-	-	-	-	-	-	-	-	2,613,817	654,448
Net Position											
Net investment in capital assets	**190,163,176**	-	-	-	-	-	190,163,176	-	-	-	179,624,174
Restricted for:											
Nonexpendable:											
Scholarships	**30,670,507**	-	-	-	-	-	-	-	30,670,507	-	24,803,709
Expendable:											
Scholarships	**11,048,866**	-	-	-	3,231,442	-	-	-	7,817,424	-	9,177,482
Research	**85,955**	-	-	-	85,955	-	-	-	-	-	84,216
Instructional department uses	**4,235,573**	-	-	-	6,375	-	-	-	4,229,198	-	3,798,218
Loans	**7,314,588**	-	-	-	-	7,046,201	-	-	268,387	-	7,041,187
Capital projects	**200**	-	-	-	-	-	-	-	200	-	200
Other	**3,895,619**	-	-	-	499,995	-	-	-	3,395,624	-	4,953,859
Unrestricted	**26,582,924**	11,119,448	32,176,396	2,558,164	-	242,869	37,860,977	-	31,382,788	(88,757,718)	30,161,790
Total net position	**$ 273,997,408**	**$ 11,119,448**	**$ 32,176,396**	**$ 2,558,164**	**$ 3,823,767**	**$ 7,289,070**	**$ 228,024,153**	**$ -**	**$ 77,764,128**	**$ (88,757,718)**	**$ 259,644,835**

Ferris State University
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017 and 2016

	2017 Combined Total	Eliminations	General Fund	Designated Fund	Auxiliary Fund	Expendable Restricted Fund	Student Loan Fund	Plant Fund	Ferris Foundation	Pension	2016 Combined Total
Operating Revenues											
Tuition and fees - Net	**$ 122,091,696**	$ (31,979,814)	$ 154,071,510	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 125,540,140
Federal grants and contracts	**2,841,934**	-	-	-	11,015	2,830,919	-	-	-	-	2,550,680
State grants and contracts - Net	**382,911**	-	-	-	-	382,911	-	-	-	-	557,957
Nongovernmental grants	**808,246**	-	5,900	298,643	-	503,703	-	-	-	-	528,857
Departmental activities	**11,746,616**	(1,349,573)	2,941,711	10,060,470	-	94,008	-	-	-	-	11,912,181
Auxiliary enterprises - Net	**27,850,643**	(10,923,028)	-	-	38,773,671	-	-	-	-	-	29,068,477
Other operating revenues	**600,876**	(534,274)	231,562	119,914	-	-	543,245	240,429	-	-	1,161,539
Current funds expenditures for equipment and capital improvements	**-**	(1,078,056)	-	-	-	-	-	1,078,056	-	-	-
Total operating revenues	**166,322,922**	(45,864,745)	157,250,683	10,479,027	38,784,686	3,811,541	543,245	1,318,485	-	-	171,319,831
Operating Expenses											
Instruction	**97,951,169**	(280,107)	95,820,827	3,309,896	-	23,556	-	-	-	(923,003)	102,300,315
Research	**727,570**	(11,301)	356,522	226,776	-	155,573	-	-	-	-	607,746
Public service	**5,050,060**	(204,443)	281,198	3,812,439	-	1,197,421	-	-	-	(36,555)	5,013,185
Academic support	**27,493,118**	(374,349)	26,473,541	1,647,250	-	23,120	-	-	-	(276,444)	29,233,926
Student services	**18,525,625**	(183,370)	17,001,114	1,651,551	-	184,271	-	-	-	(127,941)	19,422,075
Institutional support	**25,355,391**	(9,765,718)	23,444,012	2,438,961	-	416,756	-	-	9,058,985	(237,605)	26,951,170
Operations and maintenance of plant	**19,724,007**	(220,463)	14,355,908	7,887	-	72,706	-	5,741,004	-	(233,035)	25,724,343
Depreciation	**9,262,063**	-	-	-	-	-	-	9,262,063	-	-	11,328,170
Student aid	**17,417,321**	(31,979,814)	22,313,617	34,101	375,725	26,673,692	-	-	-	-	18,444,155
Auxiliary enterprises	**22,424,465**	(11,258,442)	-	8	34,132,977	-	-	-	-	(450,078)	24,718,813
Other expenses	**276,043**	-	-	-	-	-	276,043	-	-	-	560,924
Total operating expenses	**244,206,832**	(54,278,007)	200,046,739	13,128,869	34,508,702	28,747,095	276,043	15,003,067	9,058,985	(2,284,661)	264,304,822
Operating (Loss) Income	**(77,883,910)**	8,413,262	(42,796,056)	(2,649,842)	4,275,984	(24,935,554)	267,202	(13,684,582)	(9,058,985)	2,284,661	(92,984,991)
Nonoperating Revenues (Expenses)											
State appropriations	**53,159,620**	-	52,259,900	-	-	-	-	-	-	899,720	50,657,682
Federal Pell grants	**20,489,267**	-	-	-	-	20,489,267	-	-	-	-	22,706,756
Gifts	**5,495,636**	(8,413,262)	1,973	3,609,900	118,651	4,476,394	27,184	25,050	5,649,746	-	4,646,080
Investment gain	**12,760,290**	-	1,596,746	3,300,493	208,939	61,850	34,918	1,087,585	6,469,759	-	1,140,092
Interest on capital asset - Related debt	**(3,696,307)**	-	-	-	-	-	-	(3,696,307)	-	-	(4,368,951)
Net nonoperating revenues (expenses)	**88,208,506**	(8,413,262)	53,858,619	6,910,393	327,590	25,027,511	62,102	(2,583,672)	12,119,505	899,720	74,781,659
Income (Loss) - Before other revenues	**10,324,596**	-	11,062,563	4,260,551	4,603,574	91,957	329,304	(16,268,254)	3,060,520	3,184,381	(18,203,332)
Other Revenues											
Additions to permanent endowments	**4,027,977**	-	-	-	-	-	-	-	4,027,977	-	901,377
Increase (Decrease) in Net Position - Before transfers	**14,352,573**	-	11,062,563	4,260,551	4,603,574	91,957	329,304	(16,268,254)	7,088,497	3,184,381	(17,301,955)
Transfers In (Out)	**-**		(10,857,927)	(4,813,309)	(3,764,316)	305,194	(79,785)	18,893,749	316,394	-	-
Net Increase (Decrease) in Net Position	**14,352,573**	-	204,636	(552,758)	839,258	397,151	249,519	2,625,495	7,404,891	3,184,381	(17,301,955)
Net Position - Beginning 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
Net Position - End of year	**$ 273,997,408**	**$ -**	**$ 11,119,448**	**$ 32,176,396**	**$ 2,558,164**	**$ 3,823,767**	**$ 7,289,070**	**$ 228,024,153**	**$ 77,764,128**	**$ (88,757,718)**	$ 259,644,835